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Q2 2021 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**

**Hannah Han** *BOCOM International Securities Limited, Research Division - Research Analyst*

**PRESENTATION**

**Operator**

Hello, ladies and gentlemen. Thank you for standing by for Qudian Inc.'s Second Quarter 2021 Earnings Conference Call. (Operator Instructions) Today's conference call is being recorded.

I will now 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 Second Quarter 2021 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 prepared remarks and then we will open the call to Q&A.

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 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. We 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 us on today's call.

In the second quarter of 2021, we continued to operate prudently across our cash credit business lines, maintaining asset quality at a healthy level. We generated approximately RMB 3.9 billion in transactions for our loan book business with an on-balance sheet loan balance of RMB 3.5 billion. Our tireless efforts to maintain a robust balance sheet ensure our ability to safeguard the interests of our shareholders while providing us sufficient funding to propel the development of our extracurricular activities business, WLM KIDS.

We are pleased with WLM KIDS' steady progress. We successfully opened 2 new centers recently, one in Fuzhou City, in Jiangxi Province and the other in Xiamen. Furthermore, we have signed lease agreements for another 37 WLM KIDS centers, of which 24 centers are under renovation. As we further expand our footprint, we believe our first mover advantages, in depth entrepreneurial, expertise and

strong digitalization capabilities will fuel the ongoing growth of WLM KIDS.

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. Amid complex online lending market dynamics, we maintained our cautious and conservative approach in our loan business by rigorously assessing credit risk in new transactions. The transaction volume for our loan book business was CNY 3.9 billion this quarter. Our asset quality continued to improve with a D1 delinquency rate below 5% at the end of the quarter and our M1+ delinquency coverage ratio remained high at 2.5x.

Echoing Min with respect to our extracurricular enrichment business, our vision for WLM KIDS is to help children joyfully explore their talents and potential in sports, arts, music and other extracurricular activities. We believe this goal is aligned with the core principle of China's new regulatory framework, which aims to promote students all around development. With our existing 3 centers as well as 37 new centers in the pipeline, we are confident to replicate the success of our flagship center and tap into opportunities in China's fast-growing extracurricular enrichment market.

Together with the opening of new centers, we will incur more operation expenses relating to staff compensation, sales and marketing, rental expenses, et cetera, which would affect our profitability in the third quarter.

Looking ahead, we will continue to closely monitor the evolving regulatory environment and proactively respond to policy changes. We believe that with our thoughtful operating strategy in the loan business, along with the WLM KIDS' steady progress, we are well positioned to deliver long-term value to all stakeholders.

Now let me share with you some key financial results. In the interest of time, I will not go over the line by line. For a more detailed discussion of our second quarter 2021 results, please refer to our earnings press release.

Our total revenues were CNY 412.1 million, representing a decrease of 64.7% from CNY 1.2 billion for the second quarter of 2020. Our financing income totaled CNY 311.8 million, representing a decrease of 46.3% from CNY 580.9 million from the second quarter of 2020 as a result of the decrease in the average on-balance sheet loan balance.

Our loan facilitation income and other related income decreased by 95% to CNY 12.6 million from CNY 255 million for the second quarter last year as a result of the reduction in transaction of off-balance sheet loans during this quarter.

Total operating costs and expenses decreased by 90.9% to CNY 89.3 million from the second quarter last year.

Cost of revenues decreased by 82.3% to CNY 64.9 million from CNY 366.4 million for the second quarter of 2020, primarily due to the decrease in costs associated with the loan book business and the decrease in cost of goods sold related to the Wanlimu e-commerce platform.

Sales and marketing expenses decreased by 81.4% to CNY 29.1 million from CNY 156.8 million for the second quarter of 2020, primarily due to the decrease in marketing promotional expenses.

General and administrative expenses increased by 44.8% to CNY 109.1 million from CNY 75.3 million for the second quarter of 2020 as a result of the increase in staff salaries, primarily relating to WLM KIDS business.

Research and development expenses decreased by 30.3% to CNY 39.2 million from CNY 56.3 million for the second quarter of 2020 as a result of the decrease in staff salaries.

Provision for receivables and other assets was a reversal of CNY 97.4 million compared to a loss of CNY 519 million for the second quarter last year, mainly due to the decrease in past due on-balance sheet outstanding principal receivables compared to the second quarter last

year.

Our net income attributable to Qudian's shareholders was CNY 269.9 million or CNY 1.03 per diluted ADS.

Non-GAAP net income attributable to Qudian's shareholders was CNY 282.5 million or CNY 1.07 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) As there are no questions at this point of time, I would like to turn the call back to the company for closing remarks. Thank you.

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

Hey, A.J., I actually heard from our investors that there might be some technical glitches over the phone that they can't hear us clearly. Is there a separate line that you can get connect to? Or we do the sound check again?

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### Operator

Pardon the interruption. Am I not audible to you, ma'am? Hello? Pardon the interruption. This is the operator. Yes. Am I audible to you?

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

Yes. Loud and clear.

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### Operator

(Operator Instructions) We have our first question from the line of Hannah Han from BOCOM International.

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### Hannah Han BOCOM International Securities Limited, Research Division - Research Analyst

I have 2 questions. The first one is, what do you think about the 24% cap that is window guidance by some customer financial companies?

The second one is, could you give us more color about your new initiative for your education program and how it's going to develop forward?

(foreign language)

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

Thank you, Hannah, for these 2 brilliant questions. Let me address it one by one. So regarding the 24% interest rate cap, per our understanding, it is a window guidance that is mainly relevant to licensed financial institutions. And local regulators have very different implementation details and time lines on this issue, given the fact that our profitability will be negatively affected if our interest rates gets capped at 24%. So before any concrete interest rate restrictions get enforced on our proprietary lending activities, we will choose to maintain our status quo, that is we charge at less than 36%.

We don't have plans to boost the growth of our credit business before the regulation turns to the promising side. Nevertheless, we will embrace the regulatory changes and promote an orderly and healthy lending market together.

With regard to your second question for our WLM KIDS business, we are happy to say that we have successfully opened 3 centers so far and 37 other centers with signed long-term lease contracts in the pipeline. Customers are quite satisfied with our superior service offering. The cool thing is we spent quite some efforts and money in designing and renovating the centers, which, in turn, become one of our competitive advantages and entry barriers. As a matter of fact, building swimming pools and sports venues indoor require a lot of

detailed designing, calculation and advanced construction techniques.

To give the investor community more confidence, our first center, which opened in January this year, already passed our internal test of monthly break-even points, outperforming our expectations if we take out trial programs and associated floor areas from the calculation.

For the business as a whole, the financial numbers are still very small and immaterial as opposed to our core lending business, although customer satisfaction is very good. We will certainly be more than happy to disclose the numbers when they become material. Thank you, Hannah. Hope I answered your questions.

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**Hannah Han *BOCOM International Securities Limited, Research Division - Research Analyst***

Yes. That's very clear.

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**Operator**

(Operator Instructions) As there are no further questions, I would like to hand the call back to the company for any closing remarks.

Thank you.

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

Thank you, operator. So it's very happy to meet everyone online today. And if you have any further questions, please don't hesitate to contact our IR team. You can also find our press release and relevant points on our IR website. Thank you very much again.

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**Operator**

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

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