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Q4 2018 Yirendai Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Yirendai Fourth Quarter and Full Year 2018 Earnings Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, 25th of March, 2019.

I would now like to hand the conference over to your first speaker today, Ms. Lydia Yu. Thank you, please go ahead, ma'am.

Lydia Yu

Thank you, and welcome to Yirendai's Fourth Quarter and Full Year 2018 Earnings Conference Call.

Today's call features a presentation by the founder, Chairman and CEO of CreditEase and Chairman of Yirendai, Mr. Ning Tang; our CEO Ms. Yihan Fang; our CFO, Mr. Dennis Cong. Mr. Huan Chen, our Board of Director; and Ms. Joanne Liu, our VP of Finance, will join the presenters in the Q&A session.

Before beginning, we will like to remind you that the discussions during this call contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and factors that may cause actual results to differ materially from those contained in any such statements. Further information regarding potential risks, uncertainties or factors is included in Yirendai's filings with the U.S. Securities and Exchange Commission.

Yirendai does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

During this call, we will be referring to several non-GAAP financial measures as 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 of U.S. GAAP.

For information about these non-GAAP measures and reconciliation to GAAP measures, please refer to our earnings press release.

With that, I'll turn the call over to our Chairman Ning for opening remarks.

Ning Tang *Yirendai Ltd. - Executive Chairman*

Thank you. Dear investors and friends, thank you all for joining Yirendai Earnings Conference Call today. Yirendai was the first listed fintech company from China on the New York Stock Exchange in December 2015. And I thank all of you for your continued support and attention in the past years. I believe Yirendai has demonstrated its industry-leading position in serving its customers.

To further strengthen the company's market leadership and provide better customer service to our investors and borrowers, I'm excited to



announce the business realignment plan between Yirendai and certain part of CreditEase business operations, which mainly include online wealth management, targeting the mass affluent, unsecured and secured consumer lending, financial leasing and small business lending. You can find more details in our realignment press release that was published today.

I believe this business realignment is very strategic for both Yirendai and CreditEase, through which we will be able to form the leading fintech platform that provides both wealth management and consumer lending products and services to millions of individual investors and borrowers in China. The combined online wealth management operation will strive to become the high-quality, one-stop destination for mass affluent investors, seeking asset allocation-based wealth management services, while the combined lending operation will be able to provide diversified credit product portfolio to consumers with unsecured consumer loans, auto loans and home equity loans and to small businesses with supply chain financing and leasing.

I will personally assume the CEO position of the combined operation, working with the management team upon closing. And I believe this strategic realignment will help us provide better service to our enlarged customer base at scale, leveraging Yirendai and CreditEase management team, product and business operation expertise, technology know-how and risk management capabilities.

We look forward to presenting the combined business operation by the time of closing of the realignment. And thank you, again, for your continued support.

With that, I will pass the call to Yihan to talk about Yirendai Q4 2018 business results.

Yihan Fang Yirendai Ltd. - CEO

Thanks, Ning, and thank you all for joining us today. In the fourth quarter of 2018, we achieved solid performance as our credit business resumed steady growth and our online wealth management business continued to show strong momentum. During the quarter, our loan origination volume increased by 28% from the previous quarter to RMB 8.4 billion. This brings our cumulative loan origination volume to approximately RMB 113 billion and outstanding loan balance of performing loans to RMB 41 billion.

In addition, we have elevated the overall credit quality of our individual borrowers through implementing more stringent risk policies, which have shown improving credit performance for our recent loan originations. Furthermore, we have strengthened our cooperation with our parent company, CreditEase, through its online and off-line network, through which 40% of our borrowers were referred by CreditEase, contributing to approximately 52% of our loan origination volume.

Our platform investors, on the other hand, have continued to show strong interest and confidence in our attractive loan asset and non-P2P wealth management products.

In the fourth quarter of 2018, we facilitated 145,000 investors, with total investment amount of RMB 11.8 billion. Investors with AUM of above RMB 100k exceeded 20 -- 33% of total existing investors on our platform. We strive to develop Yiren Wealth into a leading online wealth management platform to provide comprehensive products and services to the growing mass affluent population in China, and we believe the announced strategic business realignment will further strengthen the effort.

By acquiring CreditEase, other online wealth management platform, the combined business will be much, much stronger in terms of brand, team, client base and product and service capabilities.

