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JRJC - Q2 2019 China Finance Online Co Ltd Earnings Call

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CORPORATE PARTICIPANTS

Julie Zhu; Director of Investor Relations

Zhiwei Zhao *China Finance Online Co. Limited - Chairman & CEO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the China Finance Online Reports Q2 2019 Earnings Conference Call. My name is Albert, and I will be your operator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I would now like to turn the call over to [Dixon Chen]. Thank you. Please go ahead.

Unidentified Participant

Thank you, operator. Welcome to China Finance Online Second Quarter and First 6 Months 2019 Financial Results Earnings Conference Call. With us today are Mr. Zhiwei Zhao, Chairman and CEO; Ms. Julie Zhu, Assistant to the CEO and Director of Investor Relations; and Ms. [Na Zhang], Director of Finance. Mr. Zhao will provide a summary of business dynamics in the quarter, and then Ms. Julie Zhu will review the quarterly financial results. Thereafter, the management will hold a Q&A session. We'll provide translations during the Q&A.

Before we begin, I'll remind all listeners that throughout this call, we may present statements that may contain forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995. The words believe, estimates, plan, expect, anticipate, projects, targets, optimistic, intend, aim, future, will or similar expressions are intended to identify forward-looking statements. All statements other than historical facts may be deemed forward-looking statements. These forward looking statements are based on current expectations or beliefs including, but not limited to, statements concerning China Finance Online's operations, financial performance and conditions.

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At this time, I would like to turn the conference call to Mr. Zhao.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] Good morning, and good evening. Thank you for joining today's call.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)



Unidentified Participant

[Interpreted] During the second quarter of 2019, we further compressed our bottom line losses on a year-over-year basis and the efficiency of our fundamental business is improving.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] During the 2019 second quarter, the Chinese stock markets suffered a crushing selloff. However, as of early August, the traffic to our flagship website, jrj.com.cn, bucked the downward market trend and rose to #280 on Alexa's global ranking and to #44 in China from #430 and #62, respectively. We remain one of the most trusted financial news hub with our proprietary content, fact-based journalism, breaking news coverage, analysis on market trends and various product offerings. We made significant inroad in content distribution as well as subscribers of JRJ on TouTiao, the most popular news aggregator, has been over 2 million and the follower on JRJ -- the followers of JRJ on Baidu have also exceeded 1 million, placing us among the most recognized and popular financial media in China. We believe that the enhanced operational metrics paved the way for operational -- operation improvement.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] To strengthen our market leadership and increase monetization of the traffic, we also explored mobile marketing initiatives and formed strategic partnerships with several leading digital advertising platforms and advertising tech companies in China and abroad. In April, we entered a strategic partnership agreement with global mobile advertising tech company InMobi. This partnership exemplify our pursuit to connect global advertiser with the vast consumer market opportunity in China.

Headquartered in Bangalore, India, InMobi is one of the large -- world's largest independent mobile advertising platform with 1.5 billion monthly average (sic) [active] users in Asia Pacific, Middle East, North America, South America and Europe. InMobi's notable clients include Netflix, Amazon, Samsung, Facebook, Walmart and BMW, et cetera. In China, InMobi services over 300 advertisers across a broad spectrum of industries, such as consumer goods, e-commerce, online gaming, online travel agency, financial services and airlines.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] We are pleased that our continued investment in fintech capabilities to empower wealth management industry has started bearing fruits. Our i-TAMP, stands for Turnkey Asset Management Platform, attracted dozens of new professional financial advisers and wealth managers to register and open their online stores on our platform. We continue to position our platform to be the one-stop destination for wealth management professionals when they need better research, premium analytics and a superior customer management system to support their decision-making and strengthen their client relations. Despite the market weakness in the second quarter, both of our investment advisory and wealth management

