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CISG - Q4 2012 CNinsure Inc Earnings Conference Call

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Arthur Hall

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the CNinsure 2012 Q4 earnings conference call. (Operator instructions) There will be a presentation followed by a question and answer session. (Operator instructions) I must advise you that this conference is being recorded today, Tuesday, March the 5th, 2013, and the webcast replay will also be available within three hours after the conference is finished. Please visit the CNinsure IR website. I would now like to hand the conference over to your first speaker today, Ms. Oasis Qiu. Thank you, please go ahead.

Oasis Qiu - *CNinsure Inc - IR Manager*

Welcome to our fourth quarter and full year 2012 earnings conference call. The earnings results were released earlier today and are available on our IR website at ir.cninsure.net as well as on Newswire. Before we continue, please note that the discussion today will contain forward looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. The accuracy of those statements may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but not limited to those outlined in our filings, would be obviously including our registration statement on Form 20-F. We do not undertake any obligations to update the forward looking information if that was required under applicable law.

Joining us today is our Chief Executive Officer, Mr. Chunlin Wang and Chief Financial Officer Mr. Peng Ge. They will walk you through our financial and operating performance in the fourth quarter and full year 2012 and discuss our strategies in 2013. They will take your questions after the prepared remarks. Now I will turn the call over to Mr. Wang.

Chunlin Wang - *CNinsure Inc - CEO*

(interpreted) Hello, everyone. Thank you for joining us on today's conference call. During 2012 China's insurance industry continued to show weak growth momentum. The rapid growth of P&C insurance has come to a halt and the life insurance remain in the low digit -- low single digit growth territory. Against this backdrop we are encouraged that we met our previous expectations and maintained our market position with the 4.0% (sic-see press release "4.1%") and 4.6% top line growth in the fourth quarter and fiscal year 2012 respectively.

Looking at our three major business lines, our P&C insurance business did achieve a 6.0% and 5.6% revenue growth in fourth quarter and the fiscal year 2012 respectively, even though we abandoned some channel business which [restored] their high cost and high management risk. And secondly on the Life Insurance business side, impacted by the industry wide sluggish sales of individual life insurance, our Life Insurance business suffered a negative growth in the sales of new policies and as a result recorded a drop of 7.8% and 1.5% in revenue in the fourth quarter and fiscal year 2012 respectively. However, benefiting from the launch of that Life Insurance business and the high 13 month persistency ratio of over 82%,



the recurring Life Insurance commissions continue strong growth momentum with a year-on-year growth of 55.8% and 19.9% in the fourth quarter and fiscal year 2012 respectively.

Third, the growth of our Claims Adjusting business remained stable with net revenues increasing 4.4% and 7.7% for the fourth quarter and fiscal year 2012 respectively.

The gross margin declined significantly compared to 2011, which was largely attributable to intensifying market competition among insurers which forces increased commissions to our sales agents to safeguard our market position. However, we are pleased to see that the gross margin had hit bottom in the third quarter in 2012 and was improved slightly in the fourth quarter of 2012.

2012 is a transition and adjustment year for CNinsure. I'm glad that with the joint effort by (inaudible) CNinsure, while maintaining positive growth we have also made important breakthroughs in various aspects, as follows. Firstly, our organization structure has been substantially simplified. In 2012 we obtained approval by the CIRC to establish CNinsure Sales Service Group Company Limited, which is the first insurance sales service group company in China. On the one hand, it demonstrates CIRC's high recognition of CNinsure's development and is important to further division of the labor in the [industry].

On the other hand, the establishment of the Group company offers CNinsure an [inexpensive] way to remove the VIE arrangement and change our wholly owned affiliated insurance agencies into branches of our two national operating insurance agencies that are wholly controlled by the Group company. As of the end of 2012, CNinsure has achieved direct or indirect equity control over 32 insurance intermediaries through the Group company and through affiliated national insurance intermediaries. In addition, our proposal to convert the first batch of 14 subsidiaries into branches has just been approved by the CIRC a couple of days ago.

