THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

QD.N - Q3 2018 Qudian Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 21, 2018 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

Ka Hong Yeung *Qudian Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

Daphne Poon *Citigroup Inc, Research Division - Associate*

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

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

John Cai *Morgan Stanley - Analyst*

Munyoung Cha *BNP Paribas, Research Division - Analyst*

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

Zhangyun Li *Crédit Suisse AG, Research Division - Diversified Financial Services Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Qudian Inc. Third Quarter 2018 Earnings Conference Call. (Operator Instructions).

I must advise you that this conference is being recorded today, Wednesday, 21st of November 2018.

I would like to hand the conference over to your first speaker today, Ms. Annie Huang, Director of Capital Markets for Qudian Inc. Thank you. Please go ahead.

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

Hello, everyone, and welcome to Qudian's third quarter 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, Chairman and Chief 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 may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in the company's prospectus 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 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 first thank all the investors, analysts and media who have taken the 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.

First, we had another record quarter with RMB 747 million of non-GAAP net income. This is excluding nonrecurring operating charges. Since the end of 2017, the market has had concerns about issues, including regulation, partnerships and users, while our recent share price has reflected this negative sentiment. I am proud to say that our operating performance since the end of 2017 has disproven these concerns. In fact, we have delivered not 1, not 2, but 3 strong financial results, with both 2Q and 3Q, setting new records. In a moment, I will let Carl and Annie talk you through this.

On users, we are happy to report we had more than 70 million registered users and 29.1 million credit approved users by end of the quarter. And while we have ended Alipay's paid marketing channel, we were still able to gain more than 580,000 new active borrowers by providing a better service and setting costs to borrowers at the regulatory range and competitive rates.

Qudian has 70 million registered users and 29 million credit approved users that are -- where -- we already have. We simply have too much users to sell that we're managing and taking a more conservative approach to our business. So we recently launched a credit referral channel on our app for excess user traffic to supplement our existing on-balance and off-balance sheet operation.

In a short time, we partnered with 10 leading financial service platforms to offer our unserved users a broader range of financial products and services with a simple asset of, first, we are blessed with too much demand, and our better service marketing approach works. Second, these are high-quality users, and we have naturally, in fact, many partners who joined.

On Dabai, investors have been concerned about the potential cash drain and asset-heavy nature of auto lending. Although we have proved that we can be a competitive player in this space, we have further scaled this business down with a focus on risk adjusted profitability.

Now to what really matters to me, my team, we recently moved our headquarters to Xiamen mainly for a simple reason: to provide a better working environment for our teams to succeed. We saw the negative media. But let me show you the facts. One, for key and qualified employees that must stay in Beijing, we have an office there. Two, less than 4% of our employees departed because of location while all the middle and senior management came to Xiamen because they believe in their future with Qudian. Three, we have more than fairly compensated our departed staff. Finally, our company will continue to offer highly competitive, if not the most competitive pay packages for our staff and retain the most talented people in the world.

Finally, we are humbled, but we are focused and driven to succeed. We have a stable team, massive user base, a proven financial track record and strong financial position. We have never been more confident about our future. As such, we have brought back USD 240 million worth of stock as of today. That's true commitment. I want to thank the board for their support and assuring real action by extending our USD 300 million share buyback program for another year.

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

Ka Hong 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.

We continue to deliver solid results and improved profitability with lower funding and marketing costs. After excluding a nonrecurring foreign exchange loss of RMB 52.8 million, we will have recorded a non-GAAP net income of RMB 747.1 million this quarter, a new record for Qudian. Our loan book grew steadily by 17.7% year-over-year to RMB 15.3 billion while risks were being managed appropriately.

The data we accumulated during last year's credit crunch period provided significant enhancement to our credit assessment model. Our asset quality didn't experience much impact from recent industry headwinds, demonstrated by our stabilized delinquency rate.

Our provision to on-balance loan facilitation amount remained at round 2% for loans generated this year. We'll continue to monitor asset quality and adjust our credit assessment model to navigate changing environment.

Meanwhile, we saw limited impact from the termination of paid marketing channel on Alipay and our user base continued its solid growth. Notably, our marketing costs were further reduced by 36.1% year-over-year. At the same time, our funding sources remained stable, and costs further decreased year over year by 29.0% as a result of our compliant existing institutional funding sources and sufficient cash reserves.

