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Q3 2020 Qudian Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Min Luo** *Qudian Inc. - Founder, Chairman & CEO*  
**Sissi Zhu** *Qudian Inc. - VP of IR*

## CONFERENCE CALL PARTICIPANTS

**Jacky Zuo** *China Renaissance Securities (US) Inc., Research Division - Analyst*  
**Sanjay Jain** *Aletheia Capital (Hong Kong) Limited - Head of Financials*  
**Steven Chan** *Haitong International Research Limited - Executive Director*

## PRESENTATION

### Operator

Hello, ladies and gentlemen, thank you for standing by for Qudian Inc.'s Third Quarter 2020 Earnings Conference Call. (Operator Instructions). Today's conference call is being recorded.

I would now like to turn the call over to your host from Qudian. Please go ahead.

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### Unidentified Company Representative

Hello, everyone, and welcome to Qudian's Third Quarter 2020 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](http://ir.qudian.com). Mr. Min Luo, our founder, Chairman and Chief Executive Officer; and Ms. Sissi Zhu, our VP of Investor Relations, 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 may 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. Securities and Exchange Commission. 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 discussion 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. 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.

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

Hello everyone. I would like to thank you all for joining today's call.

In the third quarter, amid an evolving regulatory environment, we maintained prudent operations with regards to our cash credit business while still generating CNY 5 billion transactions in our loan book business, which was in line with our expectations.

In this quarter, we're delighted to see meaningful improvement across our delinquency rates compared to the first half of this year. Stringent credit approval standards boosted our ability to navigate the ever-changing operating environment in the online lending landscape.

The recent draft to seek public opinions for Interim Measures for the Administration of Online Small Credit Business may potentially heighten the industry's near-term volatility. However, we do not expect the proposed regulations for online small credit businesses to affect our business, as we do not utilize small credit companies to extend a loan. We will continue to closely monitor the regulatory

development in our industry.

Besides the credit loan business, we continued to invest in and make steady progress in new initiatives while further exploring growth opportunities. Early childhood education is an exciting new area for us and we look forward to updating you with our progress in the coming quarters.

Now I would like to turn the call over to Sissi for more details on our results.

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**Sissi Zhu Qudian Inc. - VP of IR**

Thank you, Min, and good morning, and good evening, everyone. In this quarter, we are encouraged to see a significant improvement in our profitability on a sequential basis. Notably, our net income increased by approximately 231% quarter-over-quarter to CNY 592 million. This is a great indicator of our ability to overcome challenges and deliver long-term value to our stakeholders.

In light of fluctuating market conditions and ongoing regulatory developments, we have been executing a cautious and conservative strategy in our loan business by performing rigorous credit assessment on our platform. As a result, our efforts to improve credit quality drove an improvement in our credit performance, evidenced by a decrease in the day 1 delinquency rate.

Our overall day 1 delinquency rate reduced to approximately 17% by the end of September from around 20% by the end of June, which further decreased to 13% by the end of November 2020.

We also continued pursuing potential growth channels outside the cash credit business, backed by our robust onshore renminbi liquidity position. We are optimistic about the long-term growth prospects of our new initiative related to providing early childhood education services, and we'll be happy to share more details when we have concrete progress.

We are keeping a close watch on other factors that may impact our business, including the evolving regulatory regime for online cash credit business. Meanwhile, we've been actively adapting to the rapidly changing environment and are confident that our strong fundamentals will help us pursue and sustain long-term growth.

Now let me share with you some key financial results. In the interest of time, I will not go over them line by line. For a more detailed discussion of our third quarter 2020 results, please refer to our earnings press release.

So our total revenues were CNY 849 million, representing a decrease of 67% from CNY 2.6 billion for the third quarter of 2019. Our financing income totaled CNY 487 million, representing a decrease of 39% from CNY 798 million for the third quarter of 2019 as a result of a decrease in average on-balance sheet loan balance.

Loan facilitation income and other related income decreased by 70% to CNY 177 million from CNY 583 million for the third quarter of 2019 as a result of the reduction of transaction volume of off-balance sheet loans during this quarter, partially offset by reclassification of guarantee income in accordance with ASC326.

Transaction services fee and other related income decreased to CNY 6.6 million from CNY 993 million for the third quarter of 2019, mainly as a result of a substantial decrease in the transaction amount of open platform.

Our sales income increased to CNY 139 million from CNY 135.5 million for the third quarter of 2019, mainly due to the launch of the Wanlimu e-commerce platform, partially offset by the reduced sales income from the Dabai Auto business.

Total operating costs and expenses decreased by 93% to CNY 100 million from CNY 1.4 billion for the third quarter of 2019. Provisions for receivables and other assets decreased by 87% to CNY 90 million from CNY 691 million for the third quarter of 2019. The decrease was primarily due to a decrease in past due on-balance sheet outstanding principal receivables compared to the third quarter of 2019.

Net income attributable to Qudian's shareholders was CNY 592 million or CNY 2.22 per diluted ADS. Our non-GAAP net income

attributable to Qudian's shareholders was CNY 576 million or CNY 2.16 per diluted ADS.

With that, I will conclude my prepared remarks. We will now open the call to questions. Operator, please continue.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Jacky Zuo from China Renaissance.

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### Jacky Zuo *China Renaissance Securities (US) Inc., Research Division - Analyst*

(foreign language) So I will translate my questions. I have a couple of questions to ask. Number one is about the regulation. I understand a majority of our current lending is using our own capital. And management just mentioned the new online micro lending document. So I just want to understand whether this document will affect our current lending model?

Second question is about our new loans and new borrowers. I observed that we actually saw a recovery of loan origination in the third quarter. So can management share some color regarding new acquisition -- new borrower acquisition and the new borrowers number in the third quarter?

