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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Qudian Inc. Second Quarter 2019 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 Second Quarter 2019 Earnings Conference Call. The company's results were issued via [Newswire services earlier today and were posted online. You can download our 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, Chairman and Chief Executive Officer; and Mr. Carl Yeung, our Chief Financial Officer, 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 risk 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 statement except as required under applicable law.

Please also note that Qudian's earnings press release and this conference call includes 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. 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, Mr. Min Luo. Please go ahead.

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

Thank you, Annie. I want to first thank all of the investors, analysts and the media, who have taken an interest to join today's call. I'd like to walk you through some of the key factors in our business performance before handing it over to Carl, who will take you through more details.

Another record-breaking quarter in terms of user growth and net income. Our strength in earning is not just about the scale and the growth trajectory. Since we launched open platform last year, we are enjoying substantially earnings quality improvement as a larger and larger portion of recorded earnings are generated from our risk-free open platform or referral revenue.

Before we dive into the results, I would like to use a moment to help the community understand what is really driving the business. The early adoption of technology across our business has enabled us to develop a highly cost-efficient and user-friendly platform for the 100-plus licensed financial funding partners to serve the underpenetrated consumption credit market in China by funding loans to borrowers on our platform.

Our loan book, which is a product of the credit tech we developed using AI and big data, is driven by an industrial-leading RMB 220 billion and growing worth of accumulated transaction. This gives us a technology advantage in data analytics that is leading the industry. These areas of big data application include: Customer behavior pattern, complex networks, address analytics, LBS information, biometric recognition, multiple forms of machine learning, smartcollection and real time credit performance based risk strategy. We are able to use these technology tools to grow our loan book responsibly, which was at RMB 28.7 billion at the end of second quarter.

To put volume in perspective, we are leveraging over [1500] (corrected by company after the call) secure and efficient cloud-based servers and are adding over 100 terabytes of transactional data per day. This massive volumes of data creates a solid foundation for our big data analytics capability.

In previous quarter, we have experienced that we do not need costly marketing to drive user growth. We pride ourselves in having a competitive regulatory-compliant fee and a one-stop seamless user experience welcomed by the young, mobile-centric and under-banked population. Our scalable and profitable platform allows us to consistently test the new and dormant users using NPL, allowing us to have an organic based user growth. At the end of the second quarter 2019, our registered users base grew organically to 76 million, and the total outstanding borrowers reached 6.1 million, both highest in operating history of the company.

On our risk-free referral open platform. Years of technology integration with licensed financial institution has built a reliable infrastructure with low cost, high speed and high accuracy for credit data processing, disbursement and transaction clearing. Banks that are our financial service partners on our risk-free referral open platform can rely on the technology investment we have made to make credit decisions faster and better, clear transactions in near real time and access our quality user base with no marketing spend. In the first quarter, we had 1 bank partner operating under a long referral program on our risk-free referral open platform. And now list have increased to 8 as of today, signifying the trust they place in our technology infrastructure.

With the same seamless user interface and experience, the borrowers also continue to find our customer -- our consumer interface, a great way to get a better service and cost. As such, out of users that are qualified to draw loan again in open platform in the second quarter, the repeat ratio was 70%, showing the overall sustainability and user stickiness of this initiative.

With the consumer lending industry in China sized at over RMB 8 trillion, I continue to be excited by our prospects. Plus, we said in the past quarter, we are committed and focused on this consumer credit opportunity. And both the loan book and open-platform approaches are making strong inroads with our massive proprietary app-based user base. At the same time, we are building a distributed traffic ecosystem by partnering with third-party mobile Internet platforms across different verticals, empowering them with embedded in-app consumer finance solutions for their users. This distributed traffic ecosystem is another value-add, through our funding partners, to supplement our existing massive and underserved user base.

Leveraging the latest HTML5 technology, our solutions are well equipped to deliver the seamless and customized credit solutions within the third-party apps. We made a great strategic investment last quarter and now, making great progress on new verticals with new partnerships to close soon.

I very much look forward to continue to deliver exciting development in the near future. Here is Carl for more details.

Ka Hong Yeung ***Qudian Inc. - CFO***

Thank you, Min. And hello, everyone. First, I'd like to touch base on a couple highlights from the second quarter. While officially, we've joined the quarterly net income above RMB 1 billion club coming off a record first quarter of 2019, we started this year with another milestone, achieving another record non-GAAP net income of RMB 1.16 billion, up 57.1% year-to-year. This came as a result of continuing to ramp up our risk-free open platform initiatives and successfully growing our loan balance while managing risk appropriately. Particularly, our loan book grew by 91.8% year-on-year, demonstrating overwhelming user demand and ample institutional funding.

