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CISG - Q4 2014 CNinsure Inc Earnings Call

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PRESENTATION

Operator

Thank you for standing by for CNinsure's fourth quarter and fiscal year 2014 earnings conference call. (Operator Instructions). Today's conference is being recorded. If you have any objection, 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

Welcome to our fourth quarter and fiscal year 2014 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 US Private Securities Litigation Reform Act of 1995. The accuracy of these 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 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 fiscal year 2014, and take your questions after the prepared remarks.

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

Chunlin Wang - CNinsure Inc - CEO

(Interpreted). Happy new year, everyone and thank you to all of you for joining us this morning. I welcome this opportunity to provide a bit more color on our results for the fourth quarter and full year in 2014, and on our prospects for the year ahead of us. Our CFO, Mr. Ge and I will take your questions after the prepared remarks.

Firstly, our financial performance. As we executed our O2O strategy, the solid growth performance continued into the fourth quarter of 2014, wrapping up the year with a 25.6% growth in net revenues in the fourth quarter, exceeding our guidance, leading to a 22.4% growth in net revenues for fiscal year 2014.

It was also our first time to achieve over 20% growth in annual net revenues, since 2011.



The total insurance premium generated by us grew by over 28.4%, to RMB8.1b, beating the industry's 17.5% growth.

On the profit side, adjusted operating income, excluding expenses incurred by online initiatives increased 46.5% and 116% year over year, for the fourth quarter and fiscal year 2014, respectively.

However, as we increased spending on the development and promotion of CNpad mobile app and Baoxian.com in the fourth quarter 2014, along with the launch of eHuzhu and Chetong.com, total expenses incurred by online initiatives increased 471% year over year, resulting in a slight operating loss in the fourth quarter 2014.

Operating income for fiscal year 2014 increased 71.8% year over year.

Now let's get to each business line.

The insurance agency business was still our main income source, increasing 26.3% in the fourth quarter and 14.5% in fiscal year 2014.

Net revenues derived from the P&C insurance agency business increased 26.2% and 17.1% respectively, for the fourth quarter and fiscal year 2014, mainly due to a substantial increase in sales volume and an increase in commission rates in the fourth quarter.

CNpad mobile app played a larger role in the growth of the sales volume, contributing 20.1% of the total net revenue in the P&C agency business in 2014, compared with 4.2% in 2013. Yet the gross margin for the fourth quarter and fiscal year 2014 slightly dropped, as we have adopted a commission incentive policy to promote online transactions through CNpad.

Net revenues derived from the life insurance agency business increased 27.2% in the fourth quarter 2014, compared with the corresponding period in 2013, primarily due to a strong rebound in the new policy sales and a resumed positive growth of renewal commissions.

The annual net revenues from the life insurance agency business declined 1% in fiscal year 2014, compared with fiscal year 2013. The main reasons were due to firstly a decline in commissions derived from the sales of short-term life insurance products, as we reclassified most of the short-term insurance products into the P&C insurance agency category, as a result of our organizational restructuring. And secondly the decline in commissions from the newer life insurance products, as a result of the negative growth in the sales of new insurance policies in the past two years, offsetting an increase in commissions from new long-term life insurance policy sales in 2014.

And benefitting from the effective [renewal] management and the maintenance of cross-migration, the persistency ratio of our long-term life insurance were 85.7% and 83.7% respectively, for the fourth quarter and fiscal year 2014, increased by 5% and 3 percentage points, compared with the corresponding period in 2013 and fiscal year 2013.

As a result of the increase of the commission rate, driven by the increase of the sales volume of new insurance policies, gross margins for the fourth quarter and fiscal year 2014 both have improved significantly.

Net revenues of the claims adjusting business increased 0.9% and 12.2% respectively, for the fourth quarter and fiscal year 2014. Due to the frequent natural disasters in 2013 and the concentrated [upgrade] of business volumes in the fourth quarter of 2013, net revenues in the claims adjusting business in the fourth quarter of 2013 was at a record high.

And because of the high base effect, non-auto insurance claims adjusting business reported a negative growth in the fourth quarter of 2014, partially offsetting the 15.3% increase in the auto insurance claims adjusting business. And as a result, the net revenues was flattish during the fourth quarter of 2014.

On gross margin front, due to the decreased proportion of the higher margin non-auto claims adjusting business, gross margins for the fourth quarter and fiscal year 2014 both declined slightly, year over year.