During this quarter, we entered into new funding arrangements with 6 regulated and licensed institutional funding partners. Looking ahead, we believe our strong asset quality and cash position will help us sustain future growth. Particularly, we'll focus on exploring emerging opportunities to further monetize our massive user base. As Min discussed, we have operated an "on plus off balance sheet" approach to the credit underserved. But in fact, we have been underserving our own users because our target delinquency rates are set to very conservative standards. Therefore, there is a visible opportunity to further monetize this massive 70 million and growing user base by offering credit referral services to other qualified financial service providers. We are excited about this opportunity, as this on plus off balance sheet plus referral service model offers an additional risk-free way for us to address the credit demand of our massive sticky user base.

Going into the fourth quarter, we expect the general macroeconomic situation to remain challenging and uncertain. Yet, as demonstrated by our solid track record, our technology-based and data-driven approach will continue to allow us to navigate the evolving environment and keep credit quality within a managed range. Therefore, we should expect our outstanding loan balance to grow healthily and meet full year non-GAAP net income guidance of RMB 2.5 billion, excluding non-recurring costs and charges.

Again, given the visible disconnect between the company's share price and our fundamentals, we continued to purchase shares in the open market. As of now, we have purchased approximately USD 240.9 million under the repurchase plan announced last December.

Now I'd like to turn the call to our Director of Capital Markets, Annie Huang, to discuss our detailed financial results for the third quarter of 2018. Annie?

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

Thanks, Carl.

Total revenues were RMB 1.9 billion, an increase of 32.9% from RMB 1.5 billion for the same quarter of 2017, mainly driven by growth of revenues from sales income generated by Dabai Auto business and loan facilitation income and others, partially offset by a decrease in revenue from sales commission fees.

Financing income totaled [RMB 960.2 million] (corrected by company after the call), a decrease of 8.9% from RMB 1.1 billion for the same quarter of 2017 due to a decrease in on-balance-sheet transactions.

Loan facilitation income and others substantially increased to RMB 337.9 million from RMB 100.8 million for the same quarter of 2017 as a result of a substantial increase in off-balance-sheet transactions and adoption of the ASC 606 effective January 1, 2018. The adoption of the ASC 606 resulted in an increase of RMB 122.6 million in loan facilitation income for this quarter.

Sales income was RMB 586.1 million compared to nil in the third quarter of 2017 as a result of the launch of the new Dabai Auto business.

Sales commission fees decreased by 87.9% to RMB 35.7 million from RMB 294.8 million for the quarter of 2017 as a result of a decrease in the GMV relating to the merchandise credit business.

Total operating costs and expenses increased by 62.8% to RMB 1.2 billion from RMB 757.5 million for the same quarter of 2017.

Cost of revenues increased substantially to RMB 698.5 million from RMB 258.9 million for the same quarter of 2017, primarily due to costs incurred by the Dabai Auto business, partially offset by a decrease in funding costs associated with our core online consumer finance businesses.

Sales and marketing expenses decreased by 36.1% to RMB 120.1 million from RMB 187.9 million for the third quarter of 2017. The decrease was primarily due to a significant decrease in sales and marketing expenses for our core small credit businesses as a result of a significant increase in repeated transactions directly on our apps and termination of paid marketing through Alipay's dedicated channel, partially offset by an increase in expenses associated with the new Dabai Auto business.

General and administrative expenses were RMB 48.2 million, essentially flat from RMB 51.1 million for the third quarter of 2017.

Research and development expenses decreased by 21.7% to RMB 41.2 million from RMB 52.7 million for the third quarter of 2017.

Provision for loan principal, financing service fee receivables and other receivables increased by 73.7% to RMB [292.4 million] (corrected by company after the call) from RMB 168.4 million for the third quarter of 2017. The increase was primarily due to an increase in the loan balance and M1+ overdue loan principals and financing services fees receivables.

As of September 30, 2018, the total balance of outstanding principal and financing service fee receivables for on-balance-sheet transactions for which any installment payment was more than 30 calendar days past due was RMB 435.5 million. And the balance of allowance for principal and financing service fee receivables at the end of the period was RMB 515.7 million or an M1+ Delinquency Coverage Ratio of 1.2x.

Income from operations was RMB 702.8 million, flat from the third quarter of 2017.

Net income attributable to Qudian's shareholders increased by 5.1% to RMB 683.8 million or RMB 2.13 per diluted ADS compared to RMB 650.7 million or RMB 2.20 per diluted ADS for the third quarter of 2017.