In 2018 (sic) [2019], we will grow our client base on our platform, while reducing customer acquisition cost through brand marketing, optimization of channels and operations. We'll also expand our products and services offering by providing well-selected products of different asset class that are suitable to our mass affluent clients, launching multimedia investor education lessons; building out investment tools, such as online financial advisory and child education planning; and upgrading customer service levels.

On the regulatory front, the P2P compliance and inspection process is still going on. The Beijing Internet Finance Association completed their on-site inspection in December last year. We have also submitted all requested data and related documents to National Internet Finance Association for their review. Next step is for the local finance bureau and offices to conduct their on-site inspections. We're

readily prepared for the ongoing regulatory inspection process. We believe that Yirendai will be one of the few platforms to operate in compliance exceedingly in the future.

With that, I will turn the call over to our CFO, Dennis, to discuss about this quarter's operating results.

Yu Cong Yirendai Ltd. - Co-CFO

Thanks, Yihan. Hello, everyone. I will provide the financial update of our business. First regarding the transaction. As disclosed in our press release, Yirendai has signed definitive agreements after receiving approval from our Independent Audit Committee as well as our Board of Director to acquire certain business operations from CreditEase. The total consideration of the transaction will be of 107 million newly issued, ordinary shares of Yirendai and RMB 889 million in cash, and may be adjusted in accordance with the pre-agreed mechanism at the closing of the transaction.

It is estimated that the unaudited U.S. GAAP net revenue of the target business were RMB 6.6 billion or USD 962.3 million in 2018. The online wealth management business had RMB 8.6 billion of total asset under management as of December 31, 2018, and an active investor base of close to 0.2 million in 2018.

It is estimated that in 2018, the lending business has referred RMB 15.9 billion sales of loans to Yirendai and facilitated RMB 23.2 billion of loans on its own platform.

This is a significant acquisition for us, and we are very excited as we believe that it will create many synergies and significant shareholder value.

CreditEase has a diversified portfolio of loan products, customer base and customer acquisition channels that will be complementary to Yirendai's business. And combining the operation will not only optimize our online/off-line service to our customer base, but it will also drive stronger, longer-term growth and present cost-saving opportunities. After this transaction, we will become one of the largest fintech platform in China, further reinforcing our leading position in the industry, and we will be best positioned to serve our credit and wealth management clients.

Over the past few months, the industry has continued to undergo rapid transformation due to a tightening regulatory environment, especially after the release of Circular #175, which has increased industry consolidation. According to data released by wangdaizhijia.com as of February, 2019, the top 20 platforms contribute close to 60% of total industry transaction volume as compared to 35% over a year ago. Post the transaction, we believe, we'll be able to better capture this market opportunity through offering a wider range of credit product and service, including consumption, auto and home equity loans to meet all customer demands.

On the credit side, loan origination started to recover in the fourth quarter, increasing 28% quarter-over-quarter, RMB 8.4 billion, as we continued to proactively control the growth rate with conservative risk policy.

Early delinquencies for new vintages have remained largely stable and have shown improving trends. However, due to our relatively longer tenure, charge-offs for the 2017 and 2018 vintages continue to be impacted by the loans generated in the second half 2017 and first half 2018. To ensure adequate investor protection, we have increased the borrower contribution to our credit assurance program to about 13% of the loan contract amount this quarter.

Risk management will continue to be a top priority, and our risk management initiatives for 2019 include upgrading our risk scoring grid, implementing early delinquent collection as well as connecting to PBOC reports for loans, facilitate with our institutional funding partners to increase the cost of defaulting. On institutional partnerships, we are pleased to note that we have made significant progress. Our line of credit from Xinwang Bank has been increased from RMB 1 billion to RMB 1.5 billion, effective as of January 2019. In addition, we have also received approximately RMB 10 billion line of fundings from selected joint stock and CT commercial banks at a competitive funding rate.

We will remain committed to diversifying our funding base, and we expect to increase the portion of loans funded by institutional

partners through the 2019.

For our financial update, I will focus on key items of our business operation and financial performance, and you can refer the detailed financial results to our earning release and IR deck that is now online.

Total net revenue was up 30% quarter-over-quarter to RMB 1.3 billion during the quarter, with a corresponding net revenue take rate of 13.1% as compared to 13.9% last quarter due to higher contribution to our credit assurance program.

Please note that our net revenue take rate is calculated net of provision expenses for better comparability.

On the balance sheet side, as of December 31, 2018, our cash and cash equivalents were RMB 2 billion. Balance of held-to-maturity investments were RMB 316 million. And balance of available-for-sale investments were RMB 832 million.

