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CISG - Q3 2015 CNinsure Inc Earnings Call

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CORPORATE PARTICIPANTS

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Chunlin Wang *CNinsure Inc - CEO*

CONFERENCE CALL PARTICIPANTS

Andy Nahas *Prospect Fund - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for CNinsure's third quarter 2015 earnings conference call. (Operator Instructions). 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 Officer

Good morning. Welcome to our third 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 are 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 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 third quarter 2015, and take your questions after their prepared remarks.

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

Chunlin Wang - CNinsure Inc - CEO

(Interpreted). Good morning, and thanks for joining us in our third quarter earnings conference call. I'm happy to have our Chairman, Mr. Yinan Hu, and our CFO, Mr. Peng Ge here with me. Now I will give you an update of our financial and operational results in the third quarter of 2015. Mr. Hu, Mr. Ge, and I will take your questions at the end of the report.

Despite a slower economic growth in China, CNinsure had a solid quarter with core operating metrics exceeding our expectations. Our top line grew 32.2% year over year in the third quarter, keeping us on track to achieve the full-year target of 30% growth.

While gross margin increased from 22.9% in the same period last year, to 24.1% and operating margin increased from 0.2% last year quarter to 3.1%. Driven by the solid top-line growth and margin expansion, our operating income was up 25 times. And net income attributable to shareholders up 20.4%, reflecting the positive effects of our internal restructuring and strategic transformation.

Firstly, robust growth in the life insurance segment. Life insurance agency business recorded a 91.6% year-over-year growth in net revenues during the quarter, largely owing to a strong growth of over [130%] in new term life insurance policy sales.

Gross margin increased by [4.1 percentage points] to [34.3%] from 30.2% in the same quarter last year. The fast growth in life insurance business was due to the rising demand for traditional life insurance products in low interest rate environment, along with the successful implementation of our cross-selling strategy, as more of our agencies, which previously solely sold (inaudible) insurance products, also started to sell life insurance products.

Secondly, recovery of the claims adjusting business. Our claims adjusting business rebounded from the downturn in the past three quarters, to a 17.2% year-over-year growth. The increase was primarily due to the sales and marketing -- market expansion efforts.

Meanwhile, as we announced on November 10, the holding company of our claims adjusting operation has applied for listing on the New Third Board. If everything goes well, we expect the listing will be completed in the first quarter of 2016. We believe the listing will definitely be beneficial for the sustainable development of the claims adjusting business, in the long run.

Thirdly, increasing contribution from CNpad app. The total number of downloaded and activated CNpad apps exceeded 93,000, with approximately 30,000 active users, during the third quarter of 2015. Over 60% of auto insurance business and about 52% of new term life insurance business were transacted through the CNpad app.

Insurance premiums generated through the app reached RMB795m in the third quarter, up 127% year over year. In addition, we also see continued back-office efficiency improvement, as a result of both the internal restructuring and the increased adoption of CNpad app by sales agents to conduct business which was evidenced by a drop in adjusted operating expense ratio, from 18.8% last quarter -- last year quarter, to 17.4% during the quarter, a trend that has been witnessed in the past two quarters.

The P&C sector witnessed a slowdown of growth caused by the slow economic environment. However, our P&C business maintained a steady growth. Net revenue for the P&C agency and brokerage segment grew 27% and 34% respectively. And total premiums contributed by the P&C agency and brokerage business went up 15%, a lot higher than the P&C sector growth of 10.1%.

And now I will discuss some key points in our work plan for the fourth quarter. After the relaxations of regulations over the establishment of insurance intermediary companies and removal of the certificate requirements for sales agents, in September, the CIRC released a guidance on deepening reform of the insurance intermediary market, emphasizing its commitment to streamlining administrative procedures, encouraging innovation in the insurance industry, and supporting the establishment of more professional and internationally competitive leading insurance intermediary companies.

As the largest independent insurance intermediary in China, we have been at the forefront of our industry, in driving model and technological innovation. We believe that we are well positioned to benefit from the positive regulatory policies.

