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# EDITED TRANSCRIPT

Q3 2022 Yiren Digital Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Ning Tang** *Yiren Digital Ltd. - Executive Chairman & CEO*

**Mei Zhao** *Yiren Digital Ltd. - CEO of Yiren Credit*

**Na Mei** *Yiren Digital Ltd. - CFO*

*Raymond Feng, Yiren Digital Ltd. – COO of Yiren Select*

**Keyao He** - *IR Officer*

## CONFERENCE CALL PARTICIPANTS

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## PRESENTATION

### Operator

Thank you for standing by, and welcome to the Yiren Digital Third Quarter 2022 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to Ms. Keyao He, IR Officer. Please go ahead.

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### Keyao He -

Thank you, operator. Good morning and good evening everyone. Today's call features the presentation by the Founder, Chairman and CEO of CreditEase, our CEO, Mr. Ning Tang; and our CFO, Ms. Na Mei; our SVP, Ms. Mei Zhao; Raymond Feng, COO of Yiren Select, will join the presenters in the Q&A session.

Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provision for U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and factors that can cause actual results to differ materially from those contained in any such statements.

Further information regarding potential risks, uncertainties or factors is included in our filings with the U.S. Securities and Exchange Commission. We do not undertake any obligation to update any forward-looking statements as required under relevant law.

During the call, we will be referring to certain non-GAAP financial measures and supplemental measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information for these non-GAAP measures and reconciliations to GAAP measure, please refer to our earnings press release.

I will now pass it on to Ning for opening remarks.

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### **Ning Tang** *Yiren Digital Ltd. - Executive Chairman & CEO*

Hi everyone, Thank you for joining our conference call today. We are very pleased to deliver a resilient

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quarter, with solid business recovery and continued improvement in profitability post our product restructuring and pandemic resurgence in the first half this year. As the macro environment gradually rebounds and our revenue structure continues to evolve and upgrade, we have full confidence to embrace an accelerated growth in the quarters to come.

First, an update on our Holistic Wealth Management business. Our insurance brokerage business continues its strong momentum this quarter, becoming an essential revenue pillar. In the third quarter of 2022, total premiums reached RMB 1 billion, representing a 36% increase year over year, surpassing the industry average growth rate by over six times. Revenue generated from Hexiang Insurance Brokerage services reached RMB 189 million, accounting for more than 22% of total revenue, and we expect to see an accelerated double-digit growth in the fourth quarter.

The rapid expansion of our insurance brokerage business is fueled by Hexiang's outstanding capabilities in product customization and innovation. Distinguished from other insurance brokers, Hexiang excels in analyzing and exploring different clients' specific needs in their life or working scenarios. Therefore, our products enjoy a strong advantage of exclusiveness in the market. For example, one of our whole life insurance products tailor-made for high-net-worth clients called Yimaixiangchuan closed nearly RMB 60 million in premiums this quarter alone. Another example, our customized group insurance products targeting kids and teens with vision care services will hit the market soon, which is expected to contribute sizable premium in the coming quarters. Moreover, our property insurance products also saw continued growth for the past 22 consecutive months and the demand remains strong as we expand into more fast-developing areas, such as litigation preservation liability insurance business.

Another highlight I would like to point out is that second-year renewal rate for our long-term insurance products reached 96.6% as of the end of third quarter this year, much higher than the industry average of 85%, which has further proven the high quality of our services.

Regarding the new regulation on online insurance sales, that's been a hot topic in the industry this year. The actual impact on our business has been minimal due to the complexity and richness of our product matrix and our relatively low reliance on online channels. In the third quarter this year, the total number of insurance products offered exceeded 750, up from around 650 in the prior quarter. Looking ahead, the momentum remains strong for both our life and property insurance segments.

Now moving on to a bigger picture of our Holistic Wealth business. In the third quarter of 2022, total client assets reached RMB 22.8 billion, an increase of 31% year over year. Particularly, on Yiren Select's platform, which is the upgraded version of Yiren Wealth under our "super app" strategy, average client assets held by each client through our institutional partners reached more than RMB 350,000, representing a year-over-year growth of 36%. With the on-going penetration of our "life plus finance" initiatives and "balanced asset allocation" investment educational concept, in the third quarter, the number of clients with client assets over RMB 1 million increased by 57% from prior year, a vivid reflection of the enhanced recognition for our improved serving capabilities.

Before we move on to an update on credit, I want to mention that we have officially closed our online brokerage arm China Glory in the fourth quarter last year to be compliant with new regulations. Going forward, we will focus our efforts on our core wealth business lines and in creating a powerful flywheel effect that will help our loyal and growing member base with additional financial management solutions that match their needs for investment, savings and insurance protections while also increasing their lifetime value to us.

Looking into the year of 2023, we expect to realize increasing synergies between each business line as Hexiang Insurance continues to customize products and services that match the needs of our customers within the Yiren Digital ecosystem. Our customer base is also expected to continue to expand with higher acquisition efficiencies as our consumption-driven businesses start to ramp up in scale and drive-up overall customer engagement.

Now I will pass it to Mei, who will go through the highlights of our credit-tech business for the third quarter.

