PPDF - PPDAI Group Inc.
First Quarter 2019 Earnings Conference
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Company Representatives:
Jimmy Tan, Head of Investor Relations
Feng Zhang, Co-Chief Executive Officer
Simon Ho, Chief Financial Officer

Analysts:
Anderson Cha, BNP Paribas
John Cai, Morgan Stanley
Daphne Poon, Citigroup
Tian Hou, T.H. Capital
Jacky Zuo, Deutsche Bank
Alex Ye, UBS

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the First Quarter 2019 earnings conference call for PPDAI Group Inc., also known as Paipaidai. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference call is being recorded.

I would now like to turn the conference over to your host, Mr. Jimmy Tan, Investor Relations Director for the Company. Jimmy, please go ahead.

Jimmy Tan: Hello, everyone, and welcome to Paipaidai's First Quarter 2019 earnings conference call. The Company's results were issued via newswire services earlier today and are posted online. You can download the earnings release and sign up for the Company's distribution list by visiting the IR section of our website at ir.ppdai.com.

Mr. Feng Zhang, our Co-Chief Executive Officer, and Mr. Simon Ho, our Chief Financial Officer, will start the call with their prepared remarks and conclude with a Q&A session.

During this call, we will be referring to several non-GAAP financial measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures and reconciliation to GAAP measures, please refer to our earnings press release.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the

Company's results may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not assume any obligation to update any forward-looking statements except as required under applicable law.

Finally, we posted a slide presentation on our IR website providing details of our results for the quarter.

I will now turn the call over to our Co-CEO, Mr. Feng. Please go ahead.

Feng Zhang: Hello, everyone, and thank you for joining us today. Cliff, our Chairman and Co-CEO, is traveling, and is unable to make today's call. So I will be combining our remarks this time around.

As we continue successfully executing our management strategy, we are pleased to report another solid quarter as a leading online consumer finance marketplace in China. Performance-wise, we delivered strong financials to start off fiscal 2019. To illustrate in the first quarter, operating revenues increased by 53% year-over-year and 21% quarter-over-quarter to RMB1.46 billion, and net profit increased 61% year-over-year to RMB703 million. Our dedicated team has made excellent progress in driving revenue growth and enhancing profitability.

The consecutive growth in loan volume further demonstrates the solid market demand for technology-driven consumer lending services. We've also grown our user and borrower base at a steady pace, as cumulative registered users reached 94 million, and the number of cumulative borrowers reached 15.4 million at the end of the first quarter.

With much of the industry headwinds from 2018 behind us, we look forward to further expanding our funding sources while maintaining a strict compliance and risk control framework as a leading industry player.

The regulatory framework for the industry continues to progress. We continue to cooperate closely with our regulators. As a by-product of this regulation, we are well positioned to benefit from the ongoing industry consolidation and market share gains that come with being a trusted brand and the leading platform in online consumer lending.

What is becoming more self-evident are our advantages as an early mover in this space, as we continue to grow based on our deep resources, core capabilities, brand reputation and ability to navigate change. Going forward, we continue to see great potential for Paipaidai as we move into a healthier, well-regulated and better consolidated new online consumer finance industry that exists to connect and benefit borrowers, individual investors and financial institutions.

Looking at some of the benchmarks driving our financial performance include total loan origination volume, which in the first quarter of 2019, reached RMB19.1 billion, up 55% from the year-ago period and up 8% quarter-over-quarter. The growth in loan origination volume has been underpinned by our efforts to diversify funding sources as our institutional funding partner base expands further, and the proportion of our total loan volume funded by institutional funding partners increased to 31% from 20% in the prior quarter.

Looking forward, we remain confident in our ability to achieve further diversification in funding sources driving additional business growth in line with increasing consumer demand.

