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BITA - Q4 2018 Bitauto Holdings Ltd Earnings Call

EVENT DATE/TIME: MARCH 19, 2019 / 12:15PM GMT



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## PRESENTATION

### Operator

Hello, and thank you for standing by for Bitauto's Fourth Quarter and Fiscal Year 2018 Earnings Conference Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time. I would like to turn the meeting over to your host for today's conference. Please go ahead.

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### Unidentified Company Representative

Thank you. Welcome to Bitauto's Fourth Quarter and Fiscal Year 2018 Earnings Conference Call. Speakers from the company today are Mr. Andy Zhang, CEO; Mr. Xiakoe Liu, COO; and Mr. Ming Xu, CFO. After management's prepared remarks, Andy, Xiakoe and Ming will be available to answer your questions. In addition, Catherine Liu, CFO of Yixin, will be available to answer your questions related to Yixin.

Before we proceed, please note that discussions today will contain forward-looking statements made under the safe harbor provisions of U.S. Private Securities and Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from our current expectations. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the SEC, including registration statement on Form F-1. Bitauto does not undertake any obligations to update any forward-looking statement, except as required under applicable law. This call will include discussions of certain unaudited non-GAAP financial measures. Please refer to our earnings release, which was issued earlier today for reconciliations of these unaudited non-GAAP measures to the most directly comparable unaudited GAAP measures.

As a reminder, this conference is being recorded. In addition, a live and archived webcast of the conference will be available on our website.

I will now turn the call over to Andy Zhang, CEO of Bitauto.

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### Andy Xuan Zhang - Bitauto Holdings Limited - CEO & Director

Hello, everyone, and thank you for joining us for our fourth quarter and fiscal year 2018 earnings conference call. We're pleased to conclude 2018 with robust growth across all 3 of our business lines. Amid softer passenger vehicle sales in China during the second half of the year, our full year revenues reached RMB 10.58 billion, representing year-over-year growth of 31%, the first auto vertical company in China to pass RMB 10 billion revenue milestone.



In our advertising and subscription business, we achieved a revenue of RMB 1.16 billion for the fourth quarter, representing a 15.2% year-over-year increase from the same period in 2017. Our revenue from advertising and the subscription business for the full year 2018 reached RMB 4.07 billion, representing 13.5% growth.

As part of our efforts to strengthen our media business, we introduced our upgraded Bitauto media app in October 2018. Since then, the app has seen significant growth in traffic, daily sales leads generated and the user time spent. According to Questmobile, daily active users of Bitauto media app in February 2019 were up by 135% as compared to October 2018.

In our advertising business, we continued to see new energy vehicle emerging as a growth driver. Advertising revenue from new energy vehicle manufacturers, although still relatively small in absolute terms, grew 19x year-over-year in the fourth quarter and 8x for the full year 2018. We anticipate that this robust growth momentum will continue in 2019.

In our subscription business, we further improved ARPU in the fourth quarter, thanks to -- mainly to the migration of more members to premium service packages, with the penetration of premium packages reaching 74%, up from 63% in the corresponding period last year.

We also made progress in building out our independent dealer network and covered 22,000 independent dealers, through which we serve -- we service more than 35,000 salespersons in the fourth quarter of 2018. As of end of February 2019, we have developed over 1,000 paying customers among China's independent directors (sic) [dealers].

In our transaction services business, Yixin delivered the steady results as its services continue to gain traction in the market. Yixin facilitated approximately 143,000 financed automobile transactions during the quarter with loan facilitation services accounting for 60% of Yixin's total financed automobile transactions, up significantly from 24% in the previous quarter. We expect Yixin's loan facilitation services to continue to grow in the following quarters.

Looking ahead, although new passenger vehicle sales remain soft at the beginning of 2019, we're cautiously optimistic about the outlook of China's automobile industry this year. While in January, wholesale figures of the new passenger vehicles were down 18% year-over-year, retail sales figures for new passenger vehicles were up 23% year-over-year, signaling the automobile dealers have been clearing up their inventories. We expect the new passenger vehicle wholesale market in China to stabilize and gradually recover throughout the course of the year.

As our content and services become increasingly attractive to car buyers, our marketing solutions are also becoming increasingly effective for our OEM and our dealer customers with higher measurable ROI. We believe we'll continue to gain wallet share against traditional media, which was down 9% year-over-year overall in January according to CTR Market Research.