Non-GAAP net income attributable to Qudian shareholders increased by 4.7% to RMB 694.3 million or RMB 2.17 per diluted ADS compared to RMB 663.3 million or RMB 2.24 per diluted ADS for the third quarter of 2017.

We incurred a foreign exchange loss of RMB 52.8 million. After excluding non-recurring charges, our non-GAAP net income yet compared to same period last year would have increased by 12.6% to RMB 747.1 million.

As of September 30, 2018, the company had cash and cash equivalents of RMB 2.8 billion and restricted cash of RMB 1.2 billion.

For the third quarter of 2018, net cash provided by operating activities was RMB 1.4 billion. Our net cash provided by investing activities was RMB 643.4 million. Net cash used in financing activities was 2.5 billion.

We maintained our previous guidance and expect our total non-GAAP net income for the full year of 2018 will be greater than RMB 2.5 billion after we exclude non-recurring costs and charges. The above outlook is based on current market conditions and reflects the company's preliminary expectations as to market conditions, its regulatory and operating environment, as well as customer demand, all of which are subject to change.

This concludes our prepared remarks. We will now open the floor for questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alice Li from Crédit Suisse.

Zhangyun Li - *Crédit Suisse AG, Research Division - Diversified Financial Services Analyst*

Hi, thanks for taking my question. I have 2 questions. The first one is on the numbers outlook. We see the growth in the outstanding loan balance slow down in the third quarter compared to the second quarter level. So what are the main reasons? Is this mainly due to the funding side, some limitation? And what's the latest share and the outlook of the loan balance? My second question is on the partnership with other financial service platforms, as you mentioned that you have cooperated with 10 other financial service platforms. So which platforms you have cooperated? And which types of the borrowers you would like to refer to the other platforms? And in the third quarter, what percentage of loan volume is from the referral model? Thank you very much.

Ka Hong Yeung - *Qudian Inc. - CFO*

Hi, Alice. This is Carl. Thank you for your 2 questions. Regarding the loan balance, you saw a slower growth from second quarter to third quarter. This is mainly because of a bit more constraint, to be very frank, on the funding side because our funding partners were a little bit more conservative during the third quarter due to the many noises surrounding the overall P2P industry, which is unrelated to us. But people are yes, a bit more conservative. If you ask me about going to the outlook for this loan balance growth, we expect that loan balance to grow healthily going to the future -- forward. I have my loan balance number today, but again, I can't disclose that given that it's not fair disclosure. But we should expect at least another 5%-10% growth into the fourth quarter given that most of the P2P concerns have been easing in the market and our asset continues to be one of the most attractive asset class amongst, I think, that our funding partners can impact. So that's the loan balance outlook. And then regarding to the very keen observation, our partnership with other lenders, we just recently, almost 2 weeks ago, opened our own lending platform, lending referral channel, just because we have way too much users. This is a very clear evidence of us -- given the conservative risk level that we want to do, we just have excess users that we simply don't -- are not able to serve right now. Who are these platforms? These are the -- mainly the platforms you would have heard of. We mainly work with either listed companies or companies who comply regulatory requirements. And mainly, we sort of do some background check and make sure they don't charge over 36% APR across -- to our borrowers. So these are the kind of the platforms that we're serving. Right now, we don't have any financial results to share yet, but we are quite keen that this would be one of the interesting drivers because frankly, we -- our business was borne out of helping to serve the credit underserved. And because of our conservative risk management, there is a lot of room, namely over 60 million users, that we can tap, and we are willing to open that to our partners.

Zhangyun Li - *Crédit Suisse AG, Research Division - Diversified Financial Services Analyst*

Thank you very much. May I have a follow-up question?

Ka Hong Yeung - *Qudian Inc. - CFO*

Please go ahead, Alice.

Zhangyun Li - *Crédit Suisse AG, Research Division - Diversified Financial Services Analyst*

Yes. On the -- your partnership, so for those -- the platforms you partner with, they mainly provide the supplementary loan products. Compared to our current loan products, say, if we mainly focus on the small-ticket-size loans, they mainly provide the large-ticket-size loans. We do not have such a criteria for the partnership.