As Min discussed, we have being continuing the activation of our dormant user base by effective credit trial programs. Instead of purchasing high-cost traffic to our app, our credit assessment model identifies specific user cohorts to which we extend very small credit size for a short duration to quickly gauge their credit behavior data and thereby can extrapolate risk profiles for multiple clusters of the test user group, gradually adding qualified users to our core user group.

Through this effort, our new active borrowers increased by 108.2% from the last quarter and approximately RMB 500 million was provisioned in the quarter to bring on more outstanding borrowers to reach over 6 million on our own loan book in the second quarter, growing the outstanding borrower base on the loan book by 12% in 1 single quarter. Our M1+ vintage delinquency rates would have decreased by 0.5% excluding users in these trial programs.

Owing to a massive undertapped user base and highly evolved distributed traffic ecosystem, our open-platform initiative continued to prove its strong potential to become a key growth driver, generating RMB 398.1 million in revenues for the second quarter compared to RMB 158.7 million in the first quarter. That's 150% growth in 1 single quarter. The number of outstanding borrowers under the loan referral business also increased to 415,000 from 135,000 in the first quarter, driving total outstanding borrower base through our entire platform to 6.1 million.

Since 2019, we have made effective efforts to address evolving regulation and partnership landscapes, and our share price performance has performed well to reflect the more positive sentiment. With solid second quarter results driven by strong momentum in our open-platform initiative and better-than-expected loan book growth, we have raised our original guidance of RMB 3.5 billion by 28.6% to RMB 4.5 billion on a non-GAAP net income basis. And now second quarter earnings have again exceeded the Street consensus by 32.7%.

In addition to delivering strong financial results, we also have a long-standing commitment to delivering value to our shareholders. We seized the market window to raise USD 345 million via a convertible bond issue in June, including a fully exercised green shoe and at 1% coupon for 7 years and further entered a cap call transaction to increase the effective conversion premium to 75%. More importantly, given still the visible disconnect between the company value and fundamentals versus the share price, the majority of these proceeds are earmarked for share buyback in the next 1 or 2 years. The deal not only makes sense financially but has brought us access to more large global investors, enhancing the quality of our stakeholder base.

Now let me share with you some key financial results. In the interest of time, I will not go through over line item by line item. For more detailed discussion of our second quarter results, I invite you to read our official earnings press release.

Our total non-GAAP net income continued to set new records, increasing by 57.1% to RMB 1.16 billion year-on-year driven largely by tractions on the open-platform business. Referral service fees, which relates to traffic referral services and transaction referral services provided by our open platform, substantially increased to RMB 398.1 million from nothing in the same period last year.

Our operating efficiency continues to improve as we achieved larger scale. Cost of revenues decreased by 69.8% to RMB 286.1 million from RMB 947.8 million for the second quarter of 2018. And so the marketing expenses decreased by 51.6% to RMB 77.7 million from RMB 160.6 million for the second quarter 2018.

To improve our credit assessment model and activate the existing dormant user base, we started to conduct credit trials in the third quarter of 2018 by extending credit to cohorts of noncore borrowers identified by our AI-based algorithms which may not have met our strictest credit standards and were placed prior to such trials are initiated. Approximately additional RMB 500 million was provisioned in the quarter, and the outstanding borrower base from that effort on the loan book side increased by 12% to reach 6 million in 1 single quarter.

We continue to be conservative on our provisioning and operations. The M1+ delinquency coverage ratio for this quarter was 1.3x for the whole loan book. As equity reaches RMB 12.3 billion and outstanding loan balance also increased to RMB 28.7 billion, the leverage ratio stands at only 2.3x, lowest amongst our peers. In addition, we have cash and cash equivalents and restricted cash of RMB 3.4 billion. We believe our low-leverage model and sufficient cash reserve will help sustain our long-term growth.

Finally again on guidance. We remain fully confident in our growth prospects, given sufficient funding, strong user demand and ramp up of our open platform. Therefore as mentioned, we are reaffirming our previously issued guidance and expect our total non-GAAP net income for the full year of 2019 should be greater than RMB 4.5 billion, which would basically mean a 76.5% increase from RMB 2.5 billion in 2018. Now this above outlook is based on current market conditions and reflects the company's preliminary expectations as to market conditions as regulatory and operating environment, as well as customer demand, all of which are subject to change.