As we remain dedicated to executing on our core business strategies, we are confident in building Bitauto into China's top online auto media and transaction services platform.

First, we will continue to improve content and user experience on the upgraded Bitauto media app to further solidify our leading industry position. With a wider range of engaging, user-centric content, we expect to see continuous increase in traffic, user time spent and a number of high-quality sales leads generated.

Our Bitauto media app's ability to fulfill user needs across the entire automobile consumption cycle, including automobile research, purchasing, ownership and the place -- replacement, is driving popularity among automobile consumers. We believe this will be a key factor in helping Bitauto to gain further share this year. Also since over 70% of the users log on before they browse our media app's content, we're able to optimize our user profile database, improve the quality of the sales leads generated and increase the percentage of organically generated sales leads. We believe our upgraded media app will continue to enhance the value of Bitauto brand and to help reduce our customer acquisition costs going forward.

Second, we will drive incremental revenue growth in our advertising business through data products that provide automakers with integrated results-driven marketing solutions. Building upon our extensive industry knowledge and AI and the Big Data analytical capabilities, our data products will allow automakers to rollout roughly targeted -- to rollout highly targeted advertising content and marketing campaigns to achieve higher

conversion results. For example, our AI marketing engine is able to adjust content distributed to specific users based on analysis of their browsing history with precision down to the second. This will greatly enhance the effectiveness of advertising -- advertisements on our media platforms, improving user experience and increasing user stickiness. We target to rollout and optimize our data products throughout the course of 2019.

Third, we will further develop our independent dealer network and expect to start monetization this year. As our subscription products already enjoy a high penetration rate in the new car 4S dealer market, we're looking to further drive subscription revenue growth by offering tailored solutions for independent dealers, a vast and under-tapped market segment in China.

Fourth, Yixin will remain focused on rapidly expanding its loan facilitation service business, which is highly scalable and features a more attractive margin profile than its self-operated financing business. We believe that Yixin is well positioned to gain market share in the auto finance industry.

With that, I'll turn the call over to Ming to go over the financials.

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**Ming Xu** - *Bitauto Holdings Limited - CFO*

Thank you, Andy. Good evening, everyone. Despite the lackluster industry environment since the second half of 2018, we closed this year -- we closed the year of 2018 with solid top line growth in fourth quarter, which exceeded the high end of the company's guidance and market consensus, thanks to strong results across our advertising and subscription, as well as transaction services businesses.

Yixin saw healthy top line results driven by higher accumulated volume in its self-operated business as well as rapid growth in its loan facilitation business. While we incurred additional marketing expense during the quarter due to marketing campaigns to support our upgraded media app, we still saw margin expansion within our advertising and subscription business for the full year. Looking forward with these factors behind us, we are optimistic about our margin outlook as we continue to benefit from operating leverage and cost optimization measures, and as Yixin enhances profitability through accelerating growth in the loan facilitation business.

Now let's look at our Q4 and full year 2018 financial highlights before moving to Q&A. For Q4 2018, Bitauto reported revenue of RMB 3.12 billion, USD 453.7 million, for the fourth quarter of 2018, representing a 25.2% of growth from the corresponding period in 2017. The increase in revenue was attributable to the growth of the company's transaction services business, advertising and subscription business and digital marketing solutions business.

Revenue from the advertising and subscription business for the fourth quarter of 2018 was RMB 1.16 billion, USD 169.1 million, representing a 15.2% increase from RMB 1.01 billion, USD 146.8 million, in the corresponding period in 2017. Revenue from the transaction services business for the fourth quarter of 2018 was RMB 1.56 billion, USD 227.3 million, representing a 32.5% increase from RMB 1.18 billion, USD 171.5 million, in the corresponding period in 2017, mainly attributable to the revenue growth of self-operated financing business and loan facilitation services. Revenue from the digital marketing solutions business for the fourth quarter of 2018 was RMB 393.7 million, USD 57.3 million, representing a 29.7% increase from RMB 303.6 million, USD 44.2 million, in the corresponding period in 2017.

Cost of revenue for the fourth quarter of 2018 was RMB 1.43 billion, USD 207.7 million, representing a year-over-year increase of 52% from the corresponding period in 2017. The increase was primarily due to increased funding costs related with Yixin's self-operated financing business, increased commissions associated with Yixin's loan facilitation services and increased costs associated with sales of automobiles. Cost of revenue as a percentage of revenue in the fourth quarter of 2018 was 45.8% compared to 37.7% in the corresponding period in 2017.

