Jianpu Technology Inc. [JT]
Q1 2023 Earnings Conference Call
May 29, 2023, 8:00 PM ET

Company Participants:
Liting Lu, Head of Investor Relations
David Ye, Co-Founder, Chairman and Chief Executive Officer
Oscar Chen, Chief Financial Officer

Analysts:
Carol Yun, Private Investor

Presentation

Operator: Thank you, and welcome to the Jianpu Technology Inc. First Quarter 2023 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I'd now like to hand the conference over to Liting Lu. Please go ahead.

Liting Lu: Thank you, operator. Hello, everyone, and thank you for joining us today. Our first quarter 2023 earnings release was distributed earlier today, and is available on our IR website at ir.jianpu.ai, as well as on PR Newswire services.

On the call today from Jianpu Technology, we have Mr. David Ye, Co-Founder, Chairman and Chief Executive Officer, and Mr. Oscar Chen, Chief Financial Officer. Mr. Ye will talk about our operations and company highlights, followed by Mr. Chen, who will discuss the financials and guidance. They will all be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict, and many of which are beyond the company's control. These risks may cause the company's actual results or performance to differ materially.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. SEC.

The company does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise, except as required under applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during the conference call are in RMB.

It is now my pleasure to introduce our Co-Founder, Chairman and Chief Executive Officer, Mr. David Ye. David, please go ahead.

David Ye: Thank you, Liting. Hello, everyone, and thank you for joining us today. Despite the ongoing challenges caused by the lagging effect of Covid, our capital-light platform model, diversification, digital tech and AI strategies allowed us to benefit from the economic rebound in the first quarter.

We are pleased to announce a robust 39.4% year-over-year revenue growth in the first quarter of 2023. At the same time, the net loss was trimmed by considerably 60.8% year-over -year, leading to a loss margin of 7.2%, the third consecutive quarter with a single-digit net loss margin.

Looking ahead to the rest of 2023, we remain committed to facilitating the digital transformation of our financial service providers and other ecosystem partners. Moreover, we are excited about the emerging trend in artificial intelligence driven by large language models and its massive application potential. We are actively exploring the feasibility of implementing such new technologies across all facets of our businesses to drive the development of a tech-based inclusive finance model and empower our business partners more digitally, automatically and intelligently.

We are focused on executing our vision of becoming everyone's financial partner and driving the digital transformation of the financial industry and beyond.

Let me now go through three key performance highlights from the first quarter.

First, we bolstered our technological and operational capabilities to better serve our partners and stay on the cutting-edge of digital transformation. Our revenue from credit card and loan recommendation services during the quarter increased by 30.1% and 32.2% year-over-year, respectively. The robust growth reflects our proven ability to support financial institutions with their digital marketing, user acquisition, customer retention, and risk management.

As a leading independent platform for discovery and recommendation of financial products and services, our years of experience have allowed us to gain deep insights into industry trends. We continuously optimize our digital marketing and risk control models to empower financial service providers, whilst our operational expertise and compliance practices are recognized by our ecosystem partners, therefore, improving our omnichannel capabilities.

Going forward, we will continue to forge stronger relationships with banks and other financial institutions, assisting them in digital transformation, refining marketing strategies, and deepening our client engagement and risk management capabilities. Our commitment to being banks' trusted strategic partners will enable us to provide high-quality and efficient services to adapt to the changing market demand.

Second, our new business initiatives made significant progress. Our continued efforts to drive new business initiatives yielded impressive results in terms of category expansion, and delivered a revenue growth of marketing and other services by 80.8% year-over-year in the first quarter. Revenue contribution from marketing and other services also increased from 16.3% of revenue in 2022 to 27.0% in the first quarter of 2023.

Our user acquisition and retention capabilities have also gained widespread recognition from leading players in adjacent categories and industries. In the first quarter, we further strengthened our partnership in the insurance, telecommunications, e-commerce, and lifestyle sectors. In particular, we facilitated the acquisition of more than 1 million new users for leading telecommunication service providers, showcasing our sophisticated digital marketing capability and proven social media and partner programs' successful deployment in covering a wider spectrum of users with various needs other than financial sectors.