Now this concludes our prepared remarks. I will now open the call to questions. Operator, please kindly go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Alan Kuang from Alatheia Capital.

Alan Kuang *Alatheia Capital*

This is Alan from Alethia. I have 2 questions. My first question is on the traffic ecosystem. Can you give us some color on Qudian's investment plan in building that traffic ecosystem? And how much strategic or minority stake investments have you made so far? And how much more do you plan to spend for the rest of the year? Or maybe even next year, if you can give us some guidance.

My second question is on user acquisition cost. We saw in the press release that Qudian has added about 2.3 million registered user in 2Q '19. Can you give us some colors on how many of these new users are from the third-party app ecosystem? And how much cheaper it is to acquire new users from this ecosystem versus other channels?

Ka Hong Yeung *Qudian Inc. - CFO*

Thank you, Alan, appreciate the question. First of all, on the current status of the traffic ecosystem, again, we made a great strategic investment in the last quarter in one of the leading karaoke apps. So far, the conversion rate is pretty descent. It's well above 1% of the initial model that we built to support that investment thesis. But so far, we still are in the optimization phase in terms of where the placement of the icon will make the best exposure. So the contributions to this quarter's revenues or user base is not significant.

But we are very excited that, as Min mentioned, we are closing several more partnerships. Now these may not necessarily mean we have to take a strategic stake, given the first step we've taken to build that system out. More and more leading Internet platforms are seeing that as a way to really provide a great service to their user base. So we are working with at least 2 to 3 pretty large platforms which we hope to close in the next few months from just a servicing perspective. And we probably would not need to take a stake in them.

It's hard to quantify the amount of dollar we would spend on these strategic stake/relationships because one of the difficult task that we have to be responsible for is make sure purely, strictly from a financial sense, that the investment makes sense, that the investment is cheap and reasonable, and we expect to make a good investment return in that period. So these are rare, but we're excited that our ecosystem potential partners are seeing beyond just us being a stakeholder and seeing great value in the technology platform we can provide. So look out ahead in the next few months, we could be announcing some exciting partnerships.

The user acquisition cost, on the second question, thank you for observing adding about 2-plus million of registered users, none of which came from further marketing spend. Again, a material amount of it comes from our traffic ecosystem for now. We continue to have a very, very large, massive, proprietary sort of app-based user base. And I think that will be able to support great open-platform growth for the next few quarters already. The open-platform initiative is really just building something for the next 2 to 3 years when, eventually at some point, our massive user base gets used up. So again, no marketing spend there, and open platform, in terms of users, is not contributing material amounts yet. But we are very excited about the prospects.

Great. Thank you, Alan. Does that answer the questions?

Alan Kuang ***Alatheia Capital***

Yes, that answered the question. Do you mind if I ask a follow-up questions as well?

Ka Hong Yeung ***Qudian Inc. - CFO***

Please.

Alan Kuang ***Alatheia Capital***

I believe you have mentioned in the credit trial program that you are targeting some of the noncore borrowers right now. Could you give us some borrower profiles on those kind of borrowers that you are targeting in the credit trial program?

Ka Hong Yeung ***Qudian Inc. - CFO***

Sure. So if we look at the big data, about 76 million registered users and around 30-plus million approved users. So we have -- actually have a fairly large gap, about 40 million potential customers, that we just been conservative on. Logically speaking, the default rate cannot be 50%. So what we're doing is we're using AI to identify sort of the next level of risk that we may not understood before and issue them RMB 500 or RMB 1,000 ticket sizes. And these will be more -- it's much more blindsided testing.

And we are able to absorb these provisioned costs because we have such a large net income that can support us to do so. That's why you see in the second quarter our loan duration has dropped from the previous quarter of 9.9 to now around 8 months. That reflects a part of our loans going out to being much shorter duration, much smaller ticket size. So I think that's a step we're taking.

I cannot give you the specifics of the so-called user profile because that is a highly trade secret, what we are doing. But the numbers are great because we've essentially added 700,000 outstanding borrowers in 1 single quarter from Q1 to now Q2.

Operator

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

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

Congratulations on the strong results, and particularly the growth momentum of users. So my first question is do we see this momentum to continue in the second half?

And then 2 related questions about the cost. I think the credit trial program will lead to certain increase in the provision. So just wonder, because I've seen in the second half -- in the second quarter, the provision went up on a quarter-on-quarter basis. Just wondering if the management can provide some breakdown on how much is it related to the new acquisitions of -- or new users acquisition? So that's the first one.

