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# EDITED TRANSCRIPT

CISG - Q4 2015 CNinsure Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Oasis Qiu** *CNinsure Inc - IR Officer*

**Chunlin Wang** *CNinsure Inc - CEO*

**Peng Ge** *CNinsure Inc - CFO*

## CONFERENCE CALL PARTICIPANTS

**Patricia Cheng** *CLSA - Analyst*

**Zhuo Ling** *Van Berkorn & Associates - Analyst*

**Arthur Hall** *Hallco Inc - Analyst*

**Albert Tun** - *Analyst*

## PRESENTATION

### Operator

Thank you for standing by for CNinsure's fourth-quarter and fiscal year 2015 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 three hours after the conference is finished. Please visit CNinsure's IR website at [ir.cninsure.net](http://ir.cninsure.net) 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, CNinsure's Investor Relations Officer.

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### Oasis Qiu - *CNinsure Inc - IR Officer*

Good morning, everyone. Welcome to our fourth quarter and fiscal year 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 1998 -- 1995. The accuracy of the 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 are 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 fourth quarter and fiscal year 2015, and take your questions after the prepared remarks.

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

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### Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). Good morning. Thanks for joining us in our fourth quarter and fiscal year 2015 earnings conference call. I'm happy to have our CFO, Mr. Peng Ge, here with me. And now I will give you an update of our financial and operational results in the fourth quarter and fiscal year 2015. And then Mr. Ge and I will take your questions at the end of the report.



Firstly, I would like to share with you an overview of our financial performance. CNinsure wrapped up the year of 2015 with a robust business growth, exceeding our prior guidance.

We achieved approximately RMB10b insurance premiums, which are largely in line with the target that we set up at the beginning of the year.

Our net revenues and net income attributable to shareholders were up 35.9% and 103.5% respectively in the fourth quarter of 2015 and up 31.5% and 29.9% respectively for the fiscal year 2015.

In 2015 we have made significant progress across our various businesses and online initiatives. Now I would like to share some of the business highlights with you.

Firstly, our P&C insurance agency. Amidst sluggish macroeconomic environment, the P&C insurance industry in China slowed down with a modest growth of 11% in 2015. Despite the industry slowdown, our P&C insurance agency business revenue went up 29.2% year over year for the fourth quarter, and 28.6% year over year for the 2015. The growth was primarily derived from the combined effects of an increase in the commission rates that we received from the insurance companies, and strengthened promotion of CNpad mobile app during the fourth quarter 2015.

As a result of the successful marketing campaigns, insurance premiums generated from P&C insurance agency business reported a year-over-year growth of 22.8% for the fourth quarter and a year-over-year growth of 15% for the year of 2015, once again outperforming the industry.

Now let's look at our life insurance agency business. The first-year insurance premiums for long-term life insurance product sales grew 100% year over year for the fourth quarter, and 50% year over year for the year of 2015, primarily due to our successful marketing promotion and cross-selling strategies, as well as the recovery of the life insurance market.

Renewal of life insurance products performed well too, with a 13-month persistency ratio of [85.8%], driving life insurance agency revenue to grow strongly by 96.5% year over year for the fourth quarter and 62.2% for the 2015. Life insurance agency business is playing an increasingly important role in fuelling the overall business growth of the Company.

And, thirdly, is our insurance brokerage business. Despite the high base in 2014, our insurance brokerage business had another year of wonderful performance, growing 62% year over year for the fourth quarter, and 58.7% year over year for 2015, as a result of our efforts to actively attract non-affiliate brokers, develop new geographic markets and expand our distribution channels, and through continuous product innovation.

We are proud that Fanhua Bocheng insurance brokerage company, the operating entity of our insurance brokerage operation, was ranked in the sixth place for two consecutive years according to the latest rankings of the top-20 China insurance brokerage companies compiled by the CIRC, marking an impressive improvement compared to the twenty-first place in 2013. And it's a strong evidence of its market leadership.

Now let's turn to our claims-adjusting business. We have witnessed a remarkable operational improvement in our claims-adjustment business in the second half of 2015, which was mainly attributable to the integration of our nationwide P&C and auto insurance claims-adjusting network, and more centralized coordination of [human,] facility and market resources.

For the fourth quarter of 2015 our claims-adjustment business continued the positive growth momentum starting from the previous quarter, and achieved a year-over-year growth of 13.4% for the fourth quarter and 3.7% for 2015.

