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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for Qudian Corporation's Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Today's conference call is being recorded.

I will now turn the call over to your host, Ms. Annie Huang, Director of Capital Markets for the company. Annie, please go ahead.

Annie Huang

Hello, everyone, and welcome to Qudian's second 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 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 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 include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Qudian's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

We also posted a slide presentation on our IR website providing details on our results in the quarter. We will reference those results in our prepared remarks but will not refer to specific slides during our conversation.

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.

In the second quarter, we achieved a record net income and delivered another quarter of strong results. During the quarter, we continued to grow our core online consumer finance business while the new Dabai Auto business maintained conservative growth with a focus on profitability.

Last quarter's practice de-risking to tighten credit policies and adjusted product strategy worked well into the second quarter. As a result, we achieved a robust year-on-year growth of 40.3% in loan balance, while seeing marked improvement in risk metrics and asset quality. The M1+ Delinquency Rate by Vintage declined to less than 1.0% for new loans generated this year. The total delinquency rate increased slightly due to legacy of loans generated last year but also shows tapering off trends.

In addition, as our registered users grew steadily and reached 67.9 million, we can focus on our growth of activating and monetizing our large existing user base instead of overreliance on expensive marketing. Our strong data analytics capability in assessing customer creditworthiness further differentiates us and allow us to successfully drive risk-adjusted profitability.

During the second quarter, we were able to increase the average loan size and term among our highest quality users inline with their income to meet their increasing consumption spending demand, without raising the burden of monthly repayment, while at the same time maintaining high credit quality. In addition, we continued to diversify our funding sources through partnerships and remain committed to strict compliance with both existing and new laws and regulations.

Our core business is on solid footing. I would also like to share updates on Dabai Auto. During the second quarter, Dabai Auto business generated conservative, healthy growth as we continue to increase operational and supply chain efficiency. During second quarter, we sold over 8,474 cars and shortened our delivery time to 13 days. At the same time, our credit performance was in line with expectations and delinquency kept at a low level. While the demand for auto financing is large, we intend to stay with the direct lease model and not offer lease-backs to limit exposure to fraud risks.

Dabai represents our efforts to leverage our existing user base by offering a diversified service scope. Going forward, we look to optimize operational efficiency and grow the business at a prudent pace without sacrificing profitability.

Regarding the financial, Carl will provide more detail regarding the agreement on the dedicated channel for third-party services providers. I wish to assure the investment community that we expect to continue to maintain a healthy relationship in many other areas with Ant Financial, where we cooperate as an ecosystem service provider.

Looking ahead, we will further grow our business by focusing on our core online consumer finance business, continuing to invest in technology and expanding our funding sources while also prudently growing our new Dabai Auto business.

With further clarity from regulators and many players existing the online consumer finance industry, our competitive advantages of being regulatory compliant; of risk analytics and cost structure driven by technology; of big data and software development deeply embedded into our business model, will all help sustain long-term growth and further solidify our leadership position.

With that, I will now hand the call over to our CFO, Carl Yeung, who will discuss our key operating metrics and financial results.

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, Min. That's great. And hello, everyone. First, I'd like to touch base on a couple of highlights in the quarter.

We achieved a new milestone by achieving net income while navigating a maturing regulatory environment. Our non-GAAP net income increased by 42% year-on-year to RMB 737.6 million as a result of successfully growing our loan balance while managing risk appropriately.

Our asset quality showed marked improvement as we successfully implemented tighter credit policies and adjusted our product strategy. Our provision to on-balance loan facilitation amount was less than 2% compared to less than 4% last quarter, as a result of a decrease in the M1+ Delinquency Rate for new loans generated starting from the last quarter.

During the second quarter, we further increased average credit size to RMB 1,430 and credit tenure to around 7 months for high-quality customers, while keeping the overall delinquency rate at a low level. This allowed us to enhance profitability while raising borrowers' repayment burden.

Meanwhile, we continued our efforts to diversify funding sources and entered into new funding arrangements with 8 regulated and licensed institutional funding partners during the second quarter. We believe this combination of stable and diversified funding sources and our stockpile of liquidity reserves enables us to maintain confidence in our liquidity position and sustain long-term growth.

