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CISG - Q1 2014 CNinsure Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Oasis Qiu *CNinsure Inc. - IR Manager*

Chunlin Wang *CNinsure Inc. - CEO*

Peng Ge *CNinsure Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Christy He *Morgan Stanley - Analyst*

PRESENTATION

Oasis Qiu - *CNinsure Inc. - IR Manager*

Good morning. Welcome to our first-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 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 not limited to those outlined in our filings with the Securities and Exchange Commission, 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 first-quarter 2014 financial and operating results, and discuss the progress of some of our key strategic initiatives. They 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, I will give you an update on the operational and financial highlights for the first quarter of 2014, and share with you our business outlook. Our CFO, Mr. Penge, and I will take questions after this.

Building on the slight growth momentum in the fourth quarter of last year, we achieved both topline and bottom line growth in the first quarter of 2014. Total net revenues for the first quarter grew 16.2% from the year ago quarter, beating our guidance again.

Expense ratio dropped to 23.7%, a record low for the past 10 quarters, partially attributable to our organization integration that enabled more effective expense control. As a result, our operating income was up 721%, net income attributable to shareholders up 112.6%, and our adjusted EBITDA also recorded notable growth year over year, by 23.6%.

From a segment perspective, our traditional business segments maintained stable growth momentum while new growth drivers continued their stellar growth into the first quarter, making significant contributions to the Company's growth.

Looking at our traditional business segments, firstly, insurance agency business, accounting for 75.4% of our total net revenues, reported 2.4% year-on-year growth in revenue and improvement in profitability. Driven by 12.1% premium growth over the first quarter 2013, our P&C insurance agency business recorded 7% revenue growth year over year due to a -- and due to a decrease in P&C market commission rates in the first quarter



of 2014, its revenue grew at a slow pace compared to the volume growth, but we were encouraged to see improvement in gross margin, both year over year and quarter over quarter.

Impacted by a drop in the sales of new policies, net revenues of our life insurance agency business was down 20.6% over the first quarter last year, but saw a rebound of 4.9% from the previous quarter. The drop in new business volume was mainly attributable to the decrease in the sales of investment linked participating products, while the sales volume of the protection oriented ones was up nearly 25% year over year, further refining our business mix.

And on the recurring business front, our persistency ratio, which remained at the highest level among our competitors, was translated into stable growth of our recurring commissions, partially contributing to the improvement in the gross margin of our life insurance agency business, both year over year and quarter over quarter.

And secondly, claims adjusting business, it maintained a stellar growth momentum in the first quarter, with net revenues up 21.7% from the year ago quarter, further strengthening our leading position. The growth was mainly driven by a 40.5% growth in non-auto related P&C insurance claims adjusting business, which was attributable to the significant increase in claims adjusting cases newly assigned to us and settled during the quarter. Besides, auto-related insurance claims adjustment business also witnessed a stable growth of [12.2%] in net revenues.

Turning to the new growth drivers, our insurance brokerage business segment is primarily engaged in offering commercial insurance plans, such as liability insurance, private insurance and enterprise property insurance and risk assessment and management advisory services and reinsurance services to corporate clients across all sectors, including the petroleum, transportation and construction industries. By leveraging our brand recognition and strong relationship with insurance companies, we focus on building out our operating platforms and expanding market channels to grow our customer base.

Meanwhile, we were dedicated to product innovation to better fulfill our customers' needs by teaming with insurance companies in product design. Innovative products co-designed by us include ForEx insurance, domestic (inaudible) insurance, science and technology insurance, cellphone insurance and accident insurance for high net worth individuals.

In the fourth quarter of 2013, our insurance brokerage business generated over RMB10m net revenues each month, and the strong growth momentum continued into the first quarter of 2014. Net revenues were RMB51.1m in the first quarter of 2014, representing a growth of over 15 times year over year and 80% quarter over quarter, of which the traditional brokerage business grew over 10 times while the reinsurance business that we just started last year also contributed over RMB5m to our net revenues.