We have also made impressive progress with our online platforms. Firstly, CNpad app. As we continue to improve CNpad in terms of technological support, back-office operation and user experience, CNpad was gaining strong traction in 2015, with the number of downloads topping over 10,000. Active users were up 81.9% year over year to approximately 63,000. Premium generated through CNpad app amounted to approximately RMB3b, up 131.7% year over year, increasing its contribution to the total premiums up to 30.2% from 15.6% in 2014. And approximately 60% of our auto insurance business and new life insurance policy sales were transacted through CNpad app.



The excellent growth in CNpad adoption is strategically important to us because it allows us to attract more sub-agents to join us and drive our business growth, while increasing our operational efficiency and reducing our operating expenses.

And secondly is our eHuzhu platform. In 2015 eHuzhu transformed its driving force from sole dependence on interior resources to a utilization of both interior and exterior resources and presented a lot of good surprises to us. By the end of 2015, the number of registered members of eHuzhu has increased 1.5 times to over 670,000. RMB12.2m was raised for 58 members in eHuzhu's platform during the one and a half years since its commencement. eHuzhu is by far the largest and most influential professional mutual aid Internet platform in China and we believe that eHuzhu has unimaginable potential going ahead.

Baoxian.com had booming growth in both active users and insurance premiums. The number of active users grew to 72,000, representing an approximately eight-fold growth. Insurance premiums generated on or through Baoxian.com increased 189% year over year to RMB48m. And the number of insurance policies sold through Baoxian.com grew almost 80% year over year to 517,000 in 2015.

Looking ahead, we see attractive growth opportunities for independent insurance intermediaries like CNinsure, presented by favorable state and regulatory policies, and changes in consumers' consumption habits, resulting from easier and faster Internet access in China.

At the same time, insurance companies and the Internet companies are exploring ways to establish market presence in the Internet insurance space. While more and more new online professional insurance distribution platforms spring up in China, market competition is intensifying. We believe that with our extensive geographic footprint, our increasingly mobile-enabled offline agent network, our booming online channels, and our capital base, we are well positioned to take advantage of the market opportunities to capture market share, despite the challenges.

CNinsure's solid performance in 2015, witnessed by the achievement of approximately RMB10b insurance premiums and RMB200m of net income is evidence of the strength of our business model and the successful execution of our growth strategies.

After assessing the current market environment, and encouraged by our success in executing our O2O strategies, we have decided to invest no less than RMB500m in marketing campaigns, expanding our sales and service network and further improvement of our O2O platforms in 2016. We plan to continue investing in these areas in the next few years.

Our target is to achieve RMB100b in insurance premiums and over RMB1b of operating profit within the next eight years.

2015 marked the beginning of this RMB100b premium plan. In 2016 we will focus on expanding sales volume and acquiring market share. To be more specific, firstly, we will continue to expand our sales and service network. In the second half of 2015 we kicked off market research in several provinces in preparation for entering these new markets.

With our Jiangxi branch starting to generate revenues by the end of 2015, our sales network extended to 18 provinces. In 2016 we will -- we anticipate to set up 10 provincial-level branches and 100 city-level branches. It is also our goal to further expand our service network to cover all areas at or above county level.

Secondly, we will carry out marketing and promotion of our mobile app, targeting 5m sales agents in China. Our goal is to increase the activated downloads of our mobile app to 500,000 times, with an approximately 10% penetration rate among sales agents.

Thirdly, as we position ourselves as a B2B open-platform provider for insurance products and services, we will actively open up our O2O platforms. We will then explore cooperation with third-party Internet platforms to diversify our online traffic base, which is currently made up of organic and [ancillary] traffic, and boost the development of our online platforms.

Fourthly, we will also seek opportunities to acquire leading Internet financial service companies, to further diversify our product and service offerings and increase the competitiveness of our O2O platforms.

As we execute these strategies, we have confidence that CNinsure will be able to grow insurance premiums by over 40% and total net revenues by over (sic - see press release "approximately") 30% in 2016.

Although the investments we discussed throughout this call may temporarily put pressure on our bottom line in the near term, we believe that the optimal strategic approach for CNinsure is to focus on rapidly expanding our sales volume and further solidifying our market leadership, which will enable us to capture more market share and, ultimately, achieve higher profitability and higher returns to our shareholder over the long run. Thank you.

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**Oasis Qiu** - *CNinsure Inc - IR Officer*

Now our management will open the floor for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Patricia Cheng, CLSA.