We firmly believe Qudian's strategy of not relying on individuals for funding, but rather utilizing stable, licensed and regulated institutional funding sources will further differentiate us and avoid the liquidity concerns that some P2P businesses in China may be struggling with. We remain confident about future growth as the industry continues to evolve and mature.

Now to give further color on the agreement with Ant Financial relating to user engagement through Alipay's dedicated channel for online third-party service providers that expires this month, both parties have decided not to renew the agreement. The original term of the agreement was for 1 year, and it is now a business decision that it is not necessary to further renew it.

As disclosed in the business update in November 2017, since the end of 2017, the Company successfully engages the majority of borrowers through its independent app through various promotional efforts. Therefore, this expiration is not expected to have material impact to the operations of the company in light of our 2018 Q1 and now the strong 2018 Q2 results. In fact, this will further reduce Company's sales and marketing costs related to borrower engagement.

Again, this is one of the many areas where we collaborate and the expiration does not affect the overall relationship for us being an ecosystem participant.

Looking ahead, there is a robust demand for consumption credits and the regulatory environment is becoming increasingly stable and mature. With delinquency managed within expected ranges and volume growing healthily on the consumption credit side, we do hope to grow the Dabai Auto business at a more prudent pace and lower expected unit sales for 2018 from 100,000 to between 25,000 to 30,000 units. Considering these factors, we wish to provide an assertive tone on our full year 2018 guidance for non-GAAP net income to be more than RMB 2.5 billion.

In light of the strength of our business fundamentals, as of June 27, we have purchased approximately USD 149.7 million under the repurchase plan announced last December, which demonstrates our confidence in our business and commitment to drive long-term growth for our shareholders. We expect to continue to purchase shares in the open market, given our view of the visible disconnect between companies' values and fundamentals.

At this point, I apologize, my voice is not feeling too well. I would like to ask Annie, our Director of Capital Markets, to continue the detailed discussion on the management's discussion and analysis of the financial results.

Annie Huang

Sure, Carl.

Total revenues were RMB 2,243.7 million, an increase of 124.7% from RMB 998.4 million for the same quarter of 2017, mainly driven by growth of revenues from sales income generated by Dabai Auto business and the loan facilitation income and others.

Financing income totaled RMB 895.1 million, an increase of 7.8% from RMB 830.5 million for the same quarter of 2017, due to an increase in loan balance as a result of increases in average loan size and term, partially offset by a decrease in active borrowers as a result of tightening credit policies.

Loan facilitation income and others substantially increased to RMB 452.1 million from RMB 15.2 million for the same quarter of 2017, as a result of a substantial increase in off-balance sheet transactions and adoption of ASC 606 Revenue from contracts with customers, effective January 1, 2018. Prior to the adoption of ASC 606, the loan facilitation service income was limited to the amount that's not contingent on the delivery of the undelivered post origination services. Upon adoption of ASC 606, the total consideration is allocated between the loan facilitation service and post origination services performance obligations.

Loan facilitation service income is recognized when the service is rendered. For example, successful matching borrowers with institutional funding partners. The amount recognized is limited to the amount of variable consideration that's probable not to be reversed in future periods. Accordingly, the timing of revenue recognition for loan facilitation service income collected in periodical installments will be recognized earlier under ASC 606. The adoption of ASC 606 resulted in an increase of RMB 156.7 million in loan facilitation income for the second quarter of 2018.

Sales income was RMB 784.8 million compared to 0 in the second quarter of 2017 as a result of the launch of the new Dabai Auto business.

Sales commission fees decreased by 29.9% to RMB 105.9 million from RMB 151.1 million for the second 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 263.7% to RMB 1,473.1 million from RMB 405.0 million for the same quarter of 2017.

Cost of revenues increased by 387.8% to RMB 947.8 million from RMB 194.3 million for the second quarter of 2017, primarily due to costs incurred by the Dabai Auto business, partially offset by a slight decrease in funding costs associated with our core online consumer finance business.

Sales and marketing expenses increased by 68.5% to RMB 160.6 million from RMB 95.3 million for the second quarter of 2017. The increase was primarily due to expenses associated with new Dabai Auto business, partially offset by a decrease in sales and marketing expenses for our core small credit business as a result of a significant increase in repeat transactions directly on our apps.