And the second one is about the proceeds of the CB issuance. I think in the previous press release, we also mentioned there that there will be some strategic investment. And now it seems that the wording changed to basically a share buyback. And I think that, that would be over the next 1 to 2 years framework. So just wonder, what do we plan to use -- when we haven't identified any strategic investment yet? And obviously, the share buyback cannot be done over the next months. So just wonder, any plan on the cash?

And the final question is about some balance sheet items. I noticed there's a new balance sheet item called risk assurance liabilities. And just wonder, what's that? And then there's also some pickup in the long-term contract assets, so just wondering if there's any colors on that as well.

Ka Hong Yeung ***Qudian Inc. - CFO***

Thank you, John. So for the first question, the second half momentum, I think, will continue to be strong. I don't see any sort of data or trends pointing otherwise. So if you add up the first 2 quarters that we just completed, the first quarter's non-GAAP income was RMB 970 million. We just did RMB 1.16 billion. So we are well north of RMB 2 billion already. So I think just -- and I'm reaffirming my guidance. So I expect in the second half total, combined Q3 and Q4, we should be able to deliver around the numbers that can get us across the guidance line with good confidence.

So I don't think there are any factors that point towards a specific slowdown yet. And I think the demand continues to be strong. But I think we have to be mindful that this is an evolving industry. We are a responsible company in terms of taking on risk. Like what we've done in the first quarter of 2018, when industry risk was not at the right place we wanted. We would bring down our loan book. We rather slightly less money and make sure that risk do not get out of control. So we continue to be responsible in such regards, but delivering the numbers seems to be well on track now.

You mentioned about the cost on provisions. So again, this is a way that we activate our user base. Approximately around RMB 500 million, on- plus off-balance sheet, out of the loan book that we had provisioned in the second quarter was used to bring on more active borrowers. So I think this is something that's we continue to monitor.

The objective follows kind of path. We first do a workaround in terms of thinking about where our target net income numbers are because that's my guidance. And if we have room in such quarter to drive more users, then we would lend more sort of higher-risk loans out to drive more borrowers. So it's a bottoms-up approach, and we continue to manage that responsibly so that we can deliver both earnings growth as well as a good, consistent user growth.

And then on the proceeds on the convertible bond issuance. Yes, the proceeds are earmarked for mainly 2 things. Number one is strategic investments that add value to the company and more specifically perhaps on the open platform side. And then because we still see the company as significantly undervalued, we hope to buy more shares back. So that will be used for that. Now in terms of priority, again, it's hard to specifically pinpoint or identify strategic investments because they do come when they come. So as far as we can see a direct value-add that we can provide to our shareholders, is to first buyback.

And given that some of the investments can be done onshore, we believe we have ample money onshore. As such, we now have RMB 3.4 billion of sitting cash balance that we can make the right investments onshore already. So that I think a large portion of that proceeds from the CB would be earmarked for buybacks. Now buybacks will be subject to different price and volume limitations, but we would do so in a view to enhance shareholder value.

Time frame wise, we're saying 1 to 2 years, but we could be more aggressive if the price is right, we can be more conservative if the price is right, I don't know. But we hope to deliver what we did this quarter. If you look at our EPS from 1 year ago, our earnings grew by about 57% from a year ago, but our EPS grew by close to [280%] (corrected by company after the call). That's largely thanks to buyback and share cancels. Our share count as of today -- as of the earnings date is only [286 million] (corrected by company after the call). So again, that's real good shareholder value add. We continue to -- we think we continue to do so.

Now you mentioned about 1 extra balance sheet item. We started to introduce our asset management company models to pick up the fees that are in excess of something that the banks would be happy to charge but still remaining under the legal limit framework of 36%. And by going through these AMC companies, asset management companies, we have to assess, just like the off-balance sheet model, how much we have to provision of the day that the transaction happens. And that's why you see a new line item in our P&L as well covering these so-called guarantees on our asset management models. We actually made a gain of around RMB 30 million in the second quarter. That's because we were slightly too conservative on the provisions we were making when we started to do this with these asset management company partners.

And then long-term contract, I'm looking up some of the numbers. Perhaps I'll add to that at the end of the conversation.

Does that answer most of your questions, John?

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

Yes, yes, yes. Helpful. So just 1 clarification on the asset management company that's there. So is that off-balance sheet or on-balance sheet?

Ka Hong Yeung ***Qudian Inc. - CFO***

That's off-balance sheet. That's why the accounting is exactly the same as off-balance sheet, where we book it off-balance sheet and then we only account that for the guarantee -- sort of the potential loss part.