And lastly is about our new business in the early child education. So any color will be helpful.

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### Sissi Zhu *Qudian Inc. - VP of IR*

Thank you, Jacky, for all the questions, I'll address them one by one. So as you know, we're not using the micro credit license for our loan disbursement. Instead, we're using trust structures and all the funding is from our own equity. So up to now, we haven't noted any regulations regarding this kind of trust structure loan disbursement yet. But as you know, the regulatory environment is fast-changing in China. We'll pay a close look on the regulation changes. And if anything changes, we will adapt very fast.

Your second question regarding the new borrowers, actually, our approval rate for the new borrowers is close to 0 in this quarter, same as last quarter. So the number of new borrowers is very minimal.

Your third question regarding our new business initiative. It's actually still in a very early stage. The business is about the consolidated offline early childhood education centers. We will give you, give the investors society more colors when we have a more concrete business there. Thank you Jacky for all the questions.

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### Operator

(Operator Instructions) Our next question comes from the line of Sanjay Jain from Aletheia Capital.

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### Sanjay Jain *Aletheia Capital (Hong Kong) Limited - Head of Financials*

Just a couple of questions. The first one is, can you give us some idea about your growth plan on the lending side in the fourth quarter and next year? I know the regulatory landscape is evolving, but your lending seems to have turned tight. So if you can give us some idea of how the loan book overall, the origination and the balance could grow?

And the second question is on Wanlimu. The sales of about \$20 million in the third quarter seems to be very small for a business that, in theory, should be doing well. E-commerce is booming. And due to COVID, people are probably ordering more stuff online. So are you happy with the progress of Wanlimu so far? And when do you think or in what kind of levels of scale or conditions will you be able to share the economics of that business?

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### Sissi Zhu *Qudian Inc. - VP of IR*

Thank you, Sanjay. I'll address your questions one by one. So first of all, as you know, the industry landscape is ever-changing. So before things get crystallized, we'd like to still keep our status quo. So the loan volume in the fourth quarter will be very similar to the level in the third quarter. We don't have the visibility for next year yet. So sorry, but I can't answer your question about looking into next year.

Your second question about our luxury e-commerce platform. We didn't spend much money on the promotional spending and the subsidies on this luxury platform. So that's why you may notice that the sales income from the Wanlimu platform isn't as much as the previous quarter.

Before we see a very strong demand and repeat purchase on this platform, we will maintain a small scale of operations for the luxury business. Hope this answers your question.

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**Sanjay Jain Aletheia Capital (Hong Kong) Limited - Head of Financials**

Okay. One follow-up on the lending side. For the first quarter, second quarter, you were saying you are not sure of the asset quality trends. You're not sure of the demand. And now, of course, there is a regulatory uncertainty as well. But at least from the asset quality side, it looks like things have clearly improved. So why are you not getting more confident about growth at least the on-balance sheet side? And do you intend to restart open platform or some other model once you become -- feel more confident, so -- and that you are still going to be present in the lending business for next year.

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**Sissi Zhu Qudian Inc. - VP of IR**

Sure. Actually, we do see quite a number of statements from the regulators recently. Most of them doesn't have any impact on our current business. But as we can see from the statements, the tone from the regulator is kind of more towards the tightening side for this online cash credit business, but we are not sure either. So for now, we'll just stay where we are. The loan volume for the fourth quarter will be very similar to the previous one, although we see a good improvement in our asset quality. We do not rule out the possibility that we may restart growth again. But right now, when regulators are still in this changing status, we just hope to keep our status quo.

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**Operator**

Your next question comes from the line of Steven Chan from Haitong International.

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**Steven Chan Haitong International Research Limited - Executive Director**

(foreign language) I'll translate into English. First of all, I would like to ask what is the latest lending rate of your new loans? Have you lowered it below 30% as most of your peers have already cut their lending rate of their new originations in Q3? And what will be the outlook of your lending rate in the coming quarters? That's the first one.

And second question is in case your loan growth in Q4 -- or loan volume in Q4, mainly related to the on-balance sheet, on equity business, so will that imply that for the line of the loan facilitation income and other related income, especially related to guaranteed income, and the line related to changes in guarantee liabilities and risk assurance liability, which is related to some write-back in provisions will move towards zero in final quarter?

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**Sissi Zhu Qudian Inc. - VP of IR**

Thank you, Steven. So regarding your first question, we didn't change our pricing policy yet. So it's still less than 36%. And for your second question regarding the off-balance sheet guarantee income and changes in gain of guaranteed liabilities, the answer is no, it's not going to be totally exactly zero, because, as you know, regarding the off-balance sheet loans, we booked a portion of initial revenue and the others will be released into our revenue line later as the guarantee income. Because as we see better-than-expected delinquency trend, the changes in gains and the losses of guarantee liability might be a gain in the fourth quarter, if the trend continues.

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**Steven Chan Haitong International Research Limited - Executive Director**

But my question is that based on my rough estimation, the off-balance sheet guarantee business, the remaining amount is just maybe around 0.4 -- CNY 400 million or so and your average tenure is about -- just around 4 months. So even if the 2 lines may not be 0, but it will be -- will that be continuing to decline very minimal. And do you expect further write-back in provisions?

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**Sissi Zhu Qudian Inc. - VP of IR**

It's very possible, as we can see, the delinquency continued to reduce up to now.

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**Operator**

(Operator Instructions) If there are no further questions, I'd like to turn the call back to the company for closing remarks.

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**Unidentified Company Representative**

Thank you, everyone, once again for joining us today. If you have further questions, please feel free to contact Qudian's Investor Relations team. Thank you.

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**Operator**

Thank you. This concludes the conference call. You may now disconnect your lines. Thank you.

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