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**Patricia Cheng** - *CLSA - Analyst*

Thank you. (Spoken in Chinese).

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**Oasis Qiu** - *CNinsure Inc - IR Officer*

The questions are from Patricia Cheng from CLSA and she has three questions. The first one is regarding our marketing plans on our -- in 2016. And we mentioned that we are going to spend RMB500m in 2016 in marketing campaigns, in developing our O2O platform as well as network expansion. And our goal is to achieve RMB100b premiums in eight years. She wonders how much the overall spending will be, and how many years it will going to take for us to achieve the targets.

And the second question is regarding our Internet platform. What kind of product that CNinsure is selling? And is there any difference from the other Internet platforms? And what is our competitiveness?

And the third question is regarding the insurance companies that we are cooperating. She noticed that nowadays there are a lot of new insurance companies entering the market; whether or not there will be any chance for CNinsure to cooperate with these new insurance companies.

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**Chunlin Wang** - *CNinsure Inc - CEO*

(Interpreted). Firstly, I would like to explain the rationale between -- behind the investments, the massive investment decision. Firstly, as I mentioned in the prepared remarks, we have seen that the regulatory environment for the insurance intermediaries, independent insurance intermediaries, are getting more favorable.

Firstly, the State Council issued a new ten guidelines, basically encouraged the insurance industry to play a more important role in the economic development in China. And accordingly the CIRC, the insurance regulator, promulgated a lot of favorable regulations and also amended the insurance law.



And among those amendments, the regulations for the establishment of insurance agencies, and for them to establish branches, are relaxed significantly. And it makes it easier for them to set up new branches and expand their network. And also the license requirement for insurance agents are also removed from the insurance law and also the regulations issued by the CIRC. So we expect that it may lead into an agent migration, from insurance companies into independent insurance intermediary space.

And in addition, we're also seeing the changes in the consumers' consumption preferences, due to the easier and faster access internet to the Internet. And customers are more accustomed to shopping online and make comparisons before buying for any product and the younger generation becoming the mainstream buyers in the Internet space. So against this backdrop, more and more companies are seeing these growth opportunities. And because of that, we are seeing that Internet insurance has been growing quite strongly in the past couple of years.

And right now, the third-party insurance distribution platforms, there are over several hundreds of them already in China. And the insurance company, as well as some leading Internet companies are also exploring ways to tapping into the Internet insurance market in China.

Well, it's opportunities for CNinsure, as well as challenges. In terms of opportunities, that's because, in the past few years, CNinsure has made a lot of preparation. And we believe that we're well positioned to take advantage of those opportunities.

But in terms of challenges, as I mentioned, there have been several hundreds of third-party Internet insurance distribution platforms. And also, the traditional insurance agencies and brokerage companies are also seeking every opportunity to grab market share, which means that if we do not make any massive investment now, with CNinsure, our leading position will be threatened and we'll become marginalized. So that's why we decided to -- made such a large investment in 2015.

As well as the spending plans, we have only made a detailed work plan for 2016. And we may continue the investment in 2017 and 2018. But probably the direction for the investment, and maybe the amount of the investment might be different from 2015.

And secondly, as for the insurance product that CNinsure is selling, to be honest, there are not much differentiations in terms of the insurance products, compared to other Internet platforms so far. After all, the insurance market is a highly-regulated market and the products basically need to be approved by the CIRC before selling to consumers. So there's not much differentiations in insurance products in the market.

Well, based on our experience that we accumulated in the past decades in insurance distribution, we believe that actually the O2O model is the best model for insurance distribution. And basically it needs a seamlessly integration of online operation and offline support to better provide services to the consumers. So whoever who has the leading positions or have the advantages, in terms of technology, in terms of monitoring user experience and services, will have the strongest competitiveness in the market.

For CNinsure, we are quite confident about our position, since over the past decades, CNinsure has established a nationwide service network. And our sales network also covers all the major most economic-developed regions in China so far.

And then, in terms of technology, we believe that we are one of the leading players in the whole insurance industry in China right now. So -- and CNinsure definitely enjoy a lot of competitive edge here. And one of the evidence is that, right now, a lot of third-party Internet platforms have been actively pursuing cooperation with CNinsure, in terms of a contractual relationship, in terms of data, in terms of insurance policy transaction support, in terms of services.

So and that's why CNinsure, we position ourselves as a B2B open platform, providing insurance product and services to various channels. So we're going to open our contractual relationship, and then data service, and technological support, and our back-office operation support to these various channels.