Our institutional funding strategy has been performing ahead of expectations. In our previous calls, we said that our institutional funds could support 40% to 50% of our total loan volume by the end of this year. At this moment, the institutional funding proportion is already running at above 40% of total loan volumes, and we expect the proportion to exceed 50% later this year. This will bolster continued moderate to healthy growth in overall loan volume.

Now, turning to credit, we have been very consistent in managing risk through the use of proprietary technologies such as our Magic Mirror model. As such, credit risk has been generally stable in the first quarter and continued to perform within our expectations. If you look at our delinquency rates for all outstanding loans on our platform, there have in fact been slight improvements versus the prior quarter in almost every time bucket.

We look forward to continuing in the new year on the course trajectory as mapped out by management with a focus on expanding our loan services, diversification of funding sources, increasing our industry lead in the space, while exploring new growth opportunities.

With that, I will now turn the call over to our CFO, Simon Ho, who will discuss our financial results for the quarter.

Simon Ho: Thank you, Feng, and hello, everyone. We are delighted to have achieved solid operational and financial results in the first quarter, as lending volume in the period picked up, underscoring the strength of our markets and the near-term growth trajectory of our business. In particular, our operating efficiency and profitability shows strong momentum highlighted by a 95% year-over-year increase in non-GAAP adjusted operating income and significant improvement in non-GAAP operating margin that reached 55.3%, thanks to our strong execution of cost control.

Our balance sheet remains solid with approximately RMB3.4 billion of cash and short-term liquidity. Notably, our quality assurance fund remains sufficient funded with a total balance of RMB5.3 billion, equivalent to 23.4% of the total outstanding loans protected by the quality assurance fund. Our results highlight the strength and resilience of our business model and our ability to navigate changing market dynamics.

Now, let me briefly go over the financial results for the first quarter. In the interest of time, I will not walk through each item line-by-line on this call. Please refer to our earnings release for more details.

Operating revenues for the first quarter of 2019 increased by 53% to approximately RMB1.46 billion from RMB955 million in the same period of 2018, primarily due to the increase in loan facilitation service fees and interest income from loans invested mainly through trusts.

Loan facilitation service fees increased by 51% to RMB939 million for the first quarter of 2019 from RMB621 million in the same period of 2018, primarily due to the increase in loan origination volume.

Post-facilitation service fees increased by 36% to RMB308 million for the first quarter of 2019 from RMB227 million in the same period of 2018, primarily due to the increase in loan origination volume and the rolling impact of deferred transaction fees.

Non-GAAP adjusted operating income, which excludes share-based compensation expenses before tax, was RMB807 million for the first quarter of 2019, representing an increase of 95% from RMB415 million in the same period of 2018.

Other income was RMB50 million for the first quarter of 2019, compared with RMB132 million in the same period of 2018, primarily due to the fair value change of financial guarantee derivatives.

Income tax expenses were RMB141 million for the first quarter of 2019, compared with RMB95 million in the same period of 2018.

Net profit increased by 61% to RMB703 million for the first quarter of 2019, from RMB438 million in the same period of 2018.

As of March 31, 2019, we held cash and cash equivalents of about RMB1.9 billion and short-term investments mainly in wealth management products of about RMB1.4 billion.

Next, let me give an update of our share buyback. Our share repurchase program started in March 2018, and since then, we have bought back approximately US$69 million of our shares.

Let me also give an update on our take rate and loan volume trends. As we look forward to 2019, it is clear that our business is changing towards a more diversified funding model, and as such, the take rate is becoming less and less relevant because most institutional funding partners charge the borrower a single rate of interest rather than a take rate. Our take rate in the first quarter was 7.7%, and we expect it to return to historical levels in the 6% to 7% range as we focus more on borrowers with better credit quality and strengthen our cooperation with institutional funding partners.

As mentioned just now, the relevancy of this metric to our business is rapidly declining, so we don't think it is productive to continue to disclose this metric going forward.

Now, we believe our efforts to strengthen cooperation with institutional funding partners will enable us to deliver healthy and sustainable growth for the business.