As of December 31, 2018, our usable cash increased from RMB 2 billion in September 2018 to RMB 3.2 billion. We would also like to highlight that our operating cash flow has increased from net cash used of RMB 138 million to net cash generated of RMB 1 billion, due to our efforts in cash management, putting us in a solid cash position.

The share repurchase program that we announced last June is still effective. We remain committed to driving shareholder value, and we will deploy the buyback program when our blackout period ends at management discretion.

Regarding 2019 outlook. We will not be giving out any guidance given we're in the process of closing the transaction, and we plan to report consolidated financial report -- results of the combined business when the deal close.

That concludes my remark. I'd now like to turn the call back to operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question from the line of John Cai from Morgan Stanley.

John Cai Morgan Stanley, Research Division - Research Associate

So I have 2 questions. The first one is on the business realignment with CreditEase. So is there any more details like the cost-income ratio of the target business? Or the profits? And the operational levels, like what they are doing at the moment? So how many branches, if any, are there? And what would the price imply on a like a price-to-book basis? I saw that there's total AUM of around RMB 8.6 billion. So just wonder how we think about the multiple there. The second question is on the cash -- or capital management. As mentioned by Dennis I think previously, we have a very strong improvement on the cash flow. Just wonder what's driving that besides our profits. So I see some balance sheet items that has been changing quarter-on-quarter, such as the loan at fair value, contract assets and prepaid expense. So just wonder, yes, what's driving our cash improvement. And what's our take on the operating cash flow looking forward? And if cash further increase, what's our plan on that? We -- distributing the dividends?

Yu Cong Yirendai Ltd. - Co-CFO

Okay, thanks, John. In terms of the target operation, you can think about -- it has 2 part. One is the inclusive finance operation from CreditEase that we have talked about, including unsecured consumer loans, auto loans, home equity loans and some of the small-business supply chain financing and leasing operation. And I think we're still in the process of closing the transaction, and we have not complete the audit financial statement yet. So at this moment, we are only enabled to share the operating metrics that we have highlighted in our press release as well as the last section of our IR deck. Apologize if it came out a bit of a -- late before the call. So if we just look at 2018 business operation scale. In terms of the lending side of the business, the target business has originated more than RMB 23 billion loans on its own platform and also referred close to RMB 16 billion to Yirendai. And you can consider also -- think about the Yirendai business operation scale at the comparison that it has originated close to RMB 23 billion online through its own platform. Of course, the other RMB 16 billion was referred from CreditEase operation. And in terms of the online wealth management part of the

operation, that's -- we'll be combining with (inaudible), it's also similar nature but more focused on the mass affluent investor base. The total AUM, as we mentioned, is about RMB 8.6 billion and close to 230,000 active investors. So from a revenue perspective, we also mentioned that the unaudit U.S. GAAP net revenue for the target business is RMB 6.6 billion compared with the current reported unaudit net revenue for Yirendai for the full year 2018 is about RMB 5.6 billion. So that will give you some level of comparison in terms of business operation scale as well as the financial metrics. And we will report the earnings and all those when the audited financial statement is ready, when the time of closing of the transaction.

And in terms of the cash position and balance sheet, I will refer that to Joanne to give a highlight.

Joanne Liu

Sure. So in terms of the increase on our cash position. It's mainly due to 2 reasons. One is because we changed the product mix, and we increased the upfront fee portion to reduce the uncertainty of the cash collection in the future. And the second is we optimized our cash in operation and reduced the cash in transaction, and that's why you see a reduce in the -- on the balance of prepaid expense and other assets. And of course, with the repayment of the loans at fair value, we also collect back the cash. So in the future, we are going to maintain the cash position on a healthy level. And with the increase of the cash position, we are more investing into operation and also in a new wealth management business.

Yu Cong Yirendai Ltd. - Co-CFO

Yes, and also maybe for me to add a bit more in terms of business synergy between the 2 combined business operation. I think from the lending side, you're going to see a much wider customer segmentation as more diversified product portfolio and combined with multichannel customer sourcing acquisition that will be complementary to Yirendai's online customer acquisition capabilities. And then from the online wealth management business part, I think the overlapping between the 2 platform, from the customer segmentation perspective, was small. And then the combination of the 2 operation will unify the resource and technology capability for Yirendai to focus on the online wealth management business for 2019. And maybe Yihan can add some more on that front.

