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PRESENTATION

Operator

Hello, ladies and gentlemen, thank you for standing by for Qudian Incorporated's Fourth Quarter and Full Year 2018 Earnings Conference Call. (Operator Instructions) Today's conference call is being recorded. I will now turn the call over to your host, Ms. Annie Huang, Director of Capital Markets for the company. Annie, please go ahead.

Annie Huang ***Qudian Inc. - Director of Capital Markets***

Hello, everyone, and welcome to Qudian's Fourth Quarter and Full Year 2018 Earnings Conference Call. The company's results were issued via newswire services earlier today and were posted online. You can download the earnings press release and sign up for the company's distribution list by visiting our website at ir.qudian.com.

Mr. Min Luo, our Founder, CEO; and Mr. Carl Yeung, our CFO, will start the call with their prepared remarks.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's results will be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in the company's 20-F as filed with the U.S. SEC. The company does not assume any obligation to update any forward-looking statements, except as required under applicable law.

Please also note that Qudian's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Qudian's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures. We also posted a slide presentation on our IR website providing details on our results in the quarter and full year 2018.

We will reference those results in our prepared remarks, but will not refer to specific slides during our discussion.

I will now turn the call over to our CEO, Min Luo. Please go ahead.

Min Luo ***Qudian Inc. - Founder, Chairman & CEO***

Thank you, Annie. I want to continue to thank all investors, analysts and the media who have taken the interest to join today's call. I have exciting results to share. Then Carl and Annie will take you through more details.

We ended 2018 with another record quarter with RMB 778.8 million of non-GAAP net income and achieved our earnings target in the beginning of 2018.

If we exclude the foreign exchange loss and the charges from onetime scaling down of Dabai Auto business, our underlying profit was

RMB 850.2 million for the quarter, a record quarterly earnings for us.

Throughout 2018, the market had all kinds of concerns about issues ranging from regulation, users asset quality and partnerships. Thanks to our solid execution in our institutional funding and the user strategy as well as very early efforts in being regulatory compliant. I'm encouraged that we achieved four solid operating and financial results while operating under legal annual interest rate cap and continued to disprove these concern. And for 2018, we guided and delivered what we said.

First, our massive user base continued to grow with risk properly managed. Our registered user grew to 71.8 million and outstanding borrowers grew to 5.3 million since the end of the last quarter, despite what pessimists thought. User engagement through Alipay's dedicated channel for online third-party service providers officially ended in August 2018. So the fourth quarter was first complete quarter without this source of traffic, yet our registration and this active outstanding borrowers continued to grow from the third quarter. This proves that a uniquely affordable and attractive service doesn't require costly marketing or special channels to successfully grow.

For the year, as a result of our commitment in delivering risk adjusted return and conservative risk management approach, our asset quality was kept within our target levels. During 2018, we made several calculated management decisions to make sure asset quality was sustainable.

First, we remained selective in serving new users in light of increased delinquency and elevated credit risk in the industry during early 2018.

Second, we prolonged the loan tenure for high-quality borrowers with solid track records by increasing the loan size in line with their income growth and making sure monthly repayment remains affordable. For example, the averages monthly principal and fees repaid in the fourth quarter was around RMB 600 and the likelihood of borrower default on to risk losing an affordable credit line and get bad credit record is low.

Third, we do not provide evergreen loans.

On the first day the borrower is late the entire credit line is taken away.

And finally, thanks to all -- to our fully licensed institutional funding structure, the majority of loan relationships are likely between licensed banks and the borrower. Therefore, delinquencies are reported to PBOC record for these borrowers for the first time a strong incentive not to be late on the payments.

On regulatory risks, there were various new regulations and guidance issued in 2018 for Internet finance. Yet, we are the first in the industry to shift from being a direct lender to being a pure platform assisting loans between borrowers and licensed institutional funding partners with annual interest rate kept under legal cap. Therefore, there are no material regulatory uncertainties for us. We successfully deepened our cooperation with existing funding partners in funding size and scope and secured 19 new funding sources compared with a year ago.

Looking into 2019. We are confident about our earnings outlook through activations in our existing user base and available funding. Beyond income related to risk-taking, we are excited by prospects that may remove our balance sheet as a growth constraint.

As you may recall, we launched our traffic referral channel in the third quarter to refer excess borrower traffic through other lending and compliant Internet financial service providers. The fourth quarter saw encouraging development in terms of revenue contribution of RMB 30 million.

In addition to traffic referral, as part of our open platform initiative, we recently started to refer transactions that we cannot fund to our licensed institutional lender partners, where we do not undertake any risk but earn a greater margin compared to traffic referral.