General and administrative expenses increased by 154.8% to RMB 69.1 million from RMB 27.1 million for the second quarter of 2017. The increase was primarily attributable to increases in travel expenses and administrative fees payable to trust companies as a result of increased use of trust funding.

Our R&D expenses were RMB 36.9 million and remained flat from the second quarter of 2017.

Provision for loan principal, financing service fee receivables and other receivables increased by 357.3% to RMB 222.0 million from RMB 48.5 million for the second quarter of 2017. The increase was primarily due to an increase in the loan balance and the M1+ overdue loan principals and financing service fees receivables.

As of June 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 537.0 million, and the balance of allowance for principal and financing service fee receivables at the end of the period were RMB 580.6 million, indicating M1+ Delinquency Coverage Ratio of 1.1x.

Income from operations were RMB 773.8 million, an increase of 27.3% from RMB 607.9 million from the second quarter of 2017.

Net income attributable to Qudian's shareholders increased by 42.4% to RMB 724.2 million or RMB 2.19 per diluted ADS, compared to RMB 508.5 million or RMB 1.7 per diluted ADS for the second quarter of 2017.

Non-GAAP net income attributable to Qudian's shareholders increased by 42% to RMB 737.6 million or RMB 2.23 per diluted ADS compared to RMB 519.4 million or RMB 1.74 per diluted ADS for the second quarter of 2017.

As of June 30, 2018 the company had cash and cash equivalents of RMB 2,904.6 million and restricted cash of RMB 1,458.5 million.

For the second quarter of 2018, net cash provided by operating activities was RMB 672.5 million, mainly attributable to net income of RMB 724.2 million. Net cash used in investing activities was RMB 2,137.3 million, mainly due to payments to originate loan principal of RMB 12,070.0 million and payments to originate finance lease receivables of RMB 704.5 million and partially offset by proceeds from collection of loan principal of RMB 10,904.8 million.

Net cash used in financing activities was RMB 560.2 million, mainly comprised of repayments of borrowings of RMB 1,696.3 million, partially offset by proceeds from borrowings of RMB 1,206.4 million.

For the full year of 2018, we're confident in expectations for non-GAAP net income to be over RMB 2.5 billion. Meanwhile, for the Dabai Auto business, we expect the number of vehicles sold during the full year 2018 to be between 25,000 to 30,000, down from the previous guidance of 100,000 units, as we focus on enhancing profitability. This outlook is based on the current market conditions and reflects the Company's preliminary estimates of regulatory, market and operating conditions and customer demand, which are all subject to change.

This concludes our prepared remarks. We will now open the call to 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*

I have 2 questions, both about your cooperation with Ant Financial. The first one is on the user engagement. You mentioned that the user engagement from the Alipay will not -- the agreement will not be renewed. And I would like to know what portion of your -- or what percentage of your loan volumes facilitated in the first and second quarter came from your own APP. And also, I would like to know what's the number of new borrowers in your platform in the first half of this year and how's the customer acquisition costs? This is my first question. And my second question is about the cooperation in the credit assessment. It is reported that the cooperation with the Zhima Credit score has also been terminated. I would like to know if there is any update on this and how will this affect your credit risk management.