Gross profit for the fourth quarter of 2018 was RMB 1.69 billion, USD 248 million -- USD 246 million, representing an 8.9% increase year-over-year.

Selling and administrative expenses were RMB 1.94 billion, USD 282.5 million, for the fourth quarter of 2018, representing a 7% increase year-over-year. Product development expenses were RMB 133.4 million, USD 19.4 million, for the fourth quarter of 2018, representing an 18.2% decrease year-over-year.

Share-based compensation, which was allocated to related operating expenses line items, was RMB 421.6 million, USD 61.3 million, in the fourth quarter of 2018 compared to RMB 527.7 million, USD 76.8 million, in the corresponding period of 2017. The decrease was mainly due to the options granted by Yixin to its employees in the second half of 2017, which created a higher comparison base.

Non-GAAP income from operations in the fourth quarter of 2018 was RMB 265.4 million, USD 38.6 million, a 184% increase year-over-year.

Net loss in the fourth quarter of 2018 was RMB 398.3 million, USD 57.9 million, compared to a net loss of RMB 803.4 million, USD 116.8 million, in the corresponding period of 2017. Net loss attributable to Bitauto in the first -- fourth quarter of 2018 was RMB 416.7 million, USD 60.6 million.

Non-GAAP net income in the fourth quarter of 2018 was RMB 199 million, USD 28.9 million, an increase of 101% year-over-year. Non-GAAP net income attributable to Bitauto in the fourth quarter of 2018 was RMB 118.6 million, USD 17.2 million.

Basic and diluted net loss per ADS, which represents 1 ordinary share, in the fourth quarter of 2018 amounted to RMB 5.38, USD 0.78; and RMB 5.38, USD 0.78, respectively, taking into consideration of the accretion of redeemable noncontrolling interest amounting to RMB 7.1 million, USD 1 million.

Non-GAAP basic and diluted net income per ADS in the fourth quarter of 2018 amounted to RMB 1.58, USD 0.23; and RMB 1.45, USD 0.21, respectively, taking into consideration of the accretion to the non -- redeemable and noncontrolling interest amounting to RMB 7.1 million, USD 1 million.

As of December 31, 2018, the company had cash and cash equivalents and restricted cash of RMB 9.37 billion, USD 1.36 billion. Cash provided by operating activities, cash provided by investing activities and cash used in financing activities in the fourth quarter of 2018 were RMB 489.2 million, USD 71.2 million; RMB 1.2 billion (sic) [RMB 1.4 billion], USD 203.7 million; and RMB 1.49 billion, USD 217.2 million, respectively.

I will only go through a few selected highlights for the fiscal year of 2018 as we've basically covered the details in our earnings release.

Revenue in 2018 was RMB 10.58 billion, USD 1.54 billion, representing a 31% increase year-over-year. The increase in revenue was attributable to the growth of the company's transaction services business, advertising and subscription and digital marketing solutions business.

Revenue from the advertising and subscription business in 2018 was RMB 4.07 billion, USD 592.6 million, representing a 13.5% increase from RMB 3.59 billion, USD 521.9 million, in 2017. In particular, our core advertising and subscription business, which excludes contribution from subsidiaries in which we hold controlling interests, grew 17.9% year-over-year for the full year.

Revenue from the transaction service business in 2018 was RMB 5.37 billion, USD 781.2 million, representing a 49.8% increase year-over-year from 2017, mainly attributable to the revenue growth of self-operated financing business and loan facilitation businesses. Revenue from the digital marketing solutions business in 2018 -- 2017 was RMB 1.13 billion, USD 165 million, representing a 25.7% increase year-over-year.

Gross profit in 2018 was RMB 6.34 billion, USD 921.4 million, representing a 16.7% increase from 2017.

Non-GAAP income from operations in 2018 were RMB 1.11 billion, USD 161.6 million, a 26.7% increase from 2017. Non-GAAP net income in 2018 was RMB 934.7 million, USD 135.9 million, a 30.1% increase year-over-year. Non-GAAP net income attributable to Bitauto in 2018 was RMB 709 -- RMB 708.9 million, USD 103.1 million. Non-GAAP basic and diluted net income per ADS in 2018 amounted to RMB 9.62, USD 1.4, and RMB 8.9, USD 1.29, respectively, taking consideration of the accretion to redeemable noncontrolling interests amounting to RMB 28.1 million, USD 4.1 million.