Heading into 2019, our monthly loan originations are demonstrating continued healthy and steady growth. In April, we originated approximately RMB6.4 billion of loans, which means for the first 4 months of 2019, we originated a total of RMB25.5 billion of loans. In May, we expect loan originations to increase to a range of RMB6.5 billion to RM7 billion. We're confident that we are fully on track to deliver our goal of moderate to healthy loan volume growth this year.

Before I hand the call over to Q&A, I'd like to conclude by emphasizing that over the past year, despite the challenges and changes to the industry, we have continued to deliver consistent performance. This is a testament to our risk management capability, our technology, our brand reputation, and our ability to navigate change. The long-term opportunity in China's consumer finance market is vast and we remain well positioned to enjoy the benefits of this growth trajectory.

With that, I will conclude my prepared remarks. We will now open the call to questions. Operator, please continue.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). The first question today comes from Anderson Cha with BNP. Please go ahead.

Anderson Cha: Hi, this is Anderson Cha from BNP Paribas. Congrats to your very strong first quarter earnings and thanks for taking my questions. I have three questions for you. The first one is can you share some color on your institutional funding pipeline for the remainder of this year more specifically? I'm asking this question because I remember that you guided for about 30% institutional funding proportion for 2019 in the fourth quarter earnings release. Now, you appear to be guiding it to like 50% later this year. So does it mean that we are now expecting stronger loan origination volume in the coming quarters, given that there is an ample demand from the borrower side? Also, can you remind me of your institutional funding target as a percentage of total loan origination volume for the full year of 2019?

And my second question is regarding potential acquisition outlook. I understand that the financial regulator in China is promoting mergers and acquisitions within the sector to accelerate the industry consolidation, which may or may not be value accretive for the larger players like Paipaidai. Is there any intention to acquire any smaller players in the next 12 months? And do you find any value in doing such acquisitions given current industry and regulatory backdrop?

And my last question is looking at your vintage delinquencies, your first quarter 2018 vintage appear to have made a very benign finish in terms of 12 months delinquency ratio, especially in relation to the past 3 to 4 quarters. Does it indicate that credit environment has improved into the first quarter of this year? And can you also share with us any credit outlook going forward? Thank you.

Simon Ho: Anderson, thanks very much for your questions. Your first one about institutional funding pipeline, I think we're trying to indicate that it's been strong, and we're very confident of lifting this further. I think there may have been some confusion in the sort of the previous commentary we made in previous calls. Actually on the last call, which was after -- in March, after our fourth quarter 2018 earnings, we actually guided for the first quarter proportion of institutional funding to be around 30% for the first quarter. And at that point, we said we expect for -- by the end of the year, we should be hitting 40% to 50%.

So what we have seen is, yes, we have seen stronger performance in institutional funding and we are ahead of plan. So as Feng just mentioned, at this current moment, we're already over 40% in terms of this proportion and that certainly before the end of the year, we should be over 50%.

And this is clearly what's been underpinning the growth in our loan origination volumes. So we're still calling the growth trajectory as moderate and healthy, and I think we should continue to view it as such. That's what we're targeting.

For your second question on M&A, I'm going to hand it over to Feng to address.

Feng Zhang: Sure, sure. Thanks, Anderson. Yes, so in terms of M&A opportunities, I think we are open-minded. At this point, we don't have any active targets or deals to acquire another P2P platform. Frankly speaking, part of this is there's still -- we're still waiting for more clarity in the regulatory environment. But as we see clearer, the outlook for the regulatory environment, we'll continue to evaluate opportunities as they come.

I'll also quickly address your third question about loss environment. So as you guys can see from the numbers we disclosed, the delinquencies we are seeing are generally stable in Q1, and continue to perform within our expected range. Our current outlook is in the near term, we believe that the trend will remain stable. And does that help?

Anderson Cha: Yes. Thank you very much. It was very clear, thank you.