Yihan Fang Yirendai Ltd. - CEO

Yes, as I communicated in my previous remarks, so the realignment combining CreditEase online wealth management platform is a win-win situation because we can really find the synergy between the parties, and there is one-stop platform for mass affluent as well as like new mid class population in China, which is an even bigger market opportunity. And in terms of the team, and products and service capability, it's all a great upgrade from my point of view.

John Cai Morgan Stanley, Research Division - Research Associate

So I just have a small follow-up. So in terms of the targeted business, is it P2P? And is it under any growth constraint like the Yirendai because of the regulatory requirement that the loan balance need to decline?

Yu Cong Yirendai Ltd. - Co-CFO

Yes, it's also operating as a peer-to-peer business model. Of course, right now, as you all know, there is a cap on the individual investor funding for the loan balance. However, as we mentioned, the significant progress we have made in terms of working with the bank institutional fundings will definitely help us to combine the multichannel, multi-sources of asset-sourcing capability with the institutional funding that continue to drive our growth, and in particular, as you may know, the multichannel, online/off-line combination usually is a better, stable asset quality, while the Yirendai online Yiren Wealth has always generated very strong demand in terms of very competitive funding costs. So we believe the combination of the 2 operation will really give us a lot of synergy and momentum for our business going forward.

Operator

We have our next question from the line of Jacky Zuo from Deutsche Bank.

Jacky Zuo Deutsche Bank AG, Research Division - Research Associate

So first one is also related to the -- our new business realignments. Can you give us some color on the loan product mix of the -- combining lending business from CreditEase? So how much percentage is from retail and secured auto, home equity? And how much is

from the SME? And what is the, roughly, APR level? And so on the asset quality, how much -- is that kind of a trend recently? And what's the difference in terms of the vintage loss compared with our existing asset quality? And the second also related to that is what is the near-term cost of synergies if we have seen about this transaction? And my last question is about the SME lending. So given that the top priority from regulators this year is to encourage SME lending, so any initiatives, or any plan to promote our SME lending given our combined business going forward?

Yu Cong Yirendai Ltd. - Co-CFO

Okay. So in terms of product mix of the target business, majority of the business are unsecured consumer loans with -- certain percentage of the loans are undersecured. It's a small percentage, which we lend out to people who have car and home. So basically it's secured by the ownership of the car and home ownership. This is a small percentage. And then we also have online small business lending business operation. That's also about 5 to 7 percentage of our 2018 operation. So you can think about more than 80% is consumer, individual, unsecured consumer lending, and the rest of them are some -- a few percentage of secured loans, which we believe has huge room for growth, especially when we connect with the bank institutional fundings. And the same thing with the small business lending, as you may know, is a key focus from the financial institutions for the year of 2019. We have been approached by multiple institutional partners to look to work together to lend through -- on these channels and the assets in terms of the assets.

From APR and risk performance as well, I think by the time we close the transaction, we'll be able to report in detail the combined financial performance as well as the historical performance of the target business. However, in a general, you can think about they're -- have a similar range of the risk and then the somewhat higher revenue opportunity. So when you consider the risk-adjusted revenue opportunity, I think the target businesses actually have shown reasonably a better performance from either historical as well as recent industry trends. So I would leave that for the performance, and when we report our first quarter of 2019, you will be able to see them in detail. In terms of cost synergies. We see significant benefits as we mentioned. One is that from a funding cost perspective, Yirendai has always enjoyed competitive funding cost; and then from the asset quality perspective, the multichannel online/off-line combination has demonstrated the ability to provide a sturdy, stable asset performance that's actually in demand from both retail as well as institution. And also, we will be able to fully leverage our online/off-line operation to better serve our customer. As you may consider -- can imagine, when we have a large register applicant base from online channels, and some of them may drop at the middle of the application because they were not sure what to do, and we could have our telemarketing guys or potentially with our off-line sales agents to help them out to complete the application and then finish the process. And also, we believe with the off-line operation that would also help us in terms of building the customer relationship, providing closer contact with customer and, in turn, increase the customer stickiness and help the collection process for the credit side of the business.

Operator

We have our next question from the line of Alex Ye from UBS.