Secondly, we further clarified the profit model of our various business units. For P&C business we plan to leverage our CNpad to promote sales force extension and enhance our channel support platforms to promote channel development. For Life Insurance business we devoted efforts to building up (inaudible) to offer comprehensive financial services and products and to cater to the mid to high end customer market and increasing our market presence in major cities. For the Claims Adjusting business we continue to enhance collaboration with our agencies and brokerage firms for business sharing.

In addition, we are dedicated to strengthening the back office support and technology to build a complete service platform that can serve insurance companies of all sizes in China. We are glad that by clarifying their profit models, each of our business units has found their own way to strong revenue streams, which we believe will make a solid foundation for a major breakthrough in profitability growth in 2013.

Thirdly, our proprietary mobile sales support system was put into operation. We launched CNpad in October 2012 and started trial operation of the device in selected subsidiaries in Guangdong province. So far we have over 200 units in operation among South Asians, contributing over RMB30 million premiums, which was about our expectation. In the meantime we have initiated internal testing of the system in selected P&C subsidiaries in Szechuan and Hebei provinces, which are also progressing well. We believe that the application of the new technology will help our operating entities significantly improve the overall operating efficiency and reduce costs as well as increase the [thickness] of our platforms to South Asians.

Through the enhancement and transition in 2011 and 2012, the (inaudible) growth capability of the Company is greatly strengthened, which prepares us now for a major turnaround in 2013. We expect growth momentum will resume in 2013 and gross margins to gradually pick up over the third quarter of 2012. We think the P&C business units' economies of scale will become more urgent while we continue to strengthen cooperation with insurance partners on headquarter to headquarter basis. Within the Life Insurance business unit we expect the 13 month persistency ratio will maintain at a high level of over 82% and the total number of high net worth individual customers will reach 10,000 customers. For Claims Adjusting business we anticipate to establish a leading position in China, in terms of both sales volume and profitability. Last, but not the least, we target at selling 10,000 units of CNpad in 2013.



In 2013 we are dedicated to bringing more technology and comprehensive financial services into our business. First of all, we will accelerate network expansion in major cities, and penetrate into mid to high end customer markets. Secondly, we will innovate to come up with more high value added products to meet a demand from mid to high end customers for comprehensive financial services and products.

Thirdly, we will continue investment in technology and target at rolling out CNpad, (inaudible) mobile sales support system nationwide in 2013 in order to improve the operating efficiency and reduce operating cost for the Company.

Fourthly, we will continue to optimize the profit models of our various business units to enhance their profitability. We expect 2013 to be a critical year for a major turnaround for CNinsure. We will spare no efforts to execute our strategy of bringing more financial services and products as well as technology into our business, in order to create a more solid base for the Company, sustainable, healthy and strong growth and deliver higher returns to shareholders in the long run.

Thank you. Now I will turn the call over to our CFO, Mr. Peng Ge.

Peng Ge - CNinsure Inc - CFO

(interpreted) Thanks Mr. Wang. I am pleased to report our financial results for the fourth quarter and the fiscal year of 2012. The numbers I refer to will be in RMB unless otherwise indicated.

Total revenues for the fourth quarter 2012 were RMB435.8 million, up 4.1% from the year ago quarter and therefore the fiscal year 2012 were RMB1.6 billion, up 4.6% from 2011.

Total operating costs and expenses for the fourth quarter 2012 were RMB429.4 million, down 70% on the year ago quarter and that for the fiscal year 2012 were RMB1.5 billion, down 32.9% from 2011.

Commission and fees expenses for the fourth quarter 2012 were RMB311.8 million, up 27.1% on the year ago quarter and therefore fiscal year 2012 were RMB1.1 billion, up 36.3% from 2011.

Selling expenses for the fourth quarter 2012 were RMB19.3 million, down 2.8% on the year ago quarter and that for fiscal year 2012 were RMB78.4 million, up 0.8% from 2011.

General and administrative expenses for the fourth quarter 2012 were RMB98.3 million, down 24.3% on the year ago quarter and therefore fiscal year 2012 were RMB356 million, up 6.8% from 2011. The decrease for first quarter of 2012 was primarily due to a decrease in share-based compensation expenses. The share-based compensation expenses in 2011 were primarily associated with the cancellation of certain stock options in November 2011. The increase in general and administrative expenses for the fiscal year 2012 were primarily due to the increase in share-based compensation expenses which is mainly associated with the grant of the options in March 2012 and the increase in payroll expenses in 2012.