Operator: The next question comes from John Cai with Morgan Stanley. Please go ahead.

John Cai: Hi, thanks for management taking my questions and congratulations on the results. So I have two questions. The first one is on the take rate. It's really helpful to guide us that the take rate is becoming less and less relevant. So my question is what measures should we be looking at? And so basically, I think there is two parts of the business; one is the institutional funding loan, and the other part is the retail funding loan. So is it fair to say that it is irrelevant to look at the retail part; while the institutional part, we should probably look at the other measures potentially like the balance, loan balance, etc. And is there any disclosures or details on what's the loan balance at the moment? And that's my first questions on the take rate.

The second question is on the credit quality and the related reserve-related, QAF-related gain. So it seems like the delinquency raised by balance has improved on a Q-on-Q basis. So just wonder why we don't -- we haven't seen bigger QAF-related gains for this quarter? Thank you very much.

Simon Ho: Right, John, thanks very much for your question. I think I'll take these questions. With regards to the take rate, if we just rewind the business, when we list -- when we went for an IPO, we were predominantly funded by individual investors. And it was the individual investors through a take rate, and then that gets basically a service fee that got recognized as a loan facilitation and post-facilitation service fees. Today, the situation is a little bit more diversified due to the diversification of our funding base. So as you know, within the -- you could divide the institutional funding base into two types; there are trusts and there are non-trusts. So the trust component, as you are aware, is recognized through our income statement through this line item called net interest income and loan cost provision. And the non-trust proportion of institutional funds, we do recognize it through loan facilitation service fees, as well as post-facilitation service fees.

Although again, we don't charge a service fee but borrower doesn't pay a service fee to the financial institution; they pay in a single rate of interest. But we still recognize our gain within loan facilitation and post-facilitation service fees. So it's a little bit more complicated today and that's why we're dialing back the relevancy of the take rate as it has been defined from day one when we've been using it.

Now ultimately, what drives all this, at the end of the day, is predominantly still loan origination volume, as you can tell. Most of our revenue method, the revenue recognition method, as you can see from what I've just said, is still coming through loan facilitation and post-facilitation service fees. So I would encourage you to still obviously look at all those metrics I just said, but lending volumes are still paramount in this environment.

And secondly --

John Cai: So sorry. Hi, Simon, yes.

Simon Ho: Yes, yes, John?

John Cai: Sorry. Just a quick follow-up on that part. So my understanding is that the relevance of the take rate is probably becoming less due to the increased portion of the funding from -- funded by trust. So I think the trust line is basically reported as the net interest income less the loan provision loss. So I think if we exclude that, can we still look at the take rates? And is there any way we can look at this trust-related income in the separate metrics?

Simon Ho: Yes, sure. I'll give you a bit more information. In the first quarter, the trust-related revenues, which is booked under net interest income and loan loss provisions and that amount, I think is roughly RMB133 million in the first quarter. That's about 9% of our total operating revenues. The total operating revenues that came from loans funded by our institutional funding partners in totality amounted to 24% of total operating revenues. So there's actually roughly another 15 percentage points of loan facilitation and post-facilitation service fees that relate to our other- revenues from other institutional funding sources besides trusts. So I hope that gives you an idea of the profit contribution of our institutional funds.

And if I may add on, you asked about loan balance and all that. I just add that, you know you can track our retail funded fund balance very clearly each month on the NIFA website that is disclosed publicly. And our total loan balance would be obviously, the retail portion plus the institutional loans. Out of the total loan balance, outstanding balance, institutional at the end of the first quarter was roughly around 25% of our total outstanding loan balance. So that I think could again give you additional color. Does that answer your question?

John Cai: Thank you.

Simon Ho: Are you happy with this color?

John Cai: Yes, that's very helpful, yes.