Finally, with a clear focus on our core consumption finance business, we will continue to explore emerging opportunities to keep our team challenged with costs managed within our targets. I'm confident we are well positioned in delivering long-term growth for our shareholders.

With that, I will now turn the call over to our CFO, Carl Yeung, who will discuss more about our operations.

Carl Yeung ***Qudian Inc. - CFO***

Thank you, Min, and hello, everyone. First, I'd like to touch base on a couple of highlights for the quarter and full year 2018.

2018 marked another milestone for us as we achieved our guidance of operating under the regulatory compliant APR cap. We achieved a non-GAAP net income of RMB 2.55 billion after investments in new opportunities and solid execution of our USD 300 million repurchase program, a clean delivery of what we guided at the beginning of the year.

Moreover, if we excluded some nonoperating charges, our underlying profit for 2018 reached RMB 2.68 billion, substantially ahead of our RMB 2.5 billion guidance. Our solid results were attributable to our growing user base, low operating costs, regulatory compliant operating structure and solid asset quality.

In 2018, our loan book saw growth of 69.9% year-on-year and this further demonstrated the strong demand from our users with reliable funding to serve.

In addition, our asset quality remained healthy throughout 2018, validating management's decision to lower the risk exposure of our loan book in light of increased delinquencies and elevated credit risk in the industry during early 2018.

Our vintage delinquency rate slightly increased as loan tenure increased from 2.5 months in 2017 to 8.1 months in 2018 for our high-quality users.

We were delighted to see our outstanding borrower base reached 5.3 million following the termination of paid marketing on Alipay, while our sales and marketing decreased 49.4% year-on-year for our core consumption finance business. This again proved our capability in sustaining user growth without relying on expensive marketing.

Looking into 2019, our outstanding loan balance have grown to RMB 22 billion by March 15, 2019. Therefore, we are well on track to achieve our full year non-GAAP net income guidance of RMB 3.5 billion, excluding nonoperating costs and charges.

Qudian is committed to delivering shareholder value. Therefore, company will continue to undertake new challenges and investments where we believe further new growth may emerge in addition to helping to keep our talent base challenged, sharp and intellectually growing. We shall do so responsibly with the priority that our core consumption finance operations are not interrupted and targets delivered.

One example is, in 2018, with meeting earnings guidance as our top priority, we quickly scaled back Dabai Auto business when macro auto sales were slowing in order to reduce overhead and avoid potential risk exposure in asset residuals.

Another example is the successful launch of our open-platform initiative. During its inaugural operation in the fourth quarter of 2018, open-platform contributed RMB 30 million in risk-free revenues carrying no material cost of operations on our dormant user base. We will look to invest in this direction further by launching various services to activate or attract high-quality potential borrowers for our partners. These initiatives demonstrated our company's execution strength and our focus.

Looking ahead, any excess capital that cannot be deployed for value will be returned to our shareholders via buybacks or other shareholder value enhancing means.

Now let me share with you some key financial highlights. In the interest of time, I will not go through the line items one by one. For more detailed discussions of our fourth quarter and full year 2018 results, please feel free to refer to our press earnings release, as just briefed earlier.

Total revenues for full year 2018 increased by 61.1% to RMB 7,692.3 million, mainly driven by strong growth in our loan facilitation income from off-balance sheet transaction and a ramp-up of Dabai Auto business.

Non-GAAP net income for the full year 2018 increased by 14.4% year-on-year to RMB 2.55 billion or RMB 7.92 per diluted ADS.

Particularly, I want to highlight that our underlying profit reached RMB 2.68 billion for the full year 2018 if we were to exclude the financial -- foreign exchange loss of RMB 90.8 million and a specific charge of RMB 37 million incurred by scaling down of Dabai Auto business.

Our asset quality was kept stable. 2018 provision for receivables increased by 94.8% to RMB 1.18 billion. This was primarily due to an increase in weighted loan tenure from 2.5 months to 8.1 months during 2018.

We will continue to benefit from word-of-mouth marketing by providing a better and more affordable product offering.

Following the termination of engagement of users to the Alipay's dedicated channel for third-party service providers, we're encouraged to see sales and marketing expenses associated with our core consumption finance business further decrease, while we continue to successfully attract and retain users.

For full year 2018, excluding expenses associated with Dabai Auto, sales and marketing expenses decreased by, again, 49.4% to actually RMB 201.6 million from 2017.

