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BITA - Q3 2019 Bitauto Holdings Ltd Earnings Call

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PRESENTATION

Operator

Hello, and thank you for standing by for Bitauto's Third Quarter 2019 Earnings Conference Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time. I'd like to turn the meeting over to your host for today's conference.

Unidentified Company Representative

Thank you. Welcome to Bitauto's Third Quarter 2019 Earnings Conference Call. Speakers from the company today are Mr. Andy Zhang, CEO; Mr. Xiaoke Liu, COO; and Mr. Ming Xu, CFO. After management's prepared remarks, Andy, Xiaoke 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 the discussions today will contain forward-looking statements made under the safe harbor provisions of the 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 statements on Form F-1. Bitauto does not take any obligation to update any forward-looking statements except as required under applicable laws.

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.

Andy Xuan Zhang - Bitauto Holdings Limited - CEO & Director

Hello, everyone, and thank you for joining us for our third quarter 2019 earnings conference call. The entire auto industry continued to face severe pressure as new passenger vehicle sales in China have decreased over the past 15 months, making automakers and dealers increasingly a result of the unfavorable environment, Bitauto's total revenue was RMB 2.54 billion for the quarter -- third quarter of 2019.

Our transaction services business continued to gain market share, with revenue increased by 3.9% year-over-year in the third quarter to RMB 1.42 billion, and transaction volume increased by approximately 4% year-over-year to 128,000 units. This is as China's total sales for new and used passenger vehicles decreased by 2% year-on-year according to the data from China Association of Automobile Manufacturers and China Automobile Dealers Association.



Looking at our advertising and subscription business. Revenue from our advertising and subscription business for third quarter was RMB 923.6 million compared to RMB 1.06 billion in the corresponding period in 2018, mainly attributable to the decrease in marketing spending by automakers and dealers caused by the continued decline in our new car sales.

Nonetheless, we have been pleased to see continuous improvements in our mobile traffic and the quality and the quantity of our sales leads since we rolled out our upgraded Bitauto media app in the fourth quarter of last year.

In terms of our mobile traffic, according to Questmobile, in October 2019, DAU of the Bitauto media app increased by 255% over the same period in 2018. The combined DAU of both Bitauto media app and Auto Pricing app increased by [55%] (corrected by company after the call) over the same period in 2018.

In terms of our sales leads, our number of sales leads grew by 6% year-over-year in the third quarter despite declining new car sales. In particular, we saw a significant increase in the proportion of organic sales leads, which usually feature better quality and higher conversion rates.

Our organic sales leads accounted for over 60% of our total sales leads in the third quarter, up from around 40% from the same period last year. The enhancements in the quality of our sales leads are demonstrated by the increase in our conversion rates, as measured by store visits and number of transactions. This, we believe, indicates that our current media strategy has placed Bitauto on the right track to gain wallet share from automakers and dealers.

We've also made steady progress in expanding our new business areas. Our AI-based marketing solution, which we launched earlier this year, has received positive feedback from automakers. We also continued to grow our network of independent dealers to over 33,000 during the third quarter, with more than 4,400 paying customers at the end of October. We expect to steadily grow our network of independent dealers and see potential for monetization going forward.

Despite the current industry downturn, we still believe it's critical to improve our brand recognition among automobile consumers and to broaden our user base, in order to further strengthen our competitiveness and to better help our automaker and the dealer customers. As a result, we have recently stepped up our strategic marketing spending to enhance the Bitauto brand. We view this as an investment which should help raise our user metrics and help lower customer acquisition costs in the long run.

Now moving to our transaction services business. In the third quarter, Yixin continued to gain market share with its loan facilitation services growing 213% year-over-year, and they're contributing approximately 73% of total financed automobile transactions, up from 24% in the same period last year. Yixin also further tightened its risk control standards to adapt to China's general weak economic condition and changing regulatory requirements.

Looking forward, we will remain focused on our core business strategies. First, we will help drive higher ROI for our automaker and dealer customers by bringing them more high-quality sales leads. Second, we will work towards rolling out our AI-based marketing solution, which provides automakers and the tailor-made and the result-driven marketing tools, to all mainstream automakers by the end of this year. Third, we will further improve the revenue mix of our subscription business by migrating more dealer customers to premium and deluxe premium packages and expanding our network of 4S and independent dealers. Fourth, Yixin will continue to grow its loan facilitation services, enhance risk management and improve its product offerings.

