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# EDITED TRANSCRIPT

FANH - Q1 2018 Fanhua Inc Earnings Call

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MAY 22, 2018 / 1:00AM, FANH - Q1 2018 Fanhua Inc Earnings Call

## CORPORATE PARTICIPANTS

**Chunlin Wang** *Fanhua Inc. - Chairman & CEO*

**Oasis Qiu** *Fanhua Inc. - IR Manager*

## CONFERENCE CALL PARTICIPANTS

**Michael Chu**

**Myung Wook Kim** *JP Morgan Chase & Co, Research Division - VP*

**Xue Yuan** *China International Capital Corporation Limited, Research Division - Research Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by for Fanhua's First Quarter 2018 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 3 hours after the conference is finished. Please visit Fanhua's IR website at [ir.fanhua.com](http://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 hand it -- to turn over the meeting to your first post for today, Ms. Oasis Qiu, Fanhua's Investor Relations manager.

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Good morning. Welcome to our first quarter 2018 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 U.S. Private Securities Litigation Reform Act of 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 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 of 2018. He and Mr. Ge will then take your questions after the prepared remarks.

Now, I will turn the call over to Mr. Wang. Please begin.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)



## MAY 22, 2018 / 1:00AM, FANH - Q1 2018 Fanhua Inc Earnings Call

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Thank you for joining us on today's conference call. Here with me, we have our Chief Financial Officer, Mr. Peng Ge. We will begin today's call with a review of our first quarter 2018 financial results and the progress that was made during the quarter, followed by a brief discussion of our business outlook for the second quarter 2018. Then, we will have a Q&A session after the report.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Firstly, the first quarter 2018 financial and operational performance. Our financial results for the first quarter of 2018 once again beat our expectation, with operating income growing by 63.3% year-over-year to RMB 90.2 million, and net income attributable to shareholders increasing by 86.7% year-over-year to RMB 130.2 million.

Our various business segments also delivered solid performance that exceeded our expectations.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Firstly, our life insurance segment. Total life insurance premiums grew by 40.1% from a year ago, outpacing industry growth, primarily attributable to 186.5% year-on-year growth in renewal premium during the quarter, reflecting the attractive business nature of the long-term life insurance business i.e., the snowball effect created by the continued accumulation of the renewal business.

The strong growth in renewal business was also one of the key drivers behind the rapid increase in our operating income. First year annualized premiums equivalent, on the other hand, were down 12% year-over-year. The decline was consistent with our prior expectations, and it was mainly affected by the continued adjustment in annuity products in the industry and the high base in the same period last year.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Noticeably, the fundamentals of our life insurance operation remains quite solid as the key operational matches have maintained solid growth momentum.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)



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**Oasis Qiu** - Fanhua Inc. - IR Manager

For instance, firstly, we've seen continued improvement in our business mix. First year annualized premium equivalent derived from health insurance products grew by over 40%, outperforming the industry. Health insurance as a percentage of our total life insurance annualized premiums have increased to 65% in the first quarter of 2018 from 40% a year ago. The breakdown of our life insurance business by annualized premiums equivalent in the first quarter of 2018 was 65% from health insurance, 17% from annuity insurance, 16% from endowment insurance, and the remaining from other products. In the same period last year, health insurance accounted for 40%; while endowment insurance accounted for 28%; annuity insurance, 31%; and other business, 2%.

**Chunlin Wang** - Fanhua Inc. - Chairman & CEO

(foreign language)

**Oasis Qiu** - Fanhua Inc. - IR Manager

Secondly, number of registered sales agents reported solid growth. As of the end of the first quarter 2018, the number of registered sales agents increased by 73,000 quarter-over-quarter to approximately 579,000, representing a net increase of 20,000 to 30,000 each month. The rapid growth reflected the acceleration of the trend of the agents' migration to independent distribution channels and that Fanhua has become the best choice for agents who are committed to starting up their own business.

**Chunlin Wang** - Fanhua Inc. - Chairman & CEO

(foreign language)

**Oasis Qiu** - Fanhua Inc. - IR Manager

The number of performing agents includes increase in (inaudible). Insurance agents who have sold life insurance products increased 38.3% year-over-year to 65,000 during the quarter of 2018.

