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CISG - Q2 2014 CNinsure Inc Earnings Call

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CORPORATE PARTICIPANTS

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Peng Ge *CNinsure Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Arthur Hall *Hallco Inc - Analyst*

Andy Nahas *The Prospect Fund - Analyst*

Adam Smith *Columbia Business School - Analyst*

Colin McBirney *Pacific Investment Management Company - Analyst*

PRESENTATION

Operator

Thank you for standing by for CNinsure's second quarter 2014 earnings conference call. (Operator instructions).

For your information, this conference is now being broadcast live over the internet. 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 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, CNinsure's investor relations officer.

Oasis Qiu - CNinsure Inc - IR Manager

Good morning. Welcome to our second quarter 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 second quarter 2014, and take your questions after the prepared remarks.

Now I will turn the call over to Mr. Wang, (inaudible).

Chunlin Wang - CNinsure Inc - CEO

(interpreted) Hello, everyone. Thank you for joining us on today's call. On today's agenda, I will give you an update on the financial highlights for the second quarter 2014 and share with you our strategic developments. Our CFO, Mr. Peng Ge, and I will take your questions after this.



Firstly, looking at the industry performance, China insurance industry slightly recovered this year with total gross premiums up 21% year-over-year in the first half 2014. While gross premiums in the P&C sector was up 16% from the first half 2013, in life insurance sector, market condition was much improved, which resulted in an up surge in new business sales, posting a 23% growth in total premiums from the first half of 2013.

Now looking at our financial performance, benefitting from our transformation and restructuring, we were back to double digit growth, with a strong rebound in top line and bottom line growth for three consecutive quarters.

During the second quarter of 2014, our total net revenue once again beat guidance, up by 20.8%, a record high for the prior 10 quarters. Our operating profit was up 95 times, primarily driven by the strong growth in top line as well as because our gross margin, the flattish gross margins and improved expense ratio, both year-over-year and quarter-over-quarter, and the decline in the expense ratio was primarily attributable to an effective cost control due to the restructuring and a decrease in share-based compensation expenses, which translated into a substantial growth in operating profit and adjusted EBITDA during the quarter. As a result, our EPS for the second quarter 2014 was up 163.4% year-over-year.

Looking at each of our business segments, our traditional business continued to maintain stable growth while new business segments continue a very strong growth momentum into the second quarter.

Insurance agency business segment, which accounted for 74.6% of our total net revenues, recorded 9.7% revenue growth year-over-year in the second quarter 2014. The insurance premiums generated by our P&C agency business grew solidly by 18.5% year-over-year during the quarter, outpacing industry growth while its revenue grew 10.9% from the second quarter 2013, slower than the volume growth, primarily reflecting a slight drop in P&C insurance market commission rates in an easing competition environment. Gross margin of our P&C agency business remained flat.

Our life insurance agency business has finally yielded positive growth of 2.7% and 13.4% year-over-year and quarter-over-quarter respectively. After two years struggling in the [segment] market, this growth was mainly driven by a rebound of over 35% both year-over-year and quarter-over-quarter in the commission of new business, reversing the downward trend of the past two years and partially offset by the year-over-year decline of commissions from short term insurance sales and recurring business. During the quarter, the gross margin of our life insurance agency business saw an increase year-over-year.

Our claims adjusting business maintained solid growth, with revenues up 22.6% year-over-year during the quarter, primarily driven by the strong growth in the non-auto related P&C claims adjustment business. Its overall gross margin was stable at around about 40%.

Our insurance brokerage business continued a very strong growth momentum into the second quarter, with net revenues up 421.3% year-over-year, accounting for 10.8% of our total net revenues. The growth in the segment was largely attributable to our efforts to expanding market channels and building up operating platforms to offer more professional support by establishing strategic cooperation with multiple insurance companies, encouraging product innovation and proactively introducing global [reinsurers] to support local business et cetera.

Firstly, with regard to the progress in our internet initiatives. While further strengthening our offline sales and service capabilities, we continue to focus resources on developing our online initiatives to support offline operations. We are glad that we have made a great deal of progress.

Firstly, CNpad Application was well accepted among our insurance agents, seeing as it was made available for free download in May. Within two months since then, the downloads were up by more than 11,000. The aggregate copies of the application downloaded were over 17,000, with more than 8000 copies were actively used in producing insurance premiums. Insurance premiums generated from the app were approximately RMB237 million for the second quarter 2014, up 6.7 times as compared to a year ago and RMB436 million for the first half 2014, accounting for 15.9% of our total P&C insurance agency business, as compared to 2% in the first half 2013.

As more transactions were completed through mobile devices, there was a substantial improvement in the productivity of our back office staff. We believe that as mobile transaction volume continues to rise, our back office operation expenses and sales [overhead] cost to go down gradually.