In summary, Bitauto will remain devoted to enhance our brand recognition, user experience and content to further broaden our user base and traffic as well as continuously improve the conversion rates of our sales leads. Through providing auto makers and dealers with high-quality sales leads and results-driven marketing solutions. We are confident in strengthening Bitauto's value proposition amid the industry downturn, and building Bitauto into China's top online automobile media and transaction services platform.

With that, I will turn the call over to Ming to go over our financials.

Ming Xu - *Bitauto Holdings Limited - CFO*

Thank you, Andy. Good evening, everyone.

In the third quarter, we continue to devote resources to enhancing content and user engagement, as well as improving the quantity and quality of our sales leads. We also introduced new marketing initiatives to strengthen Bitauto's brand image among automotive consumers. While these investments will lead to higher operating expenses in the near term, we expect them to help reduce customer acquisition costs and enhance the competitiveness of our product offerings over the long run. We're confident that Bitauto is well-positioned to weather the automotive industry downturn by bringing exceptional value to our increasingly ROI-focused automaker and dealer customers.

Now let's look at our Q3 2019 financial highlights before moving on to Q&A. Please note that I will reference mainly to financial figures in RMB in the following discussion.

Bitauto reported revenue of RMB 2.54 billion for the third quarter of 2019 compared to RMB 2.72 billion in the corresponding period in 2018.

Revenue from the advertising and the subscription business for the third quarter of 2019 was RMB 923.6 million compared to RMB 1.06 billion in the corresponding period in 2018, mainly due to the decrease in marketing spending by automakers and dealers caused by the continued decline in new car sales.

Revenue from transaction services business for the third quarter of 2019 was RMB 1.42 billion, representing a 3.9% increase from RMB 1.36 billion in the corresponding period in 2018, mainly attributable to the growth of the company's loan-facilitation services.

Revenue from the digital marketing solutions business for the third quarter of 2019 was RMB 201 million compared to RMB 305 million in the corresponding period of 2018, mainly due to the decrease in marketing spend by automakers caused by the continued decline in new car sales.

Cost of revenue for the third quarter of 2019 was RMB 965 million compared to RMB 1.05 billion in the corresponding period in 2018. Cost of revenue as a percentage of revenue in the third quarter of 2019 was 38% compared to 38.7% in the corresponding period in 2018.

Gross profit for the third quarter of 2019 was RMB 1.58 billion compared to RMB 1.67 billion in the corresponding period in 2018.

Selling and administrative expenses were RMB 1.63 billion for the third quarter of 2019, representing a 7.4% increase from the corresponding period in 2018. This increase was mainly primarily due to the increase in marketing expenses associated with the company's mobile apps and the increase in provision for credit losses of finance receivables, partially offset by the decrease in share-based compensation.

Product development expenses were RMB 149.6 million for the third quarter of 2019 compared to RMB 140 -- RMB 154.6 million in the corresponding period in 2018.

Share-based compensation, which was allocated to the related line items of operating expenses was RMB 101 million in the third quarter of 2019 compared to RMB 173.1 million in the corresponding period in 2018.

Non-GAAP income from operations in the third quarter of 2019 was RMB 119.3 million compared to non-GAAP income from operations of RMB 408.3 million in the corresponding period in 2018.

Net loss in the third quarter of 2019 was RMB 161.5 million compared to net loss of RMB 20.1 million in the corresponding period in 2018.

Net loss attributable to Bitauto in the third quarter of 2019 was RMB 164.7 million compared to net loss attributable to Bitauto of RMB 26.7 million in the corresponding period in 2018.



Non-GAAP net income in the third quarter of 2019 was RMB 109.4 million compared to non-GAAP net income of RMB 345 million in the corresponding period in 2018. Non-GAAP net income attributable to Bitauto in the third quarter of 2019 was RMB 51.9 million, compared to non-GAAP net income attributable to Bitauto of RMB 265.8 million in the corresponding period in 2018.

Basic and diluted net loss per ADS, which represent -- each representing 1 ordinary share, in the third quarter of 2019, amounted to RMB 2.28 and RMB 2.29, respectively. Non-GAAP basic and diluted net income per ADS in the third quarter of 2019 amounted to RMB 0.76 and RMB 0.74, respectively.