**Chunlin Wang** - Fanhua Inc. - Chairman & CEO

(foreign language)

**Oasis Qiu** - Fanhua Inc. - IR Manager

And fourthly, our persistency ratio maintained at top level in the industry with 13-month persistency ratio increasing from 91% same period last year to 94% in the first quarter of 2018.

**Chunlin Wang** - Fanhua Inc. - Chairman & CEO

(foreign language)

**Oasis Qiu** - Fanhua Inc. - IR Manager

And secondly, our claims adjustment segment. This segment showed strong signs of improvement in its operations, with revenues up 20.4% year-over-year, largely attributable to our efforts to enhance cooperation with more medium-sized insurance companies and business innovation.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Thirdly, our Internet platforms, which have started to make meaningful operational and financial contribution in the first quarter 2018. Each of these platforms have demonstrated leading advantages in each of their respective areas and started to generate commercial value.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

First, CNpad, Fanhua's auto insurance platform business model is built upon CNpad, which is an auto insurance transaction platform and its huge user base. As of today, CNpad has begun distinctive competitive advantages over its counterparts in terms range of insurable vehicles, number of underwriters, automated data entry, the speed and accuracy for instant quotation and approval, choices of payment methods and choices methods for delivery. As of the end of the first quarter 2018, CNpad Auto app has gathered an aggregate of over 418,000 registered users, up 66.1% year-over-year and 64,000 users who have made transactions over the platform during the quarter, up 13.3% year-over-year. During the first quarter of 2018, the total insurance premium transacted through CNpad Auto was approximately RMB 517 million, which translated into over RMB 5 million technology service fee.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Second, Baoxian.com. During the first quarter, Baoxian.com has maintained strong growth through business cooperation with a third-party Internet channel. Its transaction volume in terms of insurance premiums was up over 10x to RMB 600 million. Baoxian.com has become a new source of profit for the company, contributing RMB 4.5 million operating profit in the first quarter 2018.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Thirdly, eHuzhu. As of the end of first quarter 2018, the eHuzhu community have gathered over 3 million registered members, with the members increasing 100,000 each month. The number of active members per month is over 1 million, and the annual retention ratio is over 90%. eHuzhu has become an important tool for our sales organization to acquire customers and attract agents and has played a positive role in supporting the business growth of the company. Currently, eHuzhu is planning the launch of some service-oriented products to its members as it starts to monetize its member base.



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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Fourthly, Chetong.net. Three years into operation, Chetong.net has been dedicated to building up its core competitiveness and has won wide recognition from its partners and customers. In the first quarter 2018, Chetong.net has established in-depth cooperation with the auto insurance service association, both small- and medium-size insurance companies and Ping An's One Connect. It is expected to be able to breakeven this year.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Fourthly, mutual fund and mortgage loan distribution business. During the first quarter 2018, we have made steady progress in expanding into mutual fund distribution and have been making preparations for initiating mortgage loan distribution. We expect the contribution from the new business will be reflected in the second quarter financial results.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

The solid performance in the first quarter has fully demonstrated the full size and accuracy of the business strategies that we've implemented over the past few years, including our investments in building out our online platforms, expanding sales force and enhancing focus on life insurance business and the transition of our P&C business towards a platform business model. We believe that this initiative will continue to drive a sustainable growth of the company in the future.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Fifthly, recent developments in our capital market. On May 14, 2018, MSCI announced its semiannual adjustment of its equity investors. Fanhua is added to the MSCI all China index, symbolizing the recognition of Fanhua's business model and growth potential by MSCI.

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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Sixthly, dividend declaration. In order to reward our shareholders for their continued support and trust, based on the solid first quarter sales and our current view of our earnings outlook in 2018, our Board of Directors declared an annual aggregate dividend of USD 1 per ADS payable in 4 quarterly installments. Shareholders of record on May 30, 2018, will be entitled to the payment of the first quarterly installment of USD 0.25 per ADS on or around June 10, 2018.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Looking ahead to the second quarter 2018, in light of the financial market opening policies and current regulatory environment, we think the life insurance industry is on track for a healthier development. As the trend of the decoupling of manufacturing from distribution is accelerating, we believe that the industry transition towards protection-oriented business is favorable for Fanhua. And as insurance companies are trying to shift their more focus on protectional-type of products, there will be rising demand for independent channels like Fanhua. We expect to achieve positive growth in first year annualized premiums equivalents on life insurance business and operating income of no less than RMB 100 million in the second quarter 2018. Thank you.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Now the management will open the floor for your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Your first question comes from the line of Xue Yuan from CICC.