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, Alice. This is Carl, the Chief Financial Officer of the company. Thank you for the questions, very insightful. So first of all, relating the cooperation with Ant Financial, as we have previously disclosed and discussed, as early as November 2017, we have been proactive in promoting and marketing the users into our app. In fact, to address your question regarding the first and second quarter numbers, approximately 96% of total transactions facilitated were in our independent app. And this has been proven over -- at least over 8 months now. That's why we have the confidence to say that we do not necessarily rely on this particular way of acquiring users through transactions. That's why we have disclosed that this change will not have any material impact to operations. We have a track record of over 8 months of doing so. So that's kind of the first part. The second part of what's the number of new borrowers in 2000 -- the period, I'll just basically say approximately 30% of new borrowers are registered through the specific contracts under this agreement. So that is going to change, but we have confidence in that the remaining 60% of the new registration will continue to come to our platform. In fact, if you look at the overall structure of our user base, we have a very, very interesting opportunity to further grow without actually acquiring users. We have over 67 million registered users, and it's disclosed in the filings we just had, we only have been serving approximately 5 million borrowers out of 67 million. And also, I've mentioned that -- we've mentioned that the average transaction size for these active borrowers is only around RMB 1,400. Therefore, we have a lot of room to grow, so number one, activating the number of users, over 60 million of them, who are not borrowing credit. Even within the people who are borrowing or are actively borrowing, the credit utilization to the credit limit granted is only at 60%. Therefore, we have significant room to further grow. I think in conclusion, if you ask us about the sales and marketing costs, we currently don't have any intention to do any active promotion or sales and marketing until perhaps at least 2020. And we'll probably see a lot of growth between now and then. Then the final question, relating to the credit assessment, we continue to collaborate with Ant Financial on the data analytics. That has not changed. We do not know whether this will change in the future, but let me assure you, number one, we are a big data company. The Sesame credit that we're talking about or you mentioned is 1 of the 1,000 variables that we assess in a borrower situation. So we have developed our own data techniques to assess the credit quality. And it's been proven successful. If you look at -- from Q1 to Q2 where the Sesame credit was in place, we have seen Q1 provision to transaction volume was 3.2%. Whereas we added additional risk metrics to further tighten our credit policy. And that provision ratio in Q2 was only half of that. It's now 1.6%. That just goes to show how strong our own data analytics is.

Operator

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

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

I have 2 questions. The first one is the strategy or the 2, 3-year target for Dabai Auto. And originally, QD had a rather aggressive target of 100,000 units to be arranged in 2018, and now the target has been officially brought down to 25,000 to 30,000. But in a 2, 3-year horizon, what is your current kind of planning for this business and what are the key parameters or the key data points that will help you to make the final decision whether to further accelerate or to further contain the business scale? And the second question is about your view on regulatory environment. On one hand, QD is not rely on P2P platform and business model at all, which have given you clear advantage relative to the P2P players. But on the other hand, the overall cash flow industry is under -- clearly under more direct competition coming from not only the commercial banks but also coming from the players like Ali or Tencent. So what is your medium-term view that -- the QD's key competitive advantage and what will be your -- is there any cap or anything that will concern you in the longer term for the overall business, I would say strategy or the potential market scale?

Ka Hong Yeung - *Qudian Inc. - CFO*

Victor, thank you, it's always great to hear from you. Thanks for the question. Regarding question on Dabai, it's a very simple answer for us: it's about profitability. So all of our strategy decisions are to make sure Dabai becomes a profitable business. So for the next 2 to 3 years, we believe the market continues to be very, very large. The word profitability entails also risk. So we like to only do the risk we assess. If you look at some of the numbers we have -- we're doing now, we've leased over 10,000 units of cars, and the M1+ delinquency number of cars is only 20-something. It just goes to show how conservative of a company we are. This strategy is based -- is built upon our business model of doing direct leases only and not doing leasebacks. So we continue to direct lease only. There's no question on demand. And we're lowering this guidance because out of 10 customers that come to our doors, 8 to 9 of them want a leaseback. They want the title to be theirs. But unfortunately, at this moment, we're not comfortable with that kind of risk yet. So we continue to look to profitable, sustainable growth in the next 2, 3 years given the risk appetite that we have. So that's kind of Dabai Auto. Relating to the regulatory environment, thank you very much for observing we're not a P2P. And so we clearly don't have a lot of the issues that many P2P companies face. So regarding regulation, we can actually reaffirm and confirm that we are fully compliant with regulation 141 issued on December 1 pertaining cash lending. So right now, we're fully compliant with all the requirements stipulated by the PBOC plus the CBIRC in the way that we work with licensed financial institutions, the way we do risk transfers and allow our funding partners to do the risk assessments themselves. So there is no question regarding our regulation compliance for us. There's no unclarity about that. We've grown this business in 2018 Q2 from Q1, not because of regulatory relax or tightening; because it's all clear to us because the risk was right. So we continue to grow. Now you mentioned about some of the competition potentially from commercial banks or banks in general plus some of the Internet finance players. We believe we have a clear advantage in accumulating the vast number of transactions. I do not believe there are many players that have more transaction records and data than Qudian. At the moment, we have accumulated over 100-something-million actual lending then repayments. This is a volume that I don't believe anyone is close in terms of number of transactions. This allows us to have significant insight in actual borrower behavior. And that is why you can see that delinquency performance is actually industry leading edge. And that gives us a sustainable competitive advantage over potential entrants or players. And also, to just drive home the point, we are one of the lowest-cost operators in this sector to facilitate a credit transaction of RMB 1,400 at 36% APR and below, it's very difficult to do. And we would be able to do that using very large-scale data and technology, have very little people involved. If you take out Dabai, the entire business that supports the current credit, the online credit part is only less than 1,000 people. And that's kind of the advantage that we have over all of our peers. Thank you, Victor.

