

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

JOBS - Q4 2019 51job Inc Earnings Call

EVENT DATE/TIME: MARCH 17, 2020 / 1:00AM GMT



CORPORATE PARTICIPANTS

Kathleen Chien *51job, Inc. - Co-Founder, Acting CFO & COO*

Linda Chien *51job, Inc. - Head of IR and VP*

Rick Yan *51job, Inc. - Co-Founder, Director, CEO, President & Secretary*

CONFERENCE CALL PARTICIPANTS

Alicia Yap *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

Chaoxiang Chong

Eddy Wang *Morgan Stanley, Research Division - Research Analyst*

Ken Chong *Jefferies LLC, Research Division - Equity Associate*

PRESENTATION

Operator

Good day, and welcome to the 51job Inc. Fourth Quarter and Fiscal Year 2019 Conference Call. (Operator Instructions) I would now like to turn the conference over to Ms. Linda Chien, Vice President and Head of Investor Relations. Please go ahead.

Linda Chien - *51job, Inc. - Head of IR and VP*

Thank you, Andrew, and thank you all for attending this teleconference to discuss unaudited financial results for the fourth quarter and fiscal year 2019 ending December 31, 2019. With me for today's call are Rick Yan, President and Chief Executive Officer; and Kathleen Chien, Chief Operating Officer and Acting Chief Financial Officer.

A press release containing fourth quarter and fiscal year 2019 results was issued earlier today and a copy may be obtained through our website at ir.51job.com.

Before we begin, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. All forward-looking statements are based upon management's expectations at the time of the statements and involve inherent risks and uncertainties that may cause actual results to differ materially. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the U.S. Securities and Exchange Commission, including our annual report on Form 20-F. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements except as required under applicable law.

Also, I would like to remind you that during the course of this call, we will discuss non-GAAP measures. Please refer to the press release for a description of the non-GAAP measures and their significance to management in evaluating the company's financial performance. Reconciliations to the most directly comparable GAAP financial measures are provided, where available, in the tables appended to the press release.

This conference call is being recorded and broadcasted on the Internet and a replay will be available through our website at ir.51job.com.

Now I'll turn the call over to Rick.

Rick Yan - 51job, Inc. - Co-Founder, Director, CEO, President & Secretary

Thank you, Linda, and welcome to today's call. I will begin with an overview of the fourth quarter and the full year 2019 followed by an assessment of current market conditions. Then Kathleen will continue with a detailed discussion of our financial results as well as provide our guidance for the first quarter of 2020.

Managing through soft demand due to macro slowdown and trade tensions, we exceeded our solid execution capabilities with discipline and diligence to achieve positive results for the fourth quarter and full year 2019. Fourth quarter revenues exceeded our forecast at RMB 1.136 billion, led by good performance of the other HR services segment, which grew by 10%. Seasonal campus recruitment activity was stronger than we expected and not as affected by the soft demand for general hiring. Employers maintained their targeted graduate campaigns to emphasize their commitment to long-term talent planning and development.

Customer adoption and usage of our BPO, training and assessment services also remain resilient. Our sales team continued to make good progress in cross-selling and combining various parts in our portfolio to provide complete high-value end-to-end HR solutions to employers in China.

As expected, under the pressure of lingering economic uncertainty that weighed heavily on companies throughout 2019, our online revenues decreased 5% in the fourth quarter. We saw a reduction in the number of unique employers primarily among low-activity, small-sized organizations that we have been shifting our strategic focus away from. However, this effect was offset by ARPU improvement of 9%, which was driven by successful upselling to more established companies. Our key strategic objective to increase revenue per customer is unchanged, and our priority remains to strengthen our ability to consistently serve and better monetize an elite customer base.

And prior behavior we have observed over this past year in a tough macro backdrop have only further convinced us that customer quality and the depth of engagement will distinguish 51job's brand and longevity in the HR industry in China.