Cash provided by operating activities, cash used in investing activities and the cash provided by financing opportunities -- activities in 2018 were RMB 678 million, USD 98.6 million; RMB 4.47 billion (sic) [RMB 7.47 billion], USD 1.09 billion; and RMB 5.01 billion, USD 728.8 million, respectively.

The number of employees totaled 8,316 as of December 31, 2018, including employees of entities of in which Bitauto has acquired and holds controlling interests. This represents a 2.83% year-over-year decrease, primarily due to the decreased headcount in Yixin, following a strategic deemphasis of used automobile transaction facilitation services.



In addition, given Yixin's scale and the significance to Bitauto, I would also like to share with you some of Yixin's operating and financing -- financial highlights for Q4 and full year of 2018.

In fourth quarter of 2018, Yixin facilitated approximately 143,000 financed automobile transactions, with the aggregate auto financing amount of approximately RMB 11.3 billion, USD 1.64 billion, through its loan facilitation services and self-operated financing business. In particular, Yixin's third-party loan facilitation transactions continued to gain momentum, contributing to 60% of total financed automobile transaction volume in the fourth quarter, up from 24% in the previous quarter. In the fourth quarter of 2018, through its loan facilitation services for partner banks, Yixin facilitated approximate 86,000 financed automobile transactions, a year-over-year increase of approximately 11x from the same period of 2017.

In the fourth quarter of 2018, under U.S. GAAP, Yixin's total revenue reached 1 -- RMB 1.59 billion, USD 231.3 million; gross profit reached RMB 614.7 million, USD 89.4 million; net income was RMB 17.3 million, USD 2.5 million; and non-GAAP net income was RMB 119.2 million, USD 17.3 million.

Yixin's non-GAAP net income is calculated as net income excluding share-based compensation of RMB 67.5 million, USD 9.8 million; amortization of intangible assets resulting from asset and business acquisition of RMB 34.4 million, USD 5 million; and offset by tax effect of RMB 0.04 million, USD 0.01 million.

In the fourth quarter of 2018, Yixin entered into certain transactions with other subsidiaries of Bitauto, which have been eliminated upon Bitauto's consolidation of Yixin. The revenue that Yixin recorded for the services provided to those subsidiaries of Bitauto amounted to RMB 11.4 million, USD 1.7 million, in the fourth quarter.

For the full year ended December 31, 2018, Yixin total -- Yixin's total financed automobile transactions increased by 21% year-over-year to approximately 484,000. The aggregate auto financing amount facilitated through its loan facilitation services and self-operated financing business was approximately RMB 38 billion, USD 5.53 billion, representing a 26% year-over-year increase. The accumulated total financed automobile transactions reached 1.1 million as of December 31, 2018.

In 2018, Yixin cooperated with 6 banks and facilitated approximately 144,000 financed automobile transactions through its loan facilitation services, representing a 15x, 15 times, increase year-over-year and approximately 30% of total financed automobile transactions during the entire year of 2018.

For the year ended December 31, 2018, under U.S. GAAP, Yixin's total revenue was RMB 5.53 billion, USD 804.7 million; gross profit reached RMB 2.48 billion, USD 360 million; net loss was RMB 182.9 million, USD 26.6 million; and non-GAAP net income was RMB 328 million, USD 47.7 million.

Yixin's non-GAAP net income is calculated as net loss excluding share-based compensation of RMB 348.8 million, USD 50.7 million; amortization of intangible assets resulting from asset and business acquisitions of RMB 163.1 million, USD 23.7 million; and offset by a tax effect of RMB 1 million, USD 0.1 million.

In 2018, Yixin entered into certain transactions with other subsidiaries of Bitauto, which were eliminated upon Bitauto's consolidation of Yixin. The revenue that Yixin recorded for the services provided to those subsidiaries of Bitauto amounted to RMB 96 million, USD 14 million.

As of December 31, 2018, Yixin has cash and cash equivalent and restricted cash of RMB 5.65 billion, USD 822.4 million, total finance receivable of RMB 36.98 billion, USD 5.38 billion, and total borrowing, including bank borrowing and asset-backed security debt of RMB 30.2 billion, USD 4.39 billion.

As of December 31, 2018, 90 days plus, including 180 days-plus, past due ratio and 180 days-plus past due ratio for all the financed transaction, including the third-party loan facilitation, were 0.92% and 0.42%, respectively. 90 days plus, including 180 days plus past due ratio, and 180 days plus past due ratio for Yixin's self-operated financing business were 1.1% and 0.52%, respectively.

