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CISG - Q3 2016 CNinsure Inc Earnings Call

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CORPORATE PARTICIPANTS

Oasis Qiu *CNinsure Inc - IR Officer*

Chunlin Wang *CNinsure Inc - CEO*

CONFERENCE CALL PARTICIPANTS

Bolun Tang *CICC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for CNinsure's Third Quarter 2016 Earnings Conference Call. At this time all participants are in a listen-only mode. All lines have been placed on mute to prevent background noise. After the management's prepared remarks, there will be a question and answer session. Please follow the instructions given at that time if you would like to ask a question.

For your information, this conference call is now being broadcasted live over the internet. A webcast replay will be available within three hours after the conference is finished. Please visit CNinsure's IR website at IR.CNinsure.net under the events and webcast section. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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

Oasis Qiu - *CNinsure Inc - IR Officer*

Good morning. Welcome to our Third Quarter 2016 Earnings Conference Call. The 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 provisions of the U.S. 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 are not limited to those outlined in our filings 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.

Joining us today are our Chief Executive Officer, Mr. Chunlin Wang, and our CFO, Mr. Peng Ge. They will walk you through our financial and operating results in the third quarter 2016, and take your questions after the prepared remarks.

Now I will turn the call over to Mr. Wang.

Chunlin Wang - *CNinsure Inc - CEO*

(interpreted) Good morning, thanks for joining us in our Third Quarter 2016 Earnings Conference Call. I will give you an update on our financial and operational results in the third quarter 2016 and take your questions at the end of the report.

During the third quarter of 2016, China's insurance industry maintained a healthy and fast development with insurance premiums growing 19.1% year-over-year, of which, P&C and life insurance premium were up 9.3% and 24.4% respectively. Sorry, during the same period, CNinsure continue to record solid growth with insurance premiums and revenues growing 52% and 66.3% from a year ago respectively. Again, exceeding our expectations.

Operating income turned positive to RMB7.5 million from losses in the previous two quarters.

We are glad to see solid performance across various business segments. Firstly, P&C insurance premium were up 44% year-over-year with insurance premiums from the P&C agency and brokerage segment increasing 46.9% and 31.7% year-over-year, respectively. Revenues from P&C agency and brokerage segment grew 56.8% and 41.9% respectively.

Secondly, life insurance agency insurance premium were up 125.3% year-over-year. Noticeably, first year insurance premiums from term life insurance increased 330% from a year ago and 13 months persistency ratio was over 90%. Revenues from life insurance agency segment also increased by 200.5% year-over-year.

And thirdly, our claims adjusting segment grew by 3.4% year-over-year.

Next, I would like to go over a few operational highlights in the third quarter. Firstly, we continue to make progress on expanding sales force and extending our market presence, which has injected new growth momentum to our business.

For the past nine months, we've setup new branches in Anhui, Guangxi, Qingdao, Yunnan, and Inner Mongolia provinces. Some of which, have started to generate business in the third quarter. We added nearly 200 sales outlets and doubled the number of our sales agents by 100,000 year-over-year.

During the third quarter of 2016, 13% of the total premium were contributed by these new agents.

Secondly, our marketing activities yielded remarkable results. During the third quarter of 2016, we spent about RMB108 million on marketing subsidies and advertising, adding up to RMB280 million for the first nine months 2016. The total amount of the marketing expenses spent was slightly lower than our earlier estimates but the results were far better than expected.

Although the subsidy were provided to agents who are selling auto insurance only, which proved to be quite effective in attracting new agents and driving the growth of our auto insurance sales. As a large portion of these new agents have prior experience in selling life insurance products, there is a high potential that these new agents could cross sell our life insurance products as well which we believe, will lay a solid foundation to drive the sustainable and rapid development of our life insurance business and improve our profitability.

Thirdly, the integration of our P&C and life insurance agencies presented more cross selling opportunities for our business. Diversified financial product offerings are one of our distinctive advantages to attract new agents and we are making continuous efforts to improve our organizational structure system and training mechanism to support our agents on cross selling. During the third quarter of 2016, the number of insurance agents who have sold both P&C and life insurance policies increased 38% from the same period in 2015.

In the past nine months, as our business scale grew rapidly, we have seen continuous improvements in our operational results quarter-over-quarter and in the third quarter, we finally reversed losses in the past two quarters into positive operating income of RMB7.5 million which we attribute to the following reasons.

Firstly, our life insurance business grew much faster than our expectations. As of today, over 90% of our life insurance premium is derived from long-term regular protection of the entire products, which generate higher gross margin than the P&C business, particularly the renewal business.

For the third quarter 2016, life insurance has taken up over 22.1% of our total net revenues as compared to 12.2% over a year ago, thus driving sequential improvement of our overall gross margin up to the highest level this year.

Secondly, the wider adoption of IT technology has led to effective cost control. Since 2014, we have been pushing forward the transition of our business from offline to online by promoting CNpad mobile application. We encourage our agents to transact their auto insurance and life insurance policies via CNpad app and have their clients purchase standardized in (inaudible) insurance products, such as dental, health and travel insurance on Baoxian.com.

