

**Noah Holdings Limited [NOAH]
Q1 2021 Results Conference Call
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Company Representatives
Jingbo Wang, Co-Founder, Chief Executive Officer
Grant Pan, Chief Financial Officer

Analysts
Emma Xu, Bank of America Securities

Presentation

Operator: Good evening, and welcome to the Noah Holdings 1Q21 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Ms. Jingbo Wang. Please go ahead.

Jingbo Wang: (Speaking in Mandarin).

(Translated). For the teleconference agenda today, I will first introduce the overall performance of Noah in the first quarter of 2021, the development of our major business segments and the strategy of the Group, then talk about the changes and progress of Noah's management thinking from product-driven to client-oriented.

We will then brief you on Noah's planning to purchase a headquarter premises located in the core zone of Hongqiao CBD in Shanghai. After that, please welcome Pan Qing to introduce the financial results of the quarter, followed by the Q&A.

Looking back to 2020, it's a year full of challenges and uncertainty. However, all staff of Noah, faced with such uncertainty, continued the transition and reform and made some achievements. I'm very pleased that we lived up to the expectations of our shareholders and investors and Noah delivered a very successful quarter.

In the first quarter of 2021, Noah reported net revenues of RMB 1.22 billion, with a year-on-year growth of 64.1%, in which one-time commissions were RMB 323.2 million, a 53.3% year-on-year growth. Recurring service fees were RMB 474.9 million, a year-on-year growth of 5.6%. Performance-based income was RMB 403.1 million, which grew nearly 20 times year-on-year. Non-GAAP net income attributable to shareholders amounted to a historical high of RMB 461.9 million, representing a year-on-year growth of 79.7%.

In terms of our main business segments, the transaction value of financial products in the wealth

management segment reached RMB 27.1 billion, with a year-on-year growth of 16.8%. The transaction value of standardized products was RMB 21.5 billion, with a year-on-year growth of 12.5%, among which secondary market equity funds grew 23.4% year-on-year to RMB 11.2 billion, setting a new record for a single quarter. Mutual funds grew 8.6% year-on-year to RMB 10 billion.

The net revenues of overseas business reached RMB 337.5 million, with a year-on-year growth of 62.5%. The overseas assets under management was RMB 25.92 billion as of March 31, 2021, a 3.9% increase compared with the end of 2020, accounting for 16.8% of the group's total AUM.

In March, we successfully held an insurance summit in Macao and invited targeted clients based on big data. The number of attendees was 77% of the 2019 insurance summit in Macao. However, the total transaction value more than doubled, reflecting the accurate matching results of our KYC, KYP and KYA systems, which we put great efforts into.

Aside from the financial data, the management is more encouraged by the gradual infiltration of our new management culture. The management idea from product-driven to client-centric, survival-first is reflected on the client, talent and business sides. With the further deepening of our transformation and reform, Noah is on a continuous journey of building organizational capacity, which is the right way from the green train to the EMUs, Electric Multiple Units.

First, our core clients' activity continued to rebound. In the first quarter of 2021, Noah's high-net-worth clients, the number of active clients, including mutual funds-only clients, exceeded 27,000, an increase of 65.4% year-on-year. As of March 31, the number of registered clients exceeded 380,000, up 6.5% from the end of 2020. The number of black card clients were 992, an increase of 12.7% year-on-year.

Client-oriented and pursuing in-depth understanding of client needs is the core guiding ideology for our reform on the front line. The implementation of the new relationship managers' compensation scheme, from a single relationship manager to the establishment of the Noah triangle service model, our strengthened process management with the supernova quantitative client communications plan, as well as the comprehensive promotion of KYC, KYP and KYA, received the approval of clients and relationship managers.

Secondly, our core front-line talents, after experiencing the survival of the fittest and replenishment of fresh blood, have stabilized and recovered. With the pilot of the new relationship manager compensation scheme, the production capacity of the team began to release. After 7 quarters of transformation, the number of elite relationship managers was 598 in the first quarter of 2021, 241 more than that at the end of 2020. And the turnover rate of these relationship managers was only 0.28%.

Noah will continue to improve our incentive system, vigorously promote employee training and team building, continuously empower relationship managers, screen qualified investors, and provide better services for high-net-worth and ultra-high-net-worth clients.

As of March 31, 2021, the AUM of Gopher reached RMB 154.1 billion, among which the continued redemption of non-standardized single counterparty private credit products, from zero launch to zero inventory and the scale of non-performing assets were dropping too. The other

funds under active management realized different degrees of growth, among which the AUM of public securities reached RMB 10.5 billion, up 14.5% year-on-year. The AUM of private equity was RMB 121.9 billion, up 10.4% year-on-year.

In February 2021, Gopher was selected as one of the top-20 Secondary funds in the world by Global FoF Association. Gopher China Equity Selection Fund ranked the No. 1 FoF in the world in terms of compound annual return for 3 years ending December 2020, by Barclay Hedge's FoFs with AUM under USD250 million.