Ka Hong Yeung - *Qudian Inc. - CFO*

We are very relaxed about the partnership product structure as long as it's regulatory compliant. So I think it provides significantly larger loans, and they could provide shorter loans, smaller loans. There's no restrictions as long as it's regulatory compliant. We mainly transfer the users. We show the users on our platform that we simply do not have a credit rating for yet, and we show this referral pay to them.

Operator

Your next question comes from the line of Anderson Cha from BNP Paribas.

Munyoung Cha - *BNP Paribas, Research Division - Analyst*

I have 3 questions. First of all, you've mentioned that you've tightened credit standards for the quarter. So can you provide some more specific color on that? And can we expect for lower delinquencies in the coming quarters on the back of this strong credit standards going forward? And the second question is with regards to your capital management. Do you have any plan for another round of share buyback or share repurchase from your IPO investors or dividend payout in the near future? And lastly, with regards to your credit referral business, how much of extra earnings are you expecting from that in 2019 and more into midterm?

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, Anderson. Really appreciate you joining the call and the questions. To be specific on the first question regarding credit tightening, in fact, we have lowered our daily credit line approval rate from 21.2% in second quarter to 18.2% in the third quarter 2018. And if you just look at the average daily approval rate, it's gone down slightly from 51% in second quarter to 41% in third quarter. This is our credit model working. It's -- we learned a lot in the last year's credit cycle what multiple stacking borrowing means, and we have been using these models quite well into the third quarter. So that's why we mentioned we tightened up credit policy lease a little bit in the third quarter. Should we expect delinquencies to go down further? I think if you do a comparable basis of so-called annualized loss versus just looking at the so-called M1+ vintage across time or the past, you would find that our delinquency remained very stable. We have somewhat target delinquency rates that we want to operate in. And so it should be pretty stable I don't think there's room for going down because in that way, we would be basically saying no to too many users. So that kind of credit tightening. Secondly, on the capital management, again, our board has shown support again. We have approved a 300 million buyback program last year. We haven't used up everyone, all of it yet. We've used 240 million and the board has kindly extended this program another year. So please expect us to continue to be in the market at appropriate price levels to help support the share price and really show how confident in our future. We don't have any dividend plans yet. If there's anyone -- anything that sort of approved by the board, we will make appropriate disclosures. And then on the question... Is.

Munyoung Cha - *BNP Paribas, Research Division - Analyst*

Credit referral program. Yes. So how much of extra earnings are you expecting?

Ka Hong Yeung - *Qudian Inc. - CFO*

Yes, we are quite keen on this credit referral program. We expect a material add to the 2019 numbers given this large user base that we have, but we have not yet given 2019 guidance yet. I will do so at appropriate time. So look forward to that. Yes, Anderson, so does that answer your question? We will give you an update as soon as we have a bit more detail in terms of the charges we're charging our partners. We're still in the exploratory stage right now. Which is -- It's really open for 2 or 3 weeks. So it's the early stage.

Operator

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

My question -- the first one is for the first time in my memory, you disclosed the data of newly acquired active users in third quarter, which is 580,000 very impressive. Can you share with us at the same data for the previous few quarters so that we can make longer time series comparison to see the trend of new customer acquisition with and without the partnership with Alipay? This is my first question. And the second question is ever since the listing of QD, we have seen some management being very active trying to explore new business. And one of the stories that people talked about was the merchandise channel, and then afterwards, QD tried in budget car business such as the Dabai Auto brand. But it seems that it has been not really delivering material revenue stream for the business. So what would be the overall resource allocation strategy if QD is about to focus only on the core cash loan business? Does that mean that the CapEx demand going forward will be much more limited, and as a result, is it potentially possible for you to spend more money either to directly paying back to shareholders or to expand or to scale of the current share buyback program? That's my 2 questions.

Ka Hong Yeung - *Qudian Inc. - CFO*

Thanks. I'll answer the first question and I'll actually let Luo Min time in on the second question while I ask one of my team members to help translate the second question to me.

Yes, so regarding your first question, thank you for the keen observation. Yes, we added 580,000 new active borrowers in the quarter. This is a way for us to really provide market more information as we know there has been a lot of concern surrounding the Alipay marketing channel contract termination. Now let me rollback this number a couple of quarters. In the second quarter, we added about 600,000. The first quarter, we added about 530,000. So it's a pretty same rate. The reason this number is pretty consistent is because we have actually been promoting our app as early as November 2017 and moved that traffic and user experience through our app last year. So all that concern regarding the Alipay termination has been complete absorbed not for 1 quarter but actually for our 3 past historical financial reports -- our quarterly (inaudible) report. So this is just a way for people not too familiar with our company to get to know more about our real marketing strategy by providing a better service, setting out cost at more competitive rate to come regardless where they access it, either on the App Store or in a cashless payment bar.