Alex Ye

Among the RMB 6.6 billion of net revenue, what's the percentage contribution from our online wealth management business? And do we expect this online wealth management platform from both Yirendai and the target acquired business to further expand into a bigger portion of our revenue contribution in the near term? And my second question is about our funding partners. So we have made some progress in terms of sourcing additional bank fundings. So you have mentioned we have got RMB 10 billion of credit line from (inaudible) banks. So just to confirm this number is correct. And what's how much have we deployed this credit line so far? And could you please give us some breakdown about the loan volume facilitating in Q4, which are contributed by the institutional funding? And also, what's the comparative figures for the last quarter?

Yu Cong Yirendai Ltd. - Co-CFO

Sure. So in terms of the revenue from investor side, that's usually the way we look at the wealth management business from our business operation perspective. Of course, these revenue -- service fees we generate from both fixed income or P2P loans type of products as well as some other products which start selling. It's just purely looking at the service fees on the investor side. On the target side, it's close to the 10% compared with -- that's from the wealth management -- investor side of the business. We expect to ramp up the online wealth management business, particularly with a focus on cross-selling non-P2P loans for the 2019. I think that's very strategic for us to provide multi-asset class of wealth management product to our investor. The initial revenue may not grow as fast as the sales volume or AUM,

but we believe longer term as we build a strong, larger base of AUM, the repeat revenue will become -- generate much more profits going forward. So in terms of the bank line, yes, it is RMB 10 billion. So -- in remimbi, (inaudible) line of funding from the bank. We have -- we're in the early process of working with the bank, establishing the product, connecting the system. So it's still early in terms of the number of loans we deploy through the bank fundings. It is still a small percentage, single percentage of our loans that now flow through the bank funding. So for this, I would also want to highlight a bit. I think, from either the research community or the capital market perspective, people have always been very focused on the ability of a platform sourcing institutional fundings. However, from our platform, Yiren Wealth has always enjoyed a very strong brand and reputation among the retail investors. We have very competitive funding cost from the high-quality, sticky individual investors. And then growth of wealth management business for the mass affluent customer base has always been strategic for us. So particularly in the later part of last year and early part of this year, we actually see a very strong demand from institutional partners coming to our platform asking for assets. We are actually in undersupply-of-asset situation. So we have to allocate between our individual investor's strong demand versus the strategic nature institutional partner banking fundings. So but we also understand from the risk diversification perspective, we need to have multichannels of fundings, but at this moment, our retail investors' funding are as competitive, if not more, compared with institution. But as we mentioned, we are building multiple lines of institutional fundings, and we're establishing these very strategic relationships. So we believe that will be a very healthy footings going forward in 2019 in terms of the ability of sourcing fundings from both retail as well as institution.

Operator

(Operator Instructions) We have our next question from the line of Anderson Cha from BNP Paribas.

Munyoung Cha BNP Paribas, Research Division - Analyst

This is Anderson from BNP Paribas. My first question is with regards to 2019 guidance. Do you have any specific guidance for loan origination volume and also institutional investors target, given that you mentioned about very strong demand from institutional investors? And second question is with regards to your -- the business realignment. I just saw that you are issuing new shares and also you are paying RMB 889 million in cash. So how do you fund that acquisition? And also do you have any time line of this transaction?

Yu Cong Yirendai Ltd. - Co-CFO

Sure. As we mentioned, we're in the process of closing the transaction. So we will not be able to give out the full year 2019 guidance. And in terms of the institutional funding, we mentioned that we have at least RMB 10 billion. Actually right now, it's more than RMB 10 billion, close to somewhere between RMB 10 billion to RMB 15 billion, the line of -- banking lines already available that will be for us to use through the year. So it's actually a matter of a truce between retail and institution for us to best optimize our business operation as well as to maintain the strategic relationships with both our retail customer as well as our institutional partners. So in terms of the consideration -- in terms of number of shares as well as the cash, so the number of shares will be new share issued. So you can consider the transaction will be financed by the number of new shares issued from Yirendai as well as the RMB 889 million cash from our operation to finance the transaction. And we expect the closing to be in mid of this year as we complete some of the prerequisite closing condition that we look forward to have the combined business and report our business operation to all of you.

Operator

We have our next question from the line of Matthew Larson from National Securities.

Matthew Lewton Larson

I'm calling more from the point of view of a fairly large investor in this space. And if there wasn't peer-to-peer lending or payday lending via online and mobile, which is really the area you're in, and many of your competitors whether it's Qudian or PPDAL or Lexintech (sic) [LexinFintech] and what have you, where would the consumer in the PRC get loans? I've always understood it is hard to get them from banks and that credit card usage is not as widely around as it is here in the United States.