During the third quarter of 2016, CNpad and Baoxian.com contributed RMB976.1 million and RMB19.4 million of the insurance premiums, respectively, accounting for 26.6% in aggregate of our total insurance premium, and 37% of our auto insurance business and 72% of our new term life insurance business, which transacted through CNpad mobile app in the third quarter 2016.

The technology not only helps agents manage their business more efficiently, but also reduces workload in the back-office and saves operating expenses. Compared to a year ago, CNinsure had nearly 200 more sales outlets, doubled sales force, and over 50% business growth, while our operating expense ratio, excluding marketing expenses, decreased for several consecutive quarters.

In the third quarter of 2016, adjusted operating expenses ratio, which excluded marketing expenses, was 13.8%, compared to 20.9% in the same period last year.

Based on the solid performance in the third quarter of 2016, we are optimistic about the growth outlook in the fourth quarter in 2016. We expect the total net revenues to grow more than 40% in the fourth quarter 2016.

Thank you.

Now management will open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions).

Our first question today comes from the line of Bolun Tang from CICC. Your line is now open.

Bolun Tang - CICC - Analyst

Morning, management. Congratulations on the great result. I think this is a good and solid set of results, which beat my expectation. Two questions from me.

My first question is regarding with the selling expenses subsidy, which seems to be RMB108 million in this quarter. Considering that you have already achieved positive operating profits even setting such a huge amount of subsidy and also your full year subsidy should be kept at -- should be kept at roughly RMB500 million.

In my calculation, I think for the full year, I think you have already achieved almost RMB100 million in profits in the full year. It seems that your profits are likely to be positive, which is significantly better than your previous guidance of negative RMB100 million. Is that true? Could you give me some color on the ground and could you also let us know if you would like to increase your guidance for the profits?

My second question is regarding with recent regulatory development. So, basically, the Chinese regulator has announced to give some restrictions on the agents of insurance, which insurance from -- which the agents from insurance can only sell products -- can only sell the products which the insurance is allowed to. Just want to understand what's the impact. Is it positive on the insurance intermediates or is it negative? Thank you.



Chunlin Wang - *CNinsure Inc - CEO*

(interpreted) Based on the performance in the past few quarters, it is true that our marketing campaign has produced positive results, which basically beat our expectations. So based on that, we expect that our net profit will probably be around RMB100 million. And then on the operating income front, the operating income may record a minor loss or breakeven.

We believe the new regulation is definitely a positive to the industry and to CNinsure. In the past, basically, the regulation restricted sales agents from insurance company to sell products from other companies. But right now, in response to the market demand or response to the requirement of the sales agents, it now allows the sales agents or tied sales agents of insurance companies to sell products from other companies.

So it's basically the restriction has been loosened up quite a lot. Only under the condition that it is permitted by insurance company, so it's basically a great improvement, development on the regulation front.

Bolun Tang - *CICC - Analyst*

Okay, got it. Very clear. Thank you, that's very helpful.

Oasis Qiu - *CNinsure Inc - IR Officer*

(Spoken in Chinese).

Operator

Our next question today comes from the line of [Arthur Haw] from [Hawker Incorporated]. Your line is now open.

Unidentified Participant

Yes, thank you. Do you have a target on the number of sales agents where you will start to slow down the growth and reduce the subsidies? Is it 200,000, 250,000? Where would that number kind of be, where you would slow down the subsidies and have your competitors responded with subsidies, similar subsidies, to try to combat that? Thank you.

Chunlin Wang - *CNinsure Inc - CEO*

(interpreted) We have a clear target in terms of the number of sales agents, and our goal is to increase the number of our sales agents to 500,000 to 600,000 by the end of 2017, and 800,000 to 1 million by the end of 2018.

Our judgment is that, driven by the further development of the insurance intermediary sector and also the demand of the consumers, there will be a migration of sales agents from insurance companies to insurance intermediary sector.

So, basically there will be a lot of sales agents who used to work for insurance companies will become independent and join the insurance intermediary companies.

The marketing subsidy strategy, has proved to be quite effective, based on our results in the past quarters. So we will continue to implement that strategy. But of course, we may adjust it or optimize these marketing programs from time to time based on the actual results.

So we'll use this subsidy program to take advantage of the opportunities presented by the migration trend, I mean, the migration of sales agents from insurance companies to insurance intermediary sector, in order to further enhance our market position and leadership.

As of the amount of the subsidy, we will provide this target for the budget early next year.

Unidentified Participant

All right, thank you. It's a very ambitious strategy.

Oasis Qiu - CNinsure Inc - IR Officer

(Spoken in Chinese).

Operator

(Operator Instructions).

I see that we have no further questions on the line now. I would now like to hand the conference back to Ms. Qiu for closing remarks.

Oasis Qiu - CNinsure Inc - IR Officer

Thank you for joining us on today's conference call. If you have any further questions, please contact me directly. Thank you.

Operator

Ladies and gentlemen, that concludes our conference for today. We thank you all for your participation. You may now disconnect.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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