# Jianpu Technology Inc. [JT]
# Q2 2023 Financial Results Conference Call
# August 21, 2023, 8:00 AM ET.

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

Analysts:
Kate Luang, UOB KayHian
Carol Yuan, Zhongtai Securities

## Presentation

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

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

Liting Lu: Thank you, operator. Hello, everyone, and thank you for joining us today. Our second quarter 2023 earnings release was distributed today earlier, 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 the 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. Please go ahead.

David Ye: Thank you, Liting. Hello, everyone. Good morning and good evening. I'm still feeling under the weather with a sore throat for the past two days. So Oscar Chen will be handling the CEO part on my behalf. I will try to answer one or two questions during the Q&A session.

Oscar, please go ahead.

Oscar Chen: Okay. Thank you, David. I'm Oscar. Today, due to David's sore throat, I guess everyone on the call can hear that. So I will do David's part on his behalf, followed by my part on the CFO script, and save David's voice for the Q&A part. So let me start with the CEO part first.

Thank you, everyone, for joining us today. After a strong reopening boost earlier this year, the second quarter saw some volatilities and slowdown in terms of economic recovery. Furthermore, the second quarter was a critical quarter for certain regulatory policies' implementation and execution, which presented certain challenges to us.

Despite these headwinds, we continued to deliver another solid quarter, benefiting from our capital-light platform model and diversification strategy, with a continuously-improving margin profile of approaching breakeven and a year-over-year revenue growth of 7.7%.

With our strong commitment to the digital transformation of financial service providers and other ecosystem partners, we continued to enhance our leading market position. Our loan recommendation has witnessed further year-over-year revenue growth of 26%. Our in-depth cooperation with financial sector partners resulted in a rebound of our big data and system-based services revenue, recording a year-over-year growth of 23.2% in the second quarter. Furthermore, we achieved high growth in our new businesses with an 88.6% surge in revenue.

As we continue to improve operational efficiency and optimize cost structure, our ROI increased significantly to 135% with 9 percentage points improvement year-over-year. Our AI initiatives also helped in this regard. With certain AI technologies integrated into our daily operations, we have seen the benefits of efficiency enhancement.

More importantly, we are approaching breakeven with a net loss margin of 0.3% in the second quarter, showcasing our steady trajectory of generating sustainable long-term growth.

Now, let me go through key performance highlights from the second quarter. First, being an independent open platform with diversified business mix, we delivered a solid quarter with a more balanced revenue structure. Our revenues from loan recommendation and big data and system-based risk management services continued to grow over 20% year-over-year, respectfully, benefiting from the digital transformation of the financial sector.

In addition, our initiatives of expansion into adjacent categories and non-financial sectors have yielded preliminary successes. The revenues in this regard achieved a year-over-year growth of 88.6% in the second quarter with continued efficiency and margin improvements. As such, the revenues from loan recommendation, big data and system-based risk management and marketing and other services contributed 29%, 10% and 25% respectively of total revenues in the second quarter.

The revenue from credit card recommendation services decreased by 25.7% year-over-year due to the lowering market budget of credit card issuers since May. Consequently, its contribution to the total revenue reduced to 36% in the second quarter.

The more diversified business mix and revenue structure demonstrated the network effect of our platform business model. This includes leveraging our cutting-edge technology and extending our existing marketing and acquisition capabilities into adjacent categories and industries, including telecommunications, e-commerce, and lifestyle products and services to facilitate their digital transformation.

Second, we further enhanced our operational efficiency and optimized our cost structure, leading to continued margin improvements. In the second quarter, the ongoing optimization of both products and monetization, coupled with new partnerships, resulted in a commendable increase in ROI, which stands at 135%. Additionally, in line with our commitment to innovation, we further integrated AI tools, including various generative AI solutions, into our daily operations and saw many improvements in operational efficiency, particularly for our R&D team, achieving significant cost savings.

Such efforts have contributed directly to our margin improvement and our operating loss decreased by 70.5% year-over-year in the second quarter, while operating loss margin improved by 10 percentage points, achieving -3.7%. As a result, our net loss margin reached 0.3%, approaching breakeven.

Third, we continued to leverage our industry expertise and market-leading technologies and solutions, enabling our financial partners' digital transformation. Leveraging our reputation and experience accumulated from many years of deep cultivation in the financial sector, we continued to explore new acquisition channels to further diversify and enhance our marketing and acquisition capabilities. For example, in the second quarter, we appointed our in-house financial experts to share on live streaming platforms of their valuable industry insights on AI, modeling and other topics.

We also established a strategic partnership with a well-known internet giant, solidifying our position as one of the few recognized platforms for financial product discovery and recommendation in the market. In addition, we continued to extend the reach of our social media marketing channels, which strengthened our competitive edge in the industry.