Finally, we continue to maintain a low leverage. As of end of 2018, our equity is RMB 10.8 billion, our outstanding loan balance was just RMB 19 billion.

In addition, we had cash and cash equivalent of RMB 2.5 billion and restricted cash of RMB 339.8 million. We believe our low leverage model, strong balance sheet and sufficient cash reserve will continue to help sustain long-term growth.

Now again, on guidance. We remain fully confident in our growth prospect. Given our outstanding loan balance that have grown now RMB 22 billion, we are reaffirming our previous guidance and expect our total non-GAAP net income for the full year of 2019 will be greater than RMB 3.5 billion, after excluding nonoperating costs and charges, which would represent a 37.3% increase from what we achieved for 2018.

Now this above outlook is based on certain market conditions and reflect company's preliminary expectations as to market conditions, regulatory and operating environment as well as customer demand, which are all subject to change.

Now this concludes our prepared remarks. We will like to open the lines for questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of John Cai from Morgan Stanley.

John Cai ***Morgan Stanley, Research Division - Research Associate***

First of all, congratulations on the successful delivery of the 2018 earnings guidance. So I think it's great to see that the company is committed to deliver shareholder value. So my first question is on the capital management, on cash spending plan, to put it in other words. So first of all, I would like to know, is there any CapEx related to the -- our new headquarter in Xiamen? I think which we have a land that potentially needs some development. And secondly, I've seen that the -- on the balance sheet that there's other current assets, that have been experiencing very high growth in the fourth quarter, so is there any more explanations on these items? And is it correlated to the loans balance and at what percentage points? And finally, is on the share buyback. So it's mentioned in the press release that excessive capital will be returned to the shareholders. So I just wanted to have any data we can check to assess where the capital used excessive? So yes, and I think that's my questions.

Carl Yeung ***Qudian Inc. - CFO***

Thank you, John. Again, appreciate it. We are very focused on delivering shareholder value. As we mentioned, the top priority is meeting and it is actually exceeding guidance. It's a good question on capital management given our very strong balance sheet as well as a very high cash level. Regarding CapEx, we don't expect to have very, very large CapEx versus our balance sheet. You mentioned the new building in Xiamen that we are currently undertaking and building. The excess spending in just 2018 was very minimal, it's only about RMB 100 million versus a RMB 10-plus billion balance sheet, this was not that much. And mostly the building cost will be financed by low interest bank loans. So it will not have a strain on the actual balance sheet or cash base. Regarding your question on the other current assets, these are mainly in things such as car inventory and that will be reducing over time as we roll back our Dabai Auto business. On the third question of share buyback, we are very focused on shareholder value. As you saw last year, last 12 months, we put together USD 300 million buyback program. We spent USD 270 million buying back shares. Looking into the next 12 and 24 months, we continue to look for opportunities where it's the right time for us to go into the market. As a top priority, we look to deliver the RMB 3.5 billion net income guidance. Given our current regulatory compliance and stable operating structure, we look to put more of that cash into our product design that we work with our funding partners. We did a self-check -- we checked internally in terms of what the returns are. That's about a 20-plus return yield on deploying that cash. And it's a great opportunity to enhance our strong balance sheet and net income through that way. So if you were to ask me simply the priority of our cash flows, we try to use as much of that cash as possible to go into our high-yielding products that we work with. The lending that we do with our partners. Then we look for investment opportunities that will allow the company to grow further. And then finally, of course, if there's any excess capital, we'll go through the normal route such as buybacks and perhaps maybe at some point, another, in the future, dividend.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Can I just have a quick follow up on the share buyback? So I think, obviously, we don't have enough clarity on the delivery of the '19 guidance until probably the second half of the year. So does that mean we don't do any share buyback in the first half? So on the timing basically?

Carl Yeung ***Qudian Inc. - CFO***

Sure. Thank you for following up with that. We have a pretty good confidence in delivering the RMB 3.5 billion. The math to us was pretty simple. On an average loan balance, we're taking conservatively net take of roughly 13% to 15% using a mix of capital of our own money and external funding. If we're just to use our own money to lend from a bank to these borrowers, it would be excess of 20% returns. If you look at our -- we gave some color in terms of where we are today. We exited 2018 with a RMB 19 billion outstanding loan balance. As of March 15, the average -- the loan balance was already at RMB 22 billion. So to achieve a RMB 3.5 billion, if you work through the back of the envelope, all we need to do is carry average loan balance of RMB 25 billion throughout the whole year. So we're pretty confident in delivering that number. But right now, our priority is to make sure as much as our profit is secured. So we're putting that cash to use right now.