Now on the second question regarding our new business overall, I'll say a few words first.

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

(foreign language)

Ka Hong Yeung - *Qudian Inc. - CFO*

Okay. Yes, I'll translate to English. So Victor, thank you very much for the question and observation about the new things that we have been testing and attempting. Core to this company's values is innovation and creation. And when you go with that, the core consumption credit business will remain a focus, and we believe it will continue to exceed as well. Yes, we continue trying new things. Our entrepreneurial heart executes on a daily basis. This lets us be half in evolving technology in the space. And more important not to when progress and allow us right employees to keep us on the cutting edge of innovation overall. Now as a CFO, know this part of translation. As the CFO, we actually have a very disciplined approach from a financial perspective on investing and trying new things. As you know, our core consumption credit business maintained a very strong and sustainable cash flow and earnings. Will ensure our core cash flow earnings or final financial results to deliver a substantial growth year-over-year and any excess for that growth will be to fund these new things were value to keep this entrepreneurial culture.

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

(foreign language)

Ka Hong Yeung - *Qudian Inc. - CFO*

CEO Luo Min would like to emphasize further that regarding our core consumption credit business, it will continue to do well and it's proven to do well. But we really want to maintain this -- sorry, I apologize. Whether it's doing its 2.5 billion of net income this year or whatever next year, the accumulation of technology, data knowhow and the users has really starting to pay dividends from an operation perspective. The users that we have accumulated is such a massive size beyond what we can serve ourselves. We are now inviting other technology consumption credit companies to join this platform and share these users with them. And on the paid basis no less, on the CPC basis, no less. So as partners, we have attracted our well-recognized and leading brand names and they are keen to participate in this high-quality user base that we have, this is first of all. Now about the new things that we do, again, technology and business environment will continue to change, and we'll always use a very small and agile team of elite staff to test these new things, again to keep the entrepreneur spirit at heart being executed. As you know, the company's only founded for 4 years. But most of the staff in general only basically saw our company going from 1 to 10 but didn't get the experience is 0 to 1 stage. So this agile team that we test new things allow the entire companies other staff who may be focused on their existing business or stable business to experience this interesting 0 to 1 opportunities and keep growing themselves. And therefore, we can continue to grow more and more competitive advantage. This is the fundamental difference between us being an entrepreneurial, being an agile organization versus a large boring workplace.

Now that's the translation of Min Luo's answer adding to Victor's question.

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

(foreign language)

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, Victor.

Operator

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

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

I have 3 questions, if I may. The first one is can you give us an update of the auto lending business? I saw that on balance sheet, the auto loans balance was actually barely changed quarter on quarter in the third quarter. So are we also doing some off-balance sheet lending for the auto loans? And also, are we charging any credit costs for the auto loans so far? And what's the off-line showroom or the offline stores we have now and that was the plan going forward. And I don't know if you can provide any outlook for next year in terms of the auto loan business. And the second question is kind of housekeeping ones regarding to what's the active borrowers number during the quarter? What is the loan tenure and the average credit size of our cash loan business. And lastly, what's the MAU number for Qudian app? And last question is regarding to our e-commerce business. I saw the sales commission fees actually drop a lot in third quarter. Just want to understand what's our strategy on this part of the business? And there was the GMV number, and there was the outlook going forward.