Operator

Our next question comes from the line of Richard Xu, Morgan Stanley.

Ran Xu - *Morgan Stanley, Research Division - MD*

I also have 2 questions. Firstly, basically, I'm looking at the quarterly active borrowers. It's been relatively stable; I understand that, given the environment had been conservative. But going forward, what will be the strategy or what are you going to do to increase the active borrower base? Or is that the time where you want to simply increase the volume per borrower where -- loan balance per borrower? What's the strategy? Are you actively inviting more from your existing client base? Or if there's any other -- or are they actively still applying for the type of cash credits? That's the first question. Secondly, also on Dabai Auto business, can you talk about the trend on profitability? And from the past 2 quarters, any experience from -- or any learning -- what type of business is more profitable and what would help improve or achieve more profitability for the business going forward?

Ka Hong Yeung - *Qudian Inc. - CFO*

Richard, always good to hear from you, too. So thanks for the questions. Number one, regarding the user basically and the loan balance, we have a lot of things in mind to drive growth, and these are fairly achievable or at least within arm's reach of what we have today. First of all, it's a 67 million registered user base of 5 million of active -- of borrower with balance. So obviously, these 67 million registered users have an intent to borrow. We were just not offering the right credit size yet. So offering the right product across these borrowers is something that we continue to explore, and that will increase the active and the borrower with balance with us from what we have today. Secondly, we are increasing the so-called loan balance and the tenure for our existing user base to drive profitability, as you've seen the development trend over Q4, Q1 and now Q2. We've been doing that at a very conservative base. Last year, our average transaction size was just under about RMB 1,000 and in the second quarter, it's RMB 1,400. So we've grown that a little bit. We can see basically that we can increase that to as far as RMB 3,000 without any basic change in the risk profile of the entire portfolio. So we have a lot of room to grow. We're not in a rush to do so. We would like to be conservative and monitor market risk appropriately. This is kind of in our DNA to be conservative. So we'll do that -- do these 2 things. Regardless, still, our app is ranked amongst the top apps across many app stores in China. That naturally drives a lot of traffic, too. In the most conservative scenario, we still believe going ahead, we expect to drive at least 1 million to 2 million new registered users about every quarter. So that's still a large incoming base that we can work with. Right now, we're not at a situation where we're actively looking for users. We have too many users to deal with, to be very honest. So we've been conservative in the way we're providing credit. So there's a lot of room, basically, to drive that loan balance across a growing user base. Secondly, on Dabai, on profitability, it's a very, very keen question. Now on a kind of gross level, we actually have expected to turn Dabai into a cash flow positive plus profitable business as early as next month -- as early as next month. This is the execution kind of capability at Qudian that we have. We're doing this via a combination of several efforts. Number one, we're optimizing the number of stores that we have. So we have, in fact, closed some stores that don't generate traffic and we're adding resources to stores that generate good traffic. So we're optimizing the resources that we have. And secondly, there's a lot of efficiency to be done in the supply chain as well. We are cutting our delivery times to now 13 days. This is actually industry leading in the entire auto leasing business. By decreasing that delivery day, we can be much better at inventory, storing car costs, warehousing and things like that. So this combination of efficiency will drive that profitability. And again, we're happy to say that we look to be, on a gross level, be profitable in as early as next month.

Ran Xu - *Morgan Stanley, Research Division - MD*

Actually, just -- I mean, on the answer for the first question, do you know how many out of the 68 million registered users, how many are still visiting the app on a quarterly or monthly basis? And how many at least borrowed once from the firm? I don't know if you have data on that.