Operator

Your next question comes from the line of Charles Zhou from Crédit Suisse.

Charles Zhou ***Crédit Suisse AG, Research Division - VP***

We also see the market react positively to the results. I have 2 questions. So the first one is that we saw that in August last year, so Qudian's strategic partner, Alipay's dedicated online channel has expired. And also in early December, I think the Ant Director Mr. Zhu Chao also resigned from Qudian's board. So given these facts, so is Ant still a financial investor for the company? So this is the first one. Secondly, from my memory, I think you also have 3 private equity investors who are -- have some intention to sell their stakes of Qudian, I think, this is also one of overhand to the upside of the share price for now. So can you maybe give us some update like how much they have now? And How's your communication, what is the progress so far?

Carl Yeung ***Qudian Inc. - CFO***

Thank you Charles, you hit the nail on the head. So first of all, Alipay remains a good partner for us. We are committed to the Alipay ecosystem for payments and user engagement, as usual, as we have with any other partner. Actually, from the very get-go, the relationship between us and Alipay has been arm's-length, so there haven't really anything special between us. I think it did give us that channel prior to August 2018, but as you saw, this is a really good quarter as we -- it's a full quarter where we didn't have the channel anymore and our outstanding borrower continues to grow. I think it's a testament of how strong and attractive our product is. And given that has expired and Zhu Chao has left the board, Ant Financial, as far as we know, they're still a financial investor of the company. As to what would they do with that stake, it's up to them. Regardless of the stake is there or not, it will not have any material impact to our operations, because from the get-go all the transactions are continuing. Now there comes practical question, if they do exit, would they have impact on our share price? Now I believe Ant Financial is a sophisticated organization run by very smart people. So from the conversations that we've had, we understand that they will make the right decision. I can't say yes or no when, but they will make the right decisions, and it would have hopefully very little impact. The second question, about the other private equity investors who may have been selling in the market. Frankly in the past 12 months, they have not disclosed real-time what they have, all we can do is refer to their previous filings, because those comes as private groups. As far as we can tell, most of the selling should be done. There may be other possibilities yes or no. But it's up to investors to decide what their actions are, but as far as we know, most of selling has been done.

Operator

Your next question comes from the line of Jacky Zuo from Deutsche Bank.

Jacky Zuo ***Deutsche Bank AG, Research Division - Research Associate***

So I have 3 questions, basically all related to numbers. First one, can you give us the loan origination volume number for Q4 and cost of breakdown that into on and off loan volume, that would be great. And second question is on cash flow. So what is the ticket size? What is the loan tenure? And how -- what is the percentage for repeat borrowers for Q4? And also any product change for our cash loan product because we actually keep lengthening the loan tenure for this cash loan product. And the third question is about the funding mix. So I guess that's a routine question like how to break that down into our own funding and institutional funding, and what's the percentage from like trust, consumer finance companies and other institutions?

Carl Yeung ***Qudian Inc. - CFO***

Okay. Thanks a lot, Jacky. Appreciate the question. I'll be as helpful as I can, after our disclosure. Number one, it is volume of transactions in the fourth quarter. The volume was just about 13 billion and the mix of that is about 57% off-balance sheet versus 43% from balance sheet for the quarter. In terms of cash loan tenure, that was in the fourth quarter, 10.4 months. And the average ticket size was RMB 1,491, so pretty much the same as the previous quarter, third quarter. The repeat borrowing ratio is flat, it's about 90.4%. Basically remains stable through first, second, and third quarter of 2018. And in terms of the funding mix, the funding mix has even more off-balance-sheet. If you look at the outstanding loan balance of basically about RMB 19 billion, right now close to 50% is off-balance-sheet. And then the remaining is then on balance sheet with a mix of our own money through Wei Dai Mo Shi (in Chinese), entrusted loans. And Probably around 10% in trust funding. So it's about 40 and 50%. We think this is a really good way to operate a combined structure.

Operator

Your next question comes from the line of Victor Wang from CICC.

Yaoping Wang ***China International Capital Corporation Limited, Research Division - Analyst***

Thank you for delivering, again, a very strong set of numbers, Carl. My question is really on the regulatory as well as the founding side. And not on the numbers, but on the direction. If you look at the regulatory environment, I would say given that your business is not a P2P-structured business, it seems that the regulatory attitude regarding to -- the loan business to retail to household has been much more benign compared to 6, 12 months ago. And also the management environment is becoming more loosened. Will that have a positive impact on your funding availability and the pricing going forward, i.e., will you find relative now easier for you to secure funding when negotiating with funding partners? And on the funding cost side, will that also mean the funding costs will be lower going forward?