As of September 30, 2019, the company had cash and cash equivalents, time deposit and restricted cash of RMB 9.3 billion. Cash provided by operating activities, cash provided by investing activities and cash used in financing activities in the third quarter of 2019 were RMB 256.3 million, RMB 2.43 billion and RMB 1.23 billion, respectively.

Number of employees totaled 8,061 as of September 30, 2019, including employees of entities in which Bitauto has acquired and holds controlling interests as of such date. This represented a 2 point -- 4.2% year-over-year increase.

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 financial highlights for Q3 2019.

In the quarter, Yixin continued to develop its loan facilitation services and further tightened its risk control standards to better adjust to China's general weak economic conditions and changing regulatory environment.

The total aggregate financing amount facilitated through Yixin's loan facilitation services and self-operated financing business in the third quarter was approximately RMB 9.7 billion.

In the quarter, Yixin continued to develop its loan facilitation services and further strengthened its partnership by working with 12 banks and financial institutions, including an auto finance company.

For the 3 months ended September 30, 2019, Yixin facilitated approximately 94,000 financed transactions, representing a year-over-year increase of 213% and approximately [73%] (corrected by company after the call) of Yixin's total financed transactions.

In the third quarter of 2019, under U.S. GAAP, Yixin's total revenues reached RMB 1.42 billion, representing a year-over-year increase of 3.1%. Net core services revenues, which include revenues from loan facilitation transactions and new self-operated financing lease transactions Yixin facilitated during the period, reached RMB 751.5 million, representing a year-over-year increase of 15.6%.

As of September 30, 2019, 90 days plus (including 180 days plus past due ratio), and 180 days plus past due ratio for all financed transactions, including the third-party loan facilitations, were 1.29% and 0.66%, respectively.

Also, there's a company update related to Yixin, which I would like to bring to your attention. Bitauto entered into a voting proxy agreement with Tencent, pursuant to which Tencent granted Bitauto, among others, the right to vote certain shares of Yixin held by Tencent on the terms and subject to the conditions set out to -- set out in the voting proxy agreement.

As a result of the voting proxy agreement, the financial statement -- financial results of Yixin will remain consolidated with Bitauto's financial statements. The voting proxy agreement will be effective from November 16, 2019 to November 16, 2020, and it will be automatically extended for 1 year on November 16, 2020 unless jointly terminated by Tencent and Bitauto in writing.

With that, I will turn to guidance for the fourth quarter of 2019. Bitauto currently expects to generate revenue in the range of RMB 1 -- sorry, RMB 2.45 billion to RMB 2.55 billion in the fourth quarter of 2019. This forecast takes into consideration of seasonality factors in Bitauto's business and excludes any impact of foreign currency fluctuation. It reflects management's current and preliminary review, which is subject to change.



Please note that the non-binding going private proposal Bitauto received is currently under evaluation by the special committee formed by our independent directors, with support from an external legal counsel and independent financial adviser, as previously announced. Bitauto management is not in the position to comment on the proposal, and our daily operations are not influenced by the potential going-private transaction.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Binbin Ding from JPMorgan.

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

My first question is about your traditional business. So your ad and subscription revenue had a double digit decline in the third quarter, and your 4Q guidance implied a 20% decline on total top line. Can you talk about the implications to your ad and subscription revenue moving into 4Q? And given it's approaching year-end, can you also give us an update on progress of negotiations with OEMs and also dealers on next year's contracts?

My second question is on your Yiche app. So your Yiche app saw progress in terms of both user and volume growth. Beyond that, can you talk a little bit more on the development of content strategy, which helped you throughout the changes?

Andy Xuan Zhang - Bitauto Holdings Limited - CEO & Director

Thanks, Binbin. Let me translate this to Xiaoke.

Liu Xiaoke - Bitauto Holdings Limited - COO

[Interpreted] Thank you. So I'll take your 2 questions. Firstly, about the business -- about our advertising business. So based on our current understanding with our customers, the OEMs has increased their spend -- their advertising spending in Q4 compared to Q3. So we believe the main reason is seasonality peak season. Because Q4, we have a lot of events that would stimulate auto demand, including the 11/11 shopping festival, the Guangzhou auto show with a lot of new car -- new model launches and also the promotion season towards year-end. So all these factors contributed to an increased spending by the OEMs.