And then, looking at the insurance companies, they're exploring the Internet insurance market as well. We believe that they will focus their resources on being a better insurance underwriter, while the -- for the major Internet companies, we believe that even though there is some competitions, there is also chances for us to cooperate with them.

And we have made an estimate. If we can maintain a 35% growth on a compound basis in terms of insurance premiums, in the next eight years, our annual insurance premium will achieve RMB100b.

And we believe that with enough investment, we can drive our business growth, and RMB100b could be a quite reasonable target. And when we can achieve that target, and we also expect that we can achieve over RMB1b operating profit. Thank you.

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**Operator**

Zhuo Ling, VBA.

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**Zhuo Ling** - *Van Berkomp & Associates - Analyst*

(Interpreted). First of all, he would like to congratulate CNinsure on our good results. And his question is about the number of our sales agents. The number of sales agents grew from [62,000] last year to approximately 110,000. So basically the growth is over 90%. He wondered whether all these 11,000 agents are our in-house salary-based agents or whether or not they're new agents that we attracted through CNpad.

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**Chunlin Wang** - *CNinsure Inc - CEO*

(Interpreted). Well, we would like to confirm, that those are our commission-based agents. And, as I mentioned, the regulatory environment is getting more favorable, especially the regulation has removed the licensing requirement for sales agents. And we believe that sales agents will remain to be a major driving force for insurance sales in the industry. And that's why we have been aggressively recruited new sales agents in 2015. And we will continue to do that in 2016. And it's our target to further double the number of our sales agents in 2016. Thank you.

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**Unidentified Participant**

(Spoken in Chinese).

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**Chunlin Wang** - *CNinsure Inc - CEO*

(Spoken in Chinese).

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**Zhuo Ling** - *Van Berkomp & Associates - Analyst*

(Spoken In Chinese).

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**Chunlin Wang** - *CNinsure Inc - CEO*

(Spoken in Chinese).

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**Chunlin Wang** - *CNinsure Inc - CEO*

And Zhuo Ling would like to confirm that, whether our target is to double the number of sales agents in 2016, and the answer is yes. And also he wondered whether or not the way we recruit the sales agents, we're going to use -- we're going to recruit the sales agents by using CNpad app or by acquisition. And we'd like to confirm that we're going to use CNpad app to attract the sales agents to join CNinsure.

**Chunlin Wang** - *CNinsure Inc - CEO*

(Interpreted). And a key operation target that we set for 2016 is that we hope that there will be 500,000 downloaded and activated CNpad app. And which means that the penetration rate among the 5m sales agents in the industry will be 10%. And we hope that the numbers of app -- or the number of active users will double in 2016.

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**Operator**

Arthur Hall, Hallco.

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**Arthur Hall** - *Hallco Inc - Analyst*

Yes, thank you and congratulations also on a good quarter. Another question on your sales agents. What kind of turnover do you expect with this rapid growth of agents? How much training is involved and how long do you think they will stay with you? And also, what kind of productivity; would you think that they're working full time for you or they have other jobs also? Thank you.

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**Chunlin Wang** - *CNinsure Inc - CEO*

(Interpreted). Theoretically speaking, these sales agents are working on a part-time basis for CNinsure. They might have a full-time job elsewhere, or they can be sales agents for any insurance companies or even for our peers. And then, in terms of the productivity, I think it really depends on how much -- how attractive our platforms are to them, in terms of whether or not we can provide them a good product, or whether or not that we can provide them good services, so that they can stick to the platforms.

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**Oasis Qiu** - *CNinsure Inc - IR Officer*

And Mr. Wang cited the examples of e-commerce companies portals, like Jingdong and Alibaba. And some consumers may more prefer to buy more products from Jingdong and some others more from Alibaba. It really depends on which platform can provide them better products and services.

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**Chunlin Wang** - *CNinsure Inc - CEO*

(Interpreted). And for CNinsure, we would like to focus more on providing them better products and better technological support, and more stronger marketing support, as well as better trainings to attract them to retain in CNinsure.

And we will also provide them more stronger incentives to train a team of highly-productive sales agents. And --

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**Oasis Qiu** - *CNinsure Inc - IR Officer*

(Spoken in Chinese). Okay. Thank you.

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**Operator**

[Albert Tun], private investor.

