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EDITED TRANSCRIPT

Q1 2019 Fanhua Inc Earnings Call

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CORPORATE PARTICIPANTS

Chunlin Wang *Fanhua Inc. - Chairman & CEO*
Oasis Qiu *Fanhua Inc. - IR Manager*

CONFERENCE CALL PARTICIPANTS

Yuan Xue *China International Capital Corporation Limited, Research Division - Research Analyst*

PRESENTATION

Operator

Thank you for standing by for Fanhua's First Quarter 2019 Earnings Conference Call. (Operator Instructions) For your information, this conference call is now being broadcasted live over the Internet. Webcast replay will be available within 3 hours after the conference is finished. Please visit Fanhua's IR website at ir.fanhua.com under the Events & Webcasts 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, Fanhua's Investor Relations Manager.

Oasis Qiu *Fanhua Inc. - IR Manager*

Good morning. Welcome to our first quarter 2019 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 U.S. Private Securities and 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 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 and Chairman, Mr. Chunlin Wang; Chief Financial Officer, Mr. Peng Ge; and Board Secretary, [Lily Lee]. Mr. Wang will provide a review of financial and operational highlights in the first quarter 2019. He, Mr. Ge and Mrs. Lee will take your questions after the prepared remarks.

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

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

[Interpreted] Thank you for joining us on today's conference call. Here with me, we have our Chief Financial Officer, Mr. Peng Ge; and our Board Secretary, Mrs. [Lily Lee]. We will begin today's call by giving a brief analysis about recent market development followed by an overview of our first quarter 2019 financial and operational results. There will be a Q&A session after the report.

Chunlin Wang *Fanhua Inc. - Chairman & CEO*

(foreign language)

Oasis Qiu *Fanhua Inc. - IR Manager*

[Interpreted] Firstly, an industry analysis in first quarter 2019. In order for China's insurance industry to achieve a healthier and more orderly development, the insurance regulator has started cleanup and rectification initiatives, focusing on steering the life insurance industry back to its fundamental function of providing protection to the society since October 2017. The regulator has issued a series of strict rules and measures and have strengthened efforts to investigate and punish malpractices, which have effectively curbed irregularities in the industry. In 2019, the tightening regulatory supervision is expected to deepen. Therefore, we expect that the industry's cleanup and rectification may continue to bring pressure on the growth of the industry within a certain period of time. However,