Carl Yeung ***Qudian Inc. - CFO***

Okay, Victor, appreciate that. It's a super good question. This is our bread and butter to make all these things work. Again, right now, we don't -- we have actually frozen our own lending license at the end of 2017, so we don't rely on the so-called microlending anymore. We have shifted completely into an institutional lender relationship where we, as Qudian, do not have a direct borrower-lender relationship. The transaction's done at a licensed lender and a trust for consumer bank and so it's already regulated, pretty much no impact comparing to all that peer-to-peer platforms . It's a good way for any regulatory (inaudible). Now regarding the so-called maximum liquidity, I want to have that one to point to a more consumer-based lending. We see that as a, overall, very positive theme for prospectors, for us because we are going -- as we do our job by helping bank, by helping the financial institutions check their lending in people who are impact before. So between collaboration with institutional lenders, in that year alone, we added 19 licensed institutions to join our platform. Regarding cost size, I'll be very realistic. I think the current funding cost is very low or average on a mix of 7% per year annualized. We will make sure this collects more funding, so I doubt there will be more room. But one thing I want to add regarding this whole, overall funding question is to point that our CEO, Mr. Min, mentioned, we are really excited about our open platform. As you know, all that RMB 19 billion and right now RMB 22 billion of transactions that we are doing, we have, there's underwriting, okay? We're taking some form of risk. But we are excited before we have initiated not attractive referral but attractive transaction referral for our funding partners does not undertake this risk at all. So the aspect of growth that we could -- we would further -- we moved back on the balance sheet. We move a bigger switch to develop further, for that we are a service providing company. I think that would reflect well on multiple chips at certain points.

Operator

Your next question comes from the line of Linda Sun-Mattison from Bernstein.

Linda Sun-Mattison ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

Carl, thank you for the good results. I just want to go back to the guidance of RMB 3.5 billion earnings for 2019. Can you give us guidelines on how much you see this coming from the loan facilitation fees and others? I understand that in -- starting in January, the government has tightened euro and urban commercial banks, smaller banks from cross-border Kua Jing Dai Kuan (in Chinese). So I just want to know whether this would have any impact on you and specifically on the business of loan facilitation. And on the back of that, I can stand mass off the loan balance multiplied by a take rate or industry rate, whatever you call that. But what is the hand-off from, well, credit cost you have in mind given the second quarter of '18, your dealings in -- dealing an M1+ Delinquency Ratio has popped up.

Carl Yeung ***Qudian Inc. - CFO***

Thank you, Linda. Good to hear from you and a keen observation. So RMB 3.5 billion, we're in very good shape in delivering that. If you were to help -- ask me to help commit assets and understanding how that's received, I think that a very good return of about 15% on an average loan balance. Whether it's on- or off-balance, does not have a material impact through that take rate. Whether it's funded by our own company or it's funded by our funding partners, this had a big impact. For example, if using our own equity, that take rate is over 20%. And it reflects our sort of funding partners have spoken about since then. So right now, that makes -- so half and half, basically, because we see a take rate of -- roughly about 15%. So if you roll back RMB 3.5 billion of net profit on 15%, that gets us under RMB 25 billion of average loan balance we have to maintain for 2019. And yet again, we are already at RMB 22 billion on March 31 -- March 15, so we're in really good shape on that. So you expect that you are very close to the regulation regarding this off-balance-sheet arrangement. The PRC regulators have restricted (inaudible) our role at (inaudible) bank grow and regional commercial bank in participating in these transactions where they do not have a branch or license to do so. Happy to report that the majority of our funding partners carry nationwide license in either 2 forms. Either they are an Internet-licensed bank or they are a nationwide joint stock bank, where they have a branch in every province that we issue -- we help them -- sorry, correctly, it's saying that we help them operate loans in. So we have no impact in that respect. And if you were to look at our numbers in a practical sense, our outstanding loan balance of, right now, RMB 22 billion, half of it comes from these institutional funding partners, roughly RMB 11 billion. RMB 11 billion for any single bank who is a nationwide joint stock bank is literally a drop in the pond. So carrying that RMB 22 billion loan balance up to the next 30, the next 40 should not have -- be any barriers for us. We are very confident in doing so. Now in terms of credit card, yes, that is a good observation. Regarding our M1+ vintage increase, there's a very simple mathematical reason why. The reason is the calculation of M1+ Delinquency is basically the delinquent amount divided by the transaction volume. So as we elongate the loans, have us -- have a user carrying a loan balance that as a figure, over time, the transaction volume can go down for our highest quality borrowers. So it's not easily apple-to-apple comparison as the denominator goes shrink, the number will increase as a percentage. So as a roughly calculation, our annualized, basically loss rate, if you were to compare it to a traditional financial institution, it's somewhere around just under 6%. And that 6% is very stable across 2017 and 2018.