Operator

Your next question comes from the line of Tian Hou from T.H. Capital.

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

(foreign language) So if -- we just want to get some clarification on the referrals business. I want to -- we would like to know how many and who are they that you guys you do business with. And how exactly does the services fee is collected? Is that percentage of the loan you help facilitated, or it's a flat fee? So how do you get this services fee?

And also, who are the guys you cooperate with? And we saw some issues with the very local banks. Do you guys have any measurements to control such a potential risky partnership?

Ka Hong Yeung ***Qudian Inc. - CFO***

Thank you, Tian, great insight on some of the questions. I'd like to first quickly address the last part of John's question, which is the long-term contract assets that are sitting on my balance sheet. That's basically receivables, as longer-term receivables, because under the off-balance sheet arrangements, we have longer-term receivables from our bank partners. And that sits inside there. It's basically through that we continue to do.

Now Tian, to answer your great questions. Number one, on the open-platform, the way we do this is, again, we do a risk-free business model where we just refer -- a majority of it is referring of transactions to my bank partners. We had a concentration risk in the first quarter because there was only 1 bank partner supporting basically the entire open platform on the transaction side. But that increased to 4 partners in Q2. And now, as Min mentioned, there are 8 partners supporting this whole open platform initiative. So I think the concentration risk had essentially gone away.

Know how this really works is we take a referral fee, and that's based off of a percentage of the transaction dollar that we introduce. So in Q1, that was 8%. In Q2, if you back out the math, it's coming close to about 10%. But again, this is just the early stage of this business. I think over the longer period of time, the take rate should be closer to 5% to 6% as more and more partners join and we become much more competitive in pricing to attract more partners.

So the revenue recognition, just to get more details out to the community, is exactly the same as our off-balance sheet model, where we recognize the transactions revenue in the day 1. But the good thing is we do not need to take any guarantee liabilities at all. And the cash flow is collected when the loans are repaid over time from our bank partners.

Secondly, on the risk surrounding industry, that's something we continue to focus on. I also answer some of the first part of the first question, who are these partners? These partners are essentially licensed Internet banks or licensed consumer finance companies whom have nationwide license to do business everywhere in China. We do not essentially deal with localized banks. We have 1 or 2 partners, but they don't contribute a significant amount of our -- or even material amount of our business. So some of the names you mentioned that have blown up in the past few months have no impact to us at all because the bank partners that we work with are in a very different league. These would be names that every household -- name household would know of. These would be your -- I am not at the discretion to disclose the names, but they are fantastic names.

Operator

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

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

(foreign language) My first question is on Dabai Auto business. As announced by company, that the new business will be sold from May this year. And just want to understand, what is the size of current inventory, and how would you handle that inventory?

And the second question is on regulation. Recently, there was a regulation released by CBIRC that requires to -- requires online lending platforms to stop selling accident insurance policies. And I just want to see whether that will have any influence on our company's profitability. And what is the size of insurance product sold on our platform? And how is that impacting our P&L?

Ka Hong Yeung ***Qudian Inc. - CFO***

Great. Thank you, Martin, for the questions. Great set of new questions. And on Dabai Auto, we winded it up. Basically, we stopped selling new vehicles since May of 2019 from our second -- from our first quarter earnings announcement date. And back then, we still have a few thousand cars. But right now as of today, we have less than 500 cars in inventory. So we are quickly getting rid of that inventory to avoid exposure in having to mark down inventory. And anything that's already still remaining in this 500 cars or less is already well provisioned for. So you don't have to worry about any potential impact to our P&L going forward. So I think that's basically a final sort of finishing up of Dabai Auto.

We will -- for disclosure purpose, we will continue to collect cars as some of the delinquency will continue to happen under the old portfolio. But again, that would have immaterial impact to a net income base of RMB 1 billion-plus per quarter going forward. So I don't think we need to -- I think we can call it a day for that.

Insurance. Yes, thank you for observing the recent regulation on CBIRC preventing insurance company to participate in so-called cash lending. We did explore that as part of a product enhancement in the fourth quarter last year and partially in the first quarter 2019. But we had the foresight to not get close to so-called regulatory sort of fringes. We stay away from anything that are susceptible to regulatory change. So essentially, there are no insurance fees or income in second quarter 2019. We are one of the earliest companies in the sector to explore this, and we are the earliest of the companies to basically stop that, and way ahead of the potential regulation came -- when that came in, I think, June. So they are essentially immaterial, nothing in Q2.