Our insurance brokerage business has become a significant contributor to our net revenues, accounting for 11% of our total net revenues in the first quarter as compared to 5.6% in the fourth quarter of 2013, demonstrating a sustainable growth momentum.

Secondly, our wealth management product referral business, on the other hand, has also grown solidly, by over 40% from RMB195m in the first quarter of 2013 to approximately RMB280m in the first quarter of 2014 in terms of the value of the wealth management products sold under our recommendation.

Thirdly, contributions from CNpad continued to grow in the first quarter to RMB199m insurance premiums, accounting for 14.6% of the total insurance premiums generated by our insurance agency business as compared to 8.2% in the fourth quarter of 2013.

[The initial results] of the various business segments in the first quarter demonstrates that our strategy is working, and we continue to benefit from the efforts that we made in the past three years.

Turning to the progress of some strategic initiatives that we've taken, during the first quarter we continued to focus on pushing forward the application of Internet technology to our business.

Firstly, regarding the development of our mobile sales support system, in addition to adding more products onto the platform and optimizing user experience, we've also made exciting progress in getting more product suppliers on board. In particular, we initiated project to develop EDI connections with PICC, Property and Casualty Insurance Company, demonstrating their support for our mobile sales support system by one of our major insurance partners, which is crucial for us to further improve and promote the use of the system by more sales agents and channels.

In order to speed up the introduction of our mobile sales support system to more users, in March 2014, we decided to change our marketing strategy from bundling software and hardware sales to offering free download of applications to sales agents and channels. We have got ready technically and plan to roll out the application to the market step-by-step, beginning on June 1, 2014. Our goal is to establish a user base of more than 50,000 sales agents by the end of 2014.

Secondly, on the B2C side, we completed upgrading the baoxian.com and we launched it on January 1, 2014. Online premiums were approximately RMB4.5m in the first quarter of 2014.

In order to take full advantage of the opportunities arising from the upcoming auto insurance pricing rate deregulation and increasing number of consumers buying online, we are committed to increasing investment in our B2C website in 2014, to strengthen our market position in the Internet insurance [distribution] space. I will be directly in charge of executing this strategy.

Thirdly, we have been exploring ways to optimize the Internet technology to our claims adjustment business and decided to take on an online to offline model, i.e. to establish a web-based platform that allows claims adjusters to register and report business on the Internet. Upon the receipt of customers' orders, our back office will check the location of all available claims adjusters and designate one nearby to customer's assistance.

We believe the new model will enable a centralized back office operation and allow us to rapidly extend our service network while reducing our fixed costs. We have begun working on developing the platform and expect to roll it out in the third quarter of this year. The platform will focus on auto insurance claims adjustment services in the early stage, and gradually cover other auto related, value-added services such as designated driving and repairing, etc.

Over the past three years, we have devoted lots of efforts to execute on our strategies, to strengthen our competitive edge by using the Internet to acquire customers and build and expand the service network in a cost effective way, and offering personalized financial and risk management solutions to customers instead of just selling products. The accomplishments that we've made so far have reaffirmed our confidence in achieving our targets and also achieving both topline and bottom line growth in 2014.

Oasis Qiu - *CNinsure Inc. - IR Manager*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Christy He.

Christy He - *Morgan Stanley - Analyst*

(Spoken in Mandarin).



Oasis Qiu - *CNinsure Inc. - IR Manager*

The first question is from Christy He of Morgan Stanley, and her question is about our insurance brokerage business. She wondered what's the gross margin, what's the margin level of this line of business compared to other lines of business, and who are the key customers for our insurance brokerage business and what's the growth outlook.

Peng Ge - *CNinsure Inc. - CFO*

(Interpreted). Our current focus for this line of business is to grow our core business to capture more market share, so current level of the gross margins is moderate compared to other business lines. Going forward, we expect the gross margin will be stable at the current level.

Operator

There are no further questions.

Oasis Qiu - *CNinsure Inc. - IR Manager*

Thank you for your participation. If you have any further questions after this conference call, please feel free to contact me. Thank you.

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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