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Q3 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

Frank Zheng *Credit Suisse*

PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for Qudian's Third Quarter 2021 Earnings Conference Call. (Operator Instructions) Today's conference is being recorded. I will now turn the call over to our host from Qudian. Please go ahead.

Unidentified Company Representative

Hello, everyone, and welcome to Qudian's Third 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.

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 for 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*

Hello, everyone. Thank you for joining us on today's call. Amid fast-evolving market conditions in the third quarter, we continued to execute prudent operational strategy in our cash credit business, ensuring our asset quality at a stable level. The transactions volume for our loan book business decreased sequentially by 2.1% to RMB 3.4 billion in this quarter. And our on-balance sheet loan balance decreased sequentially by 14.4% to RMB 3 billion. During the quarter, we continued to make steady progress with our WLM KIDS business. As of December 12, 2021, we had 7 centers operating in Xiamen, Fuzhou, Shanghai and Shenzhen, all delivering high-quality extracurricular activities, services and products to children and families. The ramp-up of WLM KIDS centers is slower than expected due to COVID-19 resurgence.

We are continuing to closely monitor ongoing COVID-19 conditions and proactively taking precautionary measures as our highest priority to ensure the safety and health of the children, families and staff in our centers. We also fully support the recent government regulatory changes announced for the supplemental learning industry and will strictly comply with the applicable regulations. Moving forward, we will continue to focus on improving the quality of our products and services, while also exploring new investment and business

opportunities.

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

Sissi Zhu Qudian Inc. - VP of IR

Thank you, Min, and good morning, and good evening, everyone. Echoing Min on our loan book business, we continued to uphold rigorous standards for credit approvals in the third quarter. We focused new loan origination on better quality borrowers with stronger credit profiles, and our D1 delinquency rate continued to remain below 5% at the end of the quarter. Additionally, more than 99% of our outstanding loans balance were funded by our own capital, and our M1+ Delinquency coverage ratio remained high at 2.3x.

Looking ahead, we will continue to prudently operate our cash loan business while simultaneously pursuing new potential growth channels. Supported by our strong balance sheet, we believe we can continue to grow our overall business and deliver sustainable value to our shareholders over the long term.

Now let me share with you some key financial results. In the interest of time, I will not go over them line by line. For a more detailed discussion of our third quarter 2021 results, please refer to our earnings press release. Our total revenues for the third quarter were RMB 347.4 million, representing a decrease of 59.1% from RMB 849.4 million for the third quarter of 2020.

Our financing income totaled RMB 285.5 million, representing a decrease of 41.4% from RMB 487 million for the third quarter of 2020, as a result of the decrease in the average on-balance sheet loan balance. Loan facilitation income and other related income decreased by 95% to RMB 8.8 million from RMB 177 million for the third quarter of 2020, as a result of the reduction in transaction volume of off-balance sheet loans during this quarter.

Transaction services fee and other related income increased to RMB 20.9 million from RMB 6.6 million for the third quarter of last year, mainly as a result of the reassessment of variable consideration. Sales income and others decreased to RMB 7.3 million from RMB 139 million for the third quarter of 2020, mainly due to the decrease in sales related to the Wanlimu e-commerce platform, which we are in the process of winding down.

Sales commission fee decreased by 55.5% to RMB 8 million from RMB 18 million for the third quarter of 2020 due to the decrease in the amount of merchandise credit transactions. Our cost of revenues decreased by 47.4% to RMB 104.6 million from RMB 198.8 million for the third quarter of 2020, primarily due to the decrease in costs associated with the loan book business and a decrease in cost of goods sold related to Wanlimu e-commerce platform.

Sales and marketing expenses decreased by 49.3% to RMB 32.9 million from RMB 64.8 million for the third quarter of last year, primarily due to the decrease in marketing promotional expenses.

General and administrative expenses increased by 170.4% to RMB 157.7 million from RMB 58.3 million for the third quarter of 2020, as a result of the increase in staff salaries primarily relating to WLM KIDS business.

Research and development expenses decreased by 21.6% to RMB 40 million from RMB 51 million for the third quarter of last year, as a result of the decrease in staff salaries. Net loss attributable to Qudian's shareholders was RMB 94.2 million. And our non-GAAP net losses attributable to Qudian's shareholders was RMB 99 million for this quarter.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Frank Zheng from Credit Suisse.

Frank Zheng *Credit Suisse*

This is Frank Zheng from Credit Suisse. I have 2 questions. The first one is on the WLM KIDS program. Could you please provide more color on how many more in the pipeline maybe in the next year? And also, how is the payback period apply currently as well as the unit economics? And the second question is on cost revenue. I noticed that on sequential basis, cost revenue increased, can you maybe break down a little bit on what's driving the increase?

Sissi Zhu *Qudian Inc. - VP of IR*

Thank you, Frank. Thanks for the questions. So to address your first question with regard to our WLM KIDS business. We actually had 3 centers in operation during the third quarter and 7 centers now, there will be over 10 centers in the pipeline for next year. The performance, as we mentioned in our prepared remarks, it's not as good as we expected, because of the on and off regional COVID breakout.

When we see positive COVID cases in the city, kids activity centers are the first ones to be shut down and the last ones to be opened. And therefore, our centers have been shut down for almost 2-month period during the third quarter because of COVID.

And once a center got closed down because of COVID, we need another 2 or 3 months to heat it up again. It's really hard to answer the question regarding to payback period and the stabilized UE because we are not in that stage yet. And our current imminent goal is to bring our centers to breakeven points as soon as possible before we do any further expansion. I hope that answers question.

With regard to our cost of revenues, because we didn't provide the breakdowns in our earnings as the segment reporting is not required under certain accounting rules. But the majority of the increase of cost of revenues is because when we do the WLM KIDS business, we have to hire teachers and instructors in our centers. So their costs are in the cost of revenue. I hope that answers question.

Operator

(Operator Instructions) Thank you. As there are no further questions now, I would like to turn the call over to the company for closing remarks.

Sissi Zhu *Qudian Inc. - VP of IR*

So thank you, everyone, once again for joining us today. It's a very short call. If you have further questions, please feel free to contact our Investor Relations team. Thank you.

Operator

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

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