Third, our enhanced operational efficiency and optimized cost structure drove further margin improvements. With the lingering effects of Covid, our ROI remained fairly strong and stable, with an overall year-over-year ROI of 126.3% in Q1. We saw a year-over-year ROI improvement of 2.4 percentage points for Recommendation Services and 4.3 percentage points for the new business initiatives during the quarter. This stability demonstrates the resilience and profitability of our solid business model, even in the face of challenging circumstances.

Total operating expenses, including sales and marketing, R&D, and G&A, decreased by 11.4% year-over-year in the first quarter. This was driven in part by our targeted streamlining of operations and strategic human resource allocation, resulting in further margin improvements and a decline in net loss.

In Q1, our operating loss and net loss decreased by 56.8% and 60.8% year-over-year, respectively. Operating loss margin and net loss margin improved by 18.2 and 18.3 percentage points year-over-year during this quarter, respectively.

In particular, our Q1 net loss margin of 7.2% is the third consecutive quarter of single-digit net loss margin, reflecting positively our continued efforts of efficiency improvement and cost optimization, as well as our capability to turn profit in the near future.

After sharing our business highlights in the first quarter, I would like to take a few minutes to talk a bit about our Artificial Intelligence initiatives. Being a financial product recommendation platform built upon AI as one of our underlying technologies, we are excited about, and inspired by, the large trends led by Large Language Model and its transformative impact on AI development.

Currently, we are actively implementing and integrating AI tools, such as ChatGPT, into our operations. As of March 31, around 60% of our staff have utilized AI tools and technologies to improve work efficiency and customer service, and this number continues to grow on a daily basis.

In addition to this, we are also actively exploring ways to deploy AI across our businesses. For instance, our Software-as-a-Service-based and customized risk monitoring and management business, we have developed a customized risk control model by fine-tuning an external Natural

Language Process model with our proprietary algorithm and data. This enables us to more efficiently deliver risk assessment and analysis aligned with our clients' specific needs.

In summary, AI solutions present an opportunity to enhance our products and services, delivering efficiency and effectiveness across various functions, such as product development, creative design, marketing, operations and risk management and other functions.

Finally, let me take a few minutes to share our views on the macro environment and our business outlook.

Regarding the macro environment, the government and the regulators recently emphasized the revival and expansion of market demand, with a particular focus on stimulating private consumption. As such, we anticipate the government's implementation of a more effective and relaxed fiscal policy, stable and precise monetary policy, and additional incentives to promote private and public sector investment.

However, we did observe some volatilities since late first quarter, predicting GDP growth rate in Q2 may slow down a bit sequentially, underperformance in aggregate finance in the real economy in April versus market forecasts, and the recovery of consumer confidence and household sector confidence is still subject to observation.

Overall, because of lagging impact of Covid, we expect China's economic rebound will remain gradual throughout the first half of 2023, with a more stable footing in the second half. The recent inauguration of the National Financial Regulatory Administration also signals an imminent enhancement in the regulatory oversight of the financial sector, which will result in further tightening of pricing and operational scope of financial products offered by financial institutions. Despite this, we anticipate the government's continued emphasis on high-quality economic growth will provide a solid foundation for our business to grow.

Overall, we believe our business is well-positioned for a strong recovery, thanks to our efficient, capital-light business model, constantly-innovating digital and AI-based technology, increasing diversified revenue mix and ongoing efficiency gains. We will leverage our market-leading position, advanced technology, and proven track record of execution to facilitate the digital transformation of the economy and generate long-term value for our customers and shareholders.

I will now hand over to our CFO Oscar Chen to run through our financials. Thank you.

Oscar Chen: Thank you, David, and hello, everyone. As David mentioned earlier, we delivered strong results in the first quarter of 2023, supported by our capital-light business model and successful diversification strategy.

Our total revenues for the quarter increased by 39.4% to RMB289.4 million from RMB207.6 million in the same period of 2022. This robust growth performance was mainly driven by increased revenues from recommendation services and marketing and other services; and to a lesser extent, the recovery of our big data and system-based risk management services.