For the full year, revenues increased 6% to RMB 4 billion. Despite a materially unfavorable change in the demand environment in 2019, we were able to realize year-over-year growth in every quarter, as we adapt to conditions appropriately and tap into our wide breadth of services for other avenues to assist our customers and users. With nimbleness and discipline, we generated operating income of over RMB 1.2 billion. Operating margin was 30% in 2019, similar to 2017 and 2018 levels.

Whether the market brings us headwinds or tailwinds, we have the experience and commitment to balance current cost control and important investment in the long-term opportunities that will pave 51job's path for sustainable and profitable growth.

As we begin 2020, we'll certainly be digging into our core strength and DNA to handle the impact of the coronavirus outbreak in China. The extended Chinese New Year holiday period, travel restrictions, new workplace safety requirements and other measures implemented to contain the outbreak have significantly affected people movement and mobility. Although we have seen employers trying to make swift action and make the necessary adjustments to get back to business, each company's ability to respond to circumstances has been vastly different depending on geography, industry and financial condition.

We have noticed that corporates in the Yangtze River Delta area, covering Shanghai and parts of Jiangsu and Zhejiang provinces as well as the Pearl River Delta area in Guangdong province have been early movers to resume operations.

Verticals such as e-commerce and education have fared better, but offline sectors like real estate and auto have faced greater difficulties. These are just our preliminary observations, and the situation is very fluid and dynamic. However, we do feel that trough has been passed in February and activity is beginning to build momentum in March.

At 51job, we're undeterred and continue to push forward with ways to serve employers and the labor market in these extraordinary times. Our contactless communication tools, such as chat and video interviewing plus our online assessment, training and e-learning platforms are garnering greater user interest and customer adoption. We are also helping companies transform traditional on-site events to digital job fairs that support the entire recruitment process, including campaign promotion, real-time participation and engagement, resume submission, testing, interviewing and onboarding.

As a well-established and recognized leader in our industry, we have been sharing best practices in HR management with the public and collaborating with government authorities to disseminate job opportunities during this outbreak. On the national level, 51job.com was the first online job bot acknowledged by the Ministry of Education to contribute our services to the 24365 initiative for new graduate hiring.

On the local government front, we have offered our assistance to such areas as Shanghai, Wuhan and Zhejiang province. With conviction and patience, we are navigating short-term challenges to position 51job to ramp up quickly when conditions improve. We have full confidence in the strength and resiliency of the Chinese economy, and our robust business fundamentals and ample financial resources will see us through this period.

I will now pass the call over to Kathleen.

Kathleen Chien - 51job, Inc. - Co-Founder, Acting CFO & COO

Thank you, Rick. In my following presentation, please be aware that all financial numbers are in our reporting currency of the Chinese renminbi unless otherwise stated.

Our net revenues for the fourth quarter of 2019 were CNY 1.136 billion, representing a 1.3% increase year-over-year and above the guidance range we provided back in November of last year. As we expected, due to the weak macro conditions that affected hiring demand, our online revenues decreased 5% to CNY 613 million in the fourth quarter. However, we continue to make progress in our main strategic objective in deepening our engagement with high-quality accounts, and this has resulted in a further uplift in ARPU of 9%.

Through increased adoption of more products and combinations of services across the 51job HR ecosystem, we have seen a rising trend in average spend per employer over the past 3 years. ARPU improvement remains our key focus to drive growth of our online business over the long term.

Revenues for other HR services increased 10% to CNY 522 million in the fourth quarter, led by the seasonal campus recruitment projects as well as greater usage of BPO, training and assessment services. Our seasonal campus recruitment activity saw a good activity despite the soft tone for general hiring as employers remain focused on planning for the future with regards to key talent pipeline and development. Growth of our BPO business, training and assessment services reflected continued cross-selling efforts by our sales team.