Among the asset management products provided by Gopher for our clients, Gopher continues to promote the reform and product upgrades. From product-driven to client-oriented is the core concept of the reform. The most important product of Gopher in 2021 is the Target Strategy product which implements a target-oriented strategy. We invested more time and efforts into product research and development, investment management, and talent density, as well as introduced the IPD, Integrated Product Development process, to fully elevate Gopher's capacity in investment management and operation. Like Noah, Gopher's new journey and strategy experience a constant change from product-driven to client-oriented.

At the end of March 2021, Gopher's megatrends MOM and TOP30 secondary market multi-strategy investment products, have track records of 7 and 4 years, were upgraded to Gopher growth target strategy and balanced target strategy respectively, now back on the market again. The growth target strategy products realized an annualized return of 15.24% since launch, ranking top 10% in terms of return among comparable products. The balanced target strategy products reported an annualized return of 12.76% since launch, ranking top 2% by return among comparable products. Once launched, Gopher's flagship target strategy products have been winning the recognition of high-net-worth clients.

In terms of operating efficiency, due to the expansion of employees and marketing activities, the operating income of the first quarter reached RMB 722.3 million, up 47.5% year-on-year. Noah's continuous online, digital and intelligent transformation and efforts have contributed to the continuous and stable improvement of operating efficiency.

The non-GAAP net profit margin increased from 34.2% in 2020 to 37.7% in the quarter. The operating profit margin increased from 38.1% in 2020 to 41% in the quarter.

This year, Noah will start to expand the capacity of the Noah triangle relationship managers' team and deepen operations in the core cities. We have set new targets for our market shares in core cities and the increase and coverage of high-net-worth and ultra-high-net-worth clients.

In 2020, Noah fully initiated its organization reform, with the core direction from individual leadership to organizational capacity. First, we upgraded from divisional structure to matrix management, implemented qualification system and person-post matching, and started to define and arrange internal personal levels by positions, salaries by levels, as well as link the change of salaries with positions' changes. The implementation of the new qualification system optimized our compensation structure, making us more competitive when recruiting senior talents in the market.

Meanwhile, we determined the Company's annual budget of strategy projects in the aspects of

strategy and key tasks, and became more flexible to focus on our targets in key projects, cities and positions.

2021 is the initial year of Noah's transformation. We aim to build an organization of processes from the aspects of culture, process, organization and IT, strengthen strategic quality control and process management to make client service and product end operation standardized and of high quality; to integrate marketing planning into brand management, to carry out comprehensive strategy-based budget management, and to promote the internal control management system to help operations, prevent corruption and control risks, as well as to use the qualification system to lead the growth of management team members on Human Resources front.

Noah is actively practicing IPD, integrated product development, project management, and has established different IPD projects on product, channel and international operations. For example, the KYC, KYP and KYA digitalization project we mentioned is to realize in-depth collaborations among the 3 through project operation standardization and the appointment of project teams and its responsible persons. Finally, everything falls into the core management idea of client-centric and survival first.

Last, but not least, I'd like to brief you that Noah has been running businesses in Shanghai for 16 years, and been listed for nearly 11 years without our own headquarter buildings. In this quarter, we have finally found a satisfying headquarter premises in the core zone of the Hongqiao comprehensive transportation hub, to meet the increasing office usage demands of Noah.

More importantly, as a trending Chinese private banking brand, in line with the surge of favoring Chinese brands in the consumption market over the past few years, we primarily serve China's high-net-worth and ultra-high-net-worth clients. The new premises demonstrate an upgrade of our core culture and philosophy on a journey from a product-driven startup to a century-old enterprise of serving 3 generations of clients.

The location of the Hongqiao hub enables us to connect with our clients from around China, especially from Jiangsu, Zhejiang provinces and Shanghai in a swifter and more convenient way, to practice client-centric theory, providing us with a client interface with both quality and convenience.

The premises is designed by Foster and Partners. The firm also designed renowned buildings such as Apple's headquarter, the Apple Park, the Swiss Re Building in London, the HSBC headquarters in Hong Kong, and the Beijing Capital International Airport. One of the buildings in this project is the only office building with an outer core cylinder in Shanghai with LED lattice arranged throughout.

After several rounds of adjustments and improvements by Foster and Partners, under the basic cylinder structure, the cylinder body is hollowed out in the middle, and the lighting and space utilization rate of the building are all to the maximum. The project has a total construction area of 72,000 square meters, and the leasable area is 63,000 square meters. It is located in the core business zone of Hongqiao, Shanghai, adjacent to Hongqiao Airport and railway station, with convenient transportation.

Client-centric includes creating the best experience for clients, authorizing the front-line

managers who are the closest to clients to make decisions, providing various services, meeting clients' needs with various products, promoting digital transformation and gradually realizing intellectualization through online business. Data and analysis are the basis for us to improve service efficiency and more accurately understand client needs, so as to build our service ecosystem around their needs.

We may say that the purchase of Noah's headquarters is a milestone of Noah's second venture and upgrading the Company's new management concept of client-centric and survival first. We look forward to welcoming all shareholders and investors to visit the new Noah headquarters.

Next, let's invite our CFO, Mr. Pan Qing, to introduce the quarterly data in detail. Thank you.

