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# EDITED TRANSCRIPT

CISG - Q1 2016 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

**Zhuo Lin** *VBA - Analyst*

**Matt Fortune** *WFA - Analyst*

**Andy Nahas** *Prospect Fund - Analyst*

**Victor Koo** *Lumiere Capital - Analyst*

**Albert Guan** - Analyst

## PRESENTATION

### Operator

Thank you for standing by for CNinsure's first-quarter 2016 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 events and webcast 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. Welcome to our first-quarter 2016 earnings conference call. The earnings results were released earlier today and are available on our IR website, as well as on newswires.

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 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 first quarter 2016 and take your questions after the prepared remarks.

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

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### Chunlin Wang - CNinsure Inc. - CEO

(Interpreted). Good morning. Thanks for joining us in our first-quarter 2016 earnings conference call. I am happy to have our CFO, Mr. Peng Ge, here with me. Now I will give you an update of our financial and operational results in the first quarter 2016. And then Mr. Ge and I will take your questions at the end of the report.

In the first quarter 2016, the Chinese insurance industry presented mixed performance, which was in line with our expectation. The property and casualty insurance sector slowed down, with 8.9% year-over-year growth, affected by the downward pressure of the Chinese economy and slower growth in automobile sales, while the life insurance sector continued to gain traction, with [50.2%] year-over-year growth, partially benefiting from the strong sales growth of investment-type insurance products.

Secondly, the major progress in the first quarter 2016 for CNinsure. The first quarter of 2016 unveiled CNinsure's third eight-year plan. With the aim of achieving RMB100b in insurance premiums within the next eight years, we started implementing our strategic plan in first quarter of 2016, with focus on the following aspects.

Firstly, marketing. In order to rapidly expand our sales scale and enhance our market position, we spent RMB78m on marketing to test the water. We're excited that our marketing strategy was well received in the market and proved to be very successful in propelling our business growth across the board. We recorded 46.2% growth in insurance premium and 56.7% growth in net revenue.

Secondly, upgrade of CNpad applications. We started the research and development on updating the framework of CNpad app in the second half of 2015 and made major progress in the first quarter of 2016. The new version was officially released in April and is currently in trial operation in our agencies in Shandong and Guangdong provinces. The new version presents much better user experience, with optimized functionalities in many aspects, such as automatic input of information, quicker and more accurate price quotation, as well as more convenient and [secure] payment process.

However, due to the transition from the older to the new version, the number of downloads of CNpad app and the transaction volume recorded a relatively slower growth. During the first quarter of 2016, 12,000 copies of CNpad app were downloaded, adding the total number of downloads of CNpad app up to over 120,000.

Meanwhile, 27,000 active users placed new insurance policies on CNpad app, contributing over RMB800m insurance premiums, or 25.9% of our total sales volume in the first quarter of 2016, representing a year-over-year growth of 51.8%.

Thirdly, regional expansion. We also made steady progress with our regional expansion plan. As of date, we have established a new provincial-level agency branch in Anhui province and started preparation work for establishment of two more new provincial branches in Guangxi and Hunan.

As of the end of the first quarter, we added 36 new branches at or below city level and approximately 16,000 new agents. The total number of sales agents in the first quarter was 98% more than that in the same period last year.

Now I will give you an overview of the first-quarter 2016 financial results. CNinsure had a good start in the first quarter 2016. Total insurance premiums were up 46.2% year over year and net revenues up 56.7% year over year, far better than expected.

Operating loss was RMB20m. And net income attributable to shareholders was RMB19.4m, down 41.3% year over year.

Now let's look at the financial performance in each business segment. Firstly, P&C insurance agency business. Insurance premiums and revenue from our P&C agency business grew 40.6% and 43.3% year over year, respectively.

Auto insurance pricing deregulation expanded to 18 provinces in January 2016. Based on our assessment on our first-quarter results in those regions, average premiums per insurance policy was slightly lower. But the commissions per policy, that we received from insurance company, remained stable in general or were even slightly higher than before in certain regions.

Secondly, life insurance agency business. Insurance premiums and revenue from new long-term life insurance policy sales grew explosively by 186.2% and 207.6% year over year respectively. 13-month persistency ratio was 89% compared with 83% in the same period last year, pointing to a significant improvement in the business quality of our life insurance business. Insurance premiums and revenue generated from renewal of life insurance products grew 13% and 37.3% year over year respectively.

Thirdly, the insurance brokerage business remained in the fast-growing track, with revenue increasing 66.3% year over year.

Fourthly, our claims adjusting business maintained a stable growth, with revenue growing 12.3% year over year.