Beginning January 1 of 2019, we have changed the presentation of government surcharges and included these amounts into cost of services. The 2018 figures were reclassified to conform to this new presentation. Reflecting this change, gross margin was 66.7% in the fourth quarter of 2019 compared with 69.5% in 2018. The increase in cost of services was primarily due to higher employee compensation expenses, seasonal headcount additions as well as logistics cost, such as venue rental and event decoration, which were related to providing our campus recruitment services. Included in cost of services in the fourth quarter was share-based compensation expense of CNY 5.5 million.

Sales and marketing expenses decreased 2% to CNY 260 million in the fourth quarter due to disciplined spending. Although we maintained various advertising campaigns for brand marketing and product promotion, we controlled staff expenses and moderated our own sales hiring in 2019. Included in sales and marketing expenses in the fourth quarter was share-based compensation expense of CNY 4.7 million. In our preparations for 2020 that occurred before the outbreak, we did make commitments to advertising spend, which will increase costs in the first quarter. We continue to closely manage our costs and will balance near-term spending against important investments that will optimize future growth.

G&A expenses increased 15% to CNY 102 million in the fourth quarter. The increase was mainly due to a larger provision for doubtful accounts, which corresponds prudently to the amount of receivables and prepayments in the balance sheet as well as higher share-based compensation expense. Share-based compensation expense included in G&A was CNY 23.8 million in the fourth quarter of 2019 compared with CNY 19.1 million in the year-ago quarter.

Our income from operations was CNY 395 million in the fourth quarter of 2019, down about 7% from a record level in 2018 but up 54% sequentially from the preceding quarter.



Our operating margin was 34.8%, and excluding share-based compensation expense, it would have been 37.8%.

In the fourth quarter, we completed an investment in Huali University Group Limited, which successfully listed on the Hong Kong Stock Exchange in November of 2019. The accounting treatment for this investment is a fair value mark-to-market assessment based on Huali's closing stock price at the end of each reporting period. As this change in fair value is unrealized and not indicative of 51job's core business operations, we are providing non-GAAP results that exclude the effect of any mark-to-market gains and losses related to the Huali investments going forward.

In the fourth quarter, we also recorded an impairment of CNY 98 million related to a minority equity investment in a provider of on-demand work opportunities. Excluding share-based compensation expense, loss from foreign currency translation, the change in the fair value of equity securities investments and impairment of long-term investments as well as the related tax effect of these items, non-GAAP adjusted net income attributable to 51job was CNY 430 million in the fourth quarter. Non-GAAP adjusted fully diluted EPS was CNY 6.33 or USD 0.91 per share.

Now for the full year results. Total revenues for 2019 increased 6% to CNY 4 billion. Our online revenues grew 2% to CNY 2.47 billion and comprised 62% of net revenues. The growth was driven by higher ARPU, which was partially offset by a decline in employers, which was reflective of macro challenges in 2019 as well as our decision to remain selective with the customer base.

In executing our strategic plan, we have increased average online spending by 95% from about CNY 3,300 per employer in 2015 to CNY 5,850 per employer in 2019. We will continue to pursue a high-quality growth strategy that emphasizes productivity and efficiency improvements.

Our other HR services revenues grew 13% to CNY 1.53 billion in 2019. This segment showed resiliency to economic conditions, and we successfully drove customer adoption of these value-added services.

Gross profit increased 3% in 2019 to CNY 2.78 billion, and income from operations increased 5% to CNY 1.2 billion.

Our operating margin was 30.1%, slightly lower than last year's 30.4%. Excluding share-based compensation expense, operating margin was 33.3% and 10 basis points higher than 2018, as we efficiently managed costs in an uncertain environment.

Non-GAAP adjusted net income attributable to 51job increased 8% to CNY 1.48 billion in 2019. Non-GAAP adjusted fully diluted EPS for 2019 was CNY 22.24 or USD 3.19.

And finally, turning to our guidance for the first quarter of 2020. The extended Chinese Year holiday and the impact of the coronavirus outbreak has significantly affected activities in the hiring market and our revenue visibility in the near term. Macro sentiment and conditions remain very dynamic, not only in China but globally as well in recent weeks. As such, we are providing a wider range in our forecast for this coming quarter.

