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CISG - Q2 2015 CNinsure Inc Earnings Call

EVENT DATE/TIME: AUGUST 20, 2015 / 1:00AM GMT



CORPORATE PARTICIPANTS

Oasis Qiu *CNinsure Inc - IR Manager*

Chunlin Wang *CNinsure Inc - CEO*

Yinan Hu *CNinsure Inc - Co-Founder and Chairman*

CONFERENCE CALL PARTICIPANTS

Henry Guo *Summit Research - Analyst*

Zhuo Ling *VBA - Analyst*

Jenny Jiang *Morgan Stanley - Analyst*

Andy Nahas *Prospect Fund - Analyst*

PRESENTATION

Operator

Thank you for standing by for the CNinsure second quarter 2015 earnings conference call. (Operator Instructions). 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 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 2015 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 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 Chairman, Mr. Yinan Hu, 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 2015 and take your questions after the prepared remarks. Now I will turn the call over to our Chief Executive Officer, Mr. Chunlin Wang. Wang-zong.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). Thanks to all of you for joining us this morning. It's our great pleasure to have our Board Chairman, Mr. Yinan Hu, and our Chief Financial Officer, Mr. Peng Ge on today's conference call. On today's agenda, I will start by giving you an update on our financial results for the second quarter 2015 and followed by our plans in the second half of the year. After that I will, and the rest of the management team will, take your questions after the prepared remarks.

During the second quarter 2015 total insurance premiums in the Chinese insurance industry grew by 17.6% year over year, with P&C insurance and life insurance sector 9.3% and 23% year over year respectively. And we are pleased that we further extended our market leadership in the



insurance intermediate sector with total top line growth of 32.1% in the second quarter 2015. This strong growth also reflected the growing contribution from our online and mobile initiatives, with the proportion of net revenues generated by online and mobile initiatives increasing from 10.2% a year ago to 25.8% in the second quarter of 2015.

As more sales agents are adopting CNpad's mobile app to conduct business, we saw a continued improvement in operational efficiency in the back office, as evidenced by the drop in adjusted operating expense ratio from 19.5% in the second quarter last year to 16.8% this second quarter. As a result, adjusted operating income was up by 50% and basic earnings per share per ADS grew by 26.1% year to year to RMB1.39.

Looking at each of our business lines, net revenues of our insurance agency business was up 34.3% from the prior year quarter, with robust growth within both P&C and life insurance segments.

Our P&C insurance agency business was up 35.3% year over year, attributable to an increase in commission rates and also a solid sales volume growth of 15.3% from the year ago quarter, which is substantially higher than the 9.3% sector growth. And one of the key drivers was the expanded implementation of CNpad's mobile app.

Within our life insurance agency business segment, the year-over-year rebound starting from the fourth quarter 2015 -- 2014 continued into the second quarter of 2015. The total net revenue of life insurance agency business grew by 28.2% year over year, driven by 31.1% and 43.6% year-over-year growth in revenues from new policy sales and the new commission increase respectively, which was partially offset by the decrease in revenues from short-term life policies.

And the growth of new policy sales mainly comes from a rapid growth of long-term regular premium health insurance products, which generally have higher embedded value. Health insurance products took up 80% of new policy sales during the second quarter 2015 compared to only 45% in the same quarter last year. 13-month persistency ratio was a record-high of over 85%, maintaining a leading position across the industry.

Our brokerage insurance business continued the strong growth momentum in the second quarter 2015 with 76.2% year-over-year growth, benefiting from our continued efforts to cultivate market and accumulate customer base. And now it has become the second largest segment in our Company.

Net revenues from our insurance claims-adjusting business dropped 12% year over year mainly due to a decline in non-auto P&C insurance claims adjusting cases because of fewer natural disasters and also because of a drop in our auto-related business as one of our insurance business partners reduced claims service outsourced to third-party service providers. We will increase the level of support to the claims-adjustment segment and hope that the situation will be gradually reversed in this next quarter.

While maintaining solid growth in our traditional offline business, we continued to enhance investments in our online initiatives and we were pleased with the progress we made online. And I will now discuss the four specific examples.