The strong results in the first quarter of 2016 evidence the success of our growth strategy. In the second quarter we will step up investment in marketing and continue to extend our sales and service footprint nationwide, which we believe are crucial measures to further strengthen our leading position in the insurance intermediary market and put us further ahead of our competitors.

Looking ahead, we are confident to achieve 40% revenue growth in the second quarter of 2016.

Now our management will open the floor for your questions.

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## QUESTIONS AND ANSWERS

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

Hi, Evan. We are ready to open the floor.

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### Operator

(Operator Instructions). Zhuo Lin, VBA.

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**Zhuo Lin** - *VBA - Analyst*

(Interpreted). The first question from Zhuo Lin, and his question is about our expense ratio. It seems that we provided online spending for each quarter in the previous quarters. But for this quarter we stopped providing that number. So he would like us to give him some idea about our expense level -- online expense level.

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

(Interpreted). For the first quarter our online spending was roughly RMB20m. So it's basically consistent with the online spending level for the previous quarter.

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**Zhuo Lin** - *VBA - Analyst*

(Interpreted). And we spent about RMB78m in marketing in the first quarter. Can we expect the same amount of investment for the next quarters?

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

(Interpreted). According to our budget, we intend to spend roughly 2.6% to 3% of the total insurance premiums that CNinsure generate in marketing.

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

(Interpreted). As Mr. Wang announced, in the first quarter 2016 we are going to spend a massive amount of investment on marketing, in the total amount of RMB500m in 2016. And the investment in the first quarter was basically a test water for CNinsure. And also the total amount of investment was also slightly affected by the Spring Festival, which means that basically for almost one month sales agents didn't really work much.

And we've already seen that investment in first quarter has produced very good results to our business growth. So going forward we're going to continue this investment, based on the progress of our business.

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

Thank you.

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**Operator**

(Operator Instructions). [Matt Fortune], [WFA].

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**Matt Fortune** - *WFA - Analyst*

Hello there. What steps -- what action do you plan to take to improve your net profit margin? Thank you.

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

(Interpreted). As we mentioned previously that the insurance intermediaries are facing a golden time for development, as presented by the more favorable market environment due to the new -- the promulgation of the new insurance law and also the 10 new guidance issued by the state council, and also the support to the development of insurance intermediaries by the CIRC.

So against this favorable market environment, we set out our eight-year plan, with the purpose to establish our market position and achieve a strategic goal of RMB100b in terms of sales volume.

And based on that sales scale, we expect that within the next three years after the investment, so that will be 2018, our operating income will break even in 2018. And then we expect to make about RMB1b -- over RMB1b operating income in 2023.

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

Thank you.

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**Operator**

Andy Nahas, Prospect Fund.

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**Andy Nahas** - *Prospect Fund - Analyst*

Yes, two questions. Can you tell me -- give me an update on how much cash you have per share, in dollars?

And then also, when you spend the money to get new customers and grow the revenue, what is giving you confidence that you will keep those customers in the future years?



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

(Interpreted). Well, as we mentioned, we are facing a very good opportunity for development. And as you can see, in the first quarter we've basically outgrown the industry. The P&C sector grew by 8.9%, while CNinsure grew by over 40%. So our intention going forward is to continue to expand our P&C business, to grow our P&C business, as well as expand the sales capability of our life business.

P&C products [are products that can be more easily grow sales scale, while life insurance product] (corrected by company after the call) can help us generate more profitability.

In the meantime, when we grow our sales scale of our property and casualty insurance business, we believe that we can gain more bargaining power which allows us to further consolidate the market. If we do not make such large amount of investment, we feel the threat that some new Internet players and other competitors and our peers may grow faster and gain our market share.

We're also seeing an inflow of capital into the insurance intermediary sector in recent years, so which means that there might be opportunity for the establishment of a large or even larger insurance intermediary companies to compete with us. So it's important for us to take advantage of our leading position at this stage and increase investment to further solidify our leading position.

Our cash per ADS is about \$1.6 per ADS. And if the short-term investments in financial products are included, the total cash per ADS was 8.5% -- sorry, was \$8.5.

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**Andy Nahas** - *Prospect Fund - Analyst*

Okay. Thank you. And congratulations on the strong growth.

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

Thank you.

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**Operator**

(Operator Instructions). Victor Koo, Lumiere Capital.

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**Victor Koo** - *Lumiere Capital - Analyst*

Hi. I understand you are going to spend RMB181m on the acquisition of 35% of this InsCom which owns the Baoxian portal. But given the contribution of Baoxian is actually quite small, why is it that you are spending such a huge sum on this venture? Maybe management can elaborate a bit.

And also, is this RMB181m part of the RMB500m that you'll be spending on marketing expenses this year? Thank you.