**Xue Yuan** - *China International Capital Corporation Limited, Research Division - Research Analyst*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

The question is from Xue Yuan, and he congratulates the company for the good results. And he has 2 questions. The first question is regarding our growth outlook for the annualized premiums. The annualized insurance premium on life insurance business in the first quarter declined, what's the growth outlook for the annualized insurance premium for the next 3 quarters? And the second question, he asked about in the industry, while insurance companies have faced difficulty in recruiting sales agents in the first quarter, how Fanhua managed to grow the number of our sales agents by over 10%.



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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

In 2015 to 2017, with the rapid growth in the past 3 years, both life insurance company and the insurance intermediary have reached a quite high base. I think it's time for the industry and also for the intermediaries starting to adjust themselves for a better growth in the future and believe this is a positive thing for a healthier development in the overall industry. As for Fanhua, even though the first year annualized premium equivalent declined 12% year-over-year in the first quarter, we also noticed that the fundamentals of our life insurance operations remained quite solid in terms of the various key operational metrics. And so we are confident that we will be able to make positive growth in the second quarter of this year in terms of the annualized insurance premium as well as positive growth for the whole year.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

And as for the second question, in the first quarter and in March, we have witnessed a net increase of 30,000 agents per month despite a slowdown in February due to the Spring Festival. And we believe that we will be able to maintain this growth momentum i.e., the 30,000 sales agents per month. And it is also a testament of our judgment of the trend that the trend of the decoupling on manufacturing from distribution and the trend of agent migration are accelerating. And the agent migration is not just happening within the sales agents, but also for the management teams within life insurance companies. They're also attracted to seek more opportunities in the (inaudible) insurance intermediaries sector. And Fanhua is well positioned to capitalize on that growing trend. Thank you.

**Operator**

Your next question comes from the line of MW Kim from JPMorgan.

**Myung Wook Kim** - *JP Morgan Chase & Co, Research Division - VP*

First of all, congratulations for the very strong Q1 in challenging the market condition from the year beginning. I want to ask 3 questions. The first is about the outlook. The company guided positive first year, the life APE growth in Q2. We note that the industry's life sales look in a recovering stage based on the April, the premium disclosure and also that Mr. Wang mentioned about the healthier industry growth outlook. So I feel that there are perhaps more opportunity for the incomparable new sales growth and also, the company is enjoying the snowball from the existing policy. So the question is, do you have any plan to revise up your annual, the operating income guidance in 2018? It seems that the business is likely to be much better for the last of the year. The next question is about the sales agents. So this is just want to confirm, so are you still confident on the 1 million sales headcount by the end of 2019? The last one is about the life insurance market opening. So China is opening up the owners limit in the life insurance market and also Mr. Wang mentioned about the decoupling of the manufacturing and distribution channel. So my question will be what would this potential change impact on the company's future business in terms of the partnership and then the growth outlook? Thank you.

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

(foreign language)





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**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Regarding the questions about our profit growth outlook and the business growth outlook, Mr. Wang says his view is that, we believe that the life insurance industry is on track for healthier development. And in view of the current trend for the industry's transition towards protection-oriented business, we believe that the track may not be the track for rapid growth but a track for a normalized business development. And as for the current trend of the industry shifting towards protection-oriented business and more focus on health insurance products, we think it is a positive thing for Fanhua since these are the business types that we know and good at. And so we're confident that we will be able to achieve positive growth in 2018 in terms of the annualized premium equivalent. And also, we are confident that we will be able to achieve more than 40% in operating profit in 2018. So based on our current views on the market trend, we don't see the necessary -- we see the need of adjusted upward of our operating profit by a huge margin.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

And as for the third question, the number of sales force is a key metric to measure the performance of the life insurance business growth. And in view of the current pace of 30,000 agents per month, we believe that we'll be able to achieve this 1 million sales agent target by the end of 2019.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

And as for the openings of foreign investments, we actually welcome this new development. And if foreign investor companies are able to play a more positive role or play a more active role in terms of introducing better products or more competitive products to consumers, it will help drive the sales for independent agents. So this new change is definitely positive for both Fanhua and independent insurance intermediaries as a whole.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Thank you.