Under U.S. GAAP, Yixin's provision for the credit losses of finance receivables in the fourth quarter of 2018 was RMB 80.8 million, USD 11.8 million, and for the year ended -- for the year ended December 31, 2018 was RMB 5.19 million -- RMB 519 million, USD 75.5 million. The balance of provision for credit loss of finance receivables was RMB 350.9 million -- RMB 350.8 million, USD 51 million, as of December 31, 2018.

With that, I will turn to guidance for the first quarter of 2019. Bitauto currently expects to generate revenue in the range of RMB 2.47 billion, USD 359.2 million, to [RMB 2.52 billion], (corrected by company after the call) USD 366.5 million, in first quarter of 2019, representing a 13.8% to 16.6 -- 16.1% increase from the corresponding period in 2018. This forecast takes into consideration of seasonality factors in Bitauto's business and excludes any impact of foreign currency expansion -- fluctuation. It reflects management's current and preliminary review, which is subject to change.

Let's now start the Q&A session. Andy, myself, Xiaoke and Yixin's CFO, Catherine Liu, are available to take your questions. Operator, please go ahead.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Binbin Ding with JP Morgan.

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### Binbin Ding - JP Morgan Chase & Co, Research Division - Analyst

My question is regarding your new version of Bitauto mobile app. We were seeing a pretty nice trend in terms of the DAU expansion during past few months. So can management give us some color regarding the feedbacks from dealers, auto OEMs or maybe individual users? And also how does the most recent operating matrix progress? And what is implication on monetization in the mid to long run? My second question is on dealer subscription. You mentioned in your press release that you expanded your service to over 22,000 independent dealers, but so far only 1,000 of them are paying accounts. So how shall we think about the revenue generation from these independent dealers in 2019? And what is our strategy to drive the monetization?

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### Liu Xiaoke - Bitauto Holdings Limited - COO

(foreign language)

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### Unidentified Company Representative

Thank you, let me take the first question.

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### Liu Xiaoke - Bitauto Holdings Limited - COO

(foreign language)

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### Unidentified Company Representative

Now talking about our mobile app. We do see a trend of more and more DAUs and also in terms of the leads numbers and retention rate also go up. Now talking about the dealers feedback on us, as you know, the leads generation takes time and also it takes time for the dealers to really give us a proper feedback. So in the short run, we would not expect them to give us a comprehensive feedback. However, in terms of the leads generation, the Bitauto app only accounts for portion of our leads generation.

**Liu Xiaoke** - *Bitauto Holdings Limited - COO*

(foreign language)

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**Unidentified Company Representative**

We believe that with the driver of more and more DAUs and more and more leads, especially the quality of leads, has been optimized, we believe that in the future in terms of the dealers and OEMs that would provide us with very positive feedback. We also have -- as you know, we have optimized our apps to better optimize the traffic. We also have enhanced our technology to be better adaptive to this environment by providing more development of the good-quality apps to enhance the product experience of our customers. And we believe that the feedback of the apps would be further pushed up by our users.

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**Andy Xuan Zhang** - *Bitauto Holdings Limited - CEO & Director*

I'll pick up the second question, in terms of the penetration down to the second tier dealers. We've done -- throughout last year of 2018, we've done quite a bit testings as to whether or not our SaaS-based products will be something that will be of an interest of the second tier dealer. We tapped into various different market. The feedback has been fairly positive. Therefore, that we have reached out to the number of upwards with 20,000. I think the addressable market with the second tier dealers, I'm looking at maybe somewhere between 20,000 to 30,000 in new total. Moving forward, I think in monetizing with these second tier dealers, even though we've only done about 1,000 in the first 2 months, but this will be part of our strategy moving forward. Obviously, we have seen the growth of the new car dealers or the 4S dealers has not been anything short of more in the last few years. So, therefore, given that we already service somewhere around 25,000 4S, I think the natural increment will be actually thinking of the second tier. Moving forward, I think over months, over months, over the course of the entire year, we will continue to add more fee paying members. The ARPU that we're looking at potentially in the future, I wouldn't say they will be directly comparable to that of 4S, but at least I think a reasonable charge rate given that we have provided not only the lead gen capability, but also other additional functionalities that will be quicker -- quickly adopted by these dealers will also help us in terms of generating additional ARPU. I guess, in the entire market, there are a few different types of potential subscribers to our Easypass platform, new car 4S dealers, second tier dealers, also potentially aftermarket services providers as well as financial SPEs. In addition to that, used car longtailed dealers could also potentially be the targeted market. So we're looking at 5 different types, we're moving -- we're initiating our move into the first type, which is the second tiers dealers. But I think and you know given that if we do achieve any success in this particular area, then we'll continue to move into the other areas as well. Their demand of different service modules are little bit different. But in general, I think, customer acquisition, promotion and advertising, financing, inventory movements and CRM are the naturally consistent 4, 5 major functions that everyone is interested in. So we do see the similarities. We do see the consistencies among all these -- among all of those potential players. So it's -- so we're looking at this business to a larger scale than what it used to be. So that's just putting in simpler words. And given the success of what we tap into the second tier market, then we will continue to move into additional territory as well. So this is the strategy of the company moving forward on the EP platform side of the business.