Impairment loss on intangible assets and goodwill for the fourth quarter 2012 was nil, compared to RMB1. -- RMB1 billion for the year ago quarter, which reflected a material decline in the fair value of the Company as at year end of 2011 and the expected adverse impact of overall economic uncertainties in China, growth slowdown within the Chinese insurance market and our strategic business transition on its earnings in the next two to three years.

As a result of the forgoing factors, operating income for the fourth quarter of 2012 was RMB6.4 million compared to operating loss of RMB1 billion for the corresponding period up to 2011 and therefore the fiscal year 2012 was RMB65.8 million compared to operating loss of RMB748.8 million for the corresponding period 2011.

Non-GAAP operating income excluding share-based compensation expenses and impairment loss for the fourth quarter of 2012 was RMB19.3 million, down 73.6% from the year ago quarter and for the fiscal year 2012 which excluded share-based compensation expenses, professional fees



relating to the withdrawal of non-binding going-private proposal and impairments, losses on intangible assets and goodwill for the fiscal year 2011 and 2012 was RMB132.7 million, down 64.7% from 2011.

Non-GAAP operating margin was 4.4% for the fourth quarter of 2012 compared to 17.5% for the corresponding period of 2011. For the fiscal year 2012, non-GAAP operating margin was 8.4% compared to 24.8% for 2011.

Interest income for the fourth quarter of 2012 was RMB20.1 million, up 21% from the year ago quarter and therefore fiscal year 2012 was RMB90.3 million, up 73.6% from 2011.

The income tax expenses for the fourth quarter 2012 was RMB9.5 million, down 48.7% for the corresponding period of 2011 and therefore fiscal year 2012 was RMB50.4 million, down 40.1% from 2011.

Net income attributable to the Company's shareholders were RMB20.1 million for the fourth quarter of 2012 compared to a net loss attributable to the Company's shareholders of RMB718.6 million for the year ago quarter. Net income attributable to the Company's shareholders for fiscal year 2012 was RMB130.5 million compared to a net loss attributable to the Company's shareholders of RMB299.4 million in fiscal year 2011.

For the fourth quarter of 2012, non-GAAP net income attributable to the Company's shareholders excluding impairment losses on goodwill and intangible assets for the first quarter 2011. Share-based compensation expenses for the fourth quarter of 2012 and the corresponding period in 2011, refunds from the selling shareholders of certain acquired subsidiaries for the fourth quarter of 2012 and the corresponding period in 2011 and net income from discontinued operations for the fourth quarter of 2011 was RMB28.5 million, down 62.6% from the year ago quarter.

Non-GAAP net margin was 6.5% for the fourth quarter of 2012 compared to 18.2% for the year ago quarter.

For fiscal year 2012, non-GAAP net income attributable to the Company's shareholders excluding impairment losses on goodwill and intangible assets net of tax for fiscal year 2011, share-based compensation expenses for fiscal year 2011 and 2012, professional fees relating to a non-binding going-private proposal for fiscal year 2011, refunds from the selling shareholders of certain acquired subsidiaries for the fiscal year 2011 and 2012, cash bonus received from the government for fiscal year 2011 and net income from discontinued operations for fiscal year 2011 was RMB192.9 million for fiscal year, representing a decrease of 47.5% from RMB367.6 million for fiscal year 2011.

Basic and diluted net income per ADS was [loss] RMB0.40 for the fourth quarter of 2012 compared to basic and diluted net loss per ADS of RMB14.34 for the year ago quarter. For fiscal year 2012, basic undiluted net income per ADS was RMB2.60 compared to basic and diluted net loss per ADS of RMB5.97 in fiscal year 2011.

Non-GAAP basic and diluted net income per ADS was loss RMB0.57 for the fourth quarter of 2012, down 62.5% and 62.7% respectively from the year ago quarter. Non-GAAP basic and diluted net income per ADS for the full year was RMB3.85 and RMB3.84, down 47.5% and 47.7% respectively from 2011.