Ka Hong Yeung - *Qudian Inc. - CFO*

Yes, I can share with you 1 data point. Our current MAU is somewhere between 15 million to 20 million unique users every month. So it's an incredible number. It's just simply incredible. So we're just working with 5 million of them, yes.

Operator

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

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

Just a question first from -- on the funding side. So I observed that our loan balance reached nearly RMB 15 million -- sorry, CNY 15 billion at the end of second quarter. And I remember in the first quarter, we disclosed that our loan balance was RMB 14.6 billion, around that, in May. So since in July, the growth was kind of slowed down. So just wonder from funding side, do you see some kind of constraint recently? And what was the pipeline to onboard more funding partners and what's the funding mix currently as of the second quarter? And you also mentioned the funding costs actually decreased year-on-year. So what was the recent funding cost trend as well in the second quarter? So that's the first question. And another one related to this is beyond this year, so looking to 2019 and '20, what kind of loan balance growth are you looking at? And the last one is a small one. So what kind of tax rate are you going to see for the following quarter? Because for this quarter, our tax rate is still low, like 10%.

Ka Hong Yeung - *Qudian Inc. - CFO*

Thanks, Jacky, I appreciate the questions. Yes, so on the funding side, thank you for observing the loan balance numbers. We have proactively slowed down a little bit more in terms of versus exiting Q1 in terms of loan balance because Q1 was just a very, very conservative quarter for us. We were in the process of essentially asking users to leave the platform because there's so much risk going on in the market, multiple lending behaviors. So we were able to accelerate at a much faster pace from Q1 to -- between Q1 to Q2. Now into Q2, we saw a bit of change in the P2P space. So we want to be conservative and grow that loan balance at a prudent pace. Now that, we have to keep in mind, is all based on, again, our reaffirmation that our net income is expected to be over RMB 2.5 billion. So we are on track with that. We're managing that growth, we're managing that risk in line to make sure we exceed that number but we don't absorb too much risk. Now in terms of the funding pipeline, again, also thank you for observing our comments on the lower funding costs. Because of the value we're providing to our funding partners in providing big data, in providing a very, very high cost-efficient way to transact with users, we've been able to be selective in the type of funding partners that we work with. So through this process, we have actually reduced our volumes with some of the higher-cost-base funding providers and work with more lower-cost-base funding providers. That's one of the key drivers of that. In addition, we've been deploying more of our -- quite a bit of our unused cash just sitting there to help facilitate loan transactions through licensed funding channels. So that's driving efficiency and lowering our funding cost overall. The second question is a tricky one. Basically, it's going to be providing some kind of expectations for beyond 2018. Unfortunately, we do not provide any guidance beyond 2018 yet, but I can point you towards what we feel. Based on the current massive user base that we have, again without much sales and marketing effort, we believe there is a sustainable long-term growth rate of anywhere between 30% to 50% for the foreseeable few years in terms of bottom line.

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

Sorry, just last one on the tax rate. What kind of tax rates are you looking at?

Ka Hong Yeung - *Qudian Inc. - CFO*

Yes, so we believe 10% is probably the right way to think about the going forward tax rate.

Operator

Our 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 a couple of questions. The first one, can I just dive down a little bit into the Ant Financial customer engagement channel. Carl, you mentioned that 30% of registered users are coming from the channel. I'm just wondering whether you have different credit approval rate for the 30% versus the 70% your own app? And with that, Carl, you've mentioned about really penetrate your 67 million registered users. But I do recall that your credit approval rate is around 50%, just less than 50% -- you have to cap the approval rate to maintain credit quality. So I'm just wondering whether there's any change in the approval rate of the registered users.

Ka Hong Yeung - *Qudian Inc. - CFO*

Okay, so that's the 1 question we have, right? Thank you, Linda. And good to hear...

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

Yes, I'll ask another question because this is a long question. Sorry about that.

