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CORPORATE PARTICIPANTS

Julie Zhu

Zhiwei Zhao *China Finance Online Co. Limited - Chairman & CEO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to China Finance Online Reports Q3 2020 Earnings Conference Call. (Operator Instructions)

I must advise you that this conference is being recorded. I would now like to hand the conference over to your participant today, Mr. Dixon Chen. Thank you. Please go ahead.

Unidentified Company Representative

Thank you. Thank you, operator. Welcome to China Finance Online 2020 Third Quarter and First 9 Months Financial Results Conference Call. With us today are Mr. Zhiwei Zhao, Chairman and CEO; and Ms. Julie Zhu Acting, Chief Financial Officer. Mr. Zhao will provide a summary of business lines in the quarter, and then Ms. Zhu will review the quarterly financial results. Thereafter, the management will hold a Q&A session.

Before we begin, I'll remind all listeners that throughout this call, we may present statements that may contain forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995.

The words believe, estimates, plan, expects, anticipate, projects, targets, optimistic, intend, aim, future, role or similar expressions are intended to identify forward-looking statements. All statements other than historical facts may be deemed forward-looking statements. These forward-looking statements are based on our current expectations of beliefs including, but not limited to, statements concerning China Finance Online's operations, financial performance and competitions. China Finance Online cautions that these statements, by their nature, involve risks and uncertainties, and actual results may differ materially depending on a variety of important factors, including those discussed in China Finance Online's reports filed with the Securities and Exchange Commission from time to time. China Finance Online specifically disclaims any obligation to update the forward-looking statements for the future. At this time, I'll now like to turn the conference call over to Mr. Zhao. Zhao?

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

Good morning, and good evening. Thank you for joining us for today's earnings call.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

During the third quarter, we continue to expect our top line, plus our financial information and advisory business experienced robust growth in the market that participation keeps reaching new highs among retail investors. We are pleased that our years of accumulated experience in fintech and wealth management are gaining popularity and showing results. Through our product mix change and vigorous cost control, we further reduced our bottom line loss in the fourth -- in the third quarter as well.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

As a professional financial media, we continue to retain our leadership and market influence. On October 16, the prestigious Hurun Institute published its 2020 Hurun China's Most Influential Financial Media Report and awarded China Finance Online as the Top 8 Most Influential Financial Media. This new ranking is based on Hurun Institute's research of leading Chinese financial media outlets, public data, website unique visitors, social media followers and article leadership. As Mr. Rupert Hoogewerf, the Chairman of Hurun Institute and Research -- Research in Chief of Hurun Report commented: "In the fast-moving information age, credibility of information source is essentially crucial. High-quality original content is the most important determining factor of media's competitiveness. This ranking list enables corporates to identify the most influential financial media in chat, and China Finance Online is proud of being 1 of them.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

We continue to promote innovations. And the rise of short-form video demonstrates how new media is becoming the new entry player for online traffic. As a professional financial media provider, we have strengthened our new media operations to deliver our enriched content to audiences through different channels. With our original company and proprietary program, we made substantial strides in the popular short-form video social media, Douyin. In recent years, we have also been providing value added service to public companies listed from domestic and international exchanges which helped grow our revenue in the third quarter.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

In addition, our fintech offerings to empower wealth management, buy-side services began to bear fruits. Our one-stop health management service platform, I-TAMP, not only empowers investment advisers and wealth managers, but also helps elevate their service efficiency and professionalism. Our I-TAMP platform has supported more than 100 third-party platforms and reached nearly 40 million investors with the growing scale of the platform. Our revenue of the the Serfin services for individual investors increased significantly during the third quarter.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

Our two-year-old robo-adviser, Lingxi, remains committed to providing personalized services for global asset allocation to the vast investor population. Since its inception, Lingxi established a solid track record of balance sheet performances and risk management.

During the first 9 months of 2020, the Chinese stock market experienced unprecedented volatility. Lingxi once again outclassed most of its peer global base products in the marketplace and outperformed the Shanghai Composite Index. The best strategy of Lingxi posted a return of 13.34% in the first 9 months, while the Shanghai Composite Index has a return of 5.5% during the same period. All strategies of Lingxi managed to control expected annual fluctuation under 9.54% while the expected annualized volatility of Shanghai Composite Index reached 22.47% during the same period. Lingxi's outstanding performance didn't go unnoticed by the financial industry and academia.

In the 2020 China Robo-Adviser Industry Report recently published by Tsinghua University, Lingxi won as the top 10 best global advisers.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

On December 10, we hosted the 2020 Leading China Annual Award, our annual -- our annual event in Beijing. The key discussion were digital transformation of the financial industry, application of Fintech and wealth management, mutual funds and pension finance. The conference is committed to promoting the long-term development of the financial industry in China and has received high recognition from financial regulators and institutions. There were senior government officials and over 1,100 professionals from nearly 300 financial institutions in attendance at the event.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

On the institutional wealth management service front, we are forming partnerships with more and more financial institutions with the growing popularity of our content, our services and investor education, to increasingly more attention than on projects from leading financial institutions. We strongly believe that China presents a massive market opportunity in wealth management. We will continue to develop and upgrade our technologies, products and services to empower the wealth management sector in China.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

With that, I'll now turn the call to our acting CFO, Julie Zhu, to go over the financial details for the quarterly and first 9 months results. Thank you.