it will definitely lay a solid foundation for the healthy and rapid development of the insurance industry in the long run and bring vitality to the development of those enterprises which have kept compliance with laws and regulations.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] In the first quarter 2019, total personal insurance premiums in China reached RMB 1.3 trillion, up 18% year-over-year, while many life insurance companies saw a sharp decline in their first year regular life insurance premium and a continued drop in sales head count. It's expected that the life insurance industry may continue to feel pressure to deliver growth, and it's highly possible that the industry-wide drop in first year regular life insurance premiums may continue into the second quarter of 2019.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Secondly, financial and operating results of Fanhua in the first quarter of 2019. In the first quarter of 2019, Fanhua's life insurance business registered a strong growth of 45.1% year-over-year to RMB 2.2 billion in terms of total insurance premiums, of which first year premiums increased by 45.6% year-over-year to RMB 809.1 million. Annualized insurance premiums equivalent increased by 20.9% year-over-year to RMB 533 million, and renewal insurance premiums grew by 44.9% year-over-year to RMB 1.37 billion, respectively. Our operating profit reached RMB 126.4 million with a year-over-year increase of 40.2%, in line with our prior expectations. Our net income per ADS grew by 31% year-over-year to RMB 2.62.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] In the first quarter 2019, while many major insurers reported difficulties in agent recruitment, Fanhua's sales head count continued a steady growth of 20,000 to 30,000 people per month. As of March 31, 2019, the number of registered sales agents in Fanhua has exceeded 860,000, among which the number of performing sales agents in the first quarter of 2019 was over 123,000, including 53,309 sales agents for selling life insurance policies.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] In the first quarter of 2019, we were pleased to see improvement in our life insurance product mix. Annuity insurance products as a percentage of our total annualized life insurance premium increased to 24% from a year ago, while house insurance accounted for 69.8%. Endowment insurance accounted for 2.9%, and whole life insurance and term life insurance accounted for about 3.2%.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] In the first quarter 2019, there was a big change in the structure of our life insurance partnership. The proportion of sales in terms of APE generated by our top 5 life insurance company partners is as follows: Aeon accounted for 33.5%; Huaxia, 18.8%; Tian'an, 17.6%; Sinatay, 13.5%, and Great Wall, 4%; and Evergrande for 2.7%.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Thirdly, the development of our online platforms. In the first quarter of 2019, our online platforms maintained a good growth momentum. Firstly, the Lan Zhanggui, the number of activated accounts hit 860,000 times as of March 31, 2019. In the first quarter of 2019, the number of active users was 61,468, and insurance premium generated through Lan Zhanggui were RMB 887.5 million, representing a growth of 40.6% from a year ago.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Secondly, CNpad Auto Insurance App. The number of activated accounts has reached 568,367 times as of March 31, 2019, representing an increase of 35.9% year-over-year. Insurance premiums generated through CNpad Auto Insurance App were RMB 423 million in the first quarter 2019.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Thirdly, Baoxian.com. The number of registered customer accounts on Baoxian.com was approximately 2.3 million as of March 31, 2019, up 42.2% from a year ago. In the first quarter 2019, the number of active customer accounts was 82,869, up 33.4% from a year ago. And insurance premiums generated on Baoxian.com through direct sales was RMB 90.2 million in the first quarter 2019 with a year-over-year increase of 63%.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Fourthly, eHuzhu maintained a steady development strategy. As of March 31, 2019, the number of its active registered members was 3.5 million, representing an increase of 13.4% from a year ago. The number of total claims is 2,193, and accumulated amount of payout is RMB 377 million.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Fifthly, the chetong.com. Number of its active registered claims service representatives on Chetong.net was more than 16,000 as of March 31, 2019, with accumulated orders of approximately 1.8 million.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Fourthly, other major developments during the quarter. First is dividend payout. As previously announced by the Board of Directors, the company's annual dividend will be increased by 20% from \$1 per ADS in 2018 to \$1.20 per ADS in 2019, which will be paid on a quarterly basis. The dividend in 2019 first quarter is \$0.30 per ADS and will be paid on or around June 20, 2019, to shareholders of record on June 6, 2019.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Secondly, the share buyback program. In March 2019, the Board authorized the management to repurchase up to 200 million of the company's ADS by December 31, 2019. From March 2019 to May 17, 2019, an aggregate of 1.4 million ADS have been repurchased for approximately USD 36.8 million. Pursuant to the company share buyback program implemented in 2018 and 2019, the company has repurchased a total of 2.8 million ADS for approximately USD 73.1 million. Management will continue to execute outstanding share buyback plans.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Thirdly, Special Committee. On May 21, 2019, the company received the report from the Special Committee concerning the result of the independent review, pursuant to which the Special Committee of the Board of Directors has completed its review of certain allegations raised by short sellers. The Special Committee concluded that the short sellers' allegations that characterize the company as a fraudulent business designed to enrich insiders through a series of related party and self-dealing transactions were unsubstantiated. The short seller reports proved to contain baseless speculation and misleading and inaccurate allegations.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] The conclusion vindicated that the company has strictly kept compliance with SEC and NASDAQ rules and regulation on listing companies, including the requirements [for public] transparent and through disclosures. Management is pleased with the result. Going forward, management will put this behind and wholeheartedly focus on the company's development and operations to create more value for our shareholders in the long run.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Fifthly, the business outlook in the second quarter 2019. We expect our annualized insurance premiums on the regular life insurance products to maintain positive growth and our operating income to increase by no less than 20% in the second quarter 2019.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] Thank you. Now our management will open the floor for your questions. Rachel?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Yuan Xue from CICC.

Yuan Xue China International Capital Corporation Limited, Research Division - Research Analyst

(foreign language)



Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] The question is from Xue Yuan from CICC. Congratulations to the management for the good results, and Xue Yuan has one question regarding the recent regulatory development. The regulator requires insurance intermediary companies and insurance companies to clean up non-active sales agents. He is wondering what the impact will be on Fanhua.

Chunlin Wang Fanhua Inc. - Chairman & CEO

(foreign language)

Oasis Qiu Fanhua Inc. - IR Manager

[Interpreted] First of all, this regulation is targeted at the whole industry, including insurance companies and insurance intermediary companies. And it is possible that it may bring some impact on the increase in total number of agents. And in the short term, it will also bring some impact on business development to the whole industry as well as Fanhua. But we believe that in the medium and the long term, it will also create more favorable market environment for the development of more regulated companies and companies that would -- shown strength.

Operator

There are no further questions at this time. I would now like to hand the conference back to Ms. Oasis Qiu. Please continue.

Oasis Qiu Fanhua Inc. - IR Manager

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

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now all disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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