These efforts have expanded and strengthened our long-term partnerships within the financial sector, through which we are ultimately driving the digital transformation of the financial industry. We continue to deliver our cutting-edge algorithm and modeling capabilities to our financial partners under the new regulations, resulting in a 23.2% increase in revenue from big data and system-based services in the second quarter, and paving the way of collaboration with financial service providers with a broader spectrum of products and services.

Last, but not least, I also want to share with you some new AI initiatives have been instrumental in driving innovation. Aggregating various AI tools into an internal one-stop portal, we have seen that approximately 72% of our employees are utilizing AI tools and technologies in their day-to-day work, enhancing operational efficiency in areas such as R&D, customer service and finance.

In addition to such efforts that benefit us internally, we have also been actively exploring new avenues of AI development to empower our ecosystem partners with innovative solutions. During the second quarter, we organized an AI Hackathon event where several projects and initiatives demonstrated potential for further development and commercialization. Going forward, we will continue to allocate resources to drive the innovation in the AI space as we strive to develop the next version of a technology-based inclusive finance business model.

Before I turn to the CFO part, allow me to take a moment to discuss the macro environment and our business outlook. Given the recent volatilities, there remains some uncertainties surrounding the development and the recovery of the economy. In response, the Chinese government and regulators have taken proactive measures to revitalize and expand market demand, with a specific focus on stimulating private consumption. It is expected that the near-term implementation and execution of additional stimulus policies will be critical to the remaining of this year.

Financial service providers and other ecosystem partners are expected to exercise their caution, and continue to tighten their spending in the interim, as what we observed in the second quarter that certain credit card issuers are lowering their market budgets. As a result of these circumstances, we remain cautious in our outlook for the second half of this year and will continue to focus our efforts on efficiency improvement and cost optimization of our existing businesses.

Despite the near-term impact, our dedication to executing our vision of becoming everyone's financial partner persists. And we are committed to driving the digital transformation of the financial industry, which we believe will generate long-term value for our shareholders.

Now I finished the CEO part, and will turn to the CFO part to discuss financials in detail.

As mentioned earlier, we are pleased to announce a solid financial result with resilient revenue growth and healthy margin improvement in the second quarter of 2023. Our second-quarter results reflect our persistent efforts in diversifying business mix, improving operational efficiency and optimizing cost structure.

Our total revenues from the second quarter of 2023 increased by 7.7% to RMB285.5 million.

Our market-leading position in recommendation business sustained, with total recommendation services, stood at RMB186.5 million in the second quarter of 2023. Revenues from credit card recommendation services decreased by 25.7% year-over-year in the second quarter, mainly due to the lowering marketing budget of certain credit card issuers.

Credit card volume decreased year-over-year by 25% to approximately 0.9 million, and the average fee per credit card edged up to RMB113.5 in the second quarter of 2023. Revenues from loan recommendations increased by 26% year-over-year in the second quarter, mainly driven by the increase in the number of loan applications by 27.9% year-over-year to approximately 5.5 million.

Revenues from big data and system-based risk management services increased by 23.2% to RMB28.1 million in the second quarter of 2023 from RMB22.8 million in the same period of 2022. This is mainly due to the increase in average spending per customer.

Revenues from marketing and other services increased by 88.6% to RMB70.9 million in the second quarter of 2023 from RMB37.6 million in the same period of 2022, primarily due to the significant growth of our insurance brokerage services and initiatives of other new businesses, further proving our success in applying our strong technological and digital marketing capabilities into adjacent categories.

Let me now move on to cost and expenses. Cost of promotion and acquisition decreased by 0.7% to RMB190.4 million in the second quarter of 2023 from RMB191.8 million in the same period of 2022. The overall ROI for recommendation services and marketing and other services improved by 8.8 percentage points sequentially to 135.2% in the second quarter, demonstrating our continuous improvement in operational efficiency.

We continued executing our cost optimization initiatives. As such, cost of operation decreased by 2% to RMB20 million in the second quarter of 2023 from RMB20.4 million in the same period of 2022. Our sales and marketing expenses and R&D expenses decreased by 0.9% and 16.7% respectively, while our general and administrative expenses increased by 8% in the second quarter of 2023 compared with the same period of 2022. Measured as the percentage of total revenue, sales and marketing, R&D and G&A expenses in total were 30% in the second quarter of 2023, reflecting a decrease of 3.5 percentage points from the same period of 2022.

With our continued efforts in optimizing our cost structure and improving the productivity of our businesses, loss from operations was RMB10.6 million in the second quarter of 2023, compared with RMB35.9 million in the same period of 2022. Operating loss margin was 3.7% in the second quarter of 2023, compared with 13.5% in the same period of 2022.

We are on track of approaching breakeven and recorded net loss and non-GAAP adjusted net loss of RMB0.9 million and RMB7.3 million in the second quarter of 2023, compared with a loss of RMB35.9 million and RMB32.2 million in the same period of 2022, respectively.

