

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

FANH - Q1 2017 Fanhua Inc Earnings Call

EVENT DATE/TIME: MAY 23, 2017 / 1:00AM GMT



MAY 23, 2017 / 1:00AM, FANH - Q1 2017 Fanhua Inc Earnings Call

CORPORATE PARTICIPANTS

Oasis Qiu *Fanhua Inc - IR Officer*

Chunlin Wang *Fanhua Inc - CEO*

CONFERENCE CALL PARTICIPANTS

Hsieh Yen *CICC - Analyst*

Arthur Hall *Halco Incorporated - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Fanhua's first quarter 2017 earnings conference call.

At this time, all participants are in a listen-only mode. All lines have been placed on mute to prevent background noise. 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 broadcasted live over the Internet. Webcast replay will be available within three hours after the conference is finished. Please visit Fanhua's IR website at ir.fanhua.com, under the Events & Webcasts section.

Today's conference call 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 call, Ms. Oasis Qiu, Fanhua's Investor Relations Officer. Thank you.

Oasis Qiu - *Fanhua Inc - IR Officer*

Good morning. Welcome to our first quarter 2017 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 Chief Executive Officer Mr. Chunlin Wang and Chief Financial Officer Mr. Peng Ge. Mr. Wang will walk you through our financial results in the first quarter 2017. He and Mr. Ge will then take your questions after the prepared remarks.

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

Chunlin Wang - *Fanhua Inc - CEO*

(interpreted). Good morning. Welcome to Fanhua's first quarter 2017 financial results conference call. Today I will introduce our first quarter 2017 financial results first and then Mr. Ge and I will take your questions.



MAY 23, 2017 / 1:00AM, FANH - Q1 2017 Fanhua Inc Earnings Call

Let me start by a brief overview of our financial performance in the first quarter 2017. In the first quarter of 2017, the Chinese insurance industry maintained stable and fast development, with total insurance premiums reaching RMB1.6 trillion, representing a year-over-year growth of 32.4%, among which the P&C insurance and life insurance premiums grew 11.5% and 37.0%, respectively. And benefiting from the industry growth and with firm implementation of the Company's strategic plans, our financial results for the first quarter 2017 far exceeded our expectations. Our total revenues grew 61.6% to RMB1.4 billion and operating income hit RMB63.2 million.

Among all the highlights in the first quarter 2017, our life insurance business extended its streak of substantial growth and accounted for significantly higher proportion in our total business mix. In the first quarter 2017, revenues from our life insurance business were up 283.5% to RMB610 million, accounting for 41.8% of our total revenues compared with 17.6% in the corresponding period last year.

The rapid growth of life insurance business was mainly attributable to our thriving near-term life insurance business. In the first quarter 2017, premiums generated by near-term life insurance grew 292.2% to RMB741 million. Meanwhile, renewal of term life insurance business also contributed RMB330 million insurance premiums, which was 50.4% higher than the corresponding period last year.

Thirteen-month persistency ratio for our life insurance business kept up with the level of top insurance companies in China and maintained over 91% in the first quarter of 2017. Gross profit for our life insurance business was RMB178 million in the first quarter 2017, accounting for 71.4% of our total gross profit, as compared with 25.4% for the corresponding period last year.

Secondly, our P&C insurance business continued to grow moderately, although growth rate slowed down. During the first quarter 2017, revenues generated from our P&C insurance business were up 16% to RMB789.4 million. Insurance premiums generated by this business grew 9.4% to RMB2.9 billion.

P&C insurance business was growing slower largely because of the suspension of our business cooperation with PICC Property & Casualty Co. Limited. Revenue from PICC P&C in the first quarter of 2017 decreased by RMB87.0 million from the corresponding period last year. But as gross margins of our P&C insurance business was only 7.3% in the first quarter 2017 and after deducting operating expenses, the impact of the business suspension on our bottom line was limited.

Most notably, our operating income was much better than expected. We are delighted to achieve an operating income of RMB63.2 million in the first quarter 2017, also the fifth quarter in a row to see a strong recovery since the same quarter last year, manifesting the sustainability of the Company's profitability.