Our insurance brokerage business continued to grow at a year-over-year rate of 108.4% and an annual rate of 266.8%, further proving the more recognition of our innovative platform by our corporate clients and brokers.

As we increased commissions payout to our insurance brokers to gain more market share, gross margins for the fourth quarter and fiscal year 2014 both decreased slightly, year over year.

2014 was a milestone year for CNinsure. Starting three years ago, we have envisioned a disruptive change that the Internet will bring to the insurance industry, and started exploring opportunities in insurance e-commerce.

Within three years since then, pieces of the puzzles of our big plans for an integrated O2O platform have been put together and turned into reality, with the launch of CNpad mobile application, Baoxian.com, Chetong.net and eHuzhu, marking a new chapter in the history of CNinsure's development.

Firstly, the CNpad mobile application. Positioned as the online transaction platform for sales agents in China, CNpad mobile app supports price comparison and transaction on mobile devices for auto insurance products from over 30 property and casualty insurers and life insurance products from two life insurance companies.

At the end of the fourth quarter of 2014, the number of accumulated activated downloads from CNpad app were over 55,000, and there were about 35,000 users, which means that more than [56%] of our sales agents have all or partially shifted to mobile.

We're excited that we've seen a significant increase in contributions by CNpad mobile app, from 3.4% last year to over 15.4% of our total insurance premiums by the end of the year.

Secondly, Baoxian.com. We positioned Baoxian.com as the marketplace, focused on accidental insurance and health insurance products in early 2014. Transaction volume and the number of customers grew drastically in 2014, with the number of online customers increasing from 1,500 last year, to over 8,000 by the end of 2014. And the insurance premium sales through the website grew by over 46%, to over RMB16m.

Thirdly, Chetong.net. The platform was launched in August 2014. By the end of 2014, Chetong.net has signed cooperation agreements with seven insurance companies and sales insurance organizations, while the number of registered [chetong] or service people has topped 10,000, more than the number of claims professionals retained by some of the leading P&C insurance companies. And the website -- the platform has processed over 20,000 claims during the fourth quarter of 2014.

Fourthly, eHuzhu. Since its launch in July 2014, its registered number has grown to over 280,000, becoming the largest private online mutual aid organization in China.

Fifthly, the auto insurance pricing deregulation will soon be unveiled from May 2015 and we are well prepared to explore the market opportunities. The development of our auto insurance comparison website, (inaudible) is already underway, and we expect to launch the website in the second quarter of 2015.

To sum up, the launch and the successful operation of the above online platforms verifies the feasibility of auto insurance sales and service business model, making a solid base for CNinsure's successful transformation, from a traditional insurance intermediary to an Internet-based financial service platform.

We are proud that our online projects have made great achievements in a short amount of time since their launch. And we believe the key behind the success was because unlike many other traditional companies which have failed in their attempt to transform into Internet-based companies, we have taken full advantage of offline resources to support and complement our online operation.

Going forward, we will continue to leverage our offline network and we believe this is also the key behind the success of our transformation. Therefore, we restructured our organization by Internet platform, instead of business divisions, to enable online and offline integration.



We established a auto strategy management office, as well as online and offline integrated marketing centers, operations center and product center.

Meanwhile, we have changed key operational metrics to evaluate the performance of our employees, to drive Company-wide, top to bottom transaction, towards O2O integrated operations.

In addition, as we have increased efforts to recruit and retain Internet finance professionals, more and more O2O talents have joined the big family of CNinsure, showing our determination to firmly push forward our O2O strategy.

In terms of our regulatory environment, we were excited to see many positive developments in 2014 and early 2015. The State Council issued opinions on the development of the modern insurance industry in August 2014, which is seen by many as bringing new vitality to the insurance industry and may mark the beginning of an extended period of rapid development for the industry in China.

Deregulation of the life insurance pricing system appears to be accelerating, and the long-anticipated pilot program for deregulating the pricing system of the auto insurance sector was announced and will begin rolling out in May 2015, which we believe will lead to more auto insurance product innovation and differentiation.

At the same time, because of advance in Internet technology, especially the proliferation of mobile devices, consumers are increasingly turning online, and online insurance sales, in terms of premium payments, have increased by over 39 times in just four years, from RMB2.1b in 2011 to RMB85.8b in 2014, contributing 4.2% of the total market share in China, in 2014. We believe that there is still room for substantial growth in online insurance sales, in the next few years.