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**Albert Tun** -- Analyst

(Interpreted). There are two questions. The first question is regarding the use of our capital. In 2015, we had about RMB2b in short-term investments. And the yields from this short-term investments was roughly RMB65m, which means that the returns are only like 3%. He thinks that is not really the best way to use your capital, and whether or not the management has given any thoughts about that, whether or not management will plan to use some of the capital to buy back our shares, to -- which he thinks is in the better interest of the shareholders.

And the second question is that, as the regulation is changing, the insurance companies are also aggressively recruiting sales agents. (Inaudible) Whether or not this efforts by the insurance company will have any impact on CNinsure.

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**Chunlin Wang** - CNinsure Inc - CEO

(Spoken in Chinese).

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**Oasis Qiu** - CNinsure Inc - IR Officer

Mr. Wang will take your second question first. And the first question will be answered by our CFO.

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**Chunlin Wang** - CNinsure Inc - CEO

(Interpreted). Well, we believe that as the regulatory is getting more favorable, all players will try every means to take advantage of those -- the regulations, the new regulations. And it is also perfectly understandable the insurance company would like to increase their investment in the Internet insurance space.

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**Chunlin Wang** - CNinsure Inc - CEO

(Spoken in Chinese).

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**Oasis Qiu** - CNinsure Inc - IR Officer

And it's also our judgment that the insurance company will increase their investment in the Internet insurance market and also in recruiting sales agents. However, we still believe that insurance companies, they are insurance product providers and basically they provide single types of product from one single brand.

And Mr. Wang compares this to the household appliance manufacturers in China, several brands of the household appliance manufacturers in China, they all will try all means to increase their brand awareness and to increase -- to expand their sales volumes. However, the sales -- I think the third-party distribution platforms like Gome and SuMing will still be their major sales channel.

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**Chunlin Wang** - CNinsure Inc - CEO

(Interpreted). And actually we think that that has proved that insurance companies' efforts to invest in the Internet space and improve sales agent may not be as successful as they expect. And the insurance agents, they will still be more inclined to find a platform that can provide them one-stop product and services. And consumers are also more inclined to shop in those platforms that can provide them all the one-stop services and products.

So we believe that in the future the largest insurance distributor will be a third-party and independent insurance distributor, rather than insurance company. And we'd like to invite our CFO to answer your first question.



**Peng Ge** - *CNinsure Inc - CFO*

(Interpreted). Firstly, regarding the returns on the short-term investments, as you know, we have RMB2b in short-term investments. And For some of the wealth management products that we invested, we only recognize the yields when the products mature. And for some other products, basically we recognize the yields on an annual or a semiannual basis. So not all the yields of those returns have been reflected in our financial statements. But actually, the average returns on those products are in the range of 5% to 6%. But of course in 2016 as the interest rate may continue to drop, that means that the return may also decline slightly, as well. Thank you.

And in terms of the share buyback, looking at the current share price of CNinsure, we do think that it may bring a very good return to shareholders if we buy back some shares. And we do not really object to this idea. And -- however, there are two technical issues here. Firstly, the limitation, in terms of the trading volume, for any listed company to buy their own shares on the open market. Firstly, we are not allowed to buy more than one-fourth of the average trading volumes in the past 20 days.

And then, secondly, and we have to wait for the prior bid to complete before we can get our bid, to [strike] a deal. And in 2015, we actually did buy some shares back from the open market.

Last year we got some proceeds, in an amount of \$2m. And the proceeds are from the exercise of the options by our employees. So we were thinking that we're going to use that \$2m to buy shares. But actually it took us one and a half months to spend all this \$2m to buy those shares. So that means it's really difficult, for us to buy enough shares, even though we have this commitment.

And then second problem that we are facing is the strict foreign currency control right now and -- because right now, almost all of our cash are in China. So if we want to do a share buyback, we have to convert the money to overseas, to our overseas account. And then there will be like a 10% withholding tax. And also, we have to get the permission from the regulator to get the money out to our overseas account.

So while we are trying to find ways to fix these problems, we are also hoping that we can see better way to use our capital. As Mr. Wang's announced, our next eight-year plan and our target to achieve like RMB100b in sales volumes in the next eight years, and I do think that it might be a better way for us to use the money and bring better returns to shareholders. Thank you.

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**Operator**

Thank you. I would now like to hand the conference back to the management team, for any closing remarks.

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**Oasis Qiu** - *CNinsure Inc - IR Officer*

Thank you. So if you have any further questions, please contact us. Thank you.

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**Operator**

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

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**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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