Against this backdrop, in the fourth quarter we will continue to focus on pushing forward the three programs of sales network full coverage, accelerated growth of sales force, and platform opening up, to be more specific.

Sales network full coverage. We will strive to complete market research in 10 provinces and 100 cities, in preparation for entering the new markets, respectively led by headquarters and our provincial branches and subsidiaries.

And secondly, accelerated growth of sales force. We will continue to rapidly grow our sales force and strive for a 30% growth, year-over-year growth in the number of sales agents in the fourth quarter.

And thirdly, platform opening up. By leveraging the experience of our existing online platform and the achievements that we've made so far, we will step up efforts to pursue and deepen horizontal and vertical alliances in the insurance industry and beyond. And we also expect to make a big breakthrough in the next quarter or so.



As we execute this program, we believe we will continue to strengthen our leadership in the insurance intermediary market, as we are strongly confident in our growth outlook.

Looking ahead to the fourth quarter, we expect the top line to grow at approximately 30%, so as to ensure the achievement of our full-year target of 30% top-line growth in 2015.

Thank you.

Oasis Qiu - *CNinsure Inc - IR Officer*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andy Nahas.

Andy Nahas - *Prospect Fund - Analyst*

Thank you. I've got a couple of questions.

The first one, going forward, if your revenues grow at 30%, will the operating income grow at higher than that or lower than that? What's your sense for that?

Unidentified Company Representative

(Interpreted). We expect the operating income growth will be in line with the revenue growth in the third quarter -- in the fourth quarter.

Andy Nahas - *Prospect Fund - Analyst*

Okay. Thank you. And I also want to congratulate you on -- your stock has, I think, doubled this year. If you look at the two best Chinese stocks listed in the US, I believe it's CNinsure and Ctrip. And Ctrip's business is sort of an intermediary in the travel space, where people can compare and choose which airline or which hotel they want to choose from.

Is there an analogy with your business, being an intermediary in insurance, and maybe people having the opportunity to choose from various insurance companies? Do you think the analogy with yourselves as maybe a vertical -- the vertical for insurance is similar to Ctrip, as the vertical for travel?

Unidentified Company Representative

(Interpreted). We do have some -- share some similarity with Ctrip in the retail business. However, we also think that insurance is quite different, in terms that the product distributed or sold, compared on Ctrip is more standardized product. While CNinsure, the product or the demand -- the customer demand that we are facing are more personalized and would need to be taken care of by professional advisors.



And we also are seeing that this year, our revenue grows strongly, primarily driven by a strong performance in our life insurance segment, and also the brokerage -- insurance brokerage segment, which respectively grew 130% in new term life insurance policy sales and 30% in insurance brokerage sales.

And both these two kind of business models are related to providing personalized and professional services to customers. So we think these two lines of business constitute our competitiveness and (inaudible) and industry threshold.

Oasis Qiu - *CNinsure Inc - IR Officer*

And Mr. Wang, our CEO, would like to add some comments.

Chunlin Wang - *CNinsure Inc - CEO*

(Interpreted). And we think that Ctrip's business model is a kind of B2C model plus B2B2C model. For its B2C business, it directly deals with direct customers, while B2B2C models, they deal with the channels, various channels.

While CNinsure, our positioning or we regard ourselves, our business model as a O2O model, which means we provide a platform that supports online transactions, with the support of an offline sales network and offline -- a network that consisted of a large number of sales force.

And we believe that -- and also through our experience in the past decade, with the O2O model that it's the most suitable business model for the development of insurance intermediaries.

Oasis Qiu - *CNinsure Inc - IR Officer*

Thank you, Andy.

Andy Nahas - *Prospect Fund - Analyst*

Thank you.

Operator

Thank you for the questions. There are no more questions from the phone line. I would like to hand the call back to the management for closing remarks.

Oasis Qiu - *CNinsure Inc - IR Officer*

Well, thank you for joining us on today's conference call. If you have any further questions, please feel free to contact me. Thank you.

Operator

Thank you, ladies and gentlemen. That does conclude the conference for today. Thank you for your participation. You may now disconnect the lines.



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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