Against this backdrop, we have embraced the opportunity to establish our O2O business model by leveraging on the strength of our offline network, and set our strategic goals to be the largest transaction-enabled entry portal for insurance and wealth management products. Secondly, third party mobile insurance transaction platform; thirdly, a public service platform for the insurance industry; fourthly, a team of insurance advisers, and fifthly, mutual aid organization.

Based on these goals, in the next five to eight years, we aspire to become a leading Internet-based financial service provider that generates hundreds of billions of transaction volume and billions of profit.

To achieve this target, in the next three years, we will focus on the following three areas.

Firstly, our operational focus will shift towards gaining market share by increasing investments in marketing and technology.

These investments will likely have a negative impact on our bottom line over the near and medium term, and may even result in an operating loss. However, we believe these investments are necessary for us to accumulate customers and establish our market leadership.

Secondly, we will resume our M&A strategy. Our M&A targets may include leading wealth management companies that have engaged in Internet finance to broaden our product lines or companies that have innovative business models related to Internet finance or leading Internet finance technologies, to strengthen our O2O platform and solidify our market position.

Thirdly, we will accelerate our internal organizational restructuring and optimize our business structure. Going forward, except for our insurance brokerage business and conventional line of claims adjustment business, all of our business transactions will move online. Our offline subsidiaries will become service support units to serve our customers and our sales people.

Looking ahead to 2015, we expect to generate total insurance premium of over RMB10b and that our top line will grow by over 30%.

As our integrated O2O platform gets up and running, our management and employees have full confidence in our growth strategies and prospects. In November 2014, we decided to issue and sell up to 10% of our total outstanding share capital to our employees.

And due to the overwhelming demand, as evidenced in that this issuance was more than four times oversubscribed, we have subsequently issued and sold an additional 5% of our share capital to our employees.

Shortly after that, management purchased from CDH Inservice, its entire stake in CNinsure in January 2015. Upon completion of that transaction, management collective's stake in CNinsure will increase from 3.1% to 16.5%.

All of these actions demonstrate our confidence and commitment to achieving the long-term success of our Company.

Thank you.

Oasis Qiu - *CNinsure Inc - IR Officer*

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Henry Guo, JG Capital.

Henry Guo - *JG Capital - Analyst*

Hi. Thank you for taking my questions. So a quick one. So I think that in the prepared remarks, you guys mentioned the top line growth for the year will be about 30%. And then the guidance for Q1 is only about 20%. So why -- what is it that is the case? What is the kind of visibility management has in terms of the second half of the year? It seems like, revenue wise, 2015 is backend loaded year. And so any color will be helpful. Thank you.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). Firstly, the top line growth for the first quarter of 20%, we tend to give a relatively conservative guidance. And then secondly, we do believe that the growth momentum of our new online projects will pick up over time and the growth momentum will be much stronger in the second half.

Henry Guo - *JG Capital - Analyst*

Great. Very helpful. And my second question is about the life insurance segment. So last year, the life insurance kind of struggled over the year so -- but the Q4 was pretty strong. So what kind of visibility in terms of life insurance segment growth in 2015? Thanks.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). In 2000 -- from 2011 to 2013, our life insurance business was kind of negative growth. However, in 2014, we started to see a positive growth in the new insurance -- new life insurance products we sell and the reason was because we conducted an organization combination in the fourth quarter of 2013. And some of our P&C insurance agencies also started to sell life insurance products. And so the growth was largely attributable to the additional sales from our P&C sales agents.



And looking ahead in 2015, we believe the new life insurance policy sales will be over 30% to 50% in terms of the growth. And in the next three to five years, we still believe that the growth will be positive and mainly attributable to the fact that more and more of our P&C insurance agencies will also offer life insurance products.

Henry Guo - *JG Capital - Analyst*

Great. That's all my questions. Thank you very much.

Oasis Qiu - *CNinsure Inc - IR Officer*

Thank you.

Operator

Andy Nahas, Prospect Fund.

Andy Nahas - *Prospect Fund - Analyst*

Yes, thank you and congratulations on the accelerating growth. So I just wanted to make sure I heard you correctly. You were saying earlier that five years from now, you would have annually, how many transactions per year?

And secondly, it looks like it's the right decision to investing to capture the online opportunity in mobile. I wondered, when you get these additional customers, how recurring will the revenue be from those customers? In other words, will those customers keep paying you on an annual basis after you acquire them? Thank you.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). In the Internet era, it's imperative for any Internet-based company to acquire the market share at a very rapid pace. And it is our goal to become a company that can generate hundreds of billions of transaction volumes and also, over RMB10b profits within the next five to eight years.