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, Jacky. I will answer all of your questions. So a bit more update on the auto business. You saw the balance sheet numbers, thank you for that. We actually do off-balance-sheet arrangements where some of these autos are generated in terms of sales and if they're directly funded by our third-party funding partners. And we intend to have 1 thing in-focus only, is to ensure that we run a profitable on a risk-adjusted basis a profitable auto lending business. So 170 stores for us was a little bit too much in terms of requiring us to reach a much bigger scale to be profitable. We did the calculation and about 30 stores makes a lot more sense in terms of homing in on the profitability. In November, again, we are profitable for Dabai Auto on the stand-alone operating -- operation financial status. So we're happy that it's going that way. In terms of the outlook for next year, I unfortunately cannot give any outlook anymore because that's not one of our focus in terms of growth. But we can provide 1 outlook, which is that we continue to maintain Dabai Auto network to serve our users who have this need. But we are going to make -- do it profitably. So that's the only guidance that I can give. In terms of the second -- several housekeeping issues, the active borrower base or so-called the outstanding borrower base in the third quarter was 4.9 million. It's about 200,000 active borrowers less than second quarter. The reason is very simple. I just mentioned we lowered our daily credit approval rate by 10%, okay? This has nothing to do with less user demand. We grew our total registration by 2 million in the third quarter with no market. So this is more about tightening credit standards. And in the quarter, our average tenure was 10.2, 10.2 months. It's increased a little bit more from 7.4 months, but the average size was still 1,400, which means we continue to lower the payment burden for our existing borrower base in an effort to help maintain our policy under control. So at these rates, our users are paying just about CNY 200 a month on principle participant fee. And at these kind of repayment sizes on a monthly basis, regardless of what happens to the environment will be fine because it's only CNY 200 a month for any average show is just too small number, okay? So that's kind of the second housekeeping part. Regarding e-commerce, we have always had an ambition to do e-commerce. It's always something that has carried the higher-margin, but it's not something that we want to focus on in the near term given that there's still lingering residual risks on overall market environment. So we know that from our data, e-commerce installment delinquency is slightly higher than cash lending. So we want to stay in the lower risk part of service for now. If this turns into more acceptable level, we're happy to get back on the horse and ride it very, very fast, yes. GMV-wise, we don't disclose that number. It's probably not much clear though as long as it's something that will remain profitable. We are happy to see The Rock.

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*

I have just very 1 very quick question regarding the 2.5 billion net income. I noticed in your press release you mentioned you are still maintaining the guidance. But regarding the caveat it's before extraordinary one-off items. Can you just specify what could be in the extraordinary and the one-off items? I guess FX this quarter you've got 52 million FX losses. I guess that's 1 item. But I want to hear it from you what could happen below the lines.

Ka Hong Yeung - *Qudian Inc. - CFO*

Yes, thank you, Linda. It's very simple. In this quarter, there is only 1 nonrecurring charge that we had to explain and really should add back on is that 52 million of FX charge. And this came about because in the beginning of the year, we converted most of our U.S. dollar base to renminbi to be aligned with our financial statements. But as we experience further and further, step by step and we were executing our U.S. dollar buyback program, we had to unfortunately convert that, some of that back or all of it. Although there's a lot but, no, that's fine because our stock prices are below. We generate value from them anyway. So we experienced some foreign exchange changes because renminbi depreciated quite a bit in the period. Again, this is not affecting operations. Our core earnings 747 million, now that's one thing. That's the only thing that's related to our core operations. Going to the future quarters, you probably onetime nonoperating related stuff, for example, for ForEx, yes.

Operator

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

John Cai - *Morgan Stanley - Analyst*

My question would be follow-up on the user size. So I think we have a nice organic growth in terms of the registered users, cumulative borrowers and also the users with poor credit line. But we also see a continued decline in terms of the outstanding borrower based on the quarter number. So I think can management provide some reconsiderations between these 2 trends? And also, on the new user side or the new active borrowers side, I didn't -- the Alipay agreement is terminated at the end of August. So maybe enter into September and October, do you see any different trends in terms of the number of active borrowers on a monthly basis? And the final question is on the segmentation of the 70 million registered users. it didn't really have now different strategies by offering the off-balance sheet, on-balance sheet and also referral business to this group of users. So how do we segment it? And for the referral business, do we only refer those registered users without approved credit or we also refer those approved credit from our products? And yes that's my questions.