Linda Sun-Mattison ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

Carl, so if I understand this correctly, your M1+ Vintage Delinquency Ratio, the denominator is transaction volume. And because you have extended the duration now, the transaction volume like-for-like actually shrink. And that contribute to the pop-up in the Q2 '18 delinquency ratio, right? But if you -- if we can use that loan balance as denominator, we shouldn't see that pop-up. Is that, at this time, incorrect?

Carl Yeung ***Qudian Inc. - CFO***

That's correct. So if you -- if I -- if you were to look at the actual volume of transactions, 2017 we have -- we had RMB 88.9 billion of volume in 2017, but only RMB 57.9 billion in volumes around '18. While our net profit continued to grow because our outstanding loan balance has increased, right? So that's what the -- that's -- yes, that's right.

Operator

Your next question comes from the line of Martin Ma from Nomura.

Martin Ma ***Nomura Securities Co. Ltd., Research Division - Associate***

I -- here, I have 2 questions. The first one is last Friday, there was a disclosure of high-interest cash credits perform like 714 platforms by the March 15 evening last Friday. And there may be a new round of actions by the regulators. So any readings or -- from you guys on that? And my second question is from the adoption of new accounting rule. I observed that there is a new accounting rule for FY '18. So are the numbers, for when comparing '18 and the '17 numbers, are the '17 numbers also under the new accounting standards?

Carl Yeung ***Qudian Inc. - CFO***

Thank you, Martin. Very up to speed on what's going on in China. So just on March 15, last Friday, CCTV, the annual show, to basically expose ad operators came, and it mentioned a lot of high interest loan platforms, illegal platforms. And they named about 100-plus companies ultimately. We are not on that list because we operate a regulatory-compliant APR. In fact, we are so compliant that, again, we're not on that list. In -- what's my take on what's ahead for the sector? I think it's great that regulators in media expose these platforms because Qudian is also on a mission to destroy these guys. We provide a lower-interest product, a friendlier service to help the traditional financial institutions carry out so-called inclusive finance, to help the Chinese consumer economy grow in a properly regulated manner. So what I would envision to happen, I think several analysts already came out with notes and I highly agree, is that the regulator already released regulation 141 in December 2017. It carried a -- it mentioned specifically how platforms should approach and work with financial institutions, what the interest rates need. All they need to do now -- the law says it's 36% APR all-in. I don't think the regulators need to sort of heighten things anymore. Just send the police and arrest these guys, please. I think that's what they're going to do. And there have been 2 cases already of companies exposed on 3/15, March 15, and police have raided these companies. It's great handcuff these guys. So the industry will be more and -- healthier. These high-interest rate platforms will go or go away, I think consumers will get hurt less. Overall, it will be a better tomorrow for everyone. Hope that answers the question. I cannot predict any further where the regulators will go, but I think this is a very reasonable arrangement for -- just to send the police and arrest these guys. Number two, regarding operation, adoption of ASC 606. We adopted ASC 606 for our off-balance sheet transactions in January 2016. We are one of the first Internet finance companies amongst the other peers in the U.S. to adopt this accounting standard as proper. It has a good contribution to our 2018 revenues and ultimately, net income. But it will not affect -- we did not adopt it in 2017 because that was an accounting principle that was announced on the back of 2017, so we adopted it in 2018. Don't worry about early recognition revenue, I can help you understand that. All these funding arrangements that we have for these off-balance-sheet transactions we negotiate with our fundings partners on a loan balance basis. So at transactions, it's runoff. It will get rebuilt by our funding partners. But we will continue to be able to recognize these revenues in the way of our loan balance. So very different from the other so-called transaction volume-driven platform. We are much more stable in that way. That's why we have -- we feel confident in delivering our RMB 3.5 billion in 2019. Did that answer your question, Martin?

Martin Ma ***Nomura Securities Co. Ltd., Research Division - Associate***

Yes, yes. They're very clear.

Operator

Your next question comes from the line of Daphne Poon from Citi.

Daphne Poon ***Citigroup Inc, Research Division - Associate***

So I just want to understand more about the new loan referral model that you mentioned earlier, like for the financial institutions where you don't take credit risk. So I'm wondering like what would be the in-economics or the take rate there. And how does that compare to the existing model where you do have the credit guarantee? And also, like in terms of the progress so far, like how much loans have been facilitated under the model and also, who are the, like, key financial institutions that you're working with?