Yu Cong Yirendai Ltd. - Co-CFO

I think you can think about in this way. The number of credit providers in China. You have, of course, the bank, and then you have the consumer -- licensed consumer finance companies, and then you have fintech platforms like us. So usually the bank are limited by the lending risk that they are restricted. As you may know that all the banks have their own NCL/NPL threshold and then the lending rate usually capped around 18%. And then for the consumer finance -- licensed consumer finance companies, you have them -- several of

them that they also have certain risk and price spectrum. And then in China, given it's a large population, a lot of secular underdeveloped credit system, there is many borrowers who do not have enough access from the traditional financial institutions. And then fintech platform, like us and our peers, are really innovating by working through online collecting data to the -- make a very sophisticated credit underwriting to provide the fundings for the underserved population in China. So in this way, you can think about you have mostly bank institutions and then you have fintech platforms that they have different customer segmentation as well as their capability. Of course, I think fintech platform are also leveraging the online customer acquisition, online data collection and credit underwriting. And that's really providing faster service, more user-friendly service to the consumer base in China.

Matthew Lewton Larson

All right. I guess, it's -- my point is that for the young consumer, particularly in China, your industry seems to be a very important. People need credit if they want to buy things, and the government has been regulating your business because, perhaps, it was kind of a Wild West environment. And the amount of lenders both peer to peer and, say, payday type of loan operations have been reduced dramatically from several thousand to a few hundred, I guess, is what I read. But in the meantime, the surviving firms like yourself who've been in the business for a number of years that are well capitalized presumably would pick up market share once the caps on the loans are lifted. And in the meantime, you're developing a tremendous database on the consumer habits of everybody you work with. So this is why I don't really understand why the stock values of all the companies are at such low levels based on the fact you don't take a lot of credit risk. And that even that, your charge-offs are pretty minimal, 1.5% or something, which are a fraction of what you would see with credit card companies here in the United States, who also charge high interest rates. But -- so do you have an explanation that at some point, the government in the PRC will probably become less restrictive once they've cleaned up, in their mind, the whole industry, leaving stronger players there so that they don't have to worry about people losing -- whatever happened last summer when there were people rioting in the streets because they lost all their money because certain operators just closed down. So that when that lifts, which could be a year from now or 2, I mean, wouldn't it seem that an investor would do them themselves well to buy in at multiples that are extremely low now versus where you would have bought into -- I mean, your own stock is down 80% down for Pete's sake. Every -- all the analysts liked your stock when it was \$50, and nobody really likes it down at \$10. Does that ever resonate with you? That's what I don't understand as an investor usually buy when there's kind of blood in the streets. And when everybody likes something, you get a little nervous. So that's my comment on the whole thing. It sounds like your business is pretty sound and that your growth prospects are just capped by governmental regulations that, at some time, might be lifted.

Yu Cong Yirendai Ltd. - Co-CFO

Thanks, Matthew. We, of course, all agree with you that there is a huge market opportunity for the leading platform in China. As you stated that is a significant upside from here. And we have multiple business going on, and then in particular, this business realignment is really getting us set ready for the upcoming opportunities as all the things are -- get cleared up. So clearly we're very excited, and we have a great expectation of our business and the future. In terms of capital market, I think probably not for us to comment. We are a long-term business operator. We look at business for long term. As our Chairman says, "The finance is [marked down without ending]." So we look for very long terms, and we believe that smart investor will realize the value when they see the truth. So I guess, we will leave at that.

Operator

We have our next question from the line of Stephanie Poon from Citibank.

Daphne Poon Citigroup Inc, Research Division - Associate

So will like to first ask about the loan growth outlook. So I'm just looking at the January and February data that -- this shows on the (inaudible) website. So we see the first 2 months of this year, the loan volume looks a bit muted, I guess it's down about 50% year-over-year. So I'm wondering what that is the reason for that. And since you just mentioned actually the funding supply is pretty ample from both retail investors and the institutional funding partners, so does that mean maybe asset quality is still the key constraint for loan growth to further pick up from here? We understand that you previously have been tightening on the credit approval. So I guess, the question is when do you see asset quality like stabilizing? And you can further -- like which will lead loan growth? And second is about also further about the transaction. So I'm wondering that what is the difference between the off-line, the wealth management



business for the targeted company and Yirendai. And if I look at your revenue for the target business, is that mainly coming from -- through the lending business? And I'm just looking at the revenue strictly for the targeted business, and it seems higher than Yirendai for 2018. So I'm wondering like what was the reasons for the difference here. Is it because of the asset quality or maybe the loan pricing?