As of December 31 2012, the Company had RMB2.5 billion in cash and cash equivalents.

CNinsure expect its total net revenues to grow by approximately 5% for the first quarter of 2013, compared to the corresponding period in 2012. This forecast reflects CNinsure's current view, which is subject to change. Thank you.

Chunlin Wang - CNinsure Inc - CEO

Thank you. We will open the floor for questions.



QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator instructions) Your first question comes from the line of Christine He from Morgan Stanley. Please ask your question.

Christy He - Morgan Stanley - Analyst

(interpreted) This is Christine from Morgan Stanley and she had three questions. The first question is regarding our commission rate for the P&C business in the fourth quarter and what was it in the third quarter and the year ago quarter? The second question was regarding our share buy-back program. We announced a \$30 million share buy-back program to purchase ADS on the open market and we bought about 190,000 ADS. She wondered what was the average price and going forward, whether we will continue to buy back shares on the open market. The third question is regarding the capital expenditure. We have RMB2.5 billion cash and cash equivalents as of the end of 2012. She wondered how much we were going to invest in e-commerce and in other initiatives in the next two years.

Unidentified Company Representative

Mr. Oasis Qiu would like to take the first two questions and Mr. Wang will answer the last question.

Oasis Qiu - CNinsure Inc - IR Manager

(interpreted) Regarding the commission for our P&C business, for the fourth quarter of 2012 it was around 23.7% as compared to 19% last year and the annual average was about 22.48%. For the Life insurances, the commissions for the new policy, the first year commission was about 113% for 2012 as compared to 119% last year.

The second question regarding the share buyback, we started buying back shares during the window period in November and December, after our third quarter earnings release and we bought a total of \$1.5 million in value of the shares. As a result, we also saw our stock price pick up because of the share buyback.

Then after the end of the fiscal quarter, because we did not make a 10b-5 trend, and we cannot buy any shares during the [bidding trading] period. But the program is still invalid and we will continue to buy shares when the windows open after this earnings release. Some investors may think that we are not doing this share buyback program aggressively enough given the number of the shares that we bought.

However, that's because [of objective reasons]. The [SEC] have very strict regulations to avoid the companies to manipulate the stock price to share buybacks. So they have some restrictions on the trading volume and also the trading message for the Company to buy shares on the open market. So that's why the number of shares that we purchased was actually below our expectations.

In addition to that you may have noticed that our Chairman Mr. Hu has filed a 13G amendment and he personally asked for 1% of the CNinsure shares on the open market during the window period.

The last question regarding the capital expenditure, Mr. Wang says that right now the insurance industry is in the transitional period and a lot of new trends have emerged and actually present a lot of opportunities for CNinsure, such as the further division of labors in the industry and also the professional [life] of the (inaudible) insurance intermediaries as well as the ecommerce developments.

While we are kind of lucky that [we are faced] with the opportunities and we do have so much cash in hand that we can make use of. So going forward, first of all we're going to continue to invest in the ecommerce business. The CNpad has come to life in October last year and we have successfully started the China operations in Guangdong. As we said there's 200 units of CNpad has been put into operations and should retain RMB30 million premiums during the trial period, China operation period, and we are committed to continuing to meld the applications, CNpad,

amongst our agents. We expect to launch it nationwide at the end of this year. Our target is to sell 150,000 units of CNpad within five years and 200,000 units in 10 years. Total investment will be around RMB500 million.

The second area that we would need to invest in is the minority interest buyback and, as we say, we just established the Group Company and would like to convert our subsidiaries into branches and that will require a certain amount of capital investment. In fact, it will be RMB1 billion in total.

The first batch of the subsidiaries that we'd like to convert into branches, which is 14 of them, and the proposal regarding this conversion has been approved by the [CRRC]. We believe that this initiative will be very helpful to further improve our corporate governance.

The third area for investment, as we state, that we're going to continue to expand our market percent in the urban areas, with the Life Insurance business and also we're going to promote internal development for the P&C business and want to build a (inaudible) platform for the (inaudible) claims adjusting business that will also require RMB300 million investment.

