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## CISG - Q3 2011 CNINSURE INC EARNINGS CONFERENCE CALL

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## CORPORATE PARTICIPANTS

**Oasis Qiu** *CNinsure - Investor Relations*

**Chunlin Wang** *CNinsure - CEO*

**Peng Ge** *CNinsure - CFO*

## CONFERENCE CALL PARTICIPANTS

**Joe Kwong** *CICC - Analyst*

**Michael Brian** *MJR Capital - Analyst*

## PRESENTATION

### Operator

Thank you for standing by for CNinsure 2011 Q3 earning conference call. (Operator's instructions).

I would now like to turn the meeting over to your host for today's conference, Ms Oasis Qiu, CNinsure Investor Relations Officer.

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**Oasis Qiu** - *CNinsure - Investor Relations*

Good morning. Welcome to our third quarter 2011 earnings conference call.

Our third quarter earnings results were released earlier today and are available on our IR website as well as on Newswire.

Before we continue, please note that the discussion today will contain forward-looking statements made under the Safe Harbor provision provisions of the US Private Securities Litigation Reform Act of 1995.

The accuracy of these statements may be impacted by a number of business risk 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 filing with the SEC, including our registration statement on Form 20-F. We do not undertake any obligation to update this forward-looking information except as required under applicable law.

Today here with me is our Chief Executive Officer, Mr Chunlin Wang and Chief Financial Officer Mr Peng Ge. They will walk you through our third quarter financial and operating results and take your questions after the prepared remarks.

Now I will turn the call over to Mr Wang.

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**Chunlin Wang** - *CNinsure - CEO*

(Interpreted) Hello everybody. I am Chunlin Wang. Thank you for joining us on today's conference call. Here with me we have our Chief Financial Officer, Mr Peng Ge. We will begin today's call with a review of financial and operating performance for the third quarter 2011 followed by a briefing on our recent development and future strategies, then we will go into Q&A session.

The high inflation environment weighed upon the growth of the insurance industry in China. Our net (inaudible) industry witnessed recorded growth during the third quarter with total net revenues of RMB380 million, up 18.9% from the year ago quarter, which was below our expectation.



Net income attributable to the Company shareholders for the third quarter was RMB78.2 million, representing a decrease of 28.8% year-over-year. Excluding net income from discontinued operations, one-off professional fees related to the non-binding going private proposal, which was withdrawn later, and an impairment charge, non-GAAP net income attributable to the Company's shareholders was RMB106.3 million, representing an increase of 5.3% from the corresponding period of 2010.

In 2011, for the first time in the past decade, the life insurance industry saw a negative premium growth, which also affected our life insurance sales.

Our life insurance commission for the third quarter 2011 grew 11.8%, primarily driven by the growth in renewal commissions, which was also partially offset by a decline in the sales of new long-term insurance policies.

The high interest rate and high inflation concerns made the sales of traditional life insurance policies more difficult. We expect this situation might persist in the near-term. In view of that we will (inaudible) the following initiatives to build the sales of life insurance business.

Firstly, we will cooperate with insurance companies to develop investment-related shorter term life insurance products. Secondly, we plan to diversify our life insurance products to include not just traditional life insurance policies but also consumer financial and wealth management services and products to meet the rising demand for (inaudible) financial services products from the customers.

Our claims adjusting business grew 10.9% in net revenues during the third quarter, impacted by a decline in marine and cargo related claims adjusting business as a result of subdued import and export demand. In order to strengthen the long-term sustainability and core content of our claims adjusting business we intend to establish a comprehensive (inaudible) strategic platform by integrating the order insurance distribution function and the order related claims adjustment (inaudible) together, while in the expertise driven claims adjusting business, such as the non-order related PSD and marine and cargo related claims adjusting business, we will roll out a (inaudible) recruitment and retention program to attract and effectively motivate high caliber professional adjusters.

Now coming to the P&C business segment; it is still our major cash cow. Net revenues of our P&C insurance business in the third quarter grew 22.6% year-over-year, primarily driven by increases in sales volume and average P&C commission rates.