Simon Ho: Okay. So I just wanted to wrap and say on the institutional funds, I know a lot of the analysts have been very concerned about the profitability of this part of the business. And we're happy to say that it's although it's 31% of our loan volume in the first quarter, it's 24% of our revenues, which is a very respectable number, and not very far different from the contribution rate and the loan volumes.

Now, in terms of the quality assurance fund and why our gains won't be bigger, as you know, the QAF gains is in part a function of the credit risk environment, as you said. And given the relatively stable outlook for credit risk at the moment, I think our outlook for the QAF gains will also be relatively stable. I think last time, we guided toward saying that, look, the risk environment today is a bit higher than 2 years ago, so we should expect that the quality assurance fund gains from this QAF wouldn't be as significant as before. But we still -- as we said, we still have a very -- we still price our loans very conservatively; we still price in the buffer, and we are sitting on a very nice cushion in terms of the total balance of the quality assurance funds, as I mentioned in the call earlier.

John Cai: Yes, thank you very much. This is really helpful.

Operator: The next question comes from Daphne Poon with Citi. Please go ahead.

Daphne Poon: Hi, thanks for taking my question. So just have one question about the operating margin. So we see a very strong increase in the operating margin in first quarter. So I'm wondering whether it is because of your like proactive cost-cutting measures, or like how do we look at this going forward? Is this a sustainable level of over 50% of operating margin? And more specifically, if we look at the sales and marketing expense, it went down in both like the actual amount or on per new-borrower basis. So is this an industry-wide trend that you see the customer acquisition costs coming down, or is there any other specific reason? Thanks.

Simon Ho: Sure. Daphne, thanks for your questions. The operating margin of 55% really has been a significant improvement versus last year, which was in the 40%, 40%-plus range. Now, this is the result of effective control on costs, and also higher take rates during the quarter, as funding costs have come down. And we've passed on some of that gap in the funding costs and allocated it between sort of borrowers, the quality assurance fund, and also our service fee as well.

But as we shift toward this fund and higher-quality borrowers, we should expect erosion to the margin from (inaudible), but we will continue to work on improving operating efficiency. And we will also work on reducing our costs, particularly from institutions, as our scale and track record in servicing these financial institutions improve. And we have to emphasize that this proactive shift in our business toward institutional funds is geared toward enabling more growth for the business. So Daphne, that's the first part.

In terms of the customer acquisition costs -- Daphne could you mute your line while we talk; we can hear you typing.

So in terms of the customer acquisition costs, our -- the average acquisition cost for a new borrower in the first quarter was roughly between RMB130 to RMB140. This is a little lower than around RMB150 throughout last year. Now, this trend frankly, at the moment, appears relatively stable. I wouldn't say it's come off a significant amount. I think generally, the trends have been pretty stable. Does this help, Daphne?

Daphne Poon: Yes, that's helpful. Thank you.

Operator: The next question comes from Tian Hou with T.H. Capital. Please go ahead.

Tian Hou: Yes, I was mute my line, so okay. So I was saying "Congratulations for a good quarter." So you guys have been through a lot after your IPO. So now, you can take a breath.

The question is several fronts. Why is -- in terms of borrowers, so in the past, your borrowers ticket size is like 3,000 i And what's the size of the borrower's ticket size today? In what sense you mean high-quality or good-quality borrowers? So that's one of the questions.

The second question is in terms of institution funding, what's the potential risk from the bank? And I know in the past, that the lenders are in the institution. Is there a potential risk that the risk transfer from individual loaner to institution loaner? So that's two questions. Thank you.

Simon Ho: Sorry, Tian, can I just follow up? What risk specifically are you referring?

Tian Hou: Let me ask in Chinese. (Speaking Foreign Language).

Feng Zhang: Okay. Hi, Tian. Yes, this is Feng, I'll take the first question. Yes, so I think as we disclosed in the financial results, the loan amount, average loan amount, for the first quarter is RMB3,300 roughly. So it is still in that RMB3,000 range, very small ticket.