Julie Zhu

Thank you, Mr. Zhao. Let me walk you through our major items for the third quarter. Please note that all financial numbers are unaudited. And presented in U.S. dollars rounded to 1 decimal point for approximation. Net revenues were USD 10.7 million compared with USD 8.1 million during the third quarter of 2019 and USD 9.7 million during the second quarter of 2020.

During the third quarter of 2020, revenues from financial services, financial information Advisory business, Advertising Business and enterprise value-added service contributed 29%, 47%, 15% and 9% of the net revenues, respectively, compared with 45%, 30%, 17% and 9%, respectively, for the corresponding period in 2019.

Revenues from Financial services were USD 3.1 million compared with USD 3.6 million during the third quarter of 2019 and USD 3.2 million during the second quarter of 2020. The year-over-year and quarter-over-quarter decreases in revenues from financial services were mainly due to reduced revenue from the equity brokerage business. Revenues from the Financial Information Advisory business were USD 5 million compared with USD 2.4 million during the third quarter of 2019 and USD 4.6 million in the second quarter of 2020. Revenues from the Financial information Advisory business were mainly comprised of subscription services from individual and institutional customers and the financial advisory services.

The year-over-year and quarter-over-quarter increases in revenues from Financial Information Advisory business were mainly due to the fast-growing investment advisory service and subscription fees from individual investors. Revenue from the Individual Investors Subscription business rose by 139.6% from third quarter of 2019, and 9.5% from the second quarter of 2020. Investment advisory service also registered strong growth with an increase of 176.3% from the third quarter of 20 -- second quarter of 2020. Revenues from the Advertising business were USD 1.6 million, compared with USD 1.3 million in the third quarter of 2019 and USD 1 million in the second quarter of 2020. Revenues from enterprise value-added service were USD 1 million compared with USD 700,000 in the third quarter of 2019

Unidentified Company Representative

Operator? Operator?

Operator

Dixon, can you hear me okay. Zin Zhu dropped her phone. Just give me 1 second.

Unidentified Company Representative

Okay. So I'll take over here. So we'll start from the beginning. The third quarter 2020, net revenue was \$10.7 million compared with \$8.1 million during the third quarter of 2019 and \$9.7 million during the second quarter of 2020. During the third quarter of 2020, revenue from Financial services and Financial Information Advisories business, Advertising business and enterprise value-added services contributed 29%, 47%, 15% and 9% of the net revenue, respectively, compared with 45%, 30%, 17% and 9% respectively for the corresponding period in 2019. Revenue from Financial Services was \$3.1 million compared with \$3.6 million during the third quarter of 2019 and \$3.3 million.

Julie Zhu

Sorry for the disruption...

Unidentified Company Representative

During the second quarter of 2020. These year-over-year and quarter-over-quarter decreases in the revenue from financial services were mainly due to reduced revenue from the equity brokerage basis. Revenue from the Financial Information advisory business were \$5.0 million compared

with \$2.4 million during the third quarter of 2019 and \$4.6 million in the second quarter of 2020. Revenue from the financial information and advisory business were mainly comprised of subscription services from individual and institutional customers and financial advisory services.

The year-over-year and quarter-over-quarter increases in the revenue from the financial information and advisory business were mainly due to the fast-growing Investment Advisory service and subscription fees from individual investors.

During the third quarter, revenue from individual investors subscription business rose by 139.6% from the third quarter of 2019 and 9.5%. From the second quarter of 2020, investment advisory services also registered strong growth, with an increased 176.3% from the third quarter of 2019, and an increase of 11.0% from the second quarter of 2020.

Revenue from the Advertising business was \$1.6 million compared with \$1.3 million in the third quarter of 2019 and \$1.0 million in the second quarter of 2020. Revenue from enterprise value-added service were \$1.0 million compared with \$0.7 million in the third quarter of 2019 and \$0.9 million in the second quarter of 2020. Enterprise value-added service are a relatively new service that came out of our Advertising business, leveraging its accumulated large corporate data and research and increasing audience-based online. China Finance Online provides professional communication service to companies listed on domestic or international markets to increase their visibility in the market.

Gross profit was \$6.9 million compared with \$5.0 million in the third quarter of 2019 and \$6.2 million in the second quarter of 2020. Gross margin in the third quarter was 64.4% compared with 62.3% in the third quarter of 2019 and 63.3% in the second quarter of 2020. The year-over-year and quarter-over-quarter increases in the gross margins were mainly due to the increased revenue contribution from individual subscription services and financial advisory sales, which have higher gross margin.