Based on what we currently see, our net revenues target is in the estimated range of CNY 725 million to CNY 775 million, a year-over-year decrease of 15% to 20%. For the non-GAAP fully diluted EPS target, our estimated range is between CNY 1.70 and CNY 2.20 per share. Please note that this non-GAAP EPS target range does not include share-based compensation expense, foreign currency translation, the change in the fair value of equity securities investments nor the related tax effect of these items. And total share-based compensation expense is expected to be between CNY 36 million and CNY 38 million for the first quarter of 2020.

Guidance for earnings per share is provided on a non-GAAP basis due to the inherent difficulty in forecasting the future impact of certain items, such as the gains and losses from foreign currency translation and the changes in the fair value of investments. We are not able to provide a reconciliation of these non-GAAP items to expected reported GAAP earnings per share without unreasonable efforts due to the unknown effect and potential significance of such future impact and changes. This guidance reflects our current forecast, which is subject to change.

This concludes our presentation, and we would be happy to take your questions at this time. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Alicia Yap of Citi.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

I have a few questions. Number one is that could you elaborate how resilient will the HR services is during this coronavirus environment? Will that help us to weather through the delay in the hiring, which will significantly impact our online recruitment service? So if you could give us a bit of the color in terms of the breakdown from the first quarter guidance, like how should we think about in terms of the magnitude of the decline for the online recruitment revenue versus the other HR revenues?

And then the second question I wanted to know is, how should we think about the second quarter? Will the delay and the postponing of the hiring continue and affect the second quarter? Or will that be actually a positive benefiting in the second quarter given all the pushback from first Q? And any color in terms of how the trend looks like in terms of the second half outlook?

And then lastly, the rate you mentioned about a field industry that is positively and negatively impact, what about the financial services, IT and also the technology company, how are those sectors faring versus what we are seeing for the negative impact on real estate versus the more positive on the education side?

Kathleen Chien - 51job, Inc. - Co-Founder, Acting CFO & COO

Thank you for the questions, Alicia. I'll answer the first 2 questions you mentioned, and I'll let Rick actually then take over after that to answer the questions you had around the sort of the industry variances, if you will. Just overall, I mean, in terms of the guidance for the first quarter in terms of the online revenues versus others, we are expecting that the impact may be more significant to some degree for some of our other HR services that could be more delivered offline. For example, with some training services or some of our placement services or any other kind of event-driven or project-driven activities that has more an offline component to it, while online recruitment will actually be relatively sheltered against that. So that would be how the impact would be. As you can imagine, since the end of January when Chinese government essentially instituted policies to lock down essentially most of the population across China and to avoid movement across different provinces to protect public health, it has actually significantly impacted the way people are able to return to work and what kind of activities can be conducted in terms of delivery of services. So that is the picture in terms of the impact on our business. So I would say that in summary that online may be slightly sheltered versus some of the offline businesses that could be provided. But overall, I think the sentiment and in terms of the ability for companies to come back and to restart the year is being delayed across the board. So it will have impact across all product segments for us. So that's number one.

Secondly, kind of looking out to the second quarter and second half of the year, to be honest, I think this is becoming something that's a lot more global than it is just a China-specific issue. So because of that, I think it's very difficult to speak to the longer term because I think while we believe that the worst stage is probably behind us in China, it is unclear how the global picture will potentially come back to affect maybe demand and the companies in China as well. And of course, there will also be MNCs involved in this as well. So that interesting enough, as you I'm sure have noted in media, while Apple has announced that they're closing all global stores outside of China, which is a new development this past week, and that was something that maybe people didn't expect and so while China has kind of restarted and reopened. So I think it's a little bit too early to call the second half or even the second quarter. But at this point in time, I think we're cautious, and we will have to kind of continue to keep people updated. I think that even if there is a quicker recovery in China, some of the global situation now will have a little bit of weight on that. So I think we are cautiously optimistic about China returning to more normal in the shorter term, but the global impact is something that we can't speak to yet. So that's our current assessment of the situation. And then I'll turn it over to Rick to maybe answer a little bit more about some industry impact.



