

**X Financial (XYF)**  
**First Quarter 2020 Earnings Conference Call**  
**June 30, 2020, 08:00 AM ET**

Executives:

Tanya Wen, Investor Relations  
Simon Cheng, President  
Kevin Zhang, Chief Financial Officer

**Presentation**

Operator: Hello, and welcome to the X Financial first quarter 2020 earnings conference call. All participants will be in a listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note, this event is being recorded.

I would now like to turn the conference over to Tanya Wen. Please go ahead.

Tanya Wen: Thank you, operator. Hello, everyone, and thank you for joining us today. The Company's results were released earlier today and are available on the Company's IR website at [ir.xiaoyingroup.com](http://ir.xiaoyingroup.com).

On the call today from X Financial are Mr. Simon Cheng, President, and Mr. Kevin Zhang, Chief Financial Officer. Mr. Cheng will give a brief overview of the Company's business operations and highlights, followed by Mr. Zhang, who will go through the financials and the guidance. They are all available to answer your questions during the Q&A session.

I remind you that this call may contain forward-looking statements under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Such [statements are based on management's current] expectations and the current market and operating conditions, and they relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the Company's control, which may cause the Company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties and factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events, or otherwise, except as required under law.

It is now my pleasure to introduce Mr. Simon Cheng. Mr. Cheng, please go ahead.

Simon Cheng: Hello, everyone. Despite the challenges created by the Coronavirus Disease, COVID-19, adversely impacting our operating environment, we made meaningful progress in

expanding institutional funding for all new loan products originated on our platform during the quarter. Institutional funding accounted for 81.7% of the loans facilitated in the first quarter, an increase from 50.2% in the previous quarter. We rapidly built upon this with institutional funding which now accounting for 100% of loans facilitated through our platform.

As of March 31, 2020, the total credit lines provided by our institutional partners expanded to RMB58.6 billion from RMB46.7 billion as of December 31, 2019. Given the current uncertainties in the market, this further proves our asset quality and risk management capabilities continue to be well recognized by our institutional partners despite the impact from the pandemic.

We remain in active negotiations with funding partners to further decrease our funding costs and further expand our funding partners, which could bring down funding costs going forward. At present, we have ample funding resources to meet growing demand as consumer sentiment improves.

We continue to adopt a strategic and disciplined approach to our risk management, and have implemented stricter criteria when assessing borrowers, because we believe it is even more important now for the sustainability of our business to strengthening our ability to generate stronger results when the market is expected to rebound during the second half of 2020.

An adjustment period is therefore expected, and is reflected in the lower number of active borrowers during the quarter. The number of active borrowers this quarter was 428,366. This is a decrease of 29.7% from 609,368 in the fourth quarter of 2019.

Over the past few quarters, we continued to ramp up our technology-driven risk infrastructure and strengthened customer acquisition to successfully manage a rise in the delinquency rates during the peak of the pandemic. While restrictions put in place to contain the pandemic continue to ease and life returns to normal, we have seen an improvement in delinquency rates from April 2020. We also saw a significant rebound both in loan facilitation amount and numbers of active borrowers, which strengthens our confidence in the gradual recovery taking place in China.

Overall, the evolving health crisis and growing impact from COVID-19 have been weighing heavily on consumer sentiment in China, which is reflected in the performance of Yaoqianhua and Xiaoying Online Mall during the quarter.

Also, in order to control the impact of COVID-19, we have taken a more stringent risk policy. Therefore, the GMV of Xiaoying Online Mall declined 62.2% from the fourth quarter of 2019 to RMB60.8 million. Despite of this, the number of active users of Yaoqianhua reached around 463,000 as of March 31, 2020, representing an increase from roughly 408,000 as of December 31, 2019.

Transaction volumes of Yaoqianhua only declined slightly to RMB2,192 million from RMB2,204 million in last quarter. Yaoqianhua's outstanding loan balance increased to RMB1,801 million as of March 31, 2020 from RMB1,503 million as of December 31, 2019. Now it has an approved cumulative credit line of RMB11 billion with a credit utilization rate of around 28% as of March 31, 2020.

We believe the pandemic has significantly affected consumer behavior, but in doing so, also creates many more new opportunities for us to drive further growth.

In addition, China's central and local governments have recently been rolling out a series of policies to improve business. As we continue to evolve from a pure financial services provider to a more comprehensive business services provider, we are confident we are well positioned to not just survive this challenging environment, and but thrive when the market rebounds.

Now I will take the call to Kevin, who will go through our financials.

Kevin Zhang: Thank you, Simon, and hello, everybody. The first quarter 2020 was a challenging quarter. The total loan facilitation amount was RMB6,823 million, representing a decline compared with our previously-announced guidance.

We are taking decisive action to streamline expenses against weaker top line, but remain confident that demand for our highly-customized personal finance solutions will once again strengthen as the recovery from the pandemic unfolds.