Fourth but not the last, the share buyback. We will continue to buy back shares and we will make plans to continue to safeguard our stock stability and also to protect the shareholders' interest. Also our (inaudible) CNinsure full year investment in which we own about 20% active interest. These two companies have been doing quite well and we do want to further increase our shareholding in these two companies when their performances are better. Thank you.

Operator

Your next question comes from the line of Arthur Hall from [Helco Inc.]. Please ask your question.

Arthur Hall

Yes, your forecast of 5% revenue growth in the first quarter, it doesn't exactly seem like a breakthrough. Do you expect that to accelerate in later quarters to higher growth? Also can your gross margin return to the 35% or 40% level that it was about a year ago? Thank you.

Chunlin Wang - CNinsure Inc - CEO

(interpreted) We do expect that revenue will pick up gradually in 2013 over 2012. We already see signs of that in the fourth quarter of this year and we expect the topline will grow within 10% for 2013.

As for the growth margin, what we can say is that we think third quarter 2012 was the bottom in terms of the gross margins and it will improve slowly compared to the third quarter 2012. But as for whether or not it will recover back to 35% to 40% we might have to look at the second half of 2014.

Arthur Hall

Thank you.

Operator

Your next question comes from the line of Andy Nahas from Prospect Fund. Please ask your question.



Andy Nahas - Prospect Fund - Analyst

Yes, thank you. I've got a strategic and long-term question if that's all right. First of all, one of the things I like about your business is the recurring revenue nature of the Property and Casualty business. Is there any way to make the renewals more automatic? In other words I think it requires a little bit of labor intensity to convince people to renew with you after one year and I'm wondering if there's a way you can make those renewals more automatic.

Secondly, longer term I know the government is allowing the insurance companies to sell mutual funds in the future. Do you think, for yourselves, that selling mutual funds will become a big deal for you in the long run? Then finally -- this is a very long-term question -- how many times bigger, in your personal opinion, do you think your annual revenue will become in the very long run compared to the current size?

Chunlin Wang - CNinsure Inc - CEO

(interpreted) Thank you for the questions and these are pretty good questions. First of all, it's true that right now the P&C business, the policy is not automatically renewed right now. But we're seeing that with the applications the impact of things we have developed functionality to help agents to better check the policy status and also send policy renewal reminders to help improve the renewal rate on the P&C business side.

We believe that this is indeed a very high value added point for us to work on in the future. So we think that we have the solutions now. Secondly, for the neutral funds sales, actually we started trying selling mutual funds as well as trusted products in 2012 and the total values of the trust products that we sold was RMB800 million. That really helped our agents to cater -- to develop more customers and also the values improve the loyalty of the customers.

For 2013 we're actually set this year as the same for this year is comprehensive financial services and products as well as technology events. So in terms of the comprehensive financial services and development, that means we are going to sell more mutual funds and trust products. Then on the technology front, it means that we're going to do more technology innovation and also to work harder to promote the applications of CNpad.

We have a target. Our long term goal as to have RMB100 billion in annual premiums within 10 years' time and with the application CNpad we believe that we can achieve that target because as we say, we are going to sell 200,000 units of CNpad in 10 years and we estimate each of these units CNpad can contribute RMB300,000 to RMB500,000 premiums, so that will achieve our target, help us achieve the RMB100 billion premium target in 10 years' time.

We expect that top line growth will record a double digit growth starting from the second half of 2014 and in 2015 we will see very strong growth.

We will provide an update on the progress of the CNpad on a quarterly and also on an annual basis.

Andy Nahas - Prospect Fund - Analyst

Oasis, would you say the double digit revenue growth would start in 2014 or later in 2015?

Oasis Qiu - CNinsure Inc - IR Manager

In the second half of 2014.

Andy Nahas - Prospect Fund - Analyst

Because you are already talking about 10% growth this year, I think you said earlier.



Oasis Qiu - *CNinsure Inc - IR Manager*

Higher than double digit growth for 2014.

Andy Nahas - *Prospect Fund - Analyst*

Okay, thank you very much.

Operator

There are no further questions at this time. Please continue.

Oasis Qiu - *CNinsure Inc - IR Manager*

Thank you for participating in CNinsure's conference call. If you have any further questions, please feel free to contact me. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating.

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