Now to your second question in terms of better quality, a little bit more high-end customers, mainly defining that as a lower delinquency rate. so lower final loss rate. So now with that, with lower loss, with higher credit quality, we do expect those customers to get higher loan volume, loan amount. So I would expect going forward over time, our average ticket size to gradually increase. Does that answer your question?

Tian Hou: Yes, yes. The second one?

Simon Ho: And I'll answer your -- yes, your second one about the risks. I think the risk model is a little bit different under the institutional funds. If you know that for the individual funded loans, what we do is the borrower obviously contribute to a quality assurance fund; money gets set aside to protect individual investors from credit losses. Now, in the institutional side of the funding business, depending on obviously, what type of arrangements, generally speaking, the credit risk is in effect borne by us. And we need to be very careful about assessing credit risk at the end of the day, whether that is obviously through arrangements like in the trust situation.

Asmany of you widely know the trust structures that we use are -- have primary and secondary tranches, and we tend to use our own capital to invest into the secondary tranche as well. So it is bit different, but I think it all boils down whichever way you use it, it all boils down to having effective and capable risk management at the end of the day.

Tian Hou: I see. Thank you.

Operator: The next question comes from Jacky Zuo with Deutsche Bank. Please go ahead.

Jacky Zuo: Hi management, congrats on the results. And I have three questions. First one is just a follow-up on the institutional funding; try to get a sense of some details. So you mentioned the funding cost is actually trending down. So like in -- what's the current funding cost and how much is that lower from the previous quarter? And how many financial institutions are we cooperating with, how many banks, consumer finance companies, etc., and also trust? And lastly, how much capital contribution we need to put with the trust and also are there financial institutions?

And then my second question is regarding to asset quality. I observe that the asset quality delinquency rate actually recovered this quarter, so just trying to get a bit color. What actually drives this recover? And thirdly on regulations, we heard that the government started this P2P trial registration in late April. So can we get some color on the progress for this trial registration? And so was there impact we should see for some new rules in this trial registration, for example, the limitation of the single investor upper limits, and also the charge of general provision in the credit provision in these new rules?

And lastly, also on the regulation, because earlier in this year, the regulator actually tried to encourage us to like complying P2P platforms to convert to loan facilitation model, or online micro-lending companies. So are we consider this transformation, or for example, are we hoping to get a lending license, and probably become a micro-lending license company in the future? Thank you.

Simon Ho: Jacky, thanks for your questions. Let me just elaborate further. Firstly on institutional funding, the majority of our institutional funding comes from licensed financial institutions. They're mainly through trusts, consumer finance companies and for banks. Currently, our largest institutional channel is through trusts, which account for roughly about half of our total funding from institutional partners. We are currently working with a few commercial banks and we are working on signing up more. And of course, we do plan to diversify our institutional funds going forward, and aim to increase the proportion of funds that come from some of those. Currently, we're working with around 20 or so institutional funding partners.

In terms of the capital aspect, and how much capital is used, clearly, it depends on the type of institutional funding. Some require more capital, others require less. A substantial amount of the capital we currently deploy to support the institutional funds is for our trust programs, and there, the leverage, as you know, is typically 3x to 4x. The other channels with banks and consumer finance companies are substantially less in terms of capital needs, and at the end of the day, it will depend on the mix. And we will work to diversify our mix and improve capital efficiency. Currently, I just want to add we have sufficient internal capital to meet our growth plans.

In terms of -- your next question was about delinquencies and you saw there's a recovery. It's not really -- I would characterize it as stable during the first quarter. If you look at the numbers, it's a very slight decline in the delinquency rates; I'd say it's relatively stable versus the last quarter. And if you look at the vintage delinquency charts, the first quarter, or the latest line, that you see is pretty much running the same as in the previous quarter. So I think it's pretty much stable is how we would characterize and describe that.