Rick Yan - 51job, Inc. - Co-Founder, Director, CEO, President & Secretary

Alicia, I think we have to separate these industries into different sectors or segments. On the financial one, I think the state-owned banks are pretty much back to normal. I actually had visits from different banks to see how we are doing. And I think this is a government mandate to get all the government officials and also state-owned enterprise management to come out and see -- to visit customers and kind of see how the economy is going. I think for the state-owned sector, I think it's normal.

For the private sector, it's probably slow, also for the IT and tech sector. For the large companies, many things are moving online. Last week, there was an announcement from -- by the Ministry of Human Resources that online labor contract signing will be legal. This is the first time an official statement has been [to make that] online. The government is very keen to move many, many things online. And I think in the longer term, certainly, this would help some of the larger IT and tech companies. However, IT and tech is probably not one of the earliest industries that will come back to full staffing levels. As you know, the government has regulations and restrictions in terms of how many people can come back to the office each week. We are at around 50% staffing level now, although we are able to work from home for -- many of our engineers. But IT and tech sector are not the priority industries to kind of return to a normal kind of workday schedule. So it's a little bit slow, but we are seeing that many, many things are moving online. I think that will be for the larger tech companies, I think they will benefit from it in the medium term as more things going online.

For the start-up and small companies, I'm sure it's difficult because I think the cash flow impact is very significant. And I think the question is whether they survive this downturn or not. So in general, I think finance and IT, tech are doing okay, and the larger companies are doing much better than the smaller ones. But overall, it's not -- these 2 industries are not the ones that are kind of back to normal in the first priority under the government's plan.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

Can I just quickly follow-up a couple of quick things. One is that happening on the other HR services. What about the BPO? I thought the BPO is a bit more resilient. Could that actually help a little bit?

And then if you could also maybe give us a little bit color in terms of your MNC versus the domestic enterprise contributions to either the employer count or maybe the revenue side?

Kathleen Chien - 51job, Inc. - Co-Founder, Acting CFO & COO

Just on the HRO business, in terms of the actual service levels, those are going to be recurring. So that is not going to be under too much attack for now unless companies start to take steps to reduce their workforce. So that is something that, I think, we'll need to see going forward. But fortunately, I do believe that we are working with larger companies. So I think that we are better buffered against the sort of the cash crunch that many of the smaller companies would be subject to. So I think that is the situation.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

The MNC?

Kathleen Chien - 51job, Inc. - Co-Founder, Acting CFO & COO

The MNC, I mean, I don't think that today there is actually going to be any difference into any companies how they react in the short term because, like I said, what's happened and developed globally is something that's very recent, which is really in the last week, if you will, that some of the governments globally have started to take action. So I don't think that we're seeing a differential between MNCs versus Chinese companies today yet. But I think that let's kind of roll forward another couple of weeks or a month from now, then I think we'll probably have more color for you. But I think we work with larger companies, we tend to actually feel like we're better protected against this situation where cash reserves become a very big part of the viability, if you will. And so that is something that we feel that we should be better off in, but there's no kind of specific component

or difference in terms of how companies are behaving yet at this point. So we'll see if that pans out if the global impact continues to kind of spill over back into China.

Operator

The next question comes from Ken Chong of Jefferies.

Ken Chong - *Jefferies LLC, Research Division - Equity Associate*

Congratulations on the strong result, and wish everyone to be healthy and safe. My first question is on cost. Our cost control in this quarter has been robust, especially under sales and marketing. Can you help us understand part of that expense or that is fixed and variable? And under the virus outbreak, how can we further control the absolute amount of the cost in the first quarter or even in the rest of 2020?

And my second question is, on the unique employers by industry. Can I ask our breakdown? And which are the ones that have been impacted more? And which are the ones that have been benefited?

