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CISG - Q1 2013 CNinsure Inc Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Andy Nahas *Prospect Fund - Analyst*

Christy He *Morgan Stanley - Analyst*

PRESENTATION

Operator

Thank you for standing by for CNinsure's first quarter 2013 earnings conference call. (Operator instructions). 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 broadcast live over the Internet. Webcast replay will be available within 90 minutes 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 any time. At this time, I would now like to turn the meeting over to your host for today's conference, Ms. Oasis Qui, CNinsure's Investor Relations Officer.

Oasis Qui - *CNinsure Inc - IR Officer*

Welcome to our first quarter 2013 earnings conference call. CN's results were released earlier today and are available on our IR website as well as on Newswire. Before we continue, please know that the discussion today will contain forward-looking statements made under 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 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 first quarter of 2013 and then 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 the call. On today's agenda, our CFO Mr. Peng Ge and I will discuss the operational and financial highlights for the first quarter 2013 and share with you our business outlook for the rest of the year. We will take your questions after that.

First of all, let's take a look at how the industry performed during the first quarter of the year. Total insurance premiums grew 6.5% year-over-year, of which P&C insurance maintained a solid growth of 15.3% while life insurance turned into positive growth of (inaudible). Although the insurance market saw a mild recovery, there are still a lot of challenges. For instance, serious competition amongst P&C insurance companies has resulted in higher combined ratio and lower underwriting profit for many P&C insurance companies. Life insurance markets, on the other hand, due to difficulties in (inaudible) recruitment, banks lacking incentives to sell insurance and our attractive insurance product, continued to record sluggish new policy sales and expect to see a surge in policy maturity and surrender payments in the near term.



The key words of our growth strategy for 2013 are comprehensive financial services and technology leadership. Being faced with the challenges in the insurance market, on the one hand we have developed lots of efforts to maintain business growth and protect our market position. On the other hand we've accelerated our transition to new areas of focus, i.e. development and promotions of CNpad to support mobile operation and expansion into major cities to explore the financial services arena. The financial and operational results for the first quarter demonstrated that we are on track to achieve our goal and make great achievements on the strategic transformation.

During the first quarter of 2013, total net revenues grew 18.9%, far exceeding our expectations, although growth margin continued to decline as a result of increased market competition, which translated into lower operating profits. We are encouraged to see that the decline was at a slower pace as compared to the previous quarter, and we believe that the cost increase was temporary. As we gain traction in the new areas of focus, we expect to see gradual improvement in top-line and bottom-line performance.

Now let's look at each of our three major business segments. Firstly, the P&C insurance segment recorded a (inaudible) growth of 24.1% year-over-year during the quarter, although growth margin was further squeezed due to higher commission rates in the auto insurance market as a result of market competition. Secondly, the Claims Adjustment segment also performed strongly, with 19% revenue growth, primarily resulting from stronger auto insurance related trends adjusting business, which is attributable to a new corporation model with (inaudible) insurance partner.

In addition, we have taken measures to effectively control the operating costs in the Claim Adjusting business segment and saw an improved profit margin as a result. Thirdly, net revenues derived from the Life Insurance business segment were flat year-over-year during the quarter, primarily due to the net effect of a negative in new policy sales and (inaudible) growth in renewal life insurance premiums. 13 months persistency ratio for (inaudible) life insurance demands an above-industry average level of over 80%.

We are encouraged by the achievements we made on our strategy of bringing more technology and comprehensive financial services into our business. In the first quarter of 2013, we continue in helping the quotation engine of the mobile sales support system with the rate of accuracy improved to over 95%. As of March 31 2013, we have sold 274 units of CNpad, which contributed to over RMB19 million insurance premiums during the first quarter of 2013. In addition, as of the end of the first quarter we had hired some strong financial managers and the number of customers who have purchased wealth management products through us increased to 1338 customers from 1073 customers during the previous quarter, with the value of wealth management products that were distributed during the first quarter exceeding RMB190 million.

In the remainder of 2013, we continue to be dedicated to executing our growth strategies. First of all, we will continue to push forward the internal testing of CNpad nation-wide, and in the second quarter we will have pilot operation of the CNpad (inaudible) in more regions, including (spoken in foreign language) provinces. In the meantime, we will continue in helping supporting capacity of the mobile sales support system to match the growing business volume.

Secondly, we will continue to diversify product offerings to cater to customers' demands and the establishment of financial planning studios while strengthening life insurance sales capability.

Thirdly, we will strengthen cooperation between our Claims Adjusting and the P&C business segments and push forward the independent claims adjustor model for auto insurance related claims adjusting business and the partnership model for non-auto insurance related claims adjusting business, step by step.

2013 is a year for major changes for CNinsure. The financial results for the first quarter 2013 fortified the confidence of the management. We believe the focused execution of the strategy of building e-commerce business and offering comprehensive financial services and products will contribute to our business growth and bring back some (inaudible) gradually back on (inaudible). Thank you. Now we turn the call to our CFO, Mr. Peng Ge.

