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JP - Q3 2019 Jupai Holdings Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Harry He** *Jupai Holdings Limited - Director of IR*

**Jianda Ni** *Jupai Holdings Limited - Chairman of the Board & CEO*

## CONFERENCE CALL PARTICIPANTS

**Haifeng Cao** *UBS Investment Bank, Research Division - Research Analyst*

## PRESENTATION

### Operator

Thank you for standing by for Jupai's Third Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note today's conference call is being recorded. If you have any objections, you may disconnect at this time.

I'd now like to turn the meeting over to your host for today's conference, Mr. Harry He, Jupai's Investor Relations Director. Sir, please go ahead.

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**Harry He** - *Jupai Holdings Limited - Director of IR*

Thank you. Hello, everyone, and welcome to Jupai's earnings conference call for the third quarter ended September 30, 2019. Leading the call today is Mr. Jianda Ni, our Chairman and CEO, who will review the highlights for the third quarter of 2019. I will then discuss our financial results. We will then open the call to questions, at which time, our CFO, Ms. Min Liu, will also be available.

Before we continue, I refer you to our safe harbor statement in the earnings press release which applies to this call as we will make forward-looking statements. Also, this call includes discussions of certain non-GAAP financial measures. Please refer to our earnings release which contains a reconciliation of non-GAAP measures to the most directly comparable GAAP measures. Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in renminbi.

I will now turn the call over to Mr. Jianda Ni, our Chairman and CEO, and I will do the interpretation for you.

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**Jianda Ni** - *Jupai Holdings Limited - Chairman of the Board & CEO*

(foreign language)

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**Harry He** - *Jupai Holdings Limited - Director of IR*

[Interpreted] Thank you, Harry, and welcome, everyone, to today's conference call.

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**Jianda Ni** - *Jupai Holdings Limited - Chairman of the Board & CEO*

(foreign language)

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**Harry He** - *Jupai Holdings Limited - Director of IR*

[Interpreted] We saw improved operating performance in the third quarter of 2019 even as the market environment remained challenging.



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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] Concerns over a slowdown in the overall economic growth and international trade conflict continued to impact investor confidence. However, the aggregate value of wealth management products distributed by Jupai during the third quarter of 2019 increased quarter-over-quarter by 6%, from CNY 2.5 billion to CNY 2.7 billion as our wealth management products backed by high-quality real estate projects gained traction in the market. In addition, our bottom line results for the quarter were enhanced by our ongoing cost control efforts.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] We remain cautiously optimistic about Jupai's outlook for the coming quarters as we have seen a gradual loosening of restrictions on the privately offered funds over the past several months.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] Looking ahead, we remain dedicated to executing our 3 strategies to expand Jupai's market share. Firstly, leveraging our superior industry expertise, we will continue to develop high-quality real estate equity products with attractive risk/return profiles. Secondly, we will further enhance our risk control systems in order to increase investor confidence. Thirdly, we will seek potential growth opportunities in our overseas business.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

Thank you, Ni zong.

[Interpreted] Jupai succeeded in reducing our operating expenses on a sequential basis in the third quarter of 2019. In particular, we lowered our cost of revenue and G&A expenses through streamlining operations and enhancing operating efficiencies.

Now let me walk you through our financial highlights for the third quarter and the first 9 months of 2019. Net revenues for the third quarter of 2019 were CNY 182.1 million, a 41.4% decrease from the corresponding period in 2018, primarily due to decreases in both onetime commissions



and recurring management fees. Net revenues were CNY 649 million for the first 9 months of 2019, a decrease of 45.3% from the same period in 2018.

Net revenues from onetime commissions for the third quarter of 2019 were CNY 102.7 million, a 30.5% decrease from the corresponding period in 2018, primarily as a result of a decrease in the aggregate value of wealth management products distributed by the company. For the first 9 months of 2019, net revenues from onetime commissions were CNY 247.8 million, a decrease of 64.9% from the same period in 2018.