Kathleen Chien - *51job, Inc. - Co-Founder, Acting CFO & COO*

Thank you for the questions. Just in terms of sales and marketing costs and general cost control issues, I think for the first quarter, there may be marketing campaigns and other things that we would have already committed to prior to the outbreak that we will have to continue to move ahead on. So in the short term, there may be some costs in the cost structure that we just need to be able to absorb, which is reflected in our guidance overall, but I think, historically, we have always been very, very, self-- very cost conscious and to make sure that we align our cost structure to revenue levels.

The coronavirus outbreak is a very unique situation. I've never experienced a significant amount of time where the companies -- the country, if you will, will shut down, if you will. So it is actually a difficult thing to plan before or manage our costs during that. But I think we're committed to making sure that we continue to look at our people structure. We want to make sure that we are sensitive to our staff and to make sure that they continue to be able to work with us. But I think that it is something that we're managing.

And from our perspective as management, we are also taking pay cuts at this interim to make sure that we continue to actually have the resources to support our employees more than ourselves, if you will, to some degree, and to make sure that we're responsibly spending and controlling our costs. So I think in the short term, I think that we are being very vigilant, but there are some costs in the first quarter that will need to proceed as before. Because as you will recall, that for our business, Chinese New Year -- sorry post Chinese New Year has historically been the peak period, so sales and marketing actually ramps up during this time. So it is -- the timing is a little bit awkward for us on that perspective. So that is what it is.

On the employer side, I don't think -- again, I don't think that this is something that's hitting industries differently too much in the short term. Because essentially, from the end of January till almost the end of February, I think the entire country was really operating at very low levels, if you will. And for the most part, I would say even probably 70% of the company wasn't even able to get staff back to the offices or the factories because of the lockdown. So I think it is not affecting companies that differently. I think now it's been about 3 weeks where people have started to return for work, which I would say that the first work activity was really the week of Feb 24. So it is something that is very early on, and we're monitoring it. And right now, like I said earlier, I don't think it's impacting people that differently in terms of -- there's not anyone that's really back at full steam. So that's something -- the recovery will take time. So we're keeping a close eye on that, and we'll have to give people more color when we have more color, couple more maybe a month or so later in the game.



Ken Chong - *Jefferies LLC, Research Division - Equity Associate*

Sure. Can I ask a quick follow-up question on the margin side. I understand that in the first quarter, we have committed some marketing campaigns because of this peak quarter. But if you look towards the second quarter or the rest of 2020, I understand the recruitment demand will be impacted by the virus. But how would the margin look if we ignore the enhanced marketing campaign in the first quarter because when we look at last year, even though the macro is weak, our margin is still resilient. Do we see this trend again in the rest part of 2020?

Kathleen Chien - *51job, Inc. - Co-Founder, Acting CFO & COO*

Unfortunately, it is too early to speak. It is difficult to predict what demand levels are because, I think, for the most part, to be honest, 51job's biggest cost structure is people. And our ability to think about how to plan or the demand levels peg to people will be important. So it is a little bit early for us, but we are committed to being disciplined, and we will actually make adjustments as needed, but it's too early to speak on what it's going to look like for the rest of 2020 given that everyone is just starting to come back to work this month. So we'll keep everyone updated, and we will be committed to being disciplined on our cost, which I think we have a track record of. And so hopefully, we can share more information when people -- as information come to light.

Operator

The next question comes from Eddy Wang of Morgan Stanley.

Eddy Wang - *Morgan Stanley, Research Division - Research Analyst*

So my question is regarding the investment. If you look at the last year, I think we have made a strategic investment where -- some of which have been listed. So if we're looking forward, will we still do kind of this kind of strategic investment in this year or next year? And which areas within the recruitment segment do you think we will be more focused on?