Peng Ge - CNinsure Inc - CFO

(Interpreted) I am pleased to report our financial result for the first quarter of 2013. The numbers I will refer to will be in RMB unless otherwise indicated. Total net revenue for the first quarter 2013 was RMB401.3 million, up 18.9% from the year-ago quarter. Total operating costs and expenses for the first quarter 2013 was RMB399.7 million, up 33.8% from the year-ago quarter. Commissions and fees expenses for the first quarter of 2013

was RMB297.2 million, up 39.2% on the year-ago quarter. Selling expenses for the first quarter of 2013 were RMB20.1 million, up 7.6% from the year-ago quarter. General and administrative expenses for the first quarter of 2013 were RMB82.4 million, up 23.8% from the year-ago quarter. The increase for the first quarter of 2013 was primarily due to an increase in share-based compensation expenses, payroll and social insurance expenses and depreciation expenses.

As a result of the foregoing factors, operating income for the first quarter of 2013 was RMB1.6 million, down 95.8% from the year-ago quarter. Non-GAAP operating income, excluding share-based compensation expenses was RMB14.4 million for the first quarter of 2013, down 66.3% from the year-ago quarter. Non-GAAP operating margin was 3.6% from the year-ago -- for the first quarter of 2013 compared to 12.7% from the year-ago quarter. Interest income for the first quarter of 2013 was RMB21.5 million, down 4.1% from the year-ago quarter. The income tax expenses for the first quarter of 2013 was RMB6.2 million, down 54.5% from the year-ago quarter. Net income attributable to the Company's shareholders was RMB21 million for the first quarter of 2013, down 61.5% from the year-ago quarter.

For the first quarter of 2013 non-GAAP net income attributable the Company's shareholders, excluding share-based compensation expenses, was RMB32.8 million, down 42.4% from the year-ago quarter. Non-GAAP net margin was 8.4% for the first quarter of 2013 compared to 17.4% for the year-ago quarter. Basic and diluted net income per ADS was RMB0.42 for the first quarter 2013, down 61.4% and 61.3% respectively from the year-ago quarter. Non-GAAP basic and diluted net income per ADS was RMB0.68 and RMB0.67 for the first quarter of 2013, down 42.2% and down 42.1% respectively from the year-ago quarter. As of March 31st 2013, the Company has RMB2.5 billion in cash and cash equivalents.

CNinsure expects its total net revenue to grow by over 5% for the second quarter of 2013 compared to the corresponding period in 2012. This forecast reflects change in current view, which is subject to change. Thank you. Now we will open the floor for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Your first question today comes from the line of Andy Nahas from Prospect Fund. Andy, please go ahead.

Andy Nahas - Prospect Fund - Analyst

Thank you. I was wondering, why are you feeling that your revenue growth rate in the second quarter will slow down from the growth rate in the first quarter? And I was also wondering longer term how high do you think your revenue growth rates will get to again, maybe three years from now, that kind of thing?

Chunlin Wang - CNinsure Inc - CEO

(Interpreted) The second quarter forecast reflects the two factors. First of all, if you look at the performance of insurance company, P&C insurance company, in the first quarter, actually they performed poorly during the first quarter, primarily due to the increased costs which hurting their profits. So we are seeing a trend by the CRIC and its local bureaus that they're pushing forward a (inaudible) led by the local industry commissions which may result in a decrease in commission rates. And secondly, the second quarter's revenue growth actually was basically in line with our first quarter's sales growth. Excluding the (inaudible) from the increase in commission rate, our sales grew about 10% year-over-year in the first quarter. So the second quarter sales were basically about the same as compared to the first quarter.

We expect top line growth of about 15% in 2014 and then 20% in 2015. After 2015 we expect to grow about -- over 20% and that may last for another five years. And the growth forecast was based on three reasons. First of all, we believe that the adjustments that we've made in the past couple of years have already met our expectations. And then secondly, based on the operational result of CNpad, we also think that the results also meet our expectation, our goals. And thirdly we expect that the introduction of more diversified financial services and products will help boost



the sales of our Life Insurance business and we expect that contributions will -- there will be more contributions from these two growth engines in 2014, starting from 2014.

We are confident that these two growth engines i.e. the CNpad and also the comprehensive financial services strategy will contribute to CNInsure's -- will more enhance the leadership on market position-- will enhance market position in the next five years. And the second quarter forecast of over 5% is more kind of a (inaudible) focus, so the actual result may be higher.

Andy Nahas - Prospect Fund - Analyst

Okay, thank you. How many CNpads did you sell in the first quarter and how many do you think you might sell in the second quarter?

Chunlin Wang - CNinsure Inc - CEO

(Interpreted) We sold 274 units of CNpads which contributed about RMB19 million in terms of insurance premiums and we do think this number is a pretty good one. Actually, we have -- on control, we've been controlling the pace of the sales and use of CNpad on purpose so that there is more -- the better comparability between sales and the supporting capacity of the system, so -- and this number of 274, it kind of exceeded our original target. And in terms of the per unit sales, actually per unit sales has also exceeded our target as well because originally we looked for a per unit sales of 300,000 but the first quarter result already exceeded this number. And for the second quarter we looked for sales number of 500 units and in fact, the third quarter -- starting from third quarter the number of sales will grow.