Net revenues from recurring management fees for the third quarter of 2019 were CNY 50.1 million, a 48% decrease from the corresponding period in 2018, primarily due to the decrease in the value of assets under management. CNY 17.4 million and CNY 5.7 million carried interest were recognized as part of Jupai's recurring management fee in the third quarter of 2019 and 2018, respectively. For the first 9 months of 2019, net revenues from recurring management fees was CNY 310.1 million, a 9.1% decrease from the same period in 2018. CNY 156 million and CNY 49.7 million carried interest was recognized as part of Jupai's recurring management fee for the first 9 months of 2019 and the same period in 2018, respectively.

Net revenues from recurring service fees for the third quarter of 2019 was CNY 29.3 million, a 189.2% increase from the corresponding period in 2018 primarily because the company provided ongoing services to more product suppliers. The company recognized CNY 1.8 million and 0 variable performance fees in the third quarter of 2019 and 2018, respectively. For the first 9 months of 2019, net revenues from recurring service fees was CNY 77.2 million, 110.8% increase from the same period in 2018. The company recognized CNY 1.8 million and CNY 0.3 million variable performance fees for the first 9 months of 2019 and at the same period in 2018, respectively.

Net revenues from other service fees for the third quarter of 2019 was 0, a 100% decrease from the corresponding period in 2018, primarily due to no sub-advisory service provided to other companies during this quarter. For the first 9 months of 2019, net revenues from other service fees was CNY 13.9 million, a decrease of 86.5% from the same period in 2018.

Operating costs and expenses for the third quarter of 2019 was CNY 222.3 million or 21.5% decrease from the corresponding period in 2018. In particular, we saw decreases in cost of revenues and selling expenses thanks to the cost control measures we undertook. For the first 9 months of 2019, operating costs and expenses were CNY 756.2 million, a decrease of 10.8% from the same period in 2018.

Operating margin for the third quarter of 2019 was minus 22.1% compared to 8.8% for the corresponding period in 2018.

For the first 9 months of 2019, operating margin was minus 16.5% compared to 28.6% for the same period in 2018.

Net loss attributable to ordinary shareholders for the third quarter of 2019 was CNY 47.9 million as compared to net income attributable to ordinary shareholders of CNY 1.7 million for the corresponding period in 2018. For the first 9 months of 2019, net loss attributable to ordinary shareholders was CNY 134.5 million as compared to net income attributable to ordinary shareholders of CNY 205.4 million for the same period in 2018.

Net margin attributable to ordinary shareholders for the third quarter of 2019 was minus 26.3% compared to 0.5% for the corresponding period in 2018. For the first 9 months of 2019, net margin attributable to ordinary shareholders was minus 20.7% compared to 17.3% for the same period in 2018.

Net loss attributable to ordinary shareholders per basic and diluted American depository share for the third quarter of 2019 was CNY 1.42 and CNY 1.42, respectively, as compared to net income attributable to ordinary shareholders per basic and diluted ADS of CNY 0.05 and CNY 0.05, respectively, for the corresponding period in 2018. For the first 9 months of 2019, net loss attributable to ordinary shareholders per basic and diluted ADS was CNY 4 and CNY 4, respectively, as compared to net income attributable to ordinary shareholders per basic and diluted ADS of CNY 6.16 and CNY 5.85, respectively, for the same period in 2018.

Non-GAAP net loss attributable to ordinary shareholders for the third quarter of 2019 was CNY 45.5 million compared to non-GAAP net income attributable to ordinary shareholders of CNY 25.5 million for the corresponding period in 2018. For the first 9 months of 2019, non-GAAP net loss attributable to ordinary shareholders was CNY 126.8 million as compared to non-GAAP net income attributable to ordinary shareholders of CNY 267.1 million for the same period in 2018.

Non-GAAP net margin attributable to ordinary shareholders for the third quarter of 2019 was 25% (sic) [minus 25%] as compared to 8.2% for the corresponding period in 2018. For the first 9 months of 2019, non-GAAP net margin attributable to ordinary shareholders was minus 19.5% as compared to 22.5% for the same period in 2018.