Firstly, CNpad mobile app. As of the second quarter 2015, auto insurance products from 41 P&C insurance companies and life insurance products from 5 life insurance companies were available on CNpad app. As we got more product suppliers onboard and we continued to improve user experience, both downloads of CNpad app and the transaction volume on mobile devices grew substantially. Cumulative activated downloads for CNpad app were 76,000 copies, among which about 12,492 copies were newly activated in the second quarter. And approximately 28,000 active users contributed over RMB630m insurance premiums in the second quarter, representing a year-over-year growth of 168.1%.

As we strived to push forward the transition of our auto insurance business and also life insurance new policy sales from offline to online, approximately 50% of the auto insurance business and 26% of our life insurance new business transacted through CNpad's mobile app in the second quarter of 2015.

Secondly, eHuzhu. eHuzhu just celebrated its first anniversary since its launch in July 2014. As of today, the cumulative number of registered members has topped 350,000, up over 22% quarter over quarter. And the rapid growth in members demonstrated that eHuzhu has gained wide recognition by the public as a platform that provides effective low-cost risk-aversion solutions. As of the second quarter 2015, [five] donations have been made and with a total donation amount of RMB2m.

While we continued to introduce eHuzhu to more people, we also found that eHuzhu helps establish closer bonds between our sales agents and their clients, and generated cross-selling opportunities for sales agents. eHuzhu is also a perfect example of how we are exploiting opportunities in China's rapidly growing sharing economy. During the second quarter we are especially excited about getting more corporation and institutions to subscribe to eHuzhu membership plans for their employees as part of their employee benefits, or their clients as additional value-added services.

Thirdly, chetong.net. As of the second quarter of 2015, chetong.net had over 16,000 registered service representatives and has established cooperation with 32 insurance companies or self-insured organizations. This network covers 98% of the provincial cities and 66% of the counties in China. During the second quarter approximately 59,000 insurance claims have been processed, representing an increase of 73.5% quarter over quarter. Claims momentum accelerated each month and over 30,000 claims were processed in one single month in June.

Fourthly, qunabao.com, the official name of our auto insurance price comparison website, which in English means -- where to buy insurance. We have started internal trial operation of the website and anticipate an official launch on August 31, 2015. We are targeting to establish full process transaction-enabled direct system access, or EDI connections with eight insurance companies by the end of this year. Qunabao will also serve as a platform, an open platform that allows other third parties, online insurance sales platforms to access our online product offering and offline service support.

Starting from last year, there have been a lot of new developments on the regulatory front, such as the Ten New Guidelines issued last year and auto insurance reforms rolled out early this year, and also the life insurance pricing deregulation reform rolled out last year.

In early May 2015, the insurance law was amended, which removed the requirements for sales agencies to obtain qualification certificates from the CIRC before applying for business certificate from the regional industrial and commercial bureau and also prior approval by the CIRC for the establishment of new branches. Qualification certificate is also no longer required for sales agents and brokers to conduct business.

Then in July 2015, the provisional measures on the supervision of Internet insurance business was promulgated, which sets forth the standards of the online insurance sales operations and for the insurance organizations and also third-party online platforms, and removes the regional restrictions for online sales of certain insurance products.

We believe these regulations and policies provides both challenges and opportunities for CNinsure. Against this backdrop, in the second half of 2015 we will focus our efforts on three programs to accelerate market expansion and drive business growth, namely the sales network full coverage program, accelerated growth of sales force program and platform opening-up program.

Firstly, the full coverage of sales network program. As of today our sales network reaches 17 provinces and (inaudible) out of the 34 provinces in China. However, there are still 17 provinces and 69 cities where we currently have no market presence and this region contributed over RMB700b insurance premiums in 2014, approximately 35% of the total market share. This represents a huge market opportunity for CNinsure.

Leveraging the market consolidation opportunities presented by the deregulation on license requirements for insurance agencies, we aim to achieve full coverage of our offline sales network in regions where we currently have no market presence and we will do this through the establishment of new branches, through acquisition or franchising. We also aim to further enhance our online presence by pursuing horizontal alliances and through strategic investments in entrepreneurial companies focused on Internet insurance distribution and service.