But in the meantime we also experienced widening cost pressure and saw a slight decline in growth margin for the third quarter, due to the impact of the inflation and intensified competition from sales and marketing. These challenges may continue to (inaudible) in growth margin in the near-term.

In order to cope with these challenges we will continue to push forward our e-commerce platform to sell standardized insurance products to sharpen our competitiveness in the long-term.

As for construction of our e-commerce platform, we have made notable progress in building the price comparison website. On 31 October we have commenced a trial operation of the website and invited our sales agents, existing clients and the media to participate in the public testing.

We expect to officially launch the website to the public early next year, which will be the first one of its kind in China, and then it will be followed by a national advertising campaign.

We have been talking a lot about different challenges across the three business lines which we believe are mainly arising from the changing landscape of the insurance industry and the restrictions with our current sales model.

The industry is expected to undergo profound transformation in the sales and marketing models to make a breakthrough in the sales of life insurance products and to adapt to the rising trend of e-commerce which is gradually posing challenges to the traditional P&C sales channels.



From CNinsure perspective, historically our business growth has relied primarily on a people-driven sales model, despite its critical contribution to our growth in the past, with rising labor costs and the inflationary environment, the sales model and the sustainability of our long-term growth are increasingly under pressure.

In order to build a healthier and stronger CNinsure in the long-run, change we need. We intend to alter the factors that drive our growth by transforming our operating tactics and sales and marketing model to more clearly define our market positioning and target customers.

As we do so, we will focus our efforts mainly on the following areas. First - concentrating resources on key cities and cutting back our presence in rural regions. Second encouraging innovation in product design in order to meet the rising demands of medium-to-high-end customers for diversified financial services and products and avoid homogeneous competition. Third - building a customer-centric integrated e-commerce platform that provides comprehensive personal financial services in order to improve customer loyalty and reduce our reliance on sales agents. Fourth - targeting medium-to-high-end customers by establishing a professional and high-caliber sales team specialized in providing financial advisory services; and fifth - adopting specialized distribution channels to sell homogeneous products by consolidating market resources, in particular, from ancillary insurance intermediaries.

As we implement these strategic moves, we may experience a slowdown in growth during the coming two to three years, but we are confident that after these adjustments, CNinsure will have been transformed into a brand-powered and high-tech driven company that provides high value-added products to high-end customers, and that it will be back on the track of strong profits and high growth.

Now I will turn the call over to our CFO Mr Ge to talk about the third quarter financial results.

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**Peng Ge - CNinsure - CFO**

(Interpreted) Hello everybody. I will walk you through the financial performance for the third quarter 2011. The numbers I will refer to will be in RMB unless otherwise indicated.

Total net revenues for the third quarter of 2011 were RMB383.7 million, up 18.9% from the year ago quarter.

Total operating costs and expenses for the third quarter of 2011 were RMB311.0 million, up 44.8% from the year ago quarter.

Commissions and fees expenses for the third quarter of 2011 were RMB192.9 million, up 40.5% from the year ago quarter.

Selling expenses for the third quarter of 2011 were RMB20 million, up 36.7% from the year ago quarter.

General and administrative expenses for the third quarter of 2011 were RMB98.1 million, up 56.2% from the year ago quarter.

As a result of the foregoing factors, income from operations for the third quarter of 2011 was RMB72.7 million, down 32.6% from the year ago quarter.

For the third quarter of 2011 operating margin was 18.9% compared to 33.4% from the year ago quarter.

Interest income for the third quarter of 2011 was RMB13.6 million, up 88.8% from the year ago quarter.

The effective income tax rate was 23.3% for the third quarter of 2011, compared to 16.6% for the third quarter of 2010.

Net income from continuing operations was RMB76.3 million for the third quarter of 2011, down 22.5% from the year ago quarter.

Net income attributable to the Company's shareholders was RMB78.2 million for the third quarter of 2011, representing a decrease of 28.8% from RMB109.8 million for the corresponding period of 2010. Net income attributable to the Company's shareholders for the third quarter of 2011



included the following non-recurring items - first of all, the recognition of impairment losses in respect of goodwill for the claims adjusting segment and intangible assets; and secondly, professional fees related to a non-binding going-private proposal.