G&A expenses were \$2.2 million compared to \$2.3 million in the third quarter of 2019, and \$2.3 million in the second quarter of 2020. The year-over-year and quarter-over-quarter decrease were mainly attributable to further streamlining of the corporate managerial operation.

Sales and marketing expenses were \$4.5 million compared with \$2.8 million in third quarter of 2019, and \$4.1 million in the second quarter of 2020. The year-over-year increase was mainly attributable to higher marketing expenses related to the Investment Advisory business.

R&D expenses were \$2.1 -- \$2.0 million compared with \$2.2 million in the third quarter of 2019 and \$2.0 million in the second quarter of 2020. The year-over-year decrease was mainly attributable to improved efficiency after consolidation of research and development teams throughout different business units. We continue to support R&D in the Fintech segment to further develop our fintech capabilities.

Total operating expenses were \$8.8 million compared with \$7.3 million in third quarter of 2019 and \$8.4 million in the second quarter of 2020. The year-over-year and quarter-over-quarter increases were mainly due to higher sales and marketing expenses. Loss from operations was \$1.9 million compared with loss from operation of \$2.3 million in the third quarter of 2019 and a loss from an operation of \$2.2million in the second quarter of 2020. Net loss attributable to China finance online was \$1.5 million compared with a net loss of \$2.1 million in the third quarter of 2019 and a net loss of \$1.5 million in the second quarter of 2020.

Fully diluted loss per ADS attributable to China Finance Online was \$0.66 in the third quarter of 2020 compared with fully diluted loss per ADS of \$0.91 in the third quarter of 2019 and fully diluted loss per ADS of \$0.65 for the second quarter of 2020.

Basic and diluted weighted average numbers of ADS for the third quarter of 2020 were 3.3 million compared with basic and diluted weighted average number of ADS of 2.3 million for the third quarter of 2019. Each ADS represents 50 ordinary shares of the company.

Now let me go over our 2020 first 9 months financial results. Net revenue for the first 9 months of 2020 was \$30.3 million compared with \$26.8 million in the first 9 months of 2019. Gross profit in the first 9 months of 2020 was \$19 million compared with \$17 million in the first 9 months of 2019. Loss from operations for the first 9 months of 2020 was \$5.7 million compared with the loss of operation -- loss from operation of \$8 million in the first 9 months of 2019.

Net loss attributable to China Finance Online for the first 9 months of 2020 was \$4.9 million compared to a net loss of \$7.9 million in the first 9 months of 2019. Fully diluted losses per ADS attributable to China Finance Online was \$2.14 for the first 9 months of 2020 compared with fully diluted loss of \$3.43 for the first 9 months of 2019.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we've got our first question comes from the line of Bob Wilson.

Unidentified Analyst

I'd just like to know the Chinese economy's coming along pretty good as the COVID-19 has been well-managed there. With the optimistic market sentiment, what kind of revenue growth do you see in services for Chinese investors in 2021?

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

By now, we have all seen that the Chinese economy is resilient. With the V-shape recovery took place in the third quarter, china is very likely to be the only major economy in the world who will end the year with a positive GDP growth. In such a market environment, further development of our capital market and improvement of wealth management capacity are the next priority list of Chinese Financial market reform and development plan. We anticipate a second wave of a growth opportunity in the Chinese wealth management sector.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

China Financial Online has been dedicated to our services to the wealth management sector. Through continuous upgrades of our products and services, we have won long term trust from our customers.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

In the past few years, we have increased investment in the fintech area and utilized our in-house software technologies to help enhance investment research capabilities, increase service efficiency and broaden offerings and scale. We are delighted to see our hard work is bearing fruits.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

We have successfully developed the best-in-class tech platform that empowers many outstanding investment advisers and wealth managers to better deliver their services to more retail investors.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

Also, through partnerships with globally leading institutions, we're now able to help broaden the vision of Chinese domestic investors.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

In addition, we leveraged our advantages in the market use and data to have constructed a leading smart financial cloud, that is empowering the Chinese wealth management sectors, digital transformation and transition. This cloud platform is not the used by many publicly listed companies, banks, brokerage, funds, asset management funds and insurance companies.

Zhiwei Zhao - *China Finance Online Co. Limited - Chairman & CEO*

(foreign language)

Unidentified Company Representative

Although the Chinese economy is leading the growth in the world, there are also challenges ahead. We firmly believe that innovation and technology empowerment will continue to bring value to our customers, and we will manage cyclical challenges and achieve future growth.

Operator

(Operator Instructions) As there are no further questions at this time. I'd like to hand back over to our speakers for closing remarks.

Unidentified Company Representative

Thank you, everybody, for attending China Finance Online third Quarter 2020 and First 9 Months Earnings Conference Call. We look forward to speaking with you.

Operator

Thank you so much. And that does conclude our conference for today. Thank you for participating. You may all now disconnect.

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