Secondly, accelerated growth of sales force program. In China there are over 3m individual insurance sales agents right now, who have been a major distribution channel in the China's insurance market, contributing approximately 40% of the total market share. Looking at the example in developed insurance markets, such as the United States, where 56% of life insurance and 30% of auto insurance is still sold by individual sales agents or brokers in 2013, we believe that individual sales agents will remain a major distribution channel in the next few years in China.

The recent amendment to the insurance laws has removed certificate requirements on insurance sales agents and brokers, which we believe will provide an excellent opportunity for us to consolidate the individual sales agent channel. Targeting the 3m individual insurance sales agents, we will increase our marketing resources and give them access to a wide range of insurance and financial products, and use our online tools to attract more top talent to join CNinsure to rapidly grow our sales force.



Thirdly, platform opening-up program. We will open up our integrated platform to peer companies, alliances and insurance companies, including our online tools, IT infrastructure, contractual relationship with insurance companies and offline service support. This program is in line with our positioning to become an online insurance player and service platform provider for third-party and business partners.

By executing these programs, we expect our top line growth to accelerate in the second half of 2015. And we believe we are on track to achieve 30% annual top line growth and RMB10b insurance premiums in 2015. And in the medium term we expect -- we aim to achieve a target of doubling insurance premiums, with a 30% CAGR growth within the next three years, further strengthening our market leadership. Thank you.

Oasis Qiu - *CNinsure Inc - IR Manager*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Henry Guo, Summit Research.

Henry Guo - *Summit Research - Analyst*

Hi. Thanks for taking my question. So congrats on the strong results. So one question is really about the investment and the margin. So since the margin came in better than expected, so what's the factor behind that? Really, you didn't spend much money in the quarter or ?- so how should we think about the near-term margin trend?

Oasis Qiu - *CNinsure Inc - IR Manager*

Henry, could you repeat the question? It was kind of breaking up.

Henry Guo - *Summit Research - Analyst*

Sorry. I'm sorry about that. So regarding the margins recovered, so since the operating trend is better than I expected, so what's the reason behind that and the how should we think about the near-term trend in terms of market?

Oasis Qiu - *CNinsure Inc - IR Manager*

You mean the improvement in margin?

Henry Guo - *Summit Research - Analyst*

Yes. Yes.



Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). There are two reasons for the margin improvement. First of all is the expense ratio. There's a drop in the expense ratio due to wider application of our mobile app. And then secondly, we are receiving more, higher commissions from insurance companies, which allow us to benefit from the margin spread. And we believe that the margin now will stay, will remain stable in the next quarter. Thanks.

Henry Guo - *Summit Research - Analyst*

Great. Thank you.

Operator

(Operator Instructions). Zhuo Ling, VBA.

Zhuo Ling - *VBA - Analyst*

(Spoken in foreign language).

Oasis Qiu - *CNinsure Inc - IR Manager*

The question is from Zhuo Ling and there are two questions. The first question is, with regard to CNpad, contributed about RMB630m insurance premiums in the second quarter, and how about revenue? How much revenues did CNpad contribute in the same quarter?

And the second question is about Qunabao, which we plan to launch in the third quarter. Is it a similar model from Zhong An Online operated by Alibaba or what kind of business model it is?

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). The RMB630m insurance premiums generated by CNpad translated into about RMB180m in commission revenues. Basically it's in line with our offline revenue model.

Qunabao is a third-party auto insurance comparison website while Zhong An Online is an insurance company and, as far as we know, they haven't started to sell auto insurance yet. So the major difference is that we are an insurance distributor while Zhong An is an insurance company, product -- supplier. Zhong An has just attained approval from the CIRC to sell auto insurance. So once they roll out their motor insurance product, this product may also be available on our Qunabao website. Does that answer your question, Zhuo Ling?

Zhuo Ling - *VBA - Analyst*

(Spoken in foreign language).

Oasis Qiu - *CNinsure Inc - IR Manager*

The first question is about the auto insurance pricing deregulation. Will it be rolled out this year?



Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). A pilot program has been rolled out with regard to the auto insurance pricing deregulation requirement. It has been, a trial program has been rolled out in six provinces on June 1.