Excluding net income from discontinued operations and the non-recurring items mentioned above, net income attributable to the Company's shareholders was RMB106.3 million, up 5.3% from the year ago quarter.

Net margin for the continuing operations was 19.9% for the third quarter of 2011, compared to 30.5% for the third quarter of 2010.

Basic and diluted net income per ADS was RMB1.560 and RMB1.534 respectively for the second quarter of 2011, down 29% and 27.9% from RMB2.198 and RMB2.128 respectively for the year ago quarter.

Non-GAAP adjusted fully diluted net income per ADS which excluded net income from discontinued operations and the non-recurring items mentioned above was RMB2.087, representing an increase of 6.7% from RMB1.957 for the corresponding period of 2010.

As of 30 September 2011, the Company had RMB2.4 billion in cash and cash equivalents.

CNinsure expects its total net revenues from continuing operations to grow by approximately 10% to 15% for the fourth quarter of 2011 compared to the corresponding period of 2010. This forecast reflects CNinsure's current and preliminary view, which is subject to change.

Now our CEO Mr Wang and our CFO Mr Ge will open the floor for your questions.

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## QUESTIONS AND ANSWERS

### Operator

We will now begin our question and answer session. (Operator's instructions).

Our first question is (inaudible) from Capital Investment. Please go ahead.

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### Unidentified Analyst

Hi, good evening from New York. I had a question about the option cancellation in the quarter. I was wondering what was the cause of that - such a significant number of options were cancelled - that was one of my questions. I'm wondering if you expect management to purchase any more shares of stock now that your earnings have been released, and whether there were any shares of stock purchased by management during the month of October as well.

And given the size of the cash balance that the Company holds, USD380 million I recognize (inaudible) Yuan. Why isn't the company even purchasing some, even modest amount of its own stock back given how close the stock price is relative to your cash balance.

Thank you, and appreciate your answers.

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### Peng Ge - CNinsure - CFO

(Interpreted) As you know, the insurance industry is still pretty a people-driven business, so we plan to transform the growth model from the people-driven sales model to a brand and technology type model, but currently we are still pretty much relied on the people-driven sales model.



Looking at stock price, it has been very volatile and dropped from previously like USD20 to currently only like USD6, USD7, the incentives function of the stocks would be almost zero, and Mr Wang mentioned a lot of challenges that CNinsure will be faced with in the coming years, to cope with these challenges we still need to - we tend to continue to motivate our sales people and our employees to help us to cope with the challenges, therefore after serious consideration the Board decided to cancel the stock options which have basically lose the incentive function.

The second question related to management repurchase of stock. The management has purchased some stock by the end of September, and then in October, because the window period has already closed, after the end of the fiscal quarter, so the management did not buy shares during October and November.

But right now, after we release the financial results of the third quarter 2011, the window, another window period opens again and I believe the management will continue to purchase stocks from the open market, subject to their personal financial capability.

And the third question related to Company, potential Company share buyback, as Mr Wang has mentioned just now, the Company will be faced with a lot of difficulties in the next two to three years, and then hopefully we can be back on track of high-growth and high-profit after three years of adjustment.

The management - as management of the Company and also shareholders of CNinsure, as well as founders of CNinsure - management has different roles and we think (inaudible) in a very different perspective. We think that - it is our view that to possess adequate capital enhanced will be a very variable (inaudible) for the Company to overcome the coming winter and to better (inaudible) in the next two to - after the next two to three years, and we reported our thoughts and our opinions to the Board for their consideration.

The Board has been very supportive to our thoughts, and so therefore currently there is no such resolution approved by the Board for a new share buyback program.

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**Unidentified Analyst**

Thank you for your answers. I would like to make one more comment if I could please?

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**Unidentified Corporate Representative**

Sure.