Now, on regulations, yes, you mentioned obviously there's been some news about trial registration program and that's been going to start. We've seen the news on this trial registration for P2P platforms that was circulated in the media about a month ago. But we have not seen any formal notice issued downwards to us, or to any of the companies in the industry. So frankly, we are also waiting for a confirmation of obviously this registration process.

Next, you mentioned obviously the number of new requirements within those documents circulated in the media. I think it would be difficult for us to comprehensively make any assessments right now because again, we cannot confirm whether this version that was circulated in the media will in fact be the eventual rules. And implementation of some of these rules would require further clarification and details from the regulators. Without going into all the details here, we'd say that based on the high-level rules circulated last month, the impact and the changes we believe are manageable.

And bear in mind that we are well capitalized; our quality assurance fund has all along been run conservatively, and that, at the end of the day, achieving registered status that we're being seen as a regulated and credible platform, will attract a much larger market for individual investors. So I think on that issue, that's probably as much as we should say at this point pending further clarification and details officially.

And finally, your question about converting to a loan facilitation model and a micro-lending license, this is exactly clearly what we are doing. We are ongoingly continuing to increase the proportion of funding from financial institutions. We have our own online micro-lending license as well, and we are already moving in that direction, as suggested by the regulators. Does that answer your questions?

Jacky Zuo: Yes, very helpful. Thank you, Simon.

Operator: The next question comes from Alex Ye with UBS. Please go ahead.

Alex Ye: Hi, thanks for taking my question. I have a few follow-up questions here. The first one is on your sales and marketing expense. So we have seen the sales and marketing cost has come down from around RMB180 million on the last 3 -- 2 quarters, RMB140 million but our new registered customer and new active customer has remained quite stable. So I'm wondering is it due to seasonality reason, or is it because we have now have some lower-cost customer acquisition channel; and we expect this such a high customer acquisition efficiency to return to like a normal pace in the coming quarters?

And my second question is on the funding, on the pricing front. So we have seen your take rate has gone up a bit, apart from the distortion from the institutional funding. So do we have any adjustment in our pricing to the customers? And regarding our two different funding source, is there only difference in terms of what we charge our customers if they're funded by institutional? Because we understand some of the institutions may be more conservative in terms of what type of customer they want to lend their money to. So that's the second question.

And my final question is on regulatory front. So it's also related to the trust we discussed earlier. So I know it has not been finalized yet, but just wondering what if there is a very strict requirement or cut-off on the duration mismatch on the P2P investment program, like the new

Rainbow program you are offering now? So do you expect any disruption on this operating model?

Simon Ho: Yes, Alex, thanks very much for your questions. With regards to your first question, customer acquisition costs, so you noticed -- I think you're right, our sales and marketing expenses declined quarter-on-quarter. Within the sales and marketing expenses, it is not entirely consisting of online customer acquisition expenses. That is obviously the bulk of it, but not all of it. So there will be other activity such as funding and other marketing costs that are in that line item as well.

Now, if you strip all that other stuff out and you look at online customer acquisition costs in totality, it is -- as I just explained, it's running between RMB130-RMB140; previous quarter was probably in the RMB140 to RMB150. So it's come down a bit. I'd say this variability is mainly due to product mix effects, rather than changes in the underlying trends of each of the types of channels and acquisition costs. So we would characterize the outlook to be still relatively stable.

Secondly, your question is on the sort of loan pricing, take rate, what adjustments have we made. And as I explained just now, as many of you are aware, actually over the past 6 months or so, we have been lowering the returns that is earned by retail investors. If you wind back up to sort of last summer, we were probably around retail investors were probably earning in the low teens; and now, they are probably earning around 8% or so, 8%-plus. So these cost savings have, to an extent, been allocated between borrowers, our quality assurance fund contributions and also our service fees as well. So that explains why that take quick metric that I mentioned has increased.