And under the new scheme, as far as we know, the price -- the premium level, there's not much change with the premium level. And as for the commissions level, there was a slight drop in the first month, in the beginning, but it gradually returned to the same level. So we believe that the auto insurance pricing deregulation will be implemented on a steady pace and it will not trigger a major change in price so that it will be easier for the overall market to accept.

In the six provinces there are three provinces, including Chongqing, Shandong and Shanxi provinces, where we have our market presence. And according to the feedback that we have got so far there is not much impact on our business operation, but we do believe that as the reform deepens it will play to our advantage and it will create a better competitive environment for CNinsure.

Operator

(Operator Instructions). Jenny Jiang, Morgan Stanley.

Jenny Jiang - *Morgan Stanley - Analyst*

(Spoken in foreign language).

Oasis Qiu - *CNinsure Inc - IR Manager*

There are two questions from Jenny and the first one is about Qunabao, our comparison website. It is a new model and it's quite different from the traditional offline sales agency model that CNinsure has relied on. And as far as Qunabao, we have spent a lot of time to negotiate with insurance companies in terms of contracts and also of system connections. So what's the difference between the commissions, in terms of the commission level online and offline? And also what's the profit margin for this online model?

And the second question is about -- is that a lot of US-listed Chinese companies have announced their privatization plan. What's management's thought about this kind of phenomenon?

Oasis Qiu - *CNinsure Inc - IR Manager*

Mr. Wang will take the first question and our Chairman will answer the second question.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). Qunabao has a major difference with our traditional and offline business model in its nature. CNpad mobile app is used by our sales agents, but Qunabao is directly dealing with direct consumers. Right now about 70% to 80% of the major insurance companies do appreciate the value of third-party comparison model and we believe that 70% to 80% of these companies will give us direct system access and put their products on our website. From a technical point of view we believe that we can get all the products from all insurance companies on our website.

The commission level is slightly lower than the traditional business model. For the online model the commission rate is lower than the offline model. The price will be lower as well, but we believe that the profit margins will be higher than the traditional model. They should be higher than the traditional model.

So Mr. Hu, our Chairman, will answer your second question.

Yinan Hu - *CNinsure Inc - Co-Founder and Chairman*

(Interpreted). We have not received any privatization offers yet, as of today, and also the management as the biggest shareholder of the Company has no intention to take the Company private. Our focus, the management's focus, will be implementing our O2O strategy and we also believe that this is best way to create long-term value for shareholders.

We also noticed that the Internet Plus has become a very hot topic in China, and the concepts of Internet finance and Internet insurance have been very popular among investors in domestic stock markets. And as a result there are over 10 listed companies, A-share listed companies, have tried to tap into the insurance sector in one way or another.

And several Chinese-listed companies have also expressed strong interest to invest in CNinsure and we welcome this kind of opportunity and we do hope that we can introduce some strategic investors, especially those companies listed in Asian markets, so that to expand our influence in the domestic market and also to enhance our capability to consolidate the market resources. Thank you.

Operator

Andy Nahas, Prospect Fund.

Andy Nahas - *Prospect Fund - Analyst*

Yes. First of all, thank you for deciding not to privatize the Company. We appreciate that. Also I wanted to ask you when you spend money to get new customers it's actually very important, very helpful, to try to retain those customers beyond the first year. So I wonder if you could just give me some type of comfort or explain how you feel that you can continue to keep those customers beyond the first year so that they will renew with you and stay with you.

Oasis Qiu - *CNinsure Inc - IR Manager*

Is that the online clients or offline clients?

Andy Nahas - *Prospect Fund - Analyst*

Well, both.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). So basically for CNinsure we have two ways to retain the customers. Firstly is to offer more diversified product offerings to customers so that there is opportunity for sales, cross-sell more products to them. And then, secondly, we will provide better services to them, for example, like more value-added services and also differentiated services to increase the stickiness of customers.

Andy Nahas - *Prospect Fund - Analyst*

Thank you.

Operator

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

Unidentified Company Representative

Thank you for everybody joining the conference. If you have any further questions please feel free to contact us. Thank you.

Operator

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

Editor

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