services posted year-over-year growth. Well received by more and more brokerage firms, banks and asset management companies, our investment and technology DNA continue to position us as the premier trusted platform, especially in the area of investor education.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] Lingxi, our robo-advisor product, provides Chinese retail investors with a wide array of investment combinations and personalized global asset allocation through the Chinese domestic mutual funds. Built upon the development of our proprietary intelligent asset allocation system, Lingxi established a solid track record of balancing performance and risk management since its inception. While 92% of Lingxi users achieved positive returns, nearly 100% of investors who currently hold Lingxi products for over one year achieved positive returns on their investment. In 2017, 2018 and 2019, Lingxi's return of 10.92%, 2.96% and 9.44%, respectively, and superior risk management capabilities also have drawn serious attention from institutional investors.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] Looking into the future, we'll continue to strengthen our fintech capabilities through optimization and upgrading of our services and products, and we'll also turn fintech research finding into scalable revenues. While we are confident about our technology capability and emerging market opportunities, we remain focused on further improve the top and bottom lines.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] With that, I'll turn our call -- turn the call to our -- to my assistant and Director of Investor Relations, Julie Zhu, to go over the financial details of the quarterly results. Thank you.

Julie Zhu; Director of Investor Relations

Thank you, Mr. Zhao. Let me walk you through our major items for the second quarter. Please note that all financial numbers are unaudited and presented in U.S. dollars rounded to one decimal point for approximation.

Net revenues were USD 8.9 million compared with USD 12.9 million during the second quarter of 2018 and USD 9.9 million during the first quarter of 2019. During the second quarter of 2019, revenues from financial services, the financial information and advisory business and advertising services contributed 46.7%, 32.1% and 20.9% of the net revenues, respectively, compared with 46.4%, 43.8% and 9%, respectively, for the corresponding period in 2018.



Revenues from financial services were USD 4.2 million, a decrease of 30.5% compared with USD 6 million during the second quarter of 2018 and USD 4.5 million during the first quarter of 2019. The year-over-year decrease of revenues from financial services was mainly due to a decline in the equity brokerage business.

Revenues from the financial information and advisory business were USD 2.9 million compared with USD 5.7 million during the second quarter of 2018 and USD 3.2 million in the first quarter of 2019. The year-over-year decrease of revenues from the financial information and advisory business was mainly attributable to the decrease in subscription revenues from individual customers. For the long-term growth prospects of our individual subscription business, we have streamlined our sales team and upgraded our business operations in the second half of 2018. On the other hand, revenues from financial advisory business, a sub-part of the financial information and advisory business, grew 82.6% year-over-year.

Revenues from advertising services were USD 1.9 million compared with USD 1.2 million in the second quarter of 2018 and USD 2 million in the first quarter of 2019. The increased traffic to our website and readers' recognition of our premium content also helped to elevate our advertising revenues on a year-over-year basis.

Gross profit was USD 5.6 million compared with USD 8.5 million in the second quarter of 2018 and USD 6.4 million in the first quarter of 2019. Gross margin in the second quarter of 2019 was 63.1% compared with 65.5% in the second quarter of 2018 and 64.5% in the first quarter of 2019. The year-over-year and quarter-over-quarter decreases in gross margin were mainly due to the decrease of revenue contribution from individual subscription services.

G&A expenses were USD 2.5 million, a decrease of 16.4% from USD 3 million in the second quarter of 2018 and a decrease of 6.6% from USD 2.7 million in the first quarter of 2019. The year-over-year and quarter-over-quarter decreases were mainly due to effective cost control measures and the ongoing streamlining of the operations.

Sales and marketing expenses were USD 3.8 million, a decrease of 41.7% from USD 6.6 million in the second quarter of 2018 and an increase of 6.9% from USD 3.6 million in the first quarter of 2019. The year-over-year decrease was mainly attributable to the further streamlining of the sales and marketing division and improved operational efficiency.

R&D expenses were USD 2.6 million, a decrease of 32.2% from USD 3.8 million in the second quarter of 2018 and with no significant difference from USD 2.6 million in the first quarter of 2019. The year-over-year decrease was mainly attributable to improved efficiency after consolidation of the R&D team. The company continues to maintain a team of senior software engineers, data scientists and capital market professionals to support further development in its fintech capabilities.

Total operating expenses were USD 8.9 million, a decrease of 33.3% from USD 13.4 million in the second quarter of 2018 and no significant difference from USD 8.9 million in the first quarter of 2019. The year-over-year decrease was mainly due to improved operational efficiency and effective cost control. Loss from operations was USD 3.3 million compared with a loss from operations of USD 4.9 million in the second quarter of 2018 and a loss from operations of USD 2.5 million in the first quarter of 2019.