Our net loss margin and non-GAAP adjusted net loss margin for the second quarter improved by 13.2 percentage points and 9.5 percentage points to 0.3% and 2.6%, respectively, compared with the same period of 2022.

As of June 30, 2023, we maintained a balance sheet with cash, cash equivalents and restricted cash and time deposits of RMB668.5 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: Yes, thank you. At this time, we will now begin the question-and-answer session. (Operator Instructions). Kate Luang with UOB KayHian.

Kate Luang: I actually have two questions. For the first one, I would like to know more about your new businesses. So can you elaborate on marketing and other services? Can you share with us what are the synergies with our existing business? And how do you see the growth potential of our new businesses?

David Ye: Okay, yes. Kate. Got it. I will try to answer this question. In Jianpu, our mission and vision is to become everyone's financial partner. Our culture is customer-focused or user-focused. As we started our business 12 years ago, we started partnering with financial partners, such as SME, consumer loans for banks, companies, credit card issuers, both financial or wealth management information providers, as well as other financial products.

In the last 3, 4 years, we have seen more customers interested in our financial products, such as insurance and other non-financial products, such as better access to the e-commerce, as well as other offers from mobile carriers. So that's why in the last couple of years, we expanded our product offerings to our customers or users from mostly financial products to non-financial products. The synergies are so obvious and user-driven. For users, we had multiple products, financial or non-financial, and the multiple offers, which can make them faster, easier, more convenient to get the best offer that they’ve had. And in this case, they were able to help us build the trust and the brand with our customer base. So that's kind of the key benefits from the user side.

From the company side, from the Jianpu side, in the last 12 years, we have built this super search and the recommendation and offering platform, and the cutting-edge technology of big data and AI. Of course, we added the insurance brokerage product. We added e-commerce and telecom-related products. In that case, we'll be able to lower our costs by offering multiple products to our users. The number, you have heard from Oscar.

We have seen this marketing and new business with high double-digit growth in the last 2 quarters. And also, we have improved efficiency, and improved ROI, not only from the new businesses, mostly non-financial products. We have seen increased retail investment for financial products as well. So in this case, we saw win-win for our customers and for Jianpu. This has proven in the future, we need to stay focused on the customer-driven or our user-driven mindset. And we are going to optimize and further develop our business to further transform us from a product-driven company to a more user or customer-driven company. Thank you.

Kate Luang: Thank you, management.

David Ye: Hope this is clear.

Kate Luang: Yes, yes. Thank you for addressing the question. I have another question about our net profit as we continue to see narrowing loss in this quarter, can you highlight what have you done to continue narrowing the losses? And do you expect the business to break even by the end of the year?

Oscar Chen: David, do you want to answer the question, or probably I can have the first cut to answer.

David Ye: Oscar, go ahead, I can only handle a few minutes.

Oscar Chen: Okay. Thank you, David. Yes, thank you for this question. I think we are approaching breakeven, but not yet for this quarter. I think your question about what we have done in the past several quarters to bring us here, I think there are three parts. First is about our economies of scale, and the second is the efficiency improvement, and the third is cost optimization so far.

So as we look into the revenue scale in the past 6 quarters, I think we almost have reported growth in each quarter year-over-year, thanks to our commitment to the digital transformation of the financial services industry. That's part of our mission, as David, said, “become everyone's financial partner”. We have done this kind of business for close to 12 years. And also, the scale also benefits from our exploration into the new businesses. That's your first question, what the marketing and other services are. So that's the initiatives we explored in the past 3 years. And now, it seems that we still recorded high growth, proving our capabilities to enter into these areas.

And then the second is about the efficiency. You can see a sequential improvement of our ROI. The ROI means how we measure our marketing and user retention capabilities using revenue divided by our cost of marketing and acquisition. So we are seeing the continuous improvement of efficiency in this regard.

And thirdly is the cost optimization. We continued during the past quarters, of course, including some cost-cutting initiatives and also an efficiency gain in terms of certain AI technologies we deployed to improve our cost structure. I think that the initiatives and the facts we have done so far to bring us to the approaching breakeven status.

The second part of your question is about how we can break even by the end of this year. I think nothing can be guaranteed, particularly in terms of the uncertainties and volatilities of the macro environment. So if we can continue to grow the scale, improve efficiency and save the cost, definitely, we can be breakeven in the future. But the volatilities and uncertainties may lead to something we cannot control, and we cannot expect for now.

So yes, of course, our goal is to build a healthy business to make profit, but the visibility, upturning profit, upturning breakeven, I think it’s not very near term. Hope that answers your questions.