So also, towards the fourth quarter, the marketing department of automakers will also use their remaining budget to help reach their sales target for year-end. Meanwhile, our AI-based marketing solution, which was launched in Q2, is now gaining momentum. And it's been used by more customers. So we see an expanding user -- customer base from the -- on the OEM side in Q4. And so a rising contribution from this particular product. So we expect sequentially, from Q3 to Q4, the advertising business will recover. But although on a full year basis, we still expect the advertising revenue to decline on a year-on-year basis. So we are still quite cautious on the outlook of the auto market and also the auto advertising on the advertising market. We are -- I think it's still too early to say that the recovery in Q4 in automotive -- in marketing spend is any indicator of an improving car market or marketing spend in 2020.

So secondly, I will -- moving on to your question about the content. So we observed that in the past few years, with the auto market becoming ever more competitive, the automakers are launching more and more models in order to capture any market opportunity in every subcategory or subsegment. So as a result, in the last 5 years, we noticed that the model on sale or the model available in the market increased from 350 to over 1,300. So as a result, the traditional content model of the editorials is not suitable to the current market environment, where -- because there's not -- the editors are not -- like know the -- have sufficient knowledge about each car model.



So from the end of Q2, we reorganized our editorial team. We launched a concept called brand specialist. So we basically assigned each editor to a particular -- or several particular brand or brands, so that each of them will know the brand in detail and offer better content to the users. Yes. So in the meantime, we'll also change the format of content from previously more picture and text basis to now short videos and live streaming because we think that this new format is also more welcomed by the younger generation of Internet users. So I believe this change will make our content more professional in terms of the quality of content and also more interactive in terms of engagement with the users.

So, so far, after a quarter of trial, we have received very positive feedback from both the consumers and also from the OEMs. On the consumer side, we find that the followers of those brand specialists are more active, and they help to contribute more high-quality sales leads and also user-generated content. So on the OEM side, we -- also, the OEM likes our new format, and they think that our content has improved a lot in terms of the professionalism and the quality. So we believe that this new content -- these changes in content will help us to improve -- further improve the retention rate of our app and help to sustain the current strong growth in the user metrics of Yiche app. So that's my answer to your questions. Thank you.

Operator

Your next question comes from the line of Gary Chen from CICC.

Gary Chen - CICC - Analyst

[Interpreted] I have 2 questions. First one is about our dealer subscription business. Could you please elaborate more about our next year's strategies? Second question is about our transaction business. How do we control the related risks given current weak macro economy and auto market?

Ming Xu - Bitauto Holdings Limited - CFO

Thank you, Gary. This is Ming. I'll take your 2 questions. Firstly, on the pricing or product strategy of our subscription business, we understand very deeply about the difficulties that our customers are facing. So we actually held our annual dealer conference last year ahead of the Guangzhou auto show where more than 800 representatives from major dealers and dealer groups attended our conference. I believe you also saw the news report about that conference. So during that conference, we have announced that we will not raise the price of our subscription packages in 2020 compared to 2019. So in 2020, we will -- firstly, we will continue to improve the quality and the quantity of our sales leads provided to the dealers to help them sell more cars. And secondly, we will provide them with more value-added services to help them diversify their revenue stream and also improve their operating efficiency. We believe, as long as we can further help our dealer customers, we will be able to improve our sales mix and lay a more solid condition for future growth of our subscription business.

Your second question is regarding the risk management of our transaction services business. Yes. So with this uncertain macroeconomic environment and a change in regulatory background, we are adapting very proactively to this. So far, there are a couple of layers we're -- of things we're doing. Firstly, we are -- on the origination side, we are enhancing our risk management in terms of taking new orders. Secondly is, in terms of our mix between self-operated and loan facilitation, as you can see, we are actively increasing our loan facilitation business ratio in the total business. The purpose is to further lower our balance sheet exposure to the auto financing business. And thirdly, regarding the guarantee practice for the loan facilitation business, we continue to diversify our guarantee partners, on top of Dalian Rongxin which is 100% -- which is owned by Bitauto, Yixin is also looking at, firstly, self-guarantee. They have recently acquired another guarantee company that can shift -- can take some of the guarantee liabilities.

And thirdly, we are talking with external insurance companies to let them guarantee our -- some of our facilitated loans. And lastly, but not least, we are actually talking with some of our financing partners about our new products, where they will take part of the risk and we will take part of the risk. We believe this will help us to maintain a healthy exposure to the total auto financing or transaction service business. Thank you.



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

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.

Operator

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

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