Does that help answer the question, Martin?

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

Yes, yes. That's very helpful.

Operator

Your next question comes from the line of Shenghao Yu from Needham.

Shenghao Yu ***Needham & Company, LLC, Research Division - Analyst***

My question is still about the first question on the open platform. So in the first quarter, if we divide the revenue made in open platform by the user referred, it's about RMB 930 revenue per user. And in this quarter, it's about RMB 954 revenue per user. So should we [expect that] to continue to grow for -- in term of per user revenue? And if it is going to grow, is it driven by our take rates or driven by the size of the loan offered by the partner? And what's seeding all these per user revenue?

And my second question is about funding partner. How many funding partners do we have for now? And how long it takes for them to onboard to our -- your system?

Ka Hong Yeung ***Qudian Inc. - CFO***

Thank you, Shenghao. Again, open platform is something we focus on. So great questions to help everyone get more details. Again, thanks for observing the revenue take rate per user. That is a function of the loan transaction size and the take rate that we can get. So in the first quarter, the loan transaction size was around RMB 13,000, that's relatively stable into Q2. And the take rate was 8% in Q1 and take rate was about 10% in Q2. There is no ceiling. So if my funding partner determines that the user I send deserves, say, RMB 0.5 million, then obviously, we take a certain percentage of that RMB 0.5 million on some pre-agreed rate. So there is no ceiling. It depends on their risk that my funding partner's willing to take on that.

So that number will vary. But I think the overall trajectory is that we think from an absolute revenue perspective, we continue to see at least another few quarters of growth. Because to answer your second question, we had 1 partner in Q1 contributing to the open platform. We had 4 partners in Q2. And as Min mentioned, as of today, we now have 8. So this has become a very proven value proposition across the regulated, licensed financial institutions to tap into a brand-new market that they couldn't access before.

Does that answer your question?

Shenghao Yu ***Needham & Company, LLC, Research Division - Analyst***

Yes, yes, yes.

Operator

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

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

So my first question is on the asset quality side. So as we observe on the vintage delinquency ratio, the vintage continue to trend up, for example, on the 2Q 2018 core cost. So I'm wondering, like, where should we expect, like, that to stabilize in the longer term?

And also because you mentioned earlier you are having this credit trial program, which means that you are essentially increasing your risk appetite. So going forward, like, is there any comfortable landfall on the annualized delinquency rate that you will expect? And like, when should we expect the credit cost to, like, stabilize going forward?

And the second question is about the -- I guess the outlook for the core cash loan business and the open platform business. So on the cash loan, we look at that, the loan balance shown in your presentation slides, they actually came up a little bit in July. So not sure if that is because you're, like, intentionally shifting the focus more towards the open platform business. And in that sense, is there any target in terms of the revenue mix between these 2? Like, for the referral service fee versus the core cash loan business contribution.

Ka Hong Yeung ***Qudian Inc. - CFO***

Great. Thank you, Daphne. Again, great questions. Number one -- all new questions from today -- from everybody else. Number one, delinquency rate. Yes, the Q2 number has ticked up to now slightly over 4% in terms of M1 and slightly over 2%, closer to 3%, on the M6 charge-off rate. It is higher than previous quarter, but that just mean that the highest vintage is sitting there while the other vintages are still below that.

Now because what we are doing is on a bottom-up approach, if we can deliver the same bottom line, we like to activate more users. So we will continue to use that as a priority and see how much provisioning we can spend in each quarter and activate how much users. If the delinquency trend accelerates beyond that, then we have to pull our loan book back. That's kind of how we think about it.

I cannot tell you the exact sort of longer-term rate, but I can tell you basically the trend is it has to go up for 3 main reasons. Number one, I think the overall economic profile, the macro side, continues to be deteriorating over relative period from last year. It's still very strong Chinese economy, but on the relative basis, it has slowed down.

Number two, that there are more and more players that are going bust, which means some of the people who could -- who were able to refinance couldn't refinance. That's kind of driving delinquency rate up as well.

And number three, we are proactively doing this so-called NPL marketing method. And if we were to take out the NPL for marketing purpose, I think the delinquency rate on some of the back calculations we've done would have been just around 3.7% on M1+ and then just around 2.1% on the M6 charge off. So it's pretty much stable like before. That's kind of how we think about it.

I'm trying very hard to see if we can, in the next few quarters, be able to separate that delinquency by vintage into what is really the core business and what is really for sales and marketing purpose so everybody can have a better comparison in terms of how we spend money on acquiring users versus others. So that's something we're working on. But overall, the trend has to go up.

