

**X Financial (XYF)**  
**Q3 2021 Earnings Conference Call**  
**November 23, 2021, 07:00 AM ET**

Executives:

Tanya Wen, Investor Relations  
Kent Li, President  
Frank Fuya Zheng, Chief Financial Officer

Analysts

Boyd Hines, Equinox Capital

**Presentation**

Operator: Hello, and welcome to the X Financial Third Quarter 2021 Earnings Conference Call. (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.xiaoyinggroup.com](http://ir.xiaoyinggroup.com).

On the call today from X Financial are Mr. Kent Li, President, and Mr. Frank Fuya Zheng, Chief Financial Officer. Mr. Li will give a brief overview of the Company's business operations and highlights, followed by Mr. Zheng, who will go through the financials. 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 the Company's current expectations and current market and operating conditions, and 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. Kent Li. Mr. Li, please go ahead.

Kent Li: Thank you. Hello, everyone. We are very pleased with our strategic execution in the third quarter. Both our loan facilitation amount and net income were in line with our guidance. The total loan facilitation amount hit a new high for the second straight quarter. At the same time, the increase in our net income has demonstrated our ability to enhance profitability, boost operational efficiency and reduce costs.

During the third quarter, we further adjusted our pricing structure to comply with the 24% Internal Rate of Return, IRR, regulatory cap. We believe this is the government's initiative to support the real economy and stimulate healthy growth for SMEs and private consumption. The proportion of our loan facilitation amount subject to the 24% IRR cap improved to approximately 30% of our total loan facilitation amount in September, and we expect it to grow to between 40% and 50% by the end of this year. Beyond the regulatory compliance requirement, we believe that this initiative can help us attract more quality borrowers as the demand for personal financing solutions increases.

During the quarter, our total loan facilitation amount reached RMB15.1 billion, an increase of 87.9% year-over-year and 17.5% quarter-over-quarter. This was mainly driven by the strong growth in the loan facilitation amount of Xiaoying Card Loan, which increased 120.3% year-over-year and 17.5% quarter-over-quarter. As of September 30, 2021, the total outstanding loan balance of Xiaoying Card Loan reached RMB24.4 billion, an increase of 19.9% compared with the previous quarter.

In the fourth quarter, there will be a moderate decline in our loan volume due to our institutional funding partners' year-end outstanding loan balance requirements.

We continued our efforts to improve our risk management capabilities. As of September 30, 2021, the delinquency rate for all outstanding loans that are past due for 31 to 60 days was 0.96%, compared with 0.77% as of June 30, 2021 and 1.06% as of September 30, 2020. Despite the quarter-over-quarter fluctuation, our asset quality is still within its best historical range in our operating history.

According to a new regulation, loan facilitation platforms are restricted from submitting credit assessment-related personal data directly to financial institutions, and such data transfer must be conducted through a licensed credit agency. In response, we have been working closely with Baihang Credit, the second-largest licensed individual credit bureau in China, in addition to the credit bureau of the People's Bank of China, PBOC, to execute a plan to comply with the new regulation.

We have noticed that 14 large companies on the regulator's top list for the rectification are either working on a plan or waiting for approval. We are getting ready and will fully comply with the new regulation. We expect minimal change to our daily operational activities and cost structure.

During the quarter, we continued our efforts to diversify our service offerings. Our microcredit business officially commenced operation in the third quarter. We also made solid progress in our services to micro and small businesses and self-employed individuals, which are important target groups for our future growth. We have certain favorable loan policies for this group, and are adjusting and testing our systems to speed up the qualification and validation processes. We

believe we are on track towards our goals and all these efforts are bearing fruit, and helping us to drive long-term sustainable growth in a fiercely competitive and strongly-regulated industry.

Now I will turn the call to Frank, who will go through our financials.

Frank Fuya Zheng: Thank you, Kent, and hello, everyone. We delivered another set of robust financial results for the third quarter. In line with our expectation, total net revenue increased 72.3% year-over-year to RMB964.4 million. Our bottom line also saw strong growth with a Non-GAAP adjusted net income of RMB277 million, compared with a Non-GAAP adjusted net loss of RMB111.7 million in the same period of last year.

Moving ahead, we will identify and acquire more high-quality borrowers to adapt to our strategy in response to the 24% IRR cap and improve asset quality by leveraging our evolving data-driven and technology-empowered credit analysis capabilities. We will also deepen cooperation with our institutional funding partners to better serve borrowers' needs. Our proven track record demonstrates that we are capable of navigating through regulatory and macroeconomic challenges. We believe we are well-positioned to capture opportunities ahead and bring more valuable returns to our shareholders.

Now I'd like to brief some financial performance for the third quarter. Please note that all numbers stated are in RMB.

Total net revenue in the third quarter of 2021 increased by 72.3% to RMB964.4 million from RMB559.8 million in the same period of 2020, primarily due to an increase in the total loan facilitation amount of Xiaoying Card Loan this quarter compared with the same period of 2020.

Origination and servicing expenses in the third quarter of 2021 decreased by about 13.8% to RMB483.8 million from RMB561.2 million in the same period of 2020, primarily due to the decline in collection expenses resulting from the decrease in delinquency rates and a decrease in interest expenses related to a decline in the average loan balances held by the Company, and partially offset by the increase in commission fees resulting from the increased total loan facilitation amount this quarter compared with the same period of 2020.