Secondly, on July 3, 2014, we launched eHuzhu which is the first non-profit online mutual aid platform in China. eHuzhu's first program targets at the principal providers of families between the ages of 20 and 50, and offers certain amount financial aid to program members or their families should the provider be diagnosed with cancer or suffer an accidental death. Each program members pledges to donate certain amount to the fund in each case of cancer or accidental death. We as the platform operator do not assume any underwriting risk.

As of August 25, 2014, less than two months since the launching of the platform, more than 60,000 members have registered on the platform, of which more than 49,000 have signed up for the program. The program is in line with our commitment to fulfil our social responsibility. It also offers a good way to (technical difficulty) our agents to develop and retain customers.

We are dedicated to embracing the internet by building online financial product and services vertical portals and then also ecological circle to support our offline sales and service network. After over three years' exploration, we now have a clear vision of our strategic direction, our goal and the path to achieving it. Over the past year, we have rolled out several customer acquisition and online transaction platforms, including CNpad Application and eHuzhu program.

In the meantime, we have completed a restructuring of our offline operation, which boasts a well-established nationwide sales and services network to provide our clients with the highest quality of initial products and customer services. Starting from the third quarter of 2014, we will devote a lot of effort to strengthening our online customer acquisition and transaction platforms and to seamlessly connecting our offline sales and service capabilities with our online platforms.

Several intensive marketing programs will also be initiated. In order to provide more visibility into the Company's growth prospects, we plan to host a corporate day in mid-October to announce our O2O internet strategy and its impact on our financial results.

Looking ahead to the third quarter of 2014, we set our top line to grow by approximately 15%. We remain upbeat in our future -- about our future and believe that we have the right strategy and are on track to further [sanctify] our leading position and achieve strong sustainable growth over the long term. Thank you.

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

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen. We will now begin the question and answer session. (Operator instructions). Your first question comes from the line of Arthur Hall from Hallco Incorporated. Please ask your question.

Arthur Hall - Hallco Inc - Analyst

Yes. Congratulations on an improving result. You've increased your investment in the trust product substantially to RMB600 million in the quarter. Could you discuss the average yield on those products and the prospects for increasing the investment even further? Also, the safety, the relative safety of those products. Thanks.

Unidentified Company Representative

(interpreted) Well, we have been granted a -- we've been authorized by the Board to decide -- to allow the management to invest in a certain type of trust plan with relatively high yield and low risk. When we select this trust fund, we will have very stringent requirements. First of all, we're required to select only the top 20 of the 30 trust plans.



Then secondly, we need to have a very clear understanding and we need to be very comfortable about the underlying assets and the risk control capabilities of the [relative] trust company. These are about 7% to 8%, which is much higher than the bank savings.

Arthur Hall - *Hallco Inc - Analyst*

Thank you very much. Could you talk about the further increases in those investments?

Peng Ge - *CNinsure Inc - CFO*

(interpreted) First of all, our cash reserves have to be put aside for -- to support our strategic development, to support the growth of the Company. As Mr. Wang mentioned that we have some plans -- we have some online initiatives this year, so I believe that we will have certain -- we will [acquire] a large amount of investment in the internet -- in our internet strategies in the near term. So there won't be a very big increase in our investment in any of the short term trust products.

Arthur Hall - *Hallco Inc - Analyst*

All right. Thank you.

Peng Ge - *CNinsure Inc - CFO*

Thank you, Arthur.

Operator

Thank you. Your next question comes from the line of Andy Nahas of Prospect Fund. Please ask your question.

Andy Nahas - *The Prospect Fund - Analyst*

Yes. I was wondering if you could tell me about the likelihood of any potential partnerships with any of the big internet companies in China? Also, I was wondering if you could give a little bit more description of what you might discuss at the corporate day in October that you had mentioned.

Unidentified Company Representative

(interpreted) First of all, we have been looking for potential cooperation with some big internet companies in China. But the only precondition is that we must have our -- have certain foundation in our own online initiatives, so that there will be better bargaining power first when we talked with this major internet company. Then we would -- and we would like to develop our own online initiatives that can complement certain (inaudible) of these internet companies.

So this is the work that we've been -- this is the direction that we've been working on and then, secondly, regarding the -- what we are going to discuss in the corporate day. Basically, we would like to give some -- regarding our O2O strategy. Our strategic directions and how the internet initiatives will support our offline sales and service network and how this online platforms and the offline operations will be connected -- similarly connected with each other in order to achieve the results of help the Company to achieve better efficiency and reduce our total operating cost.



Andy Nahas - *The Prospect Fund - Analyst*

Okay. Thank you.

Unidentified Company Representative

(interpreted) Thank you, Andy.

Operator

Thank you. Your next question comes from the line of Adam Smith from Columbia Business School. Please ask your question.

Adam Smith - *Columbia Business School - Analyst*

Hi, gentlemen. Thank you so much. Thank you. Great news it seems like recently with CNinsure's stock price. Could you comment on the recent jump on the stock price and the recent news release regarding settlement of a -- the recent situation with the law suit? Thank you.