Ka Hong Yeung - *Qudian Inc. - CFO*

Okay. So yes, again, on the new registered users, it's about 30% on the specific paid marketing channel, that's under this contract that expired. We're not too worried about that at all because we've been very selective about new customers. Our approval rate for new customers versus approval rate for repeat borrowers is significantly different. Now we don't necessarily disclose that because it's an industry trade secret. But the overall approval rate is somewhere around 50%, like you observed. If you look at some of these numbers, you basically can get a feel of how it looks like. The percentage of transactions totally for the last 8 months from this paid marketing specific channel is only about 2%. So although our new registered users is somewhere around 30%, it's only about 2% contribution to the actual transactions and, therefore, revenues and profits. Therefore, it doesn't really affect essentially anything.

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

Yes, and just on top of that, you used to disclose average ticket size and duration. And I think that's one of the key selling point to investors, because more ticket size and duration, therefore, the credit risk is more diversified and the turnover rate is higher. So you use it to change direction when you see something wrong in the market, like what you did in December. Now you have stopped disclosing that, this set of number. I'm just wondering is there any reason? Does this indicate some change in your overall strategy? You mentioned about ticket size of RMB 3,000. I know it doesn't sound very high to a white collar professional working in Shanghai, but I -- how does the RMB 3,000 ticket size compare with your average borrower, their income profile?

Ka Hong Yeung - *Qudian Inc. - CFO*

Sure. Thank you, Linda. We thrive based on small credit and we understand that it's the data and the volume that's driving so much of the value. In fact, in Q2, we did disclose just now in the discussion our average transaction size in Q2 was about RMB 1,400. And that is still a very, very low number. I'd like to help and guide by understanding this 1 situation. If you look at last year's number, it was just under RMB 1,000 approximately over 2 months. So if you add in the APRs and everything, the average repayment per month is somewhere around RMB 300-something. So it's actually slightly over RMB 300-something, it's close to RMB 400. Sorry about that. But now if you look at this current quarter of RMB 1,400 and over 7 months, the average repayment is just around RMB 200-something. So we do pay a keen attention in terms of the monthly income of our active borrower base. And we make sure that it doesn't overburden them. What we have done in the last several months is to make the loan size bigger, but yes, make the monthly repayment lower to reduce risk. And that has shown an immediate and visible kind of a positive impact in terms of delinquency rates. Now some may argue, and I'll ask the question for you that if you have a longer duration, does that risk sit further in the back? We are acutely aware of this potential risk, but we're comfortable that it's not going to likely happen because we're also observing internal data points, is the total outstanding delinquent -- the total receivable of the delinquent balance. And that balance has been growing at basically a much slower rate than loan volume growth. So in fact, we're seeing lower and lower risk. That's what we're seeing.

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

Carl, may I just ask 1 last question? And I do apologize for other people on the phone. Just a very quick one. Your loan facilitation fee has grown very strongly, which is a good thing. But I can't really understand what kind of fee in terms of percentage of facilitation are you getting? Because I look at your total loan balance is RMB 15 billion as of second quarter. And to generate that amount, that means you have to do a lot, a lot of loans to make the numbers work.

Ka Hong Yeung - *Qudian Inc. - CFO*

Sorry, Linda, I am not quite sure your question because our fee is actually calculated on a fairly simple method. We take the transaction and we make sure that the total APR we charge is 36%. That's all -- that's how we calculate the fee structure, yes.

Operator

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

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

So 2 questions, and one is related to your funding partners, and also the business beyond using your own balance sheet to do the loans. So I wonder if you could give us some color about the composition of your funding partner, who they are and what you do for them. And that's number one. And also, related to this and going forward, what's the composition in terms of the loan? How much come from you? How much come from your funding partner? That is the first question. The second is related to the delinquency rates. This quarter, delinquency rate is kind of low, and I wonder how you envision the delinquency rate going forward? So that's 2 questions.