We sustained our market-leading position in the recommendation business, with total revenues from this business line increasing by 30.9% to RMB188.6 million in the first quarter, from

RMB144.1 million in the same period of 2022. Revenues from credit card and loan recommendation services increased by 30.1% and 32.2% year-over-year in the first quarter, respectively.

Credit card volume increased year over year by 22.2% to approximately 1.1 million and the average fee per credit card increased slightly to RMB114.3 in the first quarter of 2023. The increase in revenue from loan recommendation services was mainly driven by the increase of the average fee per loan application by around 26.7% year-over-year to RMB14.7 in the first quarter of 2023, due to a more favorable product mix.

Revenues from big data and system-based risk management services resumed growth by 11.9% to RMB22.6 million in the first quarter of 2023. The increase was mainly attributable to the increase in average spending per customer.

Revenues from our marketing and other services increased by 80.8% to RMB78.1 million in the first quarter of 2023 from RMB43.2 million in the same quarter of 2022, primarily due to the increased revenue from other new business initiatives, further proving the success of category expansion by applying technological and operational capabilities into adjacent categories.

Moving on to costs and expenses, cost of promotion and acquisition increased by 41.2% to RMB211.1 million in the first quarter of 2023 from RMB149.5 million in the same period of 2022. The overall ROI for recommendation services and marketing and other services improved to 126.3%. The ROI of recommendation services and marketing and other services recorded year-over-year increase by 2 percentage points and 4 percentage points in the first quarter, respectively, implying further improvement in our efficiency.

Cost of operations remained fairly stable at RMB18.4 million in the first quarter of 2023, compared with RMB18.5 million in the same period of 2022.

As we continued to execute our cost optimization initiatives, our sales and marketing expenses, R&D expenses, and G&A expenses for the first quarter decreased by 6.2%, 15.1%, and 13.4% year-over-year, respectively. Measured as a percentage of total revenue, our total sales and marketing, R&D, and G&A expenses declined to 28.9% in the first quarter, compared with 45.4% in the same period of 2022, which represents a decrease of about 16.5 percentage points.

Thanks to our continued efforts to optimize our cost structure and improve our productivity, loss from operations was RMB23.6 million in the first quarter of 2023, down significantly from RMB54.6 million in the same period of 2022. Operating loss margin was 8.1% in the first quarter of 2023, compared with 26.3% in the same period of 2022.

Our net loss and non-GAAP adjusted net loss were RMB 20.8 million and RMB 19.4 million in the first quarter of 2023, compared with RMB 53 million and RMB 50.7 million in the same period of 2022, respectively.

As we continued to scale up and improve our efficiency, our net loss margin and non-GAAP adjusted net loss margin for the first quarter improved by 18.3 and 17.7 percentage points, respectively, compared with the same period of 2022.

As of March 31, 2023, we maintained a solid balance sheet with cash, cash equivalents, and short-term liquidity of RMB613.5 million.

With that, I will conclude our prepared remarks. We will now open the call to questions. Operator, please go ahead.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Carol Yun, Private Investor.

Carol Yun: I have two questions. The first one is, I understand that the company's major business is to empower the digital transformation of banks and the other financial institutions. Also digitization is the major thing for the economy development. Could you please elaborate what your company has done and will do in the future to empower the digital transformation? And you mentioned the emerging trend of the Large Language Model, what will be the potential impact on digital transformation?

And my second question is, I noticed that your net loss is gradually narrowing. So may I know the reasons behind it? When do you expect the company to become breakeven?

David Ye: Thank you, Carol. This is David. I will answer the first question about the digital transformation and AI. Oscar will handle the second question about some financials. At Jianpu, our vision is to become everyone's financial partner. We have helped the digital transformation of hundreds of financial institutions for close toa decade.

We have been helping banks, since the company and other financial service providers in risk assessment, digital marketing, user acquisition, customer retention, operation and fraud detection, and applying our search recommendation engine as well as a one-stop integrated solutions across the credit lifecycle for those institutions. So that's why the digital or the big data digital, that's the bread-and-butter of our business.