Non-GAAP net loss attributable to ordinary shareholders per diluted ADS for the third quarter of 2019 was CNY 1.35 as compared to non-GAAP net income attributable to ordinary shareholders per diluted ADS of CNY 0.73 for the corresponding period in 2018. For the first 9 months of 2019, non-GAAP net loss attributable to ordinary shareholders per diluted ADS was CNY 3.77 as compared to non-GAAP net income attributable to ordinary shareholders per diluted ADS of CNY 7.6 for the same period in 2018.

Looking to our balance sheet and the cash flow. As of September 30, 2019, the company had CNY 859.7 million in cash and cash equivalents and restricted cash compared to CNY 1,302.6 million as of December 31, 2018. Net cash used in operating activities during the third quarter of 2019 was CNY 53.1 -- sorry, CNY 53.1 million. For the first 9 months of 2019, net cash used in operating activities was CNY 177.6 million.

Net cash used in investing activities during the third quarter of 2019 was CNY 206.5 million. For the first 9 months of 2019, net cash used in investing activities was CNY 265.3 million. Net cash provided by financing activities during the third quarter was 0. For the first 9 months of 2019, net cash provided by financing activities was CNY 29,600.

That concludes our prepared remarks. I will now turn the call back to operator to begin the Q&A session. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Haifeng Cao of UBS.

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### Haifeng Cao - UBS Investment Bank, Research Division - Research Analyst

I'm Haifeng from UBS. I have a long question actually. We're actually very pleased to see Jupai's operating results start to stabilize and the gradual pickup in the third quarter. Especially, we see the value of wealth management products distributed up quarter-on-quarter, and the net loss was reduced quarter-over-quarter as well. Can management share with us your view on the overall wealth management industry and Jupai for the fourth quarter of 2019? And is there any further change in your strategy?

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### Harry He - Jupai Holdings Limited - Director of IR

Thank you very much, Haifeng. Let me do the translation for the Chairman, and we will answer the question shortly.

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### Jianda Ni - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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### Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] The market environment for the overall wealth management industry and for Jupai remained quite challenging in the third quarter. As you rightly mentioned, in the third quarter, despite the weakness in the market, we have achieved quarter-over-quarter increase in our aggregate value of wealth management product distributed, which we believe very well showcased the recognition Jupai received for our product development and corporate strategy.



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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] More specifically, we believe that the supply and demand within the wealth management industry remained under pressure in the third quarter of 2019 mainly due to macroeconomic policies with continued focus on deleveraging of the overall economy and the tightening regulatory requirement and supervision on financial institutions. In terms of supply, if we use privately offered fund as an example, it had been very difficult for the wealth management companies to complete the filing process of privately offered funds over the past few quarters. On the other hand, in terms of demand, investors had been very cautious and conservative over the past quarters, given their concerns and issues such as slowdown of economic growth and various negative news flow about the wealth management industry and the uncertainty from international political and economic conflicts.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] Despite the conservative market atmosphere, Jupai's aggregate value of wealth management product distributed grew 6% quarter-over-quarter to CNY 2.65 billion, up from CNY 2.49 billion in the second quarter as the investors gradually recognized Jupai's ability to select high-quality underlying assets.

In particular, leveraging our abundant resources and experience within the real estate industry, Jupai is able to select low-risk and stable-return products for our clients. For example, we have received a very positive feedback on our rising star fund, basically that is the equity fund managed by -- actively managed by Jupai with aggregate value of such product rising quarter-over-quarter during the first 3 quarters of this year.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] We also further improved our profitability in the third quarter of 2019 through implementing various cost control measures to lower our operating costs and expenses, which we achieved significant decrease in our cost of revenue and G&A expenses. Our cost of revenue for third quarter was down 32% year-over-year and 2% quarter-over-quarter while our G&A expenses for the third quarter was also down 23% quarter-over-quarter, thanks to our efforts in optimizing sales incentive schemes as well as streamlining head count and coverage network. Jupai reduced our number of staff from 2,500 at the beginning of 2018 to about 1,100 by the end of third quarter 2019. We also condensed our coverage network from 72 office covering 46 cities at the beginning of 2018 to 54 office covering 44 cities by the end of third quarter 2019.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)