Ka Hong Yeung - *Qudian Inc. - CFO*

Great. Thank you so much, John. So regarding the several numbers that John wanted to discuss, we had 70 million registered users. That's an increase of about 2.2 million new users from the previous quarter. Our credit approved users was 29.1 million. That increased by about 900,000 from the previous quarter. And then in terms of the outstanding borrower base, it was 4.9 million versus 5.1 million. So that dropped about 200,000. If you reconcile that with the active users, we think it would work in terms of providing better service and cost. But what drove these directions in different ways was really because it lowered our daily credit approval rate from 51.5% in the second quarter to [41.3%]. So we gave that credit in terms of rural rate in the first quarter. This is in response to certain changes the P2P landscape. We just wanted to be safe for us regardless of all of the things we said. This management is #1 in our company. So that's the reconciliation. Now regarding the active new borrower, so this quarter again was 580,000. Last quarter, it was 630,000. The Alipay contract essentially ended in August. Now September, October November haven't seen much change in numbers. It's been pretty stable. But the reason the impact we have moved a lot of that transaction of Alipay since November last year. It's basically organic. I might be a little bit ahead of ourselves, but we should see the outstanding borrowing base actually increased in the -- into the fourth quarter given that with high confidence in terms of where the credit model is heading. So in terms of the segmentation of the 70 million users, it's going to be a combination of on-balance sheet plus off-balance sheet plus referral service. First of all, we have a target delinquency rate. We like the so-called 2%, around 2% M1 users. So we would, first of all, use our own, plus our partners' off-balance sheet funding to provide a credit to them. Obviously, between that, 5 million and 70 million, that 65 million people whom we are just not serving. So all of that available for our partners to serve to. That includes not just people that we have may be rejected but includes people whom have approved credit by the line which is 29 million, okay, minus 5 million, which is 24 million who have not been joined on the credit from us. The reason may be because they wanted quite the size that is too big for us to handle right now. We still prefer smaller credit line so that's available to my partners, too. We have no near-term intentions to significantly increase our average ticket size. So does it answer the questions, John?

Unidentified Analyst

Yes, yes, is very helpful. I just have 1 quick follow-up, small qualitative. So, and for the new borrowers, you acquired organically grow. For this group of new borrowers, do you observe any different level of activeness in terms of the number of borrowing a quarter versus those you get from the Alipay channel?

Ka Hong Yeung - *Qudian Inc. - CFO*

No, not really. We haven't seen much significant difference. Again, since November, I can tell you the transaction volume by channel on our APP for first quarter was 94%, for second quarter was 94%. For the third quarter was 94%. So it's been very stable. We haven't changed seen any call of change

Operator

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

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

So first question is regarding the asset quality trend and outlook. So not sure if have touched on that a little bit earlier as well. So is it -- when you talk about the tightening of loan approval in 3Q, do you see a some more temporary tightening due to the industry shock on the P2P side or you also see that like potentially related to the rising macro uncertainty? And looking ahead, would you remain relative like more constructive on the loan approval going into 4Q or next year? So this is the first question. And the second question is on the funding side. So looking on the balance sheet, the loan receivable balance, it seems that the decline in the on-balance-sheet funding while shifting more towards the off-balance sheet funding so does that mean that there's increasing decline in contribution from the trust company while increasing contribution from the banks and so what will be the funding mix outlook going forward?

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, Daphne. Regarding the asset quality, the credit tightening in the third quarter while the lower the approval rate temporary situation. We were observing much more P2P sort of turmoil in specifically June, July, August and basically by September, October. This has quiet down a little bit. So we actually -- if you just ask me about outlook, I think this will actually relax a lot more into fourth quarter. Therefore that's why I just explained that we should expect to see a higher number of outstanding borrowers into fourth quarter. Okay, so that's kind of where we should be the fourth quarter. Now anything beyond that, I think it's too complex and too forward-looking for me to make an assessment now. But at any rate, we have some targets in terms of delinquency, and we discussed that very thoroughly. If the target -- if the actual delinquency or the expected delinquency move beyond that, we'll have to tighten. Risk management is number 1. There's no discussion about that. And if the delinquency comes down, we would relax credit approval. So fourth quarter, we should see a higher number of outstanding borrowers next year. Given the trends, we're quite comfortable, we're quite upbeat, but we will always adjust to change. Now in terms of the balance sheet, yes, we had a smaller percentage of so-called unbalance sheet contribution. That's really mainly because of most of the unbalance sheet was funded which is not our own money. It's funded by external cost structures and we had a larger concentration of trusts that came to the end of their life cycle. While we had a bigger contribution of the off-balance sheet willing to provide us money at cheaper rates, so we took advantage of that. That's what you saw a 29% decline in cost of funding in our third quarter. Now our rate regarding the mix, we are going to manage that very carefully. It will be a mix of our own capital through assisted loans plus a cost structure of many, many trust partners, plus the off-balance sheet. I think just a rough estimate, should be about 30%, 30%, 30%. If you think about flexible, agile.

Thank you, Daphne.

Operator

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

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.

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, everyone, for today.

Operator

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