Carl Yeung ***Qudian Inc. - CFO***

Thank you, Daphne. Yes. We are very excited, to say the least, about this open-platform opportunity for us. As you know, even out of the RMB 22 billion of loan balance, where we do underwriting, we already have an equity of about RMB 11 billion, which makes us one of the lowest-leverage companies in the industry. It says a lot about us that our risk preference, we really like low risk. And how do you extend this opportunity or this business bigger without creating more leverage? So if we look at our user base, we have 70-plus million -- 71 million number of registered users. We're serving 5 million of which with underwriting. That means that 65 million-plus users we are not currently servicing. So how do you -- one thing that we're doing is to refer them to other Internet financial companies, making sure partners are also compliant partners. But the great opportunity is that we start to transact with our funding partners. So if you're actually not -- if you go beyond just traffic and transact with your partner, they're willing to give you a very handsome pay on the revenue share. The model works out pretty good. Right now, there's no risk under loan balance. We take about close to 15% net take on the loan balance. The view is that when negotiating with an object gotten to execute with these traffic referrals, we can get close to 10% to 12%, somewhere between there of actual loan balance, but we're not taking any risk at all and we have no leverage. So it's actually a way for us to scale beyond the 5 million or 10 million that we potentially underwrite out of the 71 million in total. So that's kind of what we -- yes, opportunities, and we're excited. So, you have one number that you have, I cannot disclose the number yet. We would disclose the exact loan balance when we come in the first quarter. It's going to be really nice.

Operator

Your next question comes from the line of John Cai from Morgan Stanley.

John Cai ***Morgan Stanley, Research Division - Research Associate***

So I have 2 follow-up questions. I think the first one is on the customer referral business. So can we have some more details on who are the institutions? And what are the APRs? Do we have a track on that because, obviously, over the -- after last Friday, I think, there's a heightened regulatory expectations on this business, particularly on who we refer to. So then the second question is on the guidance. So I think we need to grow to like, on average, RMB 25 billion for 2019 for -- to deliver the '19 earnings guidance. But I think my calculation shows that the loan balance per outstanding borrower has already grown to like RMB 2,600 already. So I think -- can the management share more on how we grow our loan balance broken down by the new borrowers and also the per borrower outstanding loans and where we get the new customers?

Carl Yeung ***Qudian Inc. - CFO***

Thanks a lot, John, for the 2 follow-ups. I'll answer the easy one first. The customer growth business, again, we generated RMB 30 million in risk fee revenue, essentially profit in the fourth quarter 2018. So it's a great quarter that we've caught up with. I can't share with you the material impact to our financial yet. We're doing a run rate about RMB 200,000 a month -- a day, doing these referrals on a case-to-case basis. So it is a stable -- a risk-free revenue source for us. We are very conservative. We do background check in every partnership we engage in. We are aware of what actually happened and those companies that were named on March 15, so we are very, very careful -- actually, we cut out lot our partners -- a lot of partners because we stopped cooperating because their APR is too high. So mainly -- of the companies that we're partnering with or consumer finance companies, your bank credit cards and certain P2P platforms at very reasonable interest rates. So (inaudible) which is working. It's going to be a stable -- a good source of income (inaudible) credit participant. Our transactions -- the profit referral is a small thing. Now on guidance, 3.5 billion net income if we worked on the back of the map, again, it's going to take -- we'll need to carry a RMB 25 billion average loan balance for the year, so essentially we try to hit about, I think, RMB 30 billion ending balance for 2019. In many ways, we can do 6 million outstanding borrowers with 5000 per person. Obviously, that's one sort of outcome. And this outcome is with -- and that is something that we think -- the direction that we -- as you saw from the third quarter of 2018, we exited with 4.9 million users, outstanding borrowers and 5.3 million by the fourth quarter. We continue to activate users in a number of new ways, so we like that number to grow. But we also add on more loan balance for our borrowers because we have been too conservative before. The market's roughly around right, it's around RMB 3,000 for a loan balance per borrower right now. We think that we can safely add that to roughly RMB 5,000 without seeing material change in our delinquencies. So that funding that we think would get us nicely to the RMB 30 billion loan balance by the end of the year.

Operator

(Operator Instructions) Your next question comes from the line of Matthew Larson from National Securities.

