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JP - Full Year 2019 Jupai Holdings Ltd Earnings Call

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Fourth Quarter 2019 Jupai Holdings Limited Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would like to hand the conference over to your first speaker for today, Mr. Harry He, Jupai's Investor Relations Director. Thank you. Please go ahead, sir.

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

Thank you, operator. Hello, everyone, and welcome to Jupai's earnings conference call for the full year ended December 31, 2019.

Leading the call today is Mr. Jianda Ni, our Chairman and CEO, who will review the highlights for the full year 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 interpret his remarks for you.

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

(foreign language)

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

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

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

(foreign language)

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

[Interpreted] Although we started to see certain loosening of regulatory restrictions and privately offered funds during this quarter, the demand for wealth management products stay weak as investors remain cautious on the overall market outlook for 2020.



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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] As a result, our top line performance for this quarter remained under pressure due to such industry-wide headwinds. However, our bottom line performance showed further improvement over the fourth quarter of 2019 as our cost control measures continued to take effect.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] Looking forward, we expect the market environment to be negatively affected by the coronavirus outbreak in the first quarter. We remain confident, however, in the long-term outlook for Jupai and for the overall wealth management industry, which has been reflected in our announcement of USD 10 million share repurchase program in late February.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] Jupai remains dedicated to executing our core strategies of further strengthening our cost control efforts and increasing our operating efficiency, enhancing our product portfolio with differentiated products and optimizing our risk control system and improving project transparency. We will also continue to seek potential growth opportunities for overseas business.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] I will now turn the call over to Mr. Harry He, our Investor Relations Director, to go through the financials in more detail. Thank you.

Thank you, (foreign language). Jupai achieved another sequential decline in operating expenses in the fourth quarter of 2019, thanks to our continuous efforts in implementing cost control measures. More specifically, cost of revenues declined by 14% and SG&A expenses were down by 33%. We expect to be able to further reduce costs in the coming quarter as we continue to enhance our operating efficiencies. Now let me walk you through our financial highlights for the full year of 2019.

Net revenues for the full year of 2019 were CNY 785.9 million, a 40.5% decrease from 2018 primarily due to decreases in onetime commissions, recurring management fees and other service fees. Net revenues from onetime commissions for the full year of 2019 were CNY 318.9 million, a 56.8% decrease from 2018 primarily as a result of decrease in the aggregate value of wealth management products distributed by the company.

Net revenues from recurring management fees for the full year of 2019 were CNY 338.6 million, a 22.2% decrease from 2018 primarily due to the decrease in the value of assets under management. CNY 156.9 million and CNY 61.6 million carried interest was recognized as part of Jupai's recurring management fees for the full year 2019 and 2018, respectively.

Net revenues from recurring service fees for the full year of 2019 were CNY 114.5 million, a 78% increase from 2018 primarily because the company provided ongoing services to more product suppliers. The company recognized CNY 2.1 million and CNY 0.3 million variable performance fees for the full year of 2019 and 2018, respectively.

Net revenues from other service fees for the full year of 2019 were CNY 13.9 million, an 83.5% decrease from 2018 primarily due to a decrease in sub-advisory fees collected from other companies. Operating costs and expenses for the full year of 2019 were CNY 922.6 million, a decrease of 37.7% from 2018. In particular, we saw decreases in cost of revenues, selling expenses, thanks to the cost control measure undertook.

Operating margin for the full year of 2019 was minus 17.4% compared to minus 12.1% in 2018. Net loss attributable to ordinary shareholders for the full year of 2019 was CNY 164.7 million, a 57.5% decrease from 2018.

Net margin attributable to ordinary shareholders for the full year of 2019 was minus 21% compared to minus 29.3% in 2018. Net loss attributable to ordinary shareholders per basic and diluted ADS for the full year of 2019 was CNY 4.9 and CNY 4.9, respectively, as compared to CNY 11.6 and CNY 11.6, respectively, in 2018.

Non-GAAP net loss attributable to ordinary shareholders for the full year of 2019 was CNY 154.5 million as compared to non-GAAP net income attributable to ordinary shareholders of CNY 13 million in 2018. Non-GAAP net margin attributable to ordinary shareholders for the full year of 2019 was minus 19.7% as compared to 1% in 2018. Non-GAAP net loss attributable to ordinary shareholders per diluted ADS for the full year of 2019 was CNY 4.6 as compared to non-GAAP net income attributable to ordinary shareholders per diluted ADS of CNY 0.37 million in 2018.