On the cash loan business versus referral business mix, thank you for observing the daily charts that we post online. So you see blips and troughs. We are carefully managing that so-called trajectory so that we meet our guidance numbers carefully. If you have to ask us as a company, and if you, I think, ask most investors, I think the preference is if we can generate 100% of net income from referral with no risk, why not? Because that's a better, higher-multiple business. So we're constantly tracking the development of open platform. If that can help us cross our goals and contribute a bigger percentage of net income contribution, we will take down our loan book so that we would have less exposure to risk period. So that's kind of how we think about it.

Regarding the specific mix, this is a function of how quickly we can grow open-platform revenue, the provisions we are making and how effective we can bring users on board to take them through the loan book program and eventually filter them into the open-platform business. So it's a dynamic process. But our goal is to be a majority of our net income contribution coming from open platform.

I think we've made great progress. In the first quarter, roughly 15%, around 15% of net income can kind of attribute to open platform. In the second quarter, I think given the net income of RMB 1.16 billion, and we had just under RMB 400 million referral fees, that's just under 40%, around 30-ish percent. Hopefully, the next quarter or so, or next 2 quarters maybe, that riskless net income can be over 50%. So that's kind of how we would like that.

Did that help with the 2 questions, Daphne?

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

Yes, that's helpful. And actually, I would like to follow up, understand more about the asset quality or the risk control perspective. I guess I can see that for 2019 earnings perspective, you have a pretty strong buffer to take on more risk, but you can still meet your full year guidance of CNY 4.5 billion. I guess the question is if we look beyond, for the longer term, say, in 2020, I mean, if you continue to take on higher risk and get to see higher credit cost while -- because the APR is capped at 36%, so that essentially means a lower net revenue takeaway and also a lower profitability. So is there any, like, bottom line profitability that you will be targeting at? Yes, so that's the follow-up question.

Ka Hong Yeung ***Qudian Inc. - CFO***

Yes. Thanks, Daphne. As of today, we hope to have annualized take rates of at least 10%. That's kind of where we see a good cushion or buffer. And that may change depending on how quickly we can grow open platform. Yes. If it means that we take on more risk in the delinquency side and have a lower take rate on the loan book, but we can grow open platform maybe 4- or 5-, 10-folds, it might make sense to do so. But we haven't seen that yet. We're just doubling every quarter right now on open platform. So the 10% kind of average take rate on the loan book is something we are kind of comfortable with for now.

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 questions. The first one is on the 70% repeat ratios under the open platform. So I think yes, it shows user stickiness. But just wonder, so does that mean most of the revenue from the second quarter is actually repeat borrowers? And any -- what should we expect for this repeat ratio going forward?

And secondly is on -- it's actually a follow-up on the mix between open platform and our loan book. And if any of you -- if I look at the funding side for the risk business, we -- the funding that now we are sourcing is essentially going to AMC. So just wondering if there's more color on the funding cost there as compared to the banks.

And if I look at the open platform, we are actually able to add 8 banks now. So it seems they are more interested in doing open platform. So how should we think about that as well? So obviously, they get more revenue so that is probably the driver. But is there any long-term strategy in terms of customers' retention?

Ka Hong Yeung ***Qudian Inc. - CFO***

Yes, thank you, John, again for following up. 2 questions. The first one, 70% repeat ratio. I threw that number in after careful analysis because people who may not have used our app think that once our borrower, through our open platform, gets referred to a bank, it's a one-way road, they don't come back. And they worry the sustainability of our open platform. So I want to put some numbers to help them understand that the customers recognize that the consumer interface is us, not the banks, so that they keep coming back.

Now to put numbers in perspective, in the first quarter, we have about 140,000 open-platform outstanding loan borrowers. And second quarter, that's about [420,000] (corrected by company after the call). So again, most of them are new. That 70% comes from a pool of borrowers whom repaid enough from Q1 that they can have a loan drawdown capacity in Q2. So not -- it doesn't mean that 70% of the borrowers in Q2 are repeating. That means that the qualified ones are drawing down again from our platform again. So some of them may not need a loan anymore, I suspect. Some of them who need a loan who have the capacity to draw down again, they come back to our platform. So it really is there to help people alleviate the concern that once I refer that transaction to a bank, it goes away. It still comes back to Qudian's ecosystem.