The growth in operating income was mainly because, firstly, life insurance business, which has higher gross margin, accounted for higher proportion in our business mix. And secondly, the operation efficiency of our back-office as a result of the wider application of IT systems and adoption of online tools in the Company. And the improvement in the operating efficiency was well-evidenced by the fact that our operating expense ratio only rose 22% year-over-year despite of over 61.6% year-over-year growth in total revenues.

Next, I will discuss some updates on our business operations in the first quarter. Firstly, since the suspension of business cooperation with PICC P&C in early March, we've been taking active measures to mitigate the impact by redirecting PICC's business to alternative insurance carriers and strengthening business cooperation with other major P&C insurance companies. We were glad that the impact on our first quarter results were relatively limited, and our revenues and operating income in the first quarter 2017 were both better than we have expected.

Secondly, our sales and service network expansion was in steady progress. After over six months preparation, our Inner Mongolia branch was officially opened up for business in late April. And as of March 31, 2017, our sales network covered 21 provinces, with 810 sales outlets, which was 81.2% more than the corresponding period last year. And our claims adjusting service extended to all of the prefecture-level cities and over 80% of the counties across the nation. Number of our sales agents amounted to over 280,000, representing a 111.7% year-over-year growth.

Thirdly, we are pleased to see significant progress on our various online platforms. Firstly, CNpad. As of March 31, 2017, 250,000 copies of CNpad app were downloaded and activated, representing a growth of 106.9% year-over-year. Transaction volume reached about RMB1.6 billion in terms of insurance premiums, 98% year-over-year. 50% of our auto insurance business and 89% of our new life insurance business were transacted



MAY 23, 2017 / 1:00AM, FANH - Q1 2017 Fanhua Inc Earnings Call

through CNpad. We believe CNpad has become the largest independent mobile insurance transaction platform in China in terms of variety of products, number of registered users, and transaction volume.

Secondly, let's turn to eHuzhu, our online mutual aid community. As of March 31, 2017, the registered members on eHuzhu increased by 107.2% year on year to 1.6 million, of which 233,000 were newly added during the first quarter, representing a growth of 17.3% from the fourth quarter of 2016. Members with deposit record increased by 83.0% year-over-year to 970,000, of which 136,000 were newly added during the quarter, representing a sequential growth of 16.2%. As of today, we have kept a steady growth of over 100,000 in newly registered members each month.

During the quarter of -- during the first quarter of 2017, 84 newly valid claims were handled, involving RMB13.5 million in donation funds. As of March 31, 2017, the platform has raised an aggregate of RMB55.8 million donation funds for claims applicants.

Thirdly, both number of users and transaction volume on Baoxian.com recorded substantial growth during the quarter. As of March 31, 2017, number of registered accounts on Baoxian.com was over 862,000, up 151.5% year-over-year. Number of active accounts was over 48,000, up 73%. Insurance premiums transacted over the platform grew by 339% to RMB53 million.

Fourthly, on April 6, 2017, we completed private placement of 66 million of the Company's ordinary shares to Fosun Industrial Holdings Limited, which represented 5.3% of our total share of capital. Introduction of strategic investment from Fosun will enable us to further enhance our product portfolio by leveraging on both parties' resources. We may consider introducing two to three more of similar strategic investors in the future, which we believe will be beneficial for optimizing our shareholding structure as well as [securing] stable product supply, and facilitate more stable product innovation.

Looking ahead to the second quarter 2017, firstly, we expect on the P&C side the business will have a further slowdown of growth or even negative growth, impacted by two factors. Firstly, there remains uncertainty as to when we may resume business cooperation with PICC P&C. And secondly, in line with our key objective to maximize our profitability, in 2017 we will shift more focus towards life insurance business and abandon some P&C channel business that generate low gross margins.

And secondly, on the life side, we expect this business to continue rapid growth, and revenues from this business line further improve as a percentage of our total revenues. And thirdly, we expect operating income will be no less than RMB70 million in the second quarter of 2017.

Thank you.

Now the Management will open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions).

The first question comes from the line of [Hsieh Yen] from CICC. Please go ahead.

Hsieh Yen - CICC - Analyst

(Spoken in Chinese)



MAY 23, 2017 / 1:00AM, FANH - Q1 2017 Fanhua Inc Earnings Call

Oasis Qiu - *Fanhua Inc - IR Officer*

This is the question from Hsieh Yen from CICC. Congratulations on the good results. And he has two questions.