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

Sorry, could you elaborate on the second question?

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**Victor Koo** - *Lumiere Capital - Analyst*

Well, because you -- the budget for this year for marketing is RMB500m. So I would like to find out if this RMB181m for acquisition of InsCom falls under this RMB500m or is it additional RMB181m plus RMB500m?

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

Got it.

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

(Interpreted). It's not included in the RMB500m marketing expense.

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**Victor Koo** - *Lumiere Capital - Analyst*

Okay. Thank you.

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

Now our CFO will take your first question.

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

(Interpreted). We acquired 65.1% of equity interest in InsCom, which at that time owned baoxian.com, back in 2010. And we use Baoxian.com as a base platform for us to enter the online insurance business.

The original goal for baoxian.com is actually to tap into the B2C market. So right now baoxian.com is also doing a consumer -- directly consumer-facing business, but mainly focused on travel, accidental and health insurance. And it is already the largest -- one of the leading online insurance providers for this type of insurance product.

And in addition to baoxian.com, InsCom actually also runs the back-office operations of CNpad application, which currently contributes significant amount of insurance premiums to CNinsure. And in order for us to achieve our long-term strategic goal of RMB100b insurance premiums over the next eight years, it's crucial for us to continue to improve the technology and improve the back-office operations in order to further improve the user experience of CNpad application. So in that sense, InsCom and the operation that it owns will play a very crucial role in helping us to achieve our strategic goal.

And it is the management's intention to increase investment to develop the online insurance business. However, the minority shareholders of InsCom doesn't really agree to this plan. However, it's very crucial for us to gain 100% control over the back-office support system for CNpad application in order to support the achievement of our goals.

So that's why we decided to buy out the minority interest of InsCom. And based on our two- and three-years growth target, which is over billions of insurance premiums, we believe that the current consideration to acquire InsCom is reasonable.

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

Our CEO would like to add a few comments.



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

(Interpreted). He mentioned that actually InsCom owns two assets. One is baoxian.com and the other is our B2B2C business, CNpad application. And currently CNpad contributed over [RMB3b] (corrected by company after the call) insurance premium. And also we believe that we are the only one in the industry that are able to contribute that amount of insurance premium in the insurance intermediary market.

And the second asset is baoxian.com. And for last year their total insurance premiums was [RMB50m]. We believe that in 2016 they will be able to achieve RMB100m. And we also see a potential for them to further grow the insurance premium to RMB1b. Both of these two platforms, CNpad application and baoxian.com, currently hold a leading position in their respective fields.

We would like to further increase our investment to develop these two platforms, and we need a much quicker decision-making process. So that's why we decided to buy out the minority interest. And based on the growth potential of these two platforms, we believe that the consideration is actually quite a bargain.

And we believe that CNpad will be able to generate RMB10b insurance premium in 2017.

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**Victor Koo** - *Lumiere Capital - Analyst*

Okay. Thank you very much.

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**Operator**

(Operator Instructions). [Albert Guan].

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**Albert Guan** - *Analyst*

(Interpreted). As management mentioned that CNpad application will be a major tool for CNinsure to grow our business, however, compared with the fourth quarter 2015, the active users of CNpad actually recorded a major decline in the first quarter. Would you please comment what's the reason behind the decline? And how do you see the number -- the growth of the number of active users of CNpad application in the next quarter or in 2016?

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

(Interpreted). The previous version of CNpad application was designed to adapt to the operational environment before the auto insurance pricing deregulation. However, with trial implementation of the auto insurance pricing reforms in 18 provinces in 2016, the user experience of the previous version of CNpad application actually dropped slightly.

We have already expected this challenge back in 2015. So that's why we started with research and development on updating our CNpad application in the second half of 2015. While in this process we think that it may not be a good idea for us to spend much effort to promote CNpad application before we release the updated version, which can provide the users better user experience.

We released the updated version of CNpad application in April for trial operation in Shandong and Guangdong provinces. And we expect a nationwide rollout in July. And then we will start to promote the adoption of CNpad application. And we expect there will be acceleration of growth in the number of active users and also the number of downloads of CNpad application after July. We believe that insurance premiums contributed by this CNpad app will grow significantly year over year in 2016.



The new version of CNpad application has significant improvement in user experience. And we are quite content about that and we'll start promoting the adoption of CNpad application in July, as we mentioned. And as for the RMB500m in marketing expenses, majority of this RMB500m marketing expenses will be related to the promotion of CNpad App. And we believe that with this increase of investment in July, we will also see growing contribution from CNpad application.

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

Thank you.

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**Operator**

(Operator Instructions). There are no further questions at this time. Please continue. Ladies and gentlemen, this 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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