Net loss attributable to China Finance Online was USD 3 million compared with a net loss of USD 4.3 million in the second quarter of 2018 and a net loss of USD 2.8 million in the first quarter of 2019. Fully diluted loss per ADS attributable to China Finance Online was \$0.13 for the second quarter of 2019 compared with fully diluted loss per ADS of \$0.19 for the second quarter of 2018 and a fully diluted loss per ADS of \$0.12 for the first quarter of 2019. Basic and diluted weighted average numbers of ADS for the second quarter of 2019 were 23 million compared with basic and diluted weighted average numbers of ADS of 22.8 million for the second quarter of 2018 and for the first quarter of 2019. Each ADS represents 5 ordinary shares of the company.

Now let me walk you through some of the highlights of our first 6 months financial results. Net revenues for the first 6 months of 2019 were USD 18.8 million compared with USD 26.2 million in the first 6 months of 2018. Gross profit for the first 6 months of 2019 was USD 12 million compared with USD 16.7 million in the first 6 months of 2018.

Net loss attributable to China Finance Online for the first 6 months of 2019 was USD 5.7 million compared to a net loss of USD 9.5 million in the first 6 months of 2018. Fully diluted loss per ADS attributable to China Finance Online was \$0.25 for the first 6 months of 2019 compared with fully diluted loss of \$0.42 for the first 6 months of 2018.

As of June 30, 2019, total shareholders' equity of China Finance Online was USD 30.1 million. Total cash and cash equivalents, short-term and long-term investments were USD 9.6 million. With that, this wraps up my prepared summary. And operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of [Bob Rosen].

Unidentified Analyst

The company has several products and you're addressing multiple markets. Could you give us a comment on what your growth strategy is?

Unidentified Participant

(foreign language)

Zhiwei Zhao - China Finance Online Co. Limited - Chairman & CEO

(foreign language)

Unidentified Participant

[Interpreted] Thank you for your question. Sure. In the second quarter, the economic environment and the stock market in China experienced significant fluctuations which slowed down our pace of business improvement. Given that, our operational metrics continue to improve and our productivity is further strengthened. Our ongoing investment in the fintech area continue to show results.

Zhiwei Zhao - China Finance Online Co. Limited - Chairman & CEO

(foreign language)

Unidentified Participant

[Interpreted] For example, from the investment advisory side, we introduced human plus technology public market investment advisory service business model, which fits perfectly in the secular trend of industry-wide recruitment of wealth management advisers. Lingxi is the robo-advisory product born out of our proprietary asset allocation system, and it's designed to provide individual investor with highly personalized global asset allocation solutions. Since its launch, Lingxi has demonstrated superior returns and risk control performance and generated long-term gains for investors. Like I mentioned earlier, 90% of Lingxi customers who -- 92% of Lingxi's customers who had products for more than a year received positive returns. 100% of customers who still hold our product for more than a year are having positive returns as well. All this data speaks -- speak about volume of Lingxi's solid track record in allocating assets.



Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] We also developed i-TAMP platform, which is a system enables investor -- investment advisers, wealth management professionals to acquire customers, market their services, manage the account, provide training and many wealth management-related activities. We truly provide full line of smart systems support to investment advisers and wealth management professionals to help them to enhance their productivity, professional services. In recent quarters, this platform is attracting more and more investment advisers and wealth managers to open and operate their virtual stores on our site.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] We are proud that our fintech initiative is empowering wealth management sector, are increasingly recognized by the brokerage firms, banks, asset management company and other financial institutions, especially deepened collaborations in this -- in the area of intelligent investment research and intelligent investor education.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] We firmly believe that our commitment to use fintech to empower wealth management services sector is the right path for our future growth, like you asked earlier. While we are strengthening our fintech capabilities, we will further improve our productivities. We welcome all partners who share the same vision to join us to the right technological paradigm shift and capture the vast growth opportunity in the Chinese wealth management sector.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Participant

[Interpreted] Thank you.

Operator

(Operator Instructions)

Unidentified Participant

Thank you. Thank you, everyone for attending China Finance Online's 2019 Second Quarter and First Six Months Earnings Conference Call. We look forward to speaking with you. Thank you.

Operator

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

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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