Ka Hong Yeung - *Qudian Inc. - CFO*

Thank you, Tian, really keen questions as well as everybody's. Thank you. So in terms of the funding structure and the 2018 June 30 loan balance of 15 billion, approximately 36% were self-funding, basically our own capital deployed via licensed funding channels. So there is a channel or 'qudao' (Chinese language) that is licensed that we can fund these loans with. And then the on-balance sheet so-called funding is about -- approximately 35%, which basically entails trusts. So these are external funding through basically various asset management companies or banks. They also fund these transactions to license cost structures. And then approximately 29% is from so-called off-balance sheet funding transactions, which are basically essentially bank funding, where we essentially send the users, and along with the big data to the bank, and they fund -- they originate these loans themselves. And we take a service fee for that. So this is kind of the funding structure, 36%, 35% and about 30% by the end of -- by 2018, June 30. Yes, so going forward, we see this as a pretty stable way to fund these transactions. We don't expect big changes to this funding structure. And by the way, we are fully compliant with 141 by -- we have introduced all the necessary license guarantee companies in all -- across all these transactions since 2 months ago. So it all looks good from here. Now secondly, your question regarding delinquency rate, yes, in Q2, our loan provision to the loan transaction volume was half of Q1. And I think basically the worst has passed. Q1 was a challenging period in terms of the overall risk in the market and we're basically seeing things return to normal. I think this kind of provision ratio is sustainable going forward. I'd like to still remind the global investment community that there may be changes in the overall environment of the Chinese economy, the user base, different changes in the industry, but we will be the first to react and basically to the right adjusted -- risk-adjusted profits.

Operator

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

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

So my question -- I have 2 questions. So first is a follow-up on the asset quality and also the funding cost trend. So you mentioned earlier that there has been some change actually recently in the delinquency rate because of what's happening on the P2P side. So can you tell us like what is the magnitude of change, for example, in delinquency rate in the past 2 months? And secondly on the funding cost side, I guess also related to the P2P, the wave of collapse, and we do see them more P2P platforms, they are now trying to fight for institutional funding. So whether that has any spillover effect in terms of your funding cost over the past 2 months? And then secondly, I want to understand more about your longer-term customer acquisition strategy. So I get the point that in the near term, you can still like sustain the growth by further monetizing on the existing over 60 million registered user base. But from a longer term, for example, in a 2- to 3-year point of view, say after the industry consolidation, what do you think will be our key competitive advantage in terms of attracting new borrowers versus some of the other larger players? And also, currently, our customer acquisition cost is still much lower than most of the other like listed players. So do you expect, in the longer run, this cap to be narrowed?

Ka Hong Yeung - *Qudian Inc. - CFO*

Thanks, Daphne. So first of all, in terms of the asset quality in basically the last 2 months, we've seen stability, basically similar delinquency levels from when we exited Q2. We have to be very thankful of what happened in Q1. The delinquency uptick in Q1 helped our AI and machines learned a lot about multiple borrowers. So first of all, the current situation with the P2P is happening more in the funding side, where funding is being withdrawn. The asset quality hasn't really turned extremely bad. It's more about the liquidity that these P2P companies are facing because they're being withdrawn of funding. And because we are -- because of this fundamental nature of the change in the industry. It's not about the borrowers are turning bad and we're much better at identifying the bad borrowers now. We have seen delinquency to be within well expected ranges and it's been stable. There has been a lot of P2P players entering into the institutional funding game, and it's great because it's a testament to the validity of our business model, the sustainable nature of the way we operate our business. We are working with these institutional funding partners for much longer period of time and in much larger sizes, but down to the core, it's a business. In this business is about asset quality. I think -- we are a public company. Many of the largest P2P players are public companies. Just look at our asset quality. We have confidence to say that we have some of the industry-leading asset quality. So if you're a funding partner, right, would you prefer to work with the lowest-risk player providing the most efficient platform? Or somebody else? So we don't worry about that kind of competition at the moment. But again, we are always trying to push ourselves to be more efficient, be better at analyzing data. So that this competitive edge remains. Yes, longer term, customer acquisition strategy. Like I said, based on the current existing user base that we have, we don't foresee growing our sales and marketing at least until 2020, but still be able to deliver the numbers as we discussed in the guidance. Now this is based on the existing user base. I'd like to also add that without any external sources of traffic, just on natural traffic alone, users -- user-initiated engagement in searching for our platform, either through our App Store or other open platforms, we're adding about 1 million to 2 million new registered users every quarter in light of the so-called changes in the Ant Financial agreement. So we are still quite comfortable in terms of growing without sales and marketing for as long as I can see. Yes, thank you, Daphne.

Operator

Thank you. I'll now hand the call back to management for closing remarks.

Annie Huang

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

Operator

This concludes today's conference call. You may now disconnect your lines. Thank you.