Our revenue and net income decreased both quarter-over-quarter and year-over-year. Even though the total number of loans facilitated of Xiaoying Term Loan in the first quarter decreased year-over-year, the average loan amount per transaction was RMB15,700, an increase of 37.7% from the same period of 2019 and an increase of 7.8% sequentially.

The average consumption amount per user of Xiaoying Revolving Loan also increased 3.8% from the fourth quarter of 2019 to RMB8,600.

We are also pleased to see total cumulative registered users on the platform reach to 43 million as of March 31, 2020, demonstrating the continued value that we are able to offer borrowers, even during such challenging market conditions.

The percentage of loan products that we facilitated that were covered by ZhongAn Insurance decreased further to 67.7% during the quarter, as we continue to reduce our insurance coverage rate to lower our customer borrowing costs. In its place, we have expanded our partnerships with additional third-party, high-quality financial guarantee companies to strengthen trust in the quality of underlying assets and risk management systems.

We are squarely focused on our mission to create more value for our customers and shareholders. After successfully adapting to the regulatory changes in 2019, we are now navigating the ongoing impact of health crisis is having on the industry in 2020. While regulatory and capital requirements continue to put pressure on the sustainability of the sector this year, we remain in full compliance with current regulations, and are confident in our ability to stand out among our peers by capitalizing on market consolidation and increasing protection for our investors. We will continue to prioritize operational efficiency in driving long-term value for our shareholders.

We believe that the worst phase was already past. April is a turning month for the year, and we found our lower currency rate and that our recovery in loan volume in the second quarter.

We also see positive progress in regulations. In May 2020, CBIRC issued a regulation on commercial bank's online lending limits. This significantly reduced the uncertainty of co-lending model, which was our current key business model. First of all, we are more confident in that we are close to get a nationwide online macro loan license. And we believe that X Financial would be the first batch of the companies in Shenzhen to get a macro loan license.

Now, I would like briefly financial performance. I will not go through other detailed lines. You may refer to more details in our earnings release.

Net revenues decreased by 31.9% to RMB529 million from RMB776 million in the same period of 2019, primarily due to a decrease in transaction volumes as a more stringent risk policy been taken to address COVID-19 impact.

Our originating and servicing expenses increased by 26.2% to RMB425 million from RMB336 million in the same period of 2019, primarily due to the following factors. First, an increase in customer acquisition cost for the revolving credit product, Yaoqianhua; and second, an increase in interest expense related to loans facilitated through the consolidated trusts.

G&A expenses increased by 24% to RMB69.9 million from RMB56 million in the same period of 2019, primarily due to an increase in management fee paid to third-party trust companies compared with the same period of 2019.

Sales and marketing expenses decreased by 61.5% to RMB11.8 million from RMB30.7 million in the same period of 2019, primarily due to a reduction in promotional and advertising expenses since the outbreak of COVID-19.

Provision for contingent guarantee liabilities was RMB17.9 million, primarily attributable to the increase caused by the pandemic, in estimated default rate of the loans subject to guarantee liabilities facilitated in prior periods.

Provision for accounts receivable and contract assets increased by 23.7% to RMB82.1 million from RMB66.4 million in the same period of 2019, primarily due to a combined effect of (a) the new current expected credit loss model that took into account the deterioration in the economic outlook caused by the COVID-19 pandemic; and (b), an increase in the estimated default rates since the COVID-19 outbreak.

Provision for loans receivable was RMB42.8 million, compared with RMB7.5 million in the same period of 2019, primarily due to the increase of expected credit loss for revolving loan product when compared with the first quarter of 2019.

Non-GAAP adjusted net loss attributable to X Financial shareholders was RMB159.9 million, compared with non-GAAP adjusted net income attributable to X Financial shareholders of RMB251.2 million in the same period of 2019.

Non-GAAP adjusted net loss per basic and diluted ADS were RMB1 and RMB 1 respectively, compared with non-GAAP adjusted net income per basic and diluted ADS of RMB1.64 and RMB1.56 respectively in the same period of 2019.

As the Company continues to assess the impact of the COVID-19 outbreak and market indicators around the recovery in the first half of 2020, it is anticipated that the Company's total loan facilitation amount of the second quarter of 2020 will also be negatively impacted. And the Company expects a second quarter loss with drop in revenue. The Company plans to provide a business update in the second quarter 2020 earnings release.

This forecast reflects the Company's current and preliminary views, which are subject to change.

Now, this concludes our prepared remarks, and we'd like to open the call to questions. Operator, please.

## **Questions and Answers**

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions).

Showing no questions at this time, this concludes our question-and-answer session. I would like to turn the conference back over to Tanya Wen for any closing remarks.

Tanya Wen: Okay. Thank you, everyone, for joining us on the call today. If you haven't got a chance to raise your questions, we will be pleased to answer them through follow-up contacts. We look forward to speaking with you again in the near future. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.