Kathleen Chien - *51job, Inc. - Co-Founder, Acting CFO & COO*

Thank you, Eddy, for the question. On the M&A side in general, I think, the strategic outlook in terms of our corporate development strategy is unchanged. And I think that what we've been working on is 2 parts, really, is continue to build out and round out the HR ecosystem so that we are continuing to bring a fuller and more comprehensive suite of services and products to our customers. So from that perspective, whether it's recruiting, training, some of the outsourcing, flex work, any tools related to the efficiencies and the efficacy of serving HR customers, that is something we continue to work on. And I don't believe that our vision and our strategy would have changed because of this current situation. So that is where we are on that.

And then the second component is really commitment to training and education, which is really about developing and building a talent pipeline for our employers, if you will. Because we believe that fundamentally, people are the most important capital to the development of the future workforce, which actually is going to be the key differentiator for a company's success. So that is the second area we continue to focus on.

I think that we are very fortunate that 51job is actually well capitalized, and we have actually a strong reserve of cash on hand that perhaps, actually, there will be even more interesting opportunities at this difficult time, I think, as many companies will have to think about how they reposition themselves for the future, and hopefully, there will be interesting opportunities that will be unlocked as well. So that's where we are.

Eddy Wang - *Morgan Stanley, Research Division - Research Analyst*

Okay. May I have a very quick question regarding the competition. As we look in the past few years, I think some of the new startups were trying to disrupt the overall industry, but our market share is maintained quite well. So because of the coronavirus impact this year, would you share some

more color of the competitive landscape in this industry for now? Is there any chance that because of our long operation history, competitive advantage, so we can kind of just phase out some of the disruption attempts in this year? Or do you think this kind of competition will continue to last maybe in the next few years?

Kathleen Chien - 51job, Inc. - Co-Founder, Acting CFO & COO

My belief is that competition will always exist to some degree, but it keeps everyone honest in a way, right? But I do think that we are very well positioned right now given our cash resources and funding and everything else to survive short-term fluctuations, whether it's demand or market sentiment, a lot of other things. And I do feel like we are very different from our so-called competitors who tend to be focused on single product line or single streams, if you will. So I think it's a different way to go to market, if you will. I think that we feel that we have been able to continue to again integrate and build a broader and more comprehensive suite of services, which then can actually really help us lock in customers for long term because I think we could be the one-stop shop, if you will. And again, that's something that I don't believe that our competitor has been able to do, and I think they're continuing to kind of playing catch-up for the most part. But I think that we are very fortunate that, I think, we are in a position to be able to ride out the storm, if you will, and we will be able to plan for the longer term, which is something that many other companies who are maybe continuing to burn through a lot of cash trying to sustain or validate a business model, they may not have that luxury. And so that changes the picture quite significantly.

Operator

The next question comes from Chao Chong of First State Investments.

Chaoxiang Chong

I have 3, if that's okay, and I'd like to ask them one by one. The first one is slightly more short term. But I was just wondering in terms of what you're seeing with your customers in their sort of hiring and spending budgets. Has there been any sort of freeze or decline? And also in that respect, just in terms of the allocation trend, have you seen it concentrating on some of the fewer bigger providers?

Kathleen Chien - 51job, Inc. - Co-Founder, Acting CFO & COO

To be honest, I think most of the demand has sort of been delayed, if you will. So it's not -- there's not a full visibility into how people are looking at the longer term because these are pretty short-term shocks that's happened. What we can say is that we have seen since the week of Feb 24, which is the week that people have started to come back to work, that demand has continued to ramp up. So that's a good sign. Other than that, it's too early to say what the longer term will look like.

Chaoxiang Chong

Okay. Great. And just the allocation split, I mean, is there a sense that they are focusing more of their budget on fewer providers? Or it's too hard to say?

Kathleen Chien - 51job, Inc. - Co-Founder, Acting CFO & COO

I don't think people are -- I mean people are very -- still kind of ramping up spending not very much. I don't think they're spreading and spending with more people, if you will. Obviously, you go to the people that are core to you, that you have a longer-term relationship with. So that's what we would expect.