Unidentified Company Representative

(interpreted) First of all, I think the stock performance in certain ways reflect our earnings performance in the past quarters. After all, we have seen improvement in our top line and bottom line growth for three consecutive quarters and we are (inaudible). Then secondly, our efforts to invest in the online initiatives is kind of also in line with the current trend. We are at the frontline of actually -- in terms of our internet presence in the insurance intermediary sector. So that should give some comfort to investors.

We have been -- we have obtained the final approval from the court on the agreement to settle the class lawsuit action -- the class action lawsuit in July. We think that's a good thing. That means that we can put this burden behind and we can focus more of our energies on executing our internet strategies to drive the Company's further growth. So I'm happy about the settlement.

Adam Smith - *Columbia Business School - Analyst*

Thank you.

Unidentified Company Representative

(interpreted) Thanks.

Operator

Thank you. Once again, your next question comes from the line of Andy Nahas of Prospect Fund. Please ask your question.

Andy Nahas - *The Prospect Fund - Analyst*

Yes. So I want to congratulate you on the 20% growth, by the way. It's just -- it seems to be improving. I wonder if -- do you think you'll reach the point of maybe even 30% growth rate in the future? If so, what will be the cause of that acceleration?

Unidentified Company Representative

(interpreted) So we plan to host a corporate day in October and in the view to -- in order to give them enough (inaudible) our focus then in the future and we (inaudible) and to have (technical difficulty).

Operator

Thank you. Your next question comes from the line of Colin McBirney of PIMCO. Please ask your question.

Colin McBirney - Pacific Investment Management Company - Analyst

Hi, guys. Congratulations on the solid quarter. I was just hoping that you could kind of talk through your plans for deploying your excess capital. Because it's my opinion that you guys have a great business capital (inaudible) and I guess the excess cash on your balance sheet is somewhat of a drag on your return.

So I was wondering what your plans were for returning cash to shareholders or deploying cash and what sort of return opportunities you might be seeing in terms of what return you would get on the cash you could deploy and what those opportunities would look like. Thank you.

Peng Ge - CNinsure Inc - CFO

(interpreted) In order to achieve our strategy growth, our cash expanding plan will be as follows. First of all, in order to secure our auto strategies we need to deploy -- we need to further strengthen our offline sales and services network and it's also in line with the regulatory requirements actually so firstly we need to use some capital to buy back the minority interest of our subsidiaries so that we can have full control over the subsidiaries and our offline sales and services network can similarly connect with the online platform.

Secondly we need to earmark some capital to invest in the IT infrastructure related to, first of all, the CNpad which is our mobile sales support system and then secondly, related to a LBS technology-based [claims] platform. Further details will be announced in a couple of days.

And then thirdly there will be some investments in terms of marketing of our B2C platform. Right now I think the major attractiveness of the major internet companies that they have a huge customer base and in order to acquire our own direct customers we also need to invest in the advertising and marketing program. Mr. Wang just mentioned that we launch a eHuzhu program one and a half months ago.

We didn't do any advertising actually but just within two and a half months we have already had 60,000 members so we are kind of building that up. Actually the customers do have a lot of demands for financial and insurance products and services so that's what we're going to do. We're going to initiate the marketing program and then we need to invest in that area.

And fourthly as we -- you may know the insurance industry and the financial services industry in China are highly regulated and CNinsure's scale continues to expand and now our social [interest] continues to increase we may participate in the [upstream] companies by either subscribing for minority shares in some [upstream] companies or set up joint ventures. So we need to also earmark [certain] capital in this area as well.

Thank you.

Operator

Thank you. Your next question comes from the line of private investor, Albert [Tuan]. Please ask your question. Albert Tuan, please ask your question. (Operator instructions). Your next question comes from the line of private investor, Albert Tuan. Please ask your question.

Unidentified Participant

(Spoken in foreign language).

We do not make much money from that receivable dividend. Do -- we will see continuously this kind of way, you know, the amount of the receivable or what we would do to reduce this kind of receivable because it's a lot of the capital?

Unidentified Company Representative

(interpreted) First of all, the account receivable primarily represents the insurance commissions incurred during our day-to-day operations. Because there's a certain settlement period for the insurance commission [and generally] it's about one month and so it's normal, it's something that occurs during the normal day-to-day operations.

And then secondly the other receivable mainly represents the interest income incurred by the interbank savings as part of our investment in the trust plans. Then thirdly the amount due from related parties, that's mainly related to one-off (inaudible) [BFSG] and also [Jintai]. We have certainly -- we have granted RMB200 million loan to [BFSG] and about RMB130 million loan to [Jintai] asset management company and these loan facilities have been approved by our Board and we do not expect the loan -- the amount of the loan will further increase. It will be stabilized at the current level.

Unidentified Participant

(Spoken in foreign language).

Operator

Thank you. (Operator instructions) Thank you. There are no other questions on the line. I would now like to hand the conference back to today's presenters. Please continue.

Oasis Qiu - CNinsure Inc - IR Manager

Thank you for joining us on today's call. So if there are any further questions please feel free to contact me. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference. Thank you for --

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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