**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] Thanks to the increase in the value of wealth management products distributed and the decrease in operating costs and expenses, net loss attributable to ordinary shareholders in the third quarter was narrowed to CNY 48 million as compared to CNY 61 million in the last quarter. Looking into the first -- looking into the fourth quarter of 2019, although we expect the government's mid- and long-term goal of deleveraging and optimizing economic structure to remain intact, we also believe that it is likely for the government to temporarily loosen up policy constraints or issue many stimulus policies for certain industries to support growth in the overall economy.

More specifically for the wealth management industry, we have seen the window for filing of privately offered funds gradually open over the past couple of months. Though we expect the market to remain concerned over the potential slowdown of China's economic growth in 2020 and as well as uncertainties from international political and trade conflicts, we are still optimistic in the outlook of wealth management industry.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] After entering the fourth quarter, we started to see some initial signs of stabilization. As to Jupai's outlook for the fourth quarter, we believe that the aggregate value of wealth management products distributed by Jupai will remain stable. On the other hand, we will continue improving the operating cost structure.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] Lastly, about Jupai's strategy, Jupai would remain dedicated to executing our 3 core strategies. Firstly, we will enhance the uniqueness of our products and improve our product structure. Additionally, we will strengthen our risk control system across the entire life cycle of our products. Finally, we will continue to expand our overseas business to achieve incremental growth in our business. We believe these 3 core strategies will help lay a solid foundation for Jupai's mid- to long-term growth and enable us to effectively capture market opportunities when the industry recovers.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] In terms of our products, Jupai will continue to leverage our resources and experience in the real estate industry to further develop real estate fixed income products in which Jupai has significant competitive advantages and to move -- and to more aggressively promote our real estate equity products. We believe that real estate remains an asset class with relatively low investment risk, especially compared with asset categories such as consumer credit and supply chain management products. Moreover, given the increasing volatility in the property market, we feel like it is now a great time for investors to get into equity investments in a leading investment -- in leading real estate projects.



**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] In terms of our risk control schemes, we believe that excellence in risk control is one of the core elements for a wealth management company to win trust from clients especially given the current conservative environment. Jupai is focusing on upgrading our risk management with a holistic approach, including raising the quality threshold of the counterparties of the underlying assets and the projects of our products and upgrading our risk management schemes and raising the risk management awareness of our clients. Jupai will continue to strengthen our risk control schemes and enhance the transparency of management of the underlying assets and the projects of our products, which could allow our staff and investors with relevant industry background to get involved in the process such as project selection, project research and development.

Jupai has rolled out several measures to make our investment process more transparent. For example, we recently hosted a series of events to invite investors with suitable background to join the -- to jointly participate in our investment processes such as project screening, post investment management of projects of our real state partner companies. As investors participated in Jupai's project screening process, they gain in-depth understanding of Jupai's investment philosophy and logic.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] In terms of overseas business, Jupai has adopted a prudent approach towards this area and has been paying close attention to overseas opportunities. We look to develop overseas products to better fulfill investors' needs for global asset allocation and launch new business when the timing is right.

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**Jianda Ni** - Jupai Holdings Limited - Chairman of the Board & CEO

(foreign language)

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**Harry He** - Jupai Holdings Limited - Director of IR

[Interpreted] To conclude my answer, Jupai will continue to provide quality, innovative and safe wealth management products for our clients and optimize operating efficiency. We are confident in building Jupai into the top wealth management brand in China for high net worth individuals and creating long-term value for our shareholders. Thank you, Haifeng.

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**Operator**

There are no further questions at this time. I will now turn the call over to Jupai's Investor Relations Director, Harry He, for closing remarks.

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**Harry He** - Jupai Holdings Limited - Director of IR

This concludes today's call. If you have any follow-up questions, please get in contact with us. Thank you.



**Operator**

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

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