David Ye: I have a few words to add. This is important. So we were approaching breakeven in Q2. However, our business is heavily dependent on the macro economy, especially the health status of Chinese financial markets. We have seen some recent data last week, those data in terms of the real estate market, the SME and the consumer loans, and also deposits. We definitely have seen a big decline of those numbers. So in a nutshell, Chinese consumers will be paying down or even paying off their debt, even if there is a slowing down in their borrowing, and also, their risk, credit risk, the ability to pay, pay out for consumers. It’s actually a decline.

So as an open platform, we heavily rely on our financial partners, banks run by finance companies, credit issuers, and their capability to manage credit risk and manage growth and serve our customers. So we are not giving any outlook for Q3 or Q4. It’s a future part. It’s tough. It’s not in the playbook of the sector which we have no data to do the estimation. So that's just my personal take of the sector and economy. However, we are an independent open platform. We have seen the business regained in the last quarter. As a light-asset platform. we have been improving quarter-over-quarter. And we are confident, we, the management team and everyone at Jianpu, we are able to execute and are going to outperform our peers. We are going to do better quarter-over-quarter. Thank you.

Kate Luang: Got it. Thank you, management.

Operator: (Operator Instructions). Carol Yuan with Zhongtai Securities.

Carol Yuan: I would like to know how has generative AI impacted your business. And what would be your plan as AI develops in 2023?

Oscar Chen: Okay. Yes, thank you for your questions. Firstly, for the AI, it's still in the early stage, I think almost in all the states to everyone. For now, what we have done is we created an internal one-stop model that's aggregating various AI tools, including large language models and other AI technologies for our internal use. We see significant efficiency gain in terms of using AI tools in our daily work, particularly the R&D, the enhanced efficiency of our engineer to write code, and also in our customer services and so on and so forth. So that's the internal part.

And also, capturing the wave of AI, we had an AI Hackathon event in the second quarter. The purpose of this event is to encourage and to find some bottom-up ideas and initiatives, that could be further developed or commercialized. In that event, we do find some interesting ideas, but still in the idea or demo stage. But we see some potential there and we look forward that we can help our team to further build and enhance these initiatives, and hope that can be commercialized in the future.

And also, one thing we want to share is, you may also hear from the expert and media that if to deploy the AI, particularly the large language model, into certain scenario or user case, the sector expertise of the domain knowledge will play a more important role in that regard. We also believe in that theory, given what we have accumulated in the financial services industry, including the data, the user, the user behavior, all these could be the pre-training materials to feed into the large model. And it may turn out into something interesting.

Yes, I think David may add up something, but one thing we are sure of is that to embrace the change from the AI technology. We definitely will allocate some resources into the AI space, and we are targeting to do something interesting, something creative, and something that can enable our financial partners to do their business better and serve their users better in the future.

Carol Yuan: Yes, thank you for your answer.

David Ye: Thank you. Just a few things to add. Like Oscar said, like AI, AI applications or AI training big model, we are in a very early stage, even some bubble in Silicon Valley or in China. I just have two points. Number one, we are not going to spend US$ 5 million or US$10 million to buy lots of CPUs. So training the large models is not our capability, and we don't have that financial incentives, we don't join that bubble. That's the ritual and that's the clear message to our institutional investors and all other investors.

However, our strength is, we have the financial sector data. We are working with close to thousand financial institutions and have been working with them for years. We have scenarios for credit cards, for insurances and SME loans. That's called "Changjing" in Chinese. We are able to work with a lot of large models overseas or domestically to train or enhance the tools, and the models. So that's why we are in a sales model, not in the bubble model. We want to develop in the financial service vertical in terms of solving the problems for our financial partners, as well as our customers and consumers at need, we can help them by leveraging AI and even traditional models and some of the data to enhance the overall user experience and overall digital transformation of risk management, digital experience and etc. So that's our position, what we are going to do.

So finally, as Oscar said, we want to stress that it's still in early stage, in one quarter, in 2 quarters, or maybe longer, we need patience. We need to really work with our partners to enhance and improve the application, the tools and the user experience, just like Jianpu.ai. Jianpu.ai was founded in 2017, just before our IPO. "Jian" in Chinese means simple; "Pu" means inclusive. So we had a vision in 2017 to use AI to make finance simple and inclusive. We continue our mission and vision to make AI simple and inclusive.

Now we all know the problem for AI in other sectors. The finance sector is too complicated and too difficult for consumers and for business to use. It's our focus with our mission and vision to make AI simple and inclusive in finance and other sections. And we will be successful in the medium and the long-term. So, focus on our strength, focus on what we can do, and focus on our mission and vision, that's the best offer we can provide to our shareholders, and that's the best solution we can provide to our customers and partners. Thank you.

Operator: Thank you. (Operator Instructions). All right. This does conclude the question-and-answer session. So I would like to return the call to Liting Lu for any closing comments.

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.

Oscar Chen: Thank you.

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