Chaoxiang Chong

Okay. Great. Secondly, this is just a bit more on the long-term strategy. I would just like to understand our rationale for focusing on the high-quality customers and shrinking our customer pool. So on one hand, I understand where it's coming from, the pie is not growing by focusing on the high-quality customers. But on the other hand, I think one of our main competitors, what they are aiming for is sort of the volume game where a number of resumes drives more employers to the platform, which drives more resumes increase, sort of a virtuous cycle. I'm just wondering, just you're sort of going in a slightly different direction. And is there a risk of losing the customers you're trying to keep? Because when we see your competitor having twice the number of resumes you have, for example, there's a risk of that happening is there. So just your comments on that.

Kathleen Chien - *51job, Inc. - Co-Founder, Acting CFO & COO*

Yes. Let me correct maybe a misunderstanding. I don't believe any of our competitors has more resume than us. In terms of resume numbers on the user side, we continue to really lead the market almost. So I don't think that, that number you've quoted is actually correct.

In terms of the customer side, if you will, yes, there is a very different strategy that we've gone to market within the last 3 years. I mean, historically, I think we've all started with the so-called market grab volume game, which is just any customer is a customer and they're -- but all customers are not equal and certainly not equal in size or spending or viability. And so I think that we choose to actually focus our resources on what we believe on the higher quality customers who have longer-term viability, who have the ability for us to upsell and increase our -- the spending with us. And that -- and a smaller number of customers given the same amount of users out there that we continue to tap. So in terms of the yield per customer technically is even higher. So I don't believe that our competitors are out dissing us on the user side. It is actually on the customer side that because of the difference in strategy, we've actually chosen different roads to actually a different outcome. So that is a very conscious choice, and it has no bearing on our ability to acquire and continue to develop relationship with the users and resumes, if you will.

Chaoxiang Chong

Okay, okay, understood. And just lastly, again, sort of a long-term strategy question, just in terms of the margins and investments we're making. So if I was to compare your margins against various peers, both locally and globally, I mean you are probably the highest margin company that we've seen before, which speaks about the strength of the franchise and also obviously, the ability to control and manage costs. However at the same time, just wanted to understand maybe how does the management assess whether they're making enough investments? So I understand that the technology is not particularly difficult or expensive, but yet some peers are having lower margins because they are investing intensely. I mean could you just maybe share how do you assess investments? And how do you make sure you're doing enough?

Kathleen Chien - *51job, Inc. - Co-Founder, Acting CFO & COO*

Well, it's kind of an interesting question. It's sort of like if we make too much money, people may think that we're not investing enough. But if we don't make money, then people feel like we're not being disciplined. But I think aside from all that, and I completely appreciate and understand the question in the sense that I think we try to be very disciplined in about thinking about -- for every single investment that we make, we try to think of it as how does that add to the total picture, if you will. We're not making a financial investment per se itself. So that's kind of a hurdle -- sort of a check, a reality check that we would go through ourselves when we actually approach it. A lot of time, people can make a lot of investments, but that doesn't have any integration to their core business. And maybe that -- if we had lowered that standard or the bar, maybe we could have actually made more investments. And I think that's maybe how it's coming out, if you will.

In terms of the cost structure, we are actually a pretty unique company because we do actually try to go to market with 1 single sales force, supported by many product specialists and selling a lot of things across the board, whereas our competitors tend to be again more sort of single product companies, whether it's recruitment or maybe it's BPO or it's training, we have a lot of competitors in different market segments, but we actually run as one ourselves. So I think there are some efficiencies and some leverages in our model, which is pretty unique, and there are not really any global competitors that are adopting the same strategy. So I think maybe that's kind of how it comes out, if you will.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Rick Yan for any closing remarks.

Rick Yan - 51job, Inc. - Co-Founder, Director, CEO, President & Secretary

Thank you for joining us today. We look forward to speaking with you next quarter, and we value your continuous support of 51job. Have a good day. Bye-bye.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Linda Chien - 51job, Inc. - Head of IR and VP

Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.