**Operator**

(Operator Instructions) We have a question from Michael Chu from Franklin Templeton.

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**Michael Chu**

(foreign language)

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**Oasis Qiu - Fanhua Inc. - IR Manager**

The question is from Michael Chu from Franklin Templeton. And his question is that what Mr. Wang said on the potential price wars related to the health insurance products, especially critical illness products. Will that affect the commissions payout to our agents?

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**Chunlin Wang - Fanhua Inc. - Chairman & CEO**

(foreign language)

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**Oasis Qiu - Fanhua Inc. - IR Manager**

We do expect the competition in the sales of health insurance products and critical illness products may intensify. And this is basically in line with the regulator's determination to direct the industry back to the focus on health insurance products and back to protection-oriented products. And we do see that every insurance company is stepping up efforts to sell more critical illness products. But there's one good benefit or good advantages with regard to life insurance products is that both insurance company and intermediaries will stick to 1 bottom line, which is that the commission payout agents will never exceed 100%. Otherwise, it will cause a huge systematic risk for the business of life insurance companies. And then secondly, all life insurance products need to be filed with the regulators before they can be launched to the market. So we don't think any too aggressive products can get approval from the regulator. So in view of this, we believe that the current situation is still manageable and I think it's a positive thing.

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**Chunlin Wang - Fanhua Inc. - Chairman & CEO**

(foreign language)

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**Oasis Qiu - Fanhua Inc. - IR Manager**

Thank you.

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**Operator**

(Operator Instructions) We don't have any other questions as of the moment. Presenters, please continue. Oh, one moment. I'm sorry, we do have another one from [Kang Shu] from [Hua Jang] Securities.

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**Unidentified Analyst**

(foreign language)

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**Chunlin Wang - Fanhua Inc. - Chairman & CEO**

(foreign language)

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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

The question is from [Shu Kang] and he congratulates the company on the results and has one question. The question is that in view of the current difficulties in the industry by life insurance companies to recruit agents, basically, currently, every insurance company is stepping up efforts to recruiting agents, including Ping An and China Life. And they have basically emphasized that the focus in the second quarter and third quarter will be more on growing the number of sales agents. So in light of the difficulty or the competition and number of sales agents, will that impact Fanhua? And how do we cope with the challenges and will there be any pressure on our business outlook?

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

During the roadshows, a lot of investors asked me one question, which is who are our major competitors? And my answer is that our major competitors are actually life insurance companies with big sales force. So we do notice that in the first quarter, a lot of life insurance companies have become more protective of their sales agents. However, even despite of the challenges, we still see that we managed to maintain a very steady growth in a number of sales agents, primarily driven by the unstoppable trend of the decoupling of manufacturing from the distribution. So right now, we can see that the growth of our sales agents is basically consistent with our expectations. We do expect that we will be able to achieve our target in terms of the number of agents in the future.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

And we believe that we are well positioned to capitalize on the market opportunities because we have established leading advantages over our competitors in terms of product offerings, technology support, service support and system support. So we believe that we are the best choice for agents who are migrating from the large insurance companies to the independent channel.

**Chunlin Wang** - *Fanhua Inc. - Chairman & CEO*

(foreign language)

**Oasis Qiu** - *Fanhua Inc. - IR Manager*

And our advantage in the strong capital reserves, and our brand recognitions are also one of the key reasons to attract more agents to join Fanhua.

**Operator**

We don't have any other questions as of the moment. Presenters, please continue.



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**Oasis Qiu** - *Fanhua Inc. - IR Manager*

Thank you for joining the call today. If you have any further questions, please feel free to contact us. Thank you.

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**Operator**

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

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