Andy Nahas - *Prospect Fund - Analyst*

RMB or dollars?

Oasis Qiu - *CNinsure Inc - IR Officer*

RMB.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). It is true that the recurring rate of the insurance products is a big issue, especially for the Internet-- the online insurance sales. That's why we decided to also expand our M&A going forward in order to both further diversify our product offering and to increase the customer stickiness.



And also, with more and more of our online projects get up and running, we will also combine -- make sure that all the customer's resources can be shared amongst all these platforms so that our customers have access to more diversified product lines.

So that means afterwards, our customers will have one unified account which gives them access to life insurance product, auto insurance products, and travel insurance products, or even like wealth management product or even become a member of our eHuzhu program.

Andy Nahas - Prospect Fund - Analyst

Thank you.

Operator

(Operator Instructions). [Zhu Ling, BBA].

Zhu Ling - BBA - Analyst

(Interpreted). First of all, congratulations on the good results in the fourth quarter. I have three questions.

Firstly, management mentioned that you would like to -- the Company would like to gain more market share even at the expense of profit. I wonder what amount of investment are we talking about and what kind of -- what number of customers are we going to -- do we intend to acquire?

Chunlin Wang - CNinsure Inc - CEO

(Interpreted). We expect to spend about RMB1.7b in marketing and technology improvement for the next three years from 2015 to 2017. And the investment for marketing and technology will be around RMB200m in 2015.

Excluding the expenses, we expect our operating profit will be growing by over 20% and the net profit will be flattish or slightly -- or record a slight, a minor loss because of the investment.

As for the number of customers, right now, it is hard for us to quantify the number, but we do expect the transaction volume will be hundreds of billions within the next five to eight years.

Zhu Ling - BBA - Analyst

(Spoken in Mandarin).

Chunlin Wang - CNinsure Inc - CEO

(Interpreted). The RMB1.7b will be spent in the marketing and technology related to CNPad, Baoxian.com, and eHuzhu, as well as the upcoming auto insurance comparison website, [Shinabao].

And as for what's the proportions of the investment that we are going to spend in each of these platforms, as we are still in the process of recruiting, retaining a marketing firm, we do not really have a specific number right now.

Hopefully, we will have a specific plan as for the spending in the next quarter.



Zhu Ling - BBA - Analyst

(Interpreted). And you mentioned that we expect the new life insurance policy sales to grow by over 30% to 50% in 2015. What is the reasons behind this strong growth?

Chunlin Wang - CNinsure Inc - CEO

(Interpreted). Right now, actually, only half of our insurance agencies were selling life insurance products, and most of our insurance agencies are primarily focused on the distribution of auto insurance and P&C insurance product, and these agency is mainly based in the major cities in the urban areas.

And starting from last year, we also require our P&C insurance agents to offer life insurance products to their customers as well. And from -- for example of one case in Guangdong, one of our P&C agency in Guangdong decided to sell life insurance products in 2014 and by the end of the fourth quarter, they have become the fifth largest insurance agency in terms of the life insurance sales.

So we believe that the cross-selling of our P&C agencies will be a major growth driver behind the strong growth. And in addition to that, we will also invest more in improving our products and also technology to drive the growth of the life insurance business.

Zhu Ling - BBA - Analyst

(Spoken in Mandarin).

Chunlin Wang - CNinsure Inc - CEO

(Interpreted). And in the fourth quarter, the selling expenses ratio increased -- the cost ratio increased quite significantly and the reason was because we would like to encourage more of our sales agents to use CNPad to conduct business and also to issue insurance policies for their clients.

Therefore, we offered a kind of incentive to our sales agents to using CNPad to do the business. And the question is whether that is a onetime thing or will it be a recurring one. Well, actually, it is kind of promotions to encourage agents to use CNPad more. So when all of our agents migrate to mobile, we believe that the expenses will decrease over time.

Even with all the cost ratio increase, however, the operating expenses ratio decreased slightly year over year and we believe that's partially attributable to the adoption of more of the CNPad mobile app among sales agents. And that helps -- it does help improve the operating efficiency in our back office.

Operator

There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Oasis Qiu - CNinsure Inc - IR Officer

Thank you for joining us for today's conference call and if you have any further questions, please feel free to contact me. Thank you.



Editor

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