Matthew Lewton Larson

I got on a little late, so this might have already been addressed. But congratulations for the quarter, your growth is quite attractive. Your stock prices though, kind of languishing near below. And I -- I'm not sure if you commented on any new share repurchases. You got the RMB 300 million that you had authorized back in December, which was on top of a previous uncompleted one. It didn't look like you repurchased any shares thus far. If that's the case, why not? Because there's been plenty of opportunity because the stock has traded a lot of volume right down -- really near below. Could you comment on that, please?

Carl Yeung ***Qudian Inc. - CFO***

Sure, Matthew. Thank you. We roughly adjusted by -- I'd like to provide more details on your question, and we're happy to do that. So if you look at our first set of USD 300 million repurchase, we spent USD 270 million of that. That was basically in 2018. The reason for that is because we set a RMB 2.5 billion earnings guidance in early 2018. We were quite confident that even without not deploying so much of our capital in our highly-attractive, high-yielding product that we work with our partners, we can still make that RMB 2.5 billion. So we spent RMB 270 million buying some stock back -- RMB 270 million buying stock back. In 2018, that was the case. In 2019, we have a bigger number that we need delivered, RMB 3.5 billion. That's roughly RMB 1 billion more. And we think it would be more comfortable for us, at least for now, to deploy more of the cash in the 20-plus annualized yield using that cash right now. So again, my top priority right now is to make sure our earnings guidance are met. And then secondly, we'll look at possible investments that will take this company further in terms of other users or the way we operate a regulatory compliant operation, then we think about buying back more shares. Does that make sense, Matt?

Matthew Lewton Larson

Yes. I mean, of course, you're growing very rapidly in a very difficult environment. And I frankly don't know why the stock is trading as low as it is other than the whole sector has been under pressure because of the regulatory environment. You seem to be one of the companies that will persevere and be a winner, which has its advantages. There will be market share pickup. You're very liquid now and you're trading, if you do the RMB 3.5 billion at currency translation rates, that's, well -- that's like less than 3x earnings. I mean, it's a -- and yet you're growing 40% of bottom line online, so there's a disconnect there. And it looks like you had some sellers that were maybe original investors in your company, which put some pressure on the stock each time you announced -- preannounced strong forward earnings guidance, the stock has seemingly look like it's wanted to go higher only to fall back, okay? So I'm a long-term investor, I'm a large investor. And -- but if buying your stock back at 2.5x earnings isn't attractive, I mean, when are you going to get that opportunity? It seems to me it's just a gift that you're able to do so because you have the liquidity. So it must be something you look at every day because you could easily buy some back without moving the market even with the volume that your company trades each day. So I guess the threat of -- to people who feel that your company doesn't deserve a higher price, that you still haven't even bought any shares back is a positive, right? I mean, but I guess it will be a nice opportunity to sell stock at 24 on the IPO than to buy back at 5. I mean, what a great transaction. I mean, if doesn't that seem as a worthy use of your funds also?

Carl Yeung ***Qudian Inc. - CFO***

Yes. Matt, thank you for these very keen observation. We're with you. We have a focus on delivering shareholder value. And I think for now, there is a lot of -- still misconception about bundling us with P2P players. The -- what's happening after Alipay, things like that. So -- and plus, there's not been too much help from our pre-IPO shareholders. So all that mix is -- doesn't help the stock as this relatively interesting valuation. We -- we're going to be here long term. And our focus is to meet our earnings, grow our balance sheet in a way of assets and perhaps in 2 years, our cash will just take the company away, if needed. No, but we're going to be here for the long term. We like being a public company, we like being challenged. We like the feedback we get from investors helping us grow. So yes, your concern -- your remarks are all correct. We understand. Leave that to us. Leave that to our quarterly results with continuously delivery? The shareholders who've been selling a short-term problem. At some point, they will be done. And at some point, there will bill be reasonable smart investors who understand our operations is sustainable, it's strong, it's low leveraged, it's got great returns. So this is the wonder of capital markets, right, and we believed in that.

Matthew Lewton Larson

All right. I want to say this, that your market capitalization, it's attractive to a lot of institutional investors, so that you could probably draw in new investors by not shrinking the amounts of the floats. So there are ancillary benefits for being a market -- a company of your size instead of shrinking it. But you're right, you can -- at the way you're going, in a couple of years, you could just go private, I guess, if nobody's going to give you a valuation. So all right, keep up the good work.

Operator

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

Annie Huang ***Qudian Inc. - Director of Capital Markets***

Thank you once again for joining us today. If you have further questions, please feel free to contact Qudian's Investor Relations department through the contact information provided on our website.

Operator

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