In terms of obviously the pricing difference between loans funded by institutions and individual investors, what we've been saying all along is the total borrowing costs of the loans that institutions require, tend to be lower; tend to be the higher quality types of borrowers amongst our pool of borrowers, okay? So and hence, that's why we are also increasing our efforts to increase this proportion in this segment of borrowers, okay?

So and you can see this through, what I just mentioned earlier, the revenue contribution from our institutional funding or institutional funded loans, it is lower than our retail funded loans, but not a huge amount lower. I'd say it's a little bit moderately lower because the revenue contribution is 24% in the first quarter; the loan origination contribution was 31%, right, so it's a little lower, but it's not like half or not profitable at all; that's not the case. It is still highly profitable and attractive on its own, okay? So I hope that helps to clarify that issue.

And your final question about regulation and some of the duration mismatch, automated investing tools and all that stuff, frankly, this requires much further clarification at the end of the day from the regulators in terms of what exactly this means and what exactly they would allow and disallow. So I think it is too early, too difficult with the given information, to make a proper assessment.

But at the end of the day, I want to say that it's getting the registration status is paramount, and will be very positive for the business overall. And secondly, this what we're pushing at the end of the day, at the moment, is working closer with the financial institutions and enabling growth through them. And I hope that helps to answer your questions.

Alex Ye: Okay, great. Thanks. Can I have one follow-up question?

Simon Ho: Sure.

Alex Ye: So I see from- the monthly disclosure of your retail funding, so it looks like both your balance and loan volume for April has come down a bit. I'm wondering what the reason of it? Is it due to your active control on the volumes, and at this time, do we have any guidance on that loan volume for the rest of the year?

Simon Ho: Sure. So yes, you're very -- obviously, you're very diligent and you've noticed that our April loan balance has declined a little bit month-on-month. And I think the main reason is because there has been some volatility in the P2P industry in April following the failure of a medium-sized platform called Tuandai, right? But this has since normalized and recovered, and we've had experience obviously now much more experience in dealing with these industry volatility. And we think that's we feel the situation has recovered, and we have been effectively using our institutional funds to smooth out such variations. And our loan volume overall, as you have seen, has not been much affected by this incident at all.

In terms of loan volume guidance, we're sticking with our practice all along, and not giving a full year loan explicit full year guidance. But I think we've given you the trend so far in April and May. And we've obviously indicated that our pipeline for institutional funding remains strong, and will increase to over 50% of the total originations by the end of the year. And I hope that will be sufficient to allow you to make your forecasts.

Alex Ye: Very helpful. Thank you.

Operator: The next question is a follow up from John Cai with Morgan Stanley. Please go ahead.

John Cai: Hi management, thank you for taking my questions again. So just a quick follow-up on institutional funding. I think it's more and more a higher portion now, and potentially, that might increase to like 50%, 60% by the end of the year. So I just wonder what's the result of [individuals] going forward because obviously they have at lower of individuals. Currently, we are guiding like this to 8%, but in the future, could you drop to like maybe 3% to 4% because of the higher portion on the institution? Thank you very much.

Simon Ho: Yes, John, I think that's a great question. I think I'll refrain from giving out an explicit number because I think this business is still growing and it's changing. But as you've read through our discussions today, the borrowers that institutions want, tend to be better quality. So I would say it is the delinquency rates we see currently are quite a bit better than our average vintage delinquencies that we're expect that we have. And the overall platform, we aim for about we believe that 6% to 8% is a comfortable range for us for vintage delinquencies. The loans that the institutions are seeing tends to be quite a bit lower than that.

John Cai: Okay. Thank you very much.

Operator: (Operator Instructions). As there appears to be no further question, I'd like to turn the call back over to the Company for any closing remarks.

Jimmy Tan: Thank you once again for joining us today. If you have any further questions, please feel free to contact Paipaidai Investor Relations through the contact information provided on our website or in the press release.

Operator: This concludes this conference call. You may now disconnect your lines. Thank you.