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**Mei Zhao Yiren Digital Ltd. - CEO of Yiren Credit**

Thanks Ning and hello everyone. Before I provide an update on our credit-tech business, I would like to reiterate our strategic product transition and we are glad to see a full recovery of growth pace post the restructuring.

With the aim to improve our overall profitability and reduce potential operational risk amid the pandemic resurgence, we started to proactively optimize our loan portfolio structure back in the second half of the last year and scaled back our offline secured loans business that bore higher operating costs and higher vulnerability during the pandemic. We officially terminated this product in the first quarter of this year. Now that our new loan portfolios enjoy higher operating efficiencies and lower borrowing costs. We believe the transitioning allows us to better sustain and scale with healthier unit economics and higher flexibility and resilience to respond to any further market involvement.

In the third quarter this year, total loan volume reached RMB 6.3 billion, accounting for 66% of total loans facilitated in the first half this year and close to pre-transitioning level. Given the current strong demand for our loan-facilitation services, especially for our small revolving loans, we project a further two-digits growth quarter over quarter in total loan volume in the fourth quarter this year.

Another notable highlight is that our MAU increased to 1.7 million at the end of the third quarter this year, representing a 24% increase compared to the end of last quarter and a 54% growth compared to the end of the third quarter last year due to our improved services and enhanced [interactions] with our borrowers.

Meanwhile, we see an increasing number of users coming back for a second loan as we continue to offer various value-add services and membership benefits, such as discount, tailored insurance products and award credit. In the third quarter of 2022, the repeat borrowers accounted for 81% of total borrowers

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for small revolving loan products, compared to 62% in the third quarter last year, translating into a decline acquisition cost per user. Moreover, as our e-commerce platform continue to enjoy increasing popularity among our users and bring a growing traffic, the average acquisition cost is expected to further decrease in the future. Just to echo what Ning mentioned earlier, our consumption-driven services, from both our e-commerce platform and Yiren Select, has helped built up a more dynamic and integrated ecosystem with increasing synergies between different business lines.

On the funding side, as we continue to increase and diversify our funding partners, we expect to see continued decline in funding cost in the coming quarters.

Last, but not least, the asset quality of the new loan shows stabilizing and improving trends. Our FPD 30+ delinquency rate in the third quarter reached 0.49%, still at its historical lows, as a result of our continued efforts in customer segment optimization and risk control tightening.

With that, I will now pass it onto Na, who will go through the financials for the third quarter this year.

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**Na Mei Yiren Digital Ltd. - CFO**

Okay. Thanks Mei and hello everyone. For this quarter's financial update, I will focus on key financial highlights only, Please refer to our earnings release and our IR deck for further details.

We delivered solid results this quarter with total revenue reached RMB841 million, accounting for 56% of total revenue in the first half this year, with an celebrated recovery from the temporary impact of product restructuring and the pandemic lockdowns. As you may have noticed, we re-organized our revenue segmentation in [Q4] last year to highlight e-commerce revenue as our strategic deployment in consumption driven services starts to set off and leads to a more dynamic ecosystem with enhanced customer engagement and activities and long-term value.

Contribution from holistic wealth business reached RMB294 million in the third quarter and accounting for 35% of total revenue, up 8 percentage points compared with the same period last year. This is in line with our strategic positioning as a personal financial management platform that differentiates us from our leading peers. On the credit side, total [loans] facilitated this quarter was RMB6.3 million, realizing double-digit growth quarter over quarter and rebounding to pre-restructuring level of last year, driven by the ramping up of our small revolving loans. Revenue from credit-tech services reached RMB493 million this quarter, accounting for nearly [60%] of that of first half this year. Our average borrowing costs has declined to 24.3% for all new loans facilitated in October, reflecting our ongoing commitment to financial inclusion and in aligning with regulatory directives.

On the expenses side, total operating expenses was RMB505 million this quarter, decreased by 38% compared with the third quarter last year. Sales and marketing expense decreased to 66% to CNY 136 million from the same period last year, mainly driven by cost savings as we optimize our offline business, which Mei had touched on earlier.

Origination and servicing expenses increased 20% year on year to RMB224 million, primarily due to the expansion of our insurance brokerage business as well as the increased spend on risk assessment services post tightening our risk management policies earlier this year. Allowance for contract assets, receivables and others decreased by [58%] year over year to RMB35 million due to higher provisions booked for our long-term secured loan business last year.

We delivered a strong profit of RMB270 million this quarter, reflecting a net income margin of 32.2%, up 6.2 percentage points year over year as we enjoy better unit economics post the product- restructuring and continue to enhance our cost efficiencies.

Turning to our balance sheet, we maintained a substantial balance sheet with RMB5.5 [billion] in total shareholders' equity of September 30, 2022, increased by 15% compared to as of December 31 last year.. Meanwhile, we remained at a strong cash position with usable cash reached RMB4.7 billion, reserving sufficient buffer for the execution of our share repurchase plan which we announced earlier this year as well as providing enough fuels for any new business opportunities going forward.