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**Operator**

Your next question comes from the line of Hillman Chan from Citi.

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**Hillman Chan** - *Citigroup Inc, Research Division - Research Analyst*

Could you share more thoughts on Bitauto's OEM advertising and dealer subscription revenue growth for 2019 on the back of lukewarm auto retail sales in China this year? And relating to that, could you also update us on the dealer renewal so far, including the percentage of dealers that was paid and also renewed up till now into late March?



**Liu Xiaoke** - *Bitauto Holdings Limited - COO*

(foreign language)

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**Unidentified Company Representative**

Well, thank you for the question. Let me take this question. Well, if you look at the 2019's OEMs, the trend of their advertisement is, their marketing dollars are spent more wisely. And in terms of Q1, Q2, if you look at auto market in China, it's still a down market. However, the OEMs, starting from the later half of 2018, they would pay more attention of the true results of the advertisement and how they can generate leads and then in terms of the conversion rate of the leads. So that's why a vertical website, like us, would benefit out of these circumstances.

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**Liu Xiaoke** - *Bitauto Holdings Limited - COO*

(foreign language)

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**Unidentified Company Representative**

So that's why this year to better fit into the consensus of results driven advertisement needs of the OEMs, we have launched the AI and the technology-enabled solution for our OEMs. So that's why the OEMs would have a better results-driven advertisement campaign under the financial pressure. So that's why OEMs would benefit out of our new products.

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**Liu Xiaoke** - *Bitauto Holdings Limited - COO*

(foreign language)

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**Unidentified Company Representative**

One thing I have to mention is that we are very optimistic about the renewable energy cars and OEMs advertisement expenditure. We do think this year as the beginning year for the renewable energy cars to have a re-outburst of the marketing dollars spend. In terms of the new brands as well as the traditional OEMs, who are going to launch more renewable cars, they are going to spend more in terms of renewable energy cars advertising and marketing. So we are quite optimistic about this market.

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**Ming Xu** - *Bitauto Holdings Limited - CFO*

Okay, Hillman, I'll take the second question. Regarding dealer subscription renewal, so far we have renewed contracts with close to 20,000 dealers. And this still looks a bit slower than last year. But I guess, as you have seen the weak sales in Q4 last year and in particular December -- November, December last year, actually, I think caused a hesitation of dealers -- on the dealer side to renew the contract before Chinese New Year. But a good thing is that as we have mentioned in January and February, the retail sales actually have been pretty good. And we have seen industry-wide the dealers inventory level is coming down, so we look to renew contracts with another 1,000 or 2,000 dealers in the -- before the end of Q1.

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**Operator**

Your next question comes from the line of Wendy Huang from Macquarie.

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**Wendy Huang** - *Macquarie Research - Head of Asian Internet and Media*

First, I want to follow up on the -- on your comment about the renewed dealers, 20,000 number. So that number is slightly lower than previous year. Is it because of the slower car sales? Or is it because of the net decline in the total authorized dealer in the market? And is it because of the latter or should we expect the total paying dealer number -- the authorized paying dealer number to also kind of decline from the 25,000 level in 2019 as well? Secondly, there is a follow up question on the traffic side. So given that your app traffic has more than doubled in just few months time, what was the percentage of the contributions on daily traffic before October and now where it is standing? And also you've mentioned earlier about lots of initiatives you are doing on the AI to help with the OEMs. Can you elaborate a little bit further how those initiatives will actually help to increase the sales leads conversion rate and also the eventual transactions for the OEMs?