Operator

(Operator instructions). Your next question comes from the line of Christy He from Morgan Stanley. Christy, please go ahead.

Christy He - Morgan Stanley - Analyst

(Interpreted) The first question from Christy was just regarding the commission rates, first of all the commission rate of our P&C business in the first quarter and the year-ago number and also she is asking about commission rate for our Life Insurance business in the first quarter.

Chunlin Wang - CNinsure Inc - CEO

(Interpreted) Our P&C business commission rate for the first quarter was 24% as compared to 21.5% last year. So the life insurance commission actually the commission for the new policy the first year commission was 120% as compared to 110.2%.

Christy He - Morgan Stanley - Analyst

(Spoken in foreign language).

Chunlin Wang - CNinsure Inc - CEO

(Interpreted) The second question from Christy was regarding the commission rates -- no I'm sorry the gross margin. In the first quarter our gross margin actually declined a little bit and she's asking the trend for the coming quarter. Estimated result for the declining gross margin is kind of result of a (inaudible) and as we expand the competition among P&C insurance companies has become more intensified in the first quarter which resulted in an increase in the commission rate in all the insurance markets. We had to pass on the increase in the commission rate to our agent. So the spread doesn't change but because of the bank has increased so that resulted in a decline in our gross margin.



Looking ahead Mr. Wang explained that if we look at the operator's (inaudible) of P&C insurance company in the first quarter we can actually estimate that 60% to 70% of P&C insurance companies may suffer a loss by the end of the year. So that's why starting from the second quarter of 2013 we have seen from the local CRC bureaus and local industry commissions are pushing for a (inaudible) among P&C insurance companies which intends to control the commission rate. So with the more (inaudible) in the market we actually expect the gross margin will increase.

We believe that the CRRC will tighten its control over the market to avoid unreasonable competition which has become quite obvious in the first quarter so in order to avoid the across the board loss among P&C insurance companies. But of course the result of this control may be delayed to show and in fact we might see a more substantial result of these control policies in the third quarter.

Christy He - *Morgan Stanley - Analyst*

(Spoken in foreign language). Should I speak in English again?

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted) Yes please.

Christy He - *Morgan Stanley - Analyst*

So my question is we are very pleased to see actually CNinsure has been selling a lot of CNpad and my question was what's the percentage contribution into commission revenues currently from CNpad and what's our expectation going forward in terms of revenue contribution from CNpad?

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted) The number of sales targets for CNpad for 2013 is 10,000 units but as we explained just now we expect the sales to accelerate not until the third quarter. So probably in terms of commissions contributions it won't be a huge number in this year. But starting from next year since we are looking at selling 20,000 to 30,000 units of CNpad in 2014 it will -- the CNpad will make a more meaningful contribution to commission growth extent. In terms of the numbers of sales for the coming years we actually expect the total numbers we can sell is 100,000 in the next five years. Starting from 2015 the contributions from CNpad will be over 50% of our commission.

Christy He - *Morgan Stanley - Analyst*

(Spoken in foreign language). My last question is whether management has actually repurchased any ADRs on the open market during the last quarter? Thanks.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted) The Company and management continues to purchase ADRs on the open market going forward.

Unidentified Speaker

(Spoken in foreign language). Thank you.



Operator

Your next question today comes from the line of Andy Nahas from Prospect Fund. Andy, please go ahead.

Andy Nahas - Prospect Fund - Analyst

Thank you. What wealth management products did you sell primarily in the first quarter and might you be affected by the Chinese Government's crackdown on certain wealth management products? That's number one and number two -- will the wealth management business for you going forward will it be any better or worse in nature? Is it still a commodity type of business and will there be recurring -- more or less recurring revenue from those products? Thank you.

Chunlin Wang - CNinsure Inc - CEO

(Interpreted) The products that we sell are mainly collective trust products and as we just got a license to distribute public (inaudible) so we are right now doing a search on the sales of this type of product. As the distributors we are kind of mass affected from policies or direct relations (inaudible) by the Chinese -- the banking regulatory committee.

The collective trust products are more or less standardized products so we don't have recurring commissions from this product but when the product becomes mature there is a chance that our customers will continue to buy new products from us.

Operator

(Operator instructions). Your next question comes from the line of Andy Nahas from Prospect Fund. Andy, please go ahead.

Andy Nahas - Prospect Fund - Analyst

Yes since nobody is asking questions I hope it's okay. You talk about the possibility of buying into an insurance company. I was wondering what the status of that was and then also I thought you had ownership in the entity -- part of the entity that owns the trust fund. So I guess I was just wondering if there was any risk there as well.

Chunlin Wang - CNinsure Inc - CEO

(Interpreted) We are invited by Macro to be one of the investors in the live insurance company called (inaudible) Live Insurance Company and we are still in the process of submitting the application to the CRRC Board license so it's difficult to predict what the progress is right now. We are still waiting for the feedback from the CRRC.

We do own about 20% in the company called (inaudible) Investments and it's primarily engaged in the research on wealth management products. It's not a trust company.

Operator

Ladies and gentlemen as there are no further questions on the line at this time that does conclude our conference for today. Thank you all for your participation. You may all disconnect.

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