Provision for the accounts receivable and contract assets in the third quarter was RMB15.2 million, compared with RMB24.3 million in the same period of 2020, primarily due to a decrease in the average estimated default rate compared with the same period of 2020, and partially offset by an increase in accounts receivable from facilitation services as a result of increase in total loan facilitation amount in the third quarter of 2021.

Provision for the loans receivable in the third quarter of 2021 was RMB10.2 million, compared with RMB58.1 million in the same period of 2020, primarily due to a decrease in the average estimated default rate compared with the same period of 2020.

Income from operations in the third quarter of 2021 was RMB410.6 million, compared with loss from operation of RMB101.4 million in the same period of 2020.

Net income attributable to X Financial shareholders in the third quarter of 2021 was RMB279.9 million, compared with net loss attributable to X Financial shareholders of RMB113 million in the same period of 2020.

Non-GAAP adjusted net income attributable to X Financial shareholders in the third quarter of 2021 was RMB277 million, compared with Non-GAAP adjusted net loss attributable to X Financial shareholders of RMB111.7 million in the same period of 2020.

Cash and cash equivalents was RMB971.8 million as of September 30, 2021, compared with RMB1,183.9 million as of June 30, 2021.

Now for our business outlook. We expect total loan facilitation amount for the fourth quarter of 2021 to be between RMB12 billion and RMB13.2 billion, which makes total loan facilitation amount for 2021 to be between RMB50.8 billion and RMB52 billion.

We expect Non-GAAP adjusted net income attributable to X Financial shareholders for the fourth quarter of 2021 to be no less than RMB240 million, which makes Non-GAAP adjusted net income attributable to X Financial shareholders for 2021 to be no less than RMB971 million. This forecast reflects our current and preliminary views, which are subject to changes.

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

## **Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions). The first question is from Boyd Hines of Equinox Capital.

Boyd Hines: I have 3 questions I'd like to start out with. Could you discuss, and give us a little bit more color about why your institutional funding partners are reducing their loan balance requirements at the year-end? And then talk about your cost of capital in the quarter.

And then lastly, please address capital allocation and how you're thinking about share buybacks, and perhaps any management purchases of company stocks.

Frank Fuya Zheng: Okay. I think it's usually the volume for the fourth quarter compared with Q3 is about flat or a little bit down. That's the normal pattern for the past few years, except for the last year. Last year is one exception, the fourth quarter still grew. I think we are in general just back to the normal pattern regarding to this Q3 and Q4 volume.

For those funding partners working with us, they have some requirement. Most of them are doing fine, they finished, I think, their KPI in quarters whenever, so they just have some balance requirement. For deep reason, I don't know that. So if you compare it with our peers, they are in

general probably in the same pattern, the pattern causes the Q4 volume will be equal or less than Q3, that's what I see.

I think the cost of capital, I believe what you mean is the funding cost or the cost of funds we get from our funding partners. We're around somewhere between 8% to 9%, which is a little bit higher than our peers, about 1.5% higher than that. And as we moved on, we basically started from the third quarter of this year, we started doing 24% IRR loans. And over time, as we accumulate loans about at least 6 months down the road, we can talk to our funding partners regarding our customer risk profile so forth and so on. So we believe we will have a lower funding cost sometime starting from middle of next year. And we will have maybe around 1% going down from here in the next year.

Regarding to the shareholder stock buyback or dividend policy, we had some loss last year. This year, we earned some money, and we have accumulated some capital. And I know almost all our peers, they have some share buyback plan or dividend policy in place. We definitely will consider to do that maybe sometime next year. But I must be very frank with you, this kind of buyback plan and dividends, at least for now, does not help with their valuation much.

But for our stock, it's totally quite a different story. We are basically priced at almost we'll be bankrupt in few years' time, this kind of valuation. So the market maybe knows something we don't know, so it's kind of frustrated for us. But we do not necessarily believe that a dividend policy or buyback plan will change that very quickly or in dramatic fashion. But as I said, we will still definitely consider to do that at some time next year.

Boyd Hines: Okay. Thank you. Can you address, or just discuss, any kind of high-level outlook for fiscal year 2022? It sounds like you're expecting continued growth in your loan originations. But anything you could sort of say to talk about what you think about next fiscal year, that would be helpful.

Frank Fuya Zheng: 2021 is a great year for our industry. It's quite mercurial for the last few years, and a lot of the regulation coming down. We think next year, from regulatory front, it will be still relatively calm, but then we still have things to do, like pursuing IRR 24% requirement and so forth and so on. And also you need to have new relationship with your funding partners so forth and so on.

But we thin, at a very high level, next year will be okay, and we'll be okay. Still, we'll have growth but maybe not as fantastic as this year. That's how I feel, but I think all the players, when they reach the Q4, they have more clarity and more color regarding the next year. Thank you.

Boyd Hine: Thank you.

Operator: (Operator Instructions). There are no more questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to Tanya Wen for closing remarks.

Tanya Wen: 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.