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**Ming Xu** - *Bitauto Holdings Limited - CFO*

Sure. On the dealer renewal aside, as you know, every year from Q4 -- end of Q4 to beginning of Q1, we face some dealer -- we lose some subscription and we add some new subscription. So this happens every year. The loss of subscription every year is due to like the close down of dealers and also like the turnover of our customers. So this year, as we mentioned, the number we have in Q1 -- so far we have in Q1 is, in terms of pure paying subscribers, it's lower than last year. I guess, it's partly -- it's mainly caused by close down of offline dealers and also, as I mentioned, some hesitation or slower-than-normal renewal process on the dealer side. But we do think that as time goes by, we will add more subscribers from the dealer side. Your second question is about the...

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**Wendy Huang** - *Macquarie Research - Head of Asian Internet and Media*

Organic traffic contribution.

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**Ming Xu** - *Bitauto Holdings Limited - CFO*

Traffic contribution, yes, sure. So in terms of -- I guess, in terms of traffic -- so we -- more than half more than half of our traffic are organic. And I guess, the more important factor benefit from the growth of our apps user base is on the sales-lead side. So previously, as you probably know, as Xiaoke mentioned, the lead from Yiche app used to be -- used only account for a portion, a rather small portion of our total sales lead. But that number, as you may have read from some third party research, our lead -- the lead generated from the app has increased by most up to 10x since the upgrade. And so the leads now from the yiche app accounts for a much larger percentage of our total leads. And because the leads from the app is organic and higher quality than leads from the other sources, so we believe that the overall quality of our sales leads is also quickly improving.

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**Andy Xuan Zhang** - *Bitauto Holdings Limited - CEO & Director*

Speaking from an overall strategy standpoint, I think we pinpointed the capability of revamping the entire app at the later half of last year. And since content and as well as the data-generating capability of that particular app has been really refreshing compared to the new -- older versions, I think the focus of the entire company has been really trying to drive the popularity of this particular application. Like some of the other players in the market, I think most people are adopting a single app strategy. Historically, we have 2, the pricing app as well as Yiche app. Moving forward, I think we'll be also more geared towards concentrating on the primary one and making sure that particular app and the brand is a lot more well known among the consumers. This is also coming from the success of the complete new revamping of the app. Obviously, we have not purely focused on the strategy prior to this entire renewal of the app because of the content level, because of the original structure of that particular app is not capable of accumulating the data that we wanted to, which will be useful for various different matters. So in order to be suitable for our future growth, that's what we did in terms of in the fourth quarter. And ever since then, our focus has been on that. And also we've been able to deliver a pretty pleasant result in terms of this particular product as well as promoting this product in the last few months. So moving forward, this will be the main thing and that's where we will drive our organic traffic, this will be our driving of the high quality leads-gen and as well as collecting, recording and analyzing all of the consumers that come through this data and being able to provide or push to different contents suitable for their individual demand. This also ties exactly with what we have been -- or what we are looking to commercialize with the OEMs on the business side of the table where the AI and the Big Data will play into a good part in terms of our product mix. I think Xiaoke can give you a little bit more color



on the AI and data side of the effort. Obviously, last year we were completely lacking that, but this year those will be the new addition of the weapons that we have in our arsenal, so to speak.

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**Liu Xiaoke** - *Bitauto Holdings Limited - COO*

(foreign language)

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**Unidentified Company Representative**

Now I was talking more about AI and Big Data products. As we mentioned, in terms of the OEMs marketing campaigns, we are -- we want to focus on more results driven solutions. So that's why our AI and Big Data analytic capabilities, data products would allow automakers and the OEMs to rollout highly targeted advertisements. For example, they would have more analytic tools to make prediction of the sales, they would have more precise recommendations of the products, they would have more targeted marketing campaigns and they can have a smarter call services. So in this way, we would enhance the OEM automakers product experiences. So our AI and Big Data-driven products would be quite beneficial to them.

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**Liu Xiaoke** - *Bitauto Holdings Limited - COO*

(foreign language)

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**Unidentified Company Representative**

We believe that the AI and Big Data would also help us to accumulate more data. If we accumulated more and more data and we can also optimize the algorithms based on this Big Data, in this way we can better upgrading our products by launching new versions, and we can provide comprehensive and smart and intelligence-driven product. In this way, we can help the automakers to reduce the cost and enhance efficiency. So this results-driven campaign has already proven to be successful, and we would continue this approach, but deepen our relationship with the automakers and also help them to achieve a better result. So in this way, we're going to roll this out to more automakers and also try to deepen our product.