Looking into our balance sheet and cash flow. As of December 31, 2019, the company had CNY 712.3 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 for the full year of 2019 was CNY 224.6 million. Net cash used in investing activities for the full year of 2019 was CNY 365.7 million. Net cash provided by financing activity for the full year of 2019 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?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question coming from the line of Craig Cao of UBS.

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

Haifeng from UBS and I have 1 question. I have 1 question, actually. So in the fourth quarter of 2019, we could see that Jupai has achieved a quarter-over-quarter loss reduction. And considering the coronavirus impact on the overall economy in the first quarter of this year, can you share with us your view on the overall wealth management industry and the company? And what measures will Jupai take accordingly?

Harry He - Jupai Holdings Limited - Director of IR

Thank you for your question, Haifeng. Let me do the translation for the Chairman first. The Chairman will address your question shortly.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] Let me do the translation for the benefits of other audience. Thank you for asking the question, Haifeng, especially in this difficult environment. The fourth quarter of 2019 remained quite challenging for the overall wealth management industry and for Jupai as well. We began to see a slight relaxation of certain policies in the fourth quarter such as the gradual opening of the window for filing of privately offered funds over the past month and the stimulus policies for specific industry to support economic growth issued by the government.

However, in the fourth quarter, we saw investors remain very cautious due to a potential slowdown in China's economic growth of -- in 2020 as well as the uncertainties from international political and trade conflicts. This had made the demand for wealth management products remain at a low level.

As a result, Jupai's aggregate value of wealth management products distributed totaled CNY 1.9 billion in the fourth quarter of 2019, a decline from CNY 2.65 billion in the third quarter. Our net revenue for the fourth quarter was CNY 137 million, down 25% quarter-over-quarter, and stayed relatively stable on a year-over-year basis.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] Although our top line was negatively impacted by the overall market environment, as we mentioned previously, Jupai's bottom line continued to improve in the fourth quarter. In particular, we achieved a significant decrease in our operating costs and expenses.

Our cost of revenue for the fourth quarter was down 14% quarter-over-quarter, while our G&A expenses was down 33% quarter-over-quarter. Backed by our effective cost reduction efforts, we were able to further narrow net loss attributable to ordinary shareholders on a quarter-over-quarter basis to CNY 30 million as compared to CNY 48 million in the third quarter.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] Looking into the first quarter of 2020, as various industries have been responding to the government's multiple epidemic prevention measures and a temporary shutdown or reduced the scale of their business, we believe a slowdown in macroeconomic growth is inevitable. Additionally, given the current development trend of overseas epidemics, we expect investors' confidence to stay weak, making Jupai's business environment even more challenging in the first quarter of 2020.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] However, both the government and Jupai have been proactively responding to the challenges brought by the epidemic.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] From the external point of view, the government has successfully rolled out many incentive policies such as reducing the social security payment rate, exempting some industries from value-added tax in order to relieve the burden for enterprises.

In addition, the recent interest rate cuts by the People's Bank of China, including reducing the deposit reservation requirement of financial institution and reverse repurchase and also reducing LPR all indicated that -- the PBOC's intention to support the growth of the real economy and to stabilize the financial markets. The government expects these policies and measures to help enterprises to resume production and operation and strive to achieve development goal of this year.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] In terms of Jupai's reaction to the coronavirus outbreak, we have proactively responded to the government's epidemic prevention measures and provided service to our customers through online channels from the 3rd of February to the 9th of February. Moreover, investors can also utilize Jupai's wealth management app, Jupai's official website and Jupai's WeChat official account to check product information.

In addition, Jupai's asset management business division, Jupai's research institute, Jupai's investment consulting division and the insurance business unit have jointly provided investment analysis and special research reports to investors during this challenging period of time.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] We believe that the impact from the epidemic is only temporary. In the long run, the growth potential of the third-party wealth management industry is still huge. You might have noted that Jupai announced a \$10 million share repurchase program on the 26th of February this year, which fully demonstrated our confidence in the long-term growth prospects of the overall industry and in the company as well as our efforts in continuously creating value for the shareholders.

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

(foreign language)



Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] In response to changes in industry trends and market environment, Jupai remained dedicated to executing on our full core strategy in 2020. First, continue to strengthen cost control, reduce operating costs and expenses and improve operating efficiency. Second, enhance the uniqueness of our products and improve our product mix.