As we know, in China, all sectors have been transforming into digital, like e-commerce, social media, and etc. For the finance sector, actually, we are also ahead of the curve compared to other sectors, but still, it is in a growing mode, in a developing stage. Let's put in that way. In the past, we have been focusing on, for example, digital marketing, user acquisition and customer retention and operation.

Since 2015, we have also developed digital tech, AI and big data-powered risk management practices. That's from credit assessment, fraud detection, as well as the risk solutions from the whole risk cycle. Recently, we have also expanded our risk management integrated services to some non-financial partners, such as some of the regulators and other sectors, e-commerce and the telecomm sectors. That's the digital part.

For AI, we first launched our AI-powered solution. We called it version 1.0, and that was in late 2017, 2018. And recently, ChatGPT have been launched less than a year ago. Our tech team, business team and basically all functions, all staff, have been researching and leveraging AI in our business. I just want to give out one or two examples.

In our risk-tech solution business, we have developed a customized risk management and control monitoring by fine-tuning external Natural Language Model with our proprietary algorithm and data to provide financial institutions more efficient risk assessment analysis. Those applications are from application fraud detection, risk model, risk credit and risk policy improvement. That's just one of the examples we are working on.

As we all know, the power of AI on our society or people's life, specifically, on the financial services sector, just started. One thing I want to mention is very interesting. The training of data or application or solutions for the financial services sector is actually behind other sectors, such as social media or e-commerce. However, we strongly believe, that the financial sector or fintech sector will be one of the top sectors that will be impacted or will benefit from Large Language Model from AI. And this is similar to the last several technological trends for PC or mobile internet or cloud.

The financial sector is actually one of the top two sectors that we invested in technology heavily and transformed the sector by new technology, or new trend like AI. So that's why we are optimistic. We are confident. I would say that at Jianpu, our team, our partners, including ourselves, we are investing heavily on AI. I'm putting it that way.

So in summary, we will better integrate AI driven by Large Language Model with our digital transformation capabilities. It's a part of our vision strategy and we also applied that in our business operation. We want to further enhance our overall capability as a tech-driven digital transformation and AI-powered company that support our vision as “To become everyone's financial partner”. I think that's coming, that will happen. Thank you.

Oscar Chen: And I will take the second question about the improving margin. I think we are pleased to see our narrowing net loss in the past number of quarters. In particular, in the last 3 quarters, we achieved a single-digit net loss margin. I think that's the reason behind the margin improvement and the narrowing net loss margin are, firstly, the business volume growth; secondly, the efficiency gain; and thirdly, of course, the cost control.

I think we can see continuous growth in our revenue scale. In the first quarter, you can observe a robust year-over-year growth of 39%. And furthermore, it is worth emphasizing that our revenue growth has achieved the consecutive growth for the last 5 quarters. And secondly, we achieved a balance between growth and efficiency. For more mature business, such as recommendation services, we prioritize efficiency over growth. For new business, we may consider to sacrifice profitability a bit to a certain extent to achieve high growth. So a balance between the growth and efficiency helps us grow our ROI continuously, which result in the margin improvement by various business lines.

And the last is the cost control. We streamed our business line with targeted measures, and strategically optimized our resource allocation among the different business lines, which resulted in our operating expenses decreased by around 11% year-over-year in the first quarter. I think we are now well-positioned to benefit from the recovery of the macro economy, given our leading position in the industry, and our continuous efforts to drive the business, the efficiency gain and to control the costs. I think if we follow this trajectory, we expect that we will achieve breakeven in the near future.

David Ye: Thank you, Carol.

Carol Yun: Thank you for your answer. I have no further questions.

Operator: Thank you. There are no further questions at this time. This concludes our question-and-answer session. I would like to turn the conference back to Liting Lu for closing remarks.

Liting Lu: Thank you, once again for joining us today. If you have any further questions, please contact us at ir@rong360.com. Thank you for your attention and we hope you have a wonderful day. Bye.

David Ye: Thank you.

Oscar Chen: Thank you.

David Ye: Have a good day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.