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**Andy Xuan Zhang** - *Bitauto Holdings Limited - CEO & Director*

Operator, next question, please?

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**Operator**

Your next question comes from the line of Monica Chen from Crédit Suisse.

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**Monica Chen** - *Crédit Suisse AG, Research Division - Research Analyst*

I have 2 here. First one, can management talk a little bit more about our cost control measures and how to drive the margin expansion in 2019? Because I noticed the way we see our selling and administrative and product development costs decreased in fourth quarter. So should we expect the trend to continue in the upcoming quarters, or do we still expect to spend a little more to promote our updated Bitauto app? And my second question is about Yixin and Bitauto because we see in this year both companies have made a lot of achievements. So looking to 2019, so try to understand what are the new areas that Bitauto and Yixin are exploring in order to create more synergies and create more revenue opportunities?



**Andy Xuan Zhang** - *Bitauto Holdings Limited - CEO & Director*

Sorry, we were on mute.

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**Andy Xuan Zhang** - *Bitauto Holdings Limited - CEO & Director*

Do you want to repeat everything?

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**Ming Xu** - *Bitauto Holdings Limited - CFO*

Yes, sorry for that. I will repeat the reply to -- I will repeat our answer for the first question. So yes, we remain confident on margin expansion for 2019, which is driven by 2 factors. Firstly, it's on the BITA side itself. We continue to look at benefit from cost control on the admin side, on the headcount side and also we look to offset some of our incremental spending on the app, Yiche app from a decreased spending on the -- traffic acquisition from the mobile website, which used to be a larger part of our traffic -- total traffic acquisition cost. And secondly, it's the margin -- the margin expansion was also supported by Yixin's business as it's quickly ramping up its loan facilitation business. We believe the margin profile for Yixin will also significantly improve from 2018 level.

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**Andy Xuan Zhang** - *Bitauto Holdings Limited - CEO & Director*

The second question's answer to you is that, yes, we're exploring something very exciting and new. We looked at a lot of the larger ecosystems that in the existence of the BATs. We realized one thing is that when you actually have different assets, where that -- they each generate their own customer acquisition, then they wind up keeping their customers for a period of time. It will be a good opportunity to introduce a structure similar to that of a membership to these consumers where we can create different values not only on the customer acquisition side but also retaining these customers in the future. So the movement moving forward or the new initiative moving forward would be something similar to that of Alibaba's 88 member, where that we have approximately -- current not only fee paying, but existing consumers of more than 1.1 million as of last year for Yixin and continue to grow quite quickly. And that part of the existing consumers crew we would like to offer them additional member services, which also can help BITA to retain them as new customers as well as providing benefits, too, and the vice versa. So that initiative will be actually, hopefully, sometime this year taking place not only between Yixin and the BITA, but also Taoche, but also additional players within our so-called vertical ecosystem, that includes other players such as car parking garage apps and as well parking space apps, car washing apps as well as the training and traffic apps and whatnot. So these are within the reach of our immediate investees and partners within this particular ecosystem. So this will be something that very new and exciting for the year and we're trying out. So the reason that we started this year is because Yixin's existing customer only reached 1 million last year. So to me, I think the key for this entire membership to really become something valuable and material is that each of the participants has to have their own pool of large number of customers. BITA since we started registering -- when you actually view our content on the apps not only on the primary Yiche app, but also the pricing app as well as other assets that we have, Yixin undoubtedly we're locking up the customer for the next 30-some months. Even though if its facilitation, we still have the right to work with these customers on different fronts, similarly for Taoche and this list goes on and on. So we are looking into very similar schemes such as Ali's 88 membership to provide additional values to my existing customers, simultaneously helping each other to acquire new additional customers with minimum level of costs. So this will actually take place. We're building up the team now. This will have our initial analysis as well as a membership rollout, hopefully, sometime in the third quarter. So this will be something that will be very new for us, but I think it is definitely worth a try.

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**Operator**

We are now approaching the end of the conference call. I will now turn the call over to Bitauto's CFO, Ming Xu, for closing remarks.



**Ming Xu** - *Bitauto Holdings Limited - CFO*

All right. Once again, thank you for joining us today. Please don't hesitate to contact us if you have any further questions. Thank you for your continued support. And we look forward to talking with you in the coming months.

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**Operator**

Thank you for your participation in today's conference. This concludes our presentation. You may now disconnect. Good day.

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