Yu Cong Yirendai Ltd. - Co-CFO

Sure. Yes. Thanks, Stephanie. In terms of our business, as we mentioned, the top priority is for us to make a stable credit performance. Risk performance is the top priority for us. I think if you look back, in Q3, we have controlled the risk really tight, and then, as you've seen, we're gradually recovering our loan origination volume in Q4. And also that's -- if you look at our early delinquency data, it's already shown improving sign. So from our own operation perspective, we have first tightened the risk policy back in Q3, and now as we have seen a sturdy, improving asset quality from the new originations, we're slowly opening up in terms of our loan origination volume. So of course, we're still under a controlled growth mode. We're not in a rush. The reason being that, as you all know, from the Circular 175, they will see -- continue process of some of the platforms leaving the business, and there is a potential impact in the industry credit performance. So we'll very, very risk conscious in terms of growing our business. So -- and so of course, as we continue to observe improving credit performance and overall recovering credit environment and we all expect our business to recover to the level that we all feel comfortable with. So in terms of the transaction, the part of business that we acquire is online. And then, as you may know, from the news or the website, CreditEase also have a large wealth management operation. That's mainly driven by financial advisers that's targeting high net worth customers. So basically with the investment asset of RMB 30 million and above the business that Yiren Wealth as well as the business we acquire are more targeting the mass affluent, which we define as the investor with AUM from RMB 500,000 to RMB 6 million or a few million. That's how we separate the business operation. And then in terms of the revenue take rate, it's a bit oversimplified. If you just take the revenue divided by the loan volume. As you know that, there is about half of the sales of the volume is actually referred to Yirendai. So the target business was only collecting the commission, which will artificially increase the revenue take rate, if you're just using the simple math. So I think, as we mentioned, by the time we close this transaction, close the historical financials, you will see much more clear in terms of revenue take rate, the cost, the profitability. And as I have mentioned in the previous answer that the customer base is somewhat wider, and then the product is actually quite similar, unsecured consumer loans. And then from the risk return perspective, it actually shows reasonably good profitability from the historical performance of the target in 2018.

Operator

(Operator Instructions) We have our next question from the line of May Yan from UBS.

Meizhi Yan UBS Investment Bank, Research Division - MD & Head of Greater China Financials

Just want to follow up on the target company versus the Yirendai. So if the 2 companies -- sorry, business are similar and previously there were like business referred from the parent to Yirendai, so how was the decision made? What business would be referred or introduced to Yirendai versus they may stay at CreditEase or stay at the parent company? And that's first question. And I guess, previously also asked, what was the time line to finish the transaction?

Yu Cong Yirendai Ltd. - Co-CFO

Sure. Yes. Thanks, May. Yes, historically, the CreditEase lending operation, we have a non-compete agreements. For Yirendai, we target the customer who has credit card and salary income. So when the CreditEase lending operation sees customers fall in that profile, they are actually obligated to refer to us. So historically, we have always had the referral program between the CreditEase inclusive finance as well as Yirendai operation. And that actually contribute to close to 40% or close to 40% to 50% of our business origination volume. Enough for -- if that's what you're asking on the referral side. And then in terms of the time line for the closing. We're expecting to close the transaction mid of this year, when the audited financial statements are available and if that -- several other preconditions met that we expect to close the transaction soon. And at the same time, we believe that the synergy will be great. The operational level, we already see and expect significant step-up in terms of our business operational efficiencies going forward.

Meizhi Yan UBS Investment Bank, Research Division - MD & Head of Greater China Financials

Okay. I guess, it's just for us, there is very limited data given on the target. So how should we value? Or how should we think about it? Whether it's a favor for Yirendai? Or is it something more favor for the parent?



Yu Cong Yirendai Ltd. - Co-CFO

I think from the business operation perspective, you can consider the majority of the business has a business model that's similar to Yirendai. And then I think from the business operation scale and the capacity as well as the revenue number that we provided, I think it should give you a good sense of how the 2 business compare. And then in terms of the transaction, the valuation was actually done based on the historical performance of the target as well as the potential business operation and probability. These -- this was actually confirmed by an independent third-party adviser and then was approved fully by our Audit Committee and Independent Board Members. That we believe is a very fair transaction for both sides.

Operator

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

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