Firstly, the Company has recorded rapid growth in the term life insurance premium in the first quarter on the life side. And the Company mentioned that the major reason was because of the industry growth as well as the successful implementation of the Company's cross-selling strategy. He is wondering what the strategy is about more specifically.

And then secondly, the Company recorded a decline of 52% year-over-year in sales expenses -- in selling expenses, mainly due to the cancellation of marketing expenses. He's wondering, what's the reason that we canceled this marketing expenses? And will the cancellation of marketing expenses impacted the growth in number of sales agents and the growth of our insurance agency business?

Chunlin Wang - *Fanhua Inc - CEO*

(Interpreted). With regard to your first question on cross-selling strategies, the Company has been operating in the insurance intermediary sector for 19 years, and over the past decades we have built our key competence with a wide range of financial products and service offerings as well as leading technologies. And one of our key competitiveness, which is entrepreneurship programs that we offer to sales agents, which targets to attract sales agents, particularly the teams of sales agents, to run their own business under CNinsure platforms with our back-office support and wide range of product offerings. And when we attract these sales agents to join CNinsure, we will basically enhance training, provide more training to them to improve their sales skills and sales capabilities.

In 2017 we have earmarked our budget, 2% of the total budget, as the training cost, in order to help them to generate more -- stronger selling capability.

And regarding to your second question, on the marketing expenses. When we implemented the market programs in 2016, actually we believe that the results have proved that this marketing strategy has been quite effective in helping us attracting more sales agents to join CNinsure and boosting the development of our business. In 2017 we're going to continue with this kind of strategy.

But the costs or the expenses will be accounted as commission costs. And that's why you can see that our gross margin on the P&C side was only 7.3% in the first quarter, and that's because the expenses was accounted as commission costs in the first quarter. And we believe that this -- the increase in the rate of commissions paid to sales agents will be worthwhile for us to further develop our business. Thank you.

Hsieh Yen - *CICC - Analyst*

(Spoken in Chinese)

Operator

(Operator Instructions).

The next question comes from the line of [Arthur Hall] from [Halco] Incorporated.

Arthur Hall - *Halco Incorporated - Analyst*

Yes, thank you for taking the question. I noticed that you increased your sales agents pretty dramatically in the first quarter, about 50,000 agents, 21% increase over the end of the year. And yet the revenues actually declined about 4.4%. This is unusual in comparison to past quarters and I wonder if you could comment on this aspect of productivity for your sales agents.



MAY 23, 2017 / 1:00AM, FANH - Q1 2017 Fanhua Inc Earnings Call

Chunlin Wang - *Fanhua Inc - CEO*

(interpreted). I think it's natural that, as a result of rapid growth in sales agents, the per capita productivity may decline at the very beginning. And right now our focus is to further increase the number of sales agents to take advantage of the opportunities presented in the industry, particularly the trend of migration of sales agents from insurance company into the independent intermediary sector.

When we attract a sales agent to join CNinsure, we're definitely going to provide them better training to help them to improve their sales skills and improve their productivity in the future. So right now the lower per capita productivity, actually indicates that we still have a lot of room to improve in terms of our sales productivity and also further room for the Company to grow our business.

Arthur Hall - *Halco Incorporated - Analyst*

Thank you. And also, could you update your forecast of operating income? It was RMB180 million at the end of the year and now you already forecast RMB133 million for the first half. I just wondered if you could update that forecast for the year, annual income, operating income.

Chunlin Wang - *Fanhua Inc - CEO*

(interpreted). The first quarter result did perform much better than we have originally expected, and as for whether or not we're going to revise our guidance, I think we may have more visibility after we report our second quarter results, and then we will decide whether or not to revise upwards the guidance.

Arthur Hall - *Halco Incorporated - Analyst*

Thank you.

Oasis Qiu - *Fanhua Inc - IR Officer*

Thank you.

Operator

(Operator Instructions).

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

Oasis Qiu - *Fanhua Inc - IR Officer*

Thank you for participating in our conference call. 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.



MAY 23, 2017 / 1:00AM, FANH - Q1 2017 Fanhua Inc Earnings Call

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.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.