Now based on our assessment of our business and the marketing conditions, we expected revenue in the fourth quarter this year to be between RMB0.9 billion to RMB1.1 billion, with net profit margin expected to remain stable.

With that, we conclude our closing remarks. Operator, we will now open for questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question comes from Boyd Heinz with Equinox Capital. Please go ahead.

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Can you tell us how many is the size of the loan facilitation in Q2 of fiscal year '22? In your previous press release, you just gave a first half number. I'm just kind of curious to see what was the sequential rate of growth in your online lending channel.

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### Ning Tang *Yiren Digital Ltd. - Executive Chairman & CEO*

Can Mei and Na answer this question, please? Second quarter loan volume.

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### Na Mei *Yiren Digital Ltd. - CFO*

Okay. This is Na, I will answer your question. The [second] quarter, our loan volume total about [CNY 4.9 billion] and compared to the [second] quarter, the loan volume in our third quarter increased about 20% to 30%.

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I'm sorry, that was Q2, it increased 20% to 30% in Q3?

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**Na Mei Yiren Digital Ltd. - CFO**

Yes.

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Okay. And can you talk a little bit about the strength of the demand of those online loans. How much more growth can you expect to see in fiscal year '23?

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**Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO**

We have positive outlook. But Na, do you have detailed numbers? Or do we disclose that?

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**Na Mei Yiren Digital Ltd. - CFO**

Yes, since our current outlook for our 2023 forecast, we think that our loan will keep on a stable [growth]. And based on our (inaudible) forecast, we think that our loan will increase about 20% to 30%, yes, at least. We hope that there is a better performance, yes.

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Your balance sheet is very strong. You have a lot of cash. What kind of interest income are you generating from that cash at this time? Because it seems like there's not -- I don't see much that's been reported on the income statement.

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**Na Mei Yiren Digital Ltd. - CFO**

Yes. I think most of our cash is mostly from the -- our revenue from our customers from the credit segment and the Holistic segment. And actually, there is a little interest income as you mentioned in the tax deposits, it's most from our customer revenue.

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Right. And I think you've done a great job in managing your expenses in a declining revenue environment. I'm just curious about your capital allocation. Given that you're not generating much interest income from the cash, is it possible that you could -- you do have a USD 20 million buyback program in place. And it doesn't appear to me that you have utilized any of that yet. It would appear to me that you should be much more aggressive about repurchasing your own shares going forward. Can you just comment a little bit about the status of your buyback program? Is it ready to be put into effect immediately?

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**Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO**

We agreed with you.

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**Na Mei Yiren Digital Ltd. - CFO**

Yes, we totally agreed with you. Yes, as you mentioned, we have announced a new share repurchase plan in September. And now I think after the earnings release with the quarter financial statement, then

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we'll restart our repurchase plan. And I think our strong cash positioning will give sufficient buffer to execute our share repurchase in the future. Of course, we will also keep on identifying other small business opportunity to use our capital -- use our cash position and also enhance our capital income. Yes, as you mentioned, we'll execute our repurchase plan and identify other new vital opportunity to use our cash position.

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Just -- sorry, I didn't mean to interrupt. Just to be clear, looking at your 20-F, you did have a previous USD 20 million buyback program authorized and in place. And yet you didn't utilize that during the year, and you canceled that and then put a new USD 20 million to replace it. Why was -- why did you do it that way? Why didn't you just utilize the existing repurchase program that was -- had already been authorized?

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**Na Mei Yiren Digital Ltd. - CFO**

Yes. I also mentioned we renew our new repurchase plan in September. That's because the old plan we announced was many years ago and during the last several years, we have executed our repurchase plan a lot and there is a little left. So -- for the interest of our shareholder, we need to renew a new purchase line amount to \$20 million. And so that we renewed one because there is the little quota rest under the old one which was announced many years ago.

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Right. I think what people are looking for is to see if you actually follow through with the repurchase. So I would urge you to do that. And it's important to show investors around the world that you also feel that the shares are undervalued and that you're going to be in there supporting the ADS, which seemed to be extremely undervalued even in a sector that is generally undervalued.

And I guess this question is also for the larger shareholders who are on the call. Have you considered taking this company private given the dramatic difference in what this company should be valued at and what it is trading at right now?

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**Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO**

We have no such intention at this moment. Because going global is our strategy, yes. And this offshore listing position helps a lot with our global strategy.

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I see. Would you consider going in and purchasing more shares at this level yourself individually?

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**Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO**

You're talking about me?

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Yes, you.



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**Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO**

The program is there and it's not finished. As you pointed out, we will, yes, push forward with that.

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Right. I understand. But the -- a lot of -- what can also be done in addition to that is if large insiders at the company are going in and purchasing stock themselves for their own accounts. And again, just another way...

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**Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO**

Yes, the floating part is not that big. So while we totally agree that, yes, share buyback is very helpful, we are also mindful that the float is not that big. If we buy back all the shares, then is delisted.

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**Operator**

(Operator Instructions) There are no further questions at this time. If you have any further questions, you can feel free to contact the company's IR team. That does also conclude our conference for today. Thank you for participating, you may now disconnect.

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**Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO**

Thank you all.

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