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**Unidentified Analyst**

Thanks for your patience, I know it's (technical difficulties) - I'd just like to say that if each of you, members of management and the Board as well, believe in the future of business (inaudible), that by not spending even a modest portion of the USD380 million to buy back your stock you will look back and will have squandered one of the greatest risk adjusted opportunities to create value for this Company and it's shareholders by not even spending a modest amount of the Company's capital to do so.

But I wish you well and thank you for your time.

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**Unidentified Corporate Representative**

Thank you.

**Chunlin Wang** - *CNinsure - CEO*

(Interpreted) Thank you for your comments. We agree that from stock investment perspective it is indeed a very good investment to invest in (inaudible) share stock, and we will definitely report your opinion to our Board and then to see whether they would agree to earmark a small portion of our capital to -- on share buyback and to (technical difficulties).

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**Operator**

The next question is Joe Kwong from CICC. Please go ahead.

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**Joe Kwong** - *CICC - Analyst*

(Interpreted) The question is from Joe Kwong from CICC, which is about the pending litigation against CNinsure and the executive officers. As far as he knows there is some more law firms have filed a class action suit against CNinsure. Could you please give us an update on that?

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**Chunlin Wang** - *CNinsure - CEO*

(Interpreted) We are aware of this class action filed against CNinsure by (inaudible) small law firms, which aspire to the New York (inaudible). We have already retained a very prominent law firm to defend for CNinsure and executive officers, but actually the Company has not yet been served, so it is difficult for us to give you any additional details on the case yet.

Thank you.

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**Operator**

The next question is from Michael Brian, MJR Capital. Please go ahead.

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**Michael Brian** - *MJR Capital - Analyst*

It's MJR Capital. Thanks for taking my call this evening. I have a couple of questions. First was a follow-up on the options. One, I wanted to know whether you intended to re-issue them at a lower price or what the alternative compensation structure was going to be used to incentivise the sales force you were taking back these options.

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**Chunlin Wang** - *CNinsure - CEO*

(Interpreted) It will be part of our budget, our budget for the next two years, and right now we are still in the process of making this budget, so probably we may have to wait until we finalize the budget and submit it to the Board for approval at the next Board meeting, during the next Board meeting.

So we may have to wait until then to know whether or not we will re-issue a stock options and what will be the details soon.

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**Michael Brian** - *MJR Capital - Analyst*

Okay, secondly, my second question was regarding Mr Hu and I saw the press release and I just wanted to understand why his, you know, sudden stepping down - I read the press release - understand what that says and what is ongoing involvement with CNinsure will be?

**Chunlin Wang** - *CNinsure* - CEO

(Interpreted) There are several reasons for Mr Hu's resignation. First of all, it is his personal health reasons. Since 1998 when Mr Hu founded CNinsure, he has been truly devoted to CNinsure and recently - in the recent years he has actually undergone a lot of pressures, both from the Company growth and also some psychological pressures from the capital market.

I think maybe some of you are aware that last year when Mr Hu (inaudible) for a global conference call to you, (inaudible) the allegations by one of the analysts - his mother passed away and he could not be able to stay with his mother at the last minute of her life, and due to all these pressures, his health has been not as good as before, so we think that it's good for him to resign from the position and have a good rest for better health.

And the second reason is to further strengthen our corporate governance by separating the roles of CEO and the Board Chairman.

And then thirdly, Mr Hu's strength is more on the strategic development and devising the strategies so we think that it may be better for him to resign and have more time to oversee the strategic development while the management more concentrate on executing the strategies, so that the Company can be operating in a more efficient way.

Lastly I would like to take this opportunity to give you some background about Mr Wang our new CEO. He joined CNinsure in 1998 as an ordinary (inaudible) and in the past decade he worked all his way up in different roles and also in different managerial roles, including the (inaudible) of the Group and also the head of P&C insurance business and now he was promoted to CEO of CNinsure.

His promotion is actually an (inaudible) of his great vision to the business development and also of market change, and in face of the challenges they have, we think that Mr Wang should be the right one to facilitate the strategic adjustments for the next two to three years and hopefully Mr Wang will have more chance to meet our shareholders and to share with you his visions.

**Operator**

Thank you for your participation in CNinsure conference. Thank you all for attending.

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