Third, strengthen our risk control system across the entire life cycle of our products. Finally, continue to expand our overseas business to achieve incremental growth in our business. Let me walk you through these 4 strategies in more detail.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] First, in terms of cost control, we will continue to optimize our sales incentive scheme while streamlining personnel and sales network. We have made great progress in implementing our cost control measures since the third -- since the second half of 2018.

By the end of 2019, the total staff count at Jupai has reduced from 2,500 at the beginning of 2018 to about 900 currently. In terms of sales network, we also reduced the scale of our carriage network from 72 offices covering 46 cities at the beginning of 2018 to 51 offices covering 43 cities by the end of 2019.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] In terms of improving operating efficiency, we started to upgrade our IT system in 2018 and gradually rolled out the application in 2019. The new system focused on the optimization of our business process in addition to realizing paperless transactions throughout different stages across our product life cycle. The new system focused on improving the efficiency of our client managers and attaining better understanding of our customers' preference and demands for their financial products so as to further strengthen product design and customer service.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] In terms of our products, Jupai will continue to leverage our abundant resources and the deep experience in the real estate industry to further develop real estate related fixed income products, in which Jupai has significant competitive advantages and to move more aggressively -- and to more aggressively promote our real estate equity products, taking the rising star is the equity fund, which we launched in March 2018, as an example.

The total amount of its Phase 1 investment was about CNY 1 billion. And as of today, approximately 80% of this portfolio has been successfully exited. We would like to reiterate that real estate remains our asset class with relatively low investment risks, especially compared with asset



categories such as consumer credit and a supply chain finance product. Moreover, we believe that the recently released stimulus policies for the real estate industry will have recovered investors' appetite for Jupai's real estate related products.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] In terms of risk control schemes, Jupai will pay more close attention to strengthening our risk control capabilities and improving information transparency. 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 atmosphere among investors.

In 2020, Jupai will continue focusing on upgrading our risk management with a holistic approach, including, first, raising the quality threshold of our counterparties of underlying assets and the projects of our products. That is, whenever -- when we select partners, we will give priorities to the top 100 domestic real estate companies with orderly operation, professional management and a standard prospect and also form in-depth cooperation with high-quality counterparties.

Secondly, upgrading our risk management scheme, which includes strict implementation of a 3-level risk control system and the invitation of qualified investors to participate in the risk control meetings. And lastly, raising the capabilities of our client manager and risk management awareness of our clients.

Jupai will continue to provide systematic modular and a case-based ongoing training for our client managers and meanwhile, improving the risk management awareness of our customers so that customers not only trust the professional ability of Jupai's client manager but also trust our risk control capability.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] In addition, we will enhance information transparencies at 2 fronts, namely asset transparency and post-investment transparency. Asset transparency, which we started since the second half of 2019, will allow our staff and investor with a relevant industry background to get involved in the process such as project selection, product research and development.

In terms of post-investment transparency where we introduced the asset information transparency system on our Jupai system in January 2020, striving to -- which strives to make all the aspects of Jupai's wealth management product transparent to investors. Through this system, we will disclose authentic, timely and complete information to investors.

As we truly disclose information about underlying assets of our product, we believe that the investor will be able to timely understand the complete information of their investment projects, participate in the post-investment stage project management and clearly understand the investment risks.

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

(foreign language)

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 playing close attention to overseas business -- overseas opportunities. In the long run, we look to develop overseas product to better fulfill investor needs for the global asset allocation and launch new business when the timing is right.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

[Interpreted] To conclude, Jupai will remain devoted to providing investors with safe, high-quality and innovative wealth management products. Through executing on the strategies mentioned on this call, we are confident in building Jupai as one of the best brands to fulfill the wealth management and the asset management needs of the high net worth individuals in China. I think -- Haifeng, are you still there?

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

Yes, thank you, (foreign language). Yes, thank you, (foreign language).

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

(foreign language)

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

I think it (foreign language).

Harry He - Jupai Holdings Limited - Director of IR

(foreign language), Haifeng. Thank you, Haifeng.

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

(foreign language)

Harry He - Jupai Holdings Limited - Director of IR

Operator, I think this concludes today's call.

Operator

Thank you. So we are now approaching, yes, the end of the conference call. I'll turn the call over to Jupai's Investor Relations Director, Harry He, for closing remarks.



Harry He - Jupai Holdings Limited - Director of IR

Hi, everyone. 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 anticipation in today's conference. You may now disconnect. Good day.

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