So that's kind of the repeat ratio metric. We've made a very careful definition in our earnings release what that means. Basically, who had capacity to draw down again, they draw down again in our platform. But people who don't, who may not draw down don't have the capacity, they just stay there.

And then In terms of the mix of open platform and loan book -- again, our AMC model, it's a model to supplement what the interest rate the bank can directly charge. And I think the fee we're paying there is less than 1% because, again, we're picking still the risk up. AMC companies really do not account for being a funding partner but rather as regulatory-compliant way to collect that fee and we will give them a very, very small revenue share for their troubles.

And then the mix of open platform and loan book, from -- your question really comes from the funding side preference. I think the funding partners enjoy both types of business because it's really about the user cohorts. For the really micro-lending stuff that they don't have the capability on, I think they still want to stick with the loan book business that we provide an underwriting service for. But for risk that they begin to understand, especially for larger ticket size, I think that they are happy to go with the open-platform model. If you look at the transaction ticket size, again, on the open platform, it's like RMB -- [RMB 12,000] (corrected by company after the call); versus on the loan book, it's still even in the second quarter, just under RMB 2,000 per transaction. So there is still a very good user cohorts, sort of different pool sitting there, going on. So I think most of my partners like to do both, depending on the right user cohort.

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

Just quick follow-up. How many banks are we working with under our loan book or the risk business?

Ka Hong Yeung ***Qudian Inc. - CFO***

We work with just under 30 active licensed financial institutions. Some of them are banks, some of them are consumer finance companies, some of them are trust companies. But trust play a very, very small part now as most of them are just banks and consumer finance companies. So on the risk-taking side, around 30. So hopefully, we can turn 8 at some point to 30.

Operator

The next question comes from the line of Tian Hou from T.H. Capital.

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

Carl, another question. So in the past, for a long, long time, you guys was misunderstood as a P2P. So you guys are not P2P. So would you please give us some kind of insight or clarification, what are the applicable law for you, and what are some applicable law for P2P? So that we can have a much more clear distinction between you guys and the P2P vendors.

Ka Hong Yeung ***Qudian Inc. - CFO***

Okay. Thank you for the question, Tian. It can help us clear a really big question for a lot of people who talk to us for the first time. The strictest definition of P2P is peer-to-peer, basically a private individual who is an investor lending to a private individual whom is a borrower. And the platform sits in the middle, just act as intermediary to bring these people together. Now the risk there is that the private individual whom is the investor may not fully appreciate or understand and be able to underwrite that risk that they are taking lending.

So we understand that this may not be the best approach for an emerging market, such as China, so we have never adopted the P2P approach. We've adopted a purely institutional approach where the funding of these loans are made strictly by licensed financial institutions, whom their core business is to understand risk. These would be your banks and financial -- consumer finance companies. So there's a big difference in the way we get the funding into the hands of the borrowers.

And in our case, we have taken this to an even further step by not touching the loan in itself. So if you look at the regulation that applies in this transaction structure, we are an Internet technology company. We have a proper ITP license to allow us to run our apps, run the technology platform, manage that traffic on behalf of the banks.

The banks have a proper lending license, so that the lending relationship happens between the borrower and the bank. We don't touch that money. Just don't. And when that transaction goes through, the bank pays us a service fee. Now that can be recorded as financing income. If it's our capital that is being invested through a bank or a loan facilitation income if that capital happens to be bank's own capital.

Now the difference on open platform versus a loan book is, at the same time on the loan book side, we're providing an underwriting service to the bank if the loan goes bad. And we have a proper finance guarantee license to allow us to provide that guarantee. If we don't have the license, the bank cannot take my guarantee. That's not regulatory compliant. But on the open-platform side, because we don't take any risk at all, we don't need a license at all to do so. That's just a purely a traffic business, and it can -- all it needs is a proper Internet -- ITP license.

The P2P regulation and the legal framework is beyond me, beyond my understanding because the P2P institutions are somewhat mixed in the bag of helping investors price risk. So I think there are -- that, that whole segment is still evolving. And there are rumors of a registration process, eventually a registration to licensing process. But none of that applies to us.

Does that make sense?

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

Okay, Carl, that's very -- yes. Makes sense. Clear to me.

Operator

There are no further questions at this time.

Ka Hong Yeung ***Qudian Inc. - CFO***

Great. I would like to thank the global investor community, the media and our stakeholders for joining our second quarter earnings. We continue to deliver very strong numbers. It proves the resilience of our company. We look forward to deliver -- continue to deliver strong numbers going forward. So again, thank you, everyone, and have a good night and have a good day.

Operator

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