Grant Pan: Thank you, Chairlady. And dear investors and analysts, good morning. Very excited to share with you another record-setting quarter in which we have accomplished new heights across various financial and operational metrics, including revenues, profits, client activities, transaction value and elite RM retention rate. As our client investment passion and confidence in economic outlook continues recovering and overall team morale continues growing, benefiting from the implementation of various new organizational improvements and the upgraded client service model, as part of our overall strategic transformation so far.

I'm also happy to share with you that we are ahead of the schedule to meet the full year non-GAAP net income guidance of RMB 1.2 billion to RMB 1.3 billion, as we concluded this quarter with a record-high non-GAAP net income of RMB 461.9 million, mainly due to also a record-high performance-based income of RMB 403.1 million, accompanied with growth across other revenue segments.

Now please let me walk you through more detailed results of the first quarter. We recorded net revenues of RMB 1.2 billion, which was unprecedented for a single quarter since listing. This was mainly contributed by performance-based income of RMB 403.1 million, also a record high, a result of the strong performances of the public securities products we placed for our clients in the past, accounting for over 60% of the total performance-based income during the quarter.

Just to give you a rough idea what this means for our clients: For every million of performance-based income we earn, based on our average sharing with the GPs, our clients would have made RMB 20 million of investment return above the hurdle rate of the return, after accounting for the performance-based fee charged by the GPs.

One-time commissions in the first quarter was RMB 323.2 million, up 53.2% year-over-year and 19% quarter-over-quarter, driven by strong transaction value during the quarter, while maintaining a very healthy fee rate of 1.2% on the products we placed for our clients. This demonstrated our successful efforts in optimization of product mix.

Recurring service fee was RMB 474.9 million, up 5.6% year-over-year, and 8.9% quarter-over-quarter, as we harvest on the recovery of transaction value we placed for our clients.

As Chairlady has mentioned, one of our strategic objectives for 2021 is to achieve core client growth, especially in the tier of diamond and black card clients. We are happy to see that the number of black card clients has grown 12.7% year-over-year to 992. We have also recorded

unparalleled client activities as close to 28,000 active clients, up 65.4% year-over-year and 42.8% quarter-over-quarter.

The number of active conventional clients was 6,300, also up 54.6% year-over-year and close to 20%% quarter-over-quarter. The robust client activity is a clear indication of the successful implementation of several of our key strategic initiatives, including the Noah Triangle service model, which helps our RMs utilize their full client engagement potentials with the help of product experts. During the first quarter, a record-setting close to 600 of our RMs were qualified as elite RMs, up 68% from the previous quarter. And we have managed to keep our most valuable sales force intact with a record-low elite RM turnover rate of only 0.28%.

As a result, total transaction value was RMB 27.1 billion during the quarter, up 16.8% year-over-year and 27.1% quarter-over-quarter. We placed an unmatched level of RMB 21.5 billion of public market products for our clients, consisting of RMB 11.2 billion of private hedge funds, which doubled from the previous quarter, and RMB 10 billion of mutual fund products, also increased 21.8% quarter-over-quarter. So for private equity products, the total transaction value was RMB 4.8 billion, a 62.5% increase year-over-year and 7.9% decrease quarter-over-quarter.

Operating income was RMB 502.4 million during the quarter, up 96% year-over-year and almost 50% quarter-over-quarter. The operating margin was 41%, an improvement from 35.2% from the previous quarter.

Comp-related expenses were RMB 582.1 million, up close to 60% year-over-year and 30.6% quarter-over-quarter, a reflection of our increasing efforts in recruiting new talents. Non-GAAP net income was RMB 461.9 million, also a historical high. Just for the purpose of getting a sense at a normalized number by adjusting the carry to the same level as last quarter, we would still have recorded a 41% year-over-year growth and 38% quarter-over-quarter growth for non-GAAP net income.

As for our segmented results, net revenues from wealth management segment was RMB 946.5 million, up 71.3% year-over-year and 47% quarter-over-quarter, accounting for 77% of total net revenues for the quarter. The strong results in our wealth business segment was driven by robust client transaction activities while maintaining a high overall fee rate.

Net revenues from asset management segment was RMB 270 million, up 63% year-over-year and down 11.8% quarter-over-quarter. Total AUM has grown 0.8% since the end of last year to RMB 154.1 billion, mostly driven by growth in private equity and public securities products with effect of exiting of credit products.

So moving on to balance sheet, we remain in a healthy liquidity position as our current ratio stood at 3.2 times. The debt to asset ratio was 24.8% and we continue to have no interest-bearing debt on our book. By the end of first quarter, we had close to RMB 5 billion in cash. We are on track to deploy the budgeted spending with relation to R&D investments and other growth initiatives.

As mentioned by Chairlady Wang, we have entered into definitive agreements to acquire a Class A office property located in the Shanghai Hongqiao Central Business District, with a gross floor area of 72,000 square meters and a gross leasable area of 63,000 square meters. The total

consideration is approximately RMB 2.2 billion, which is equivalent to RMB 35,000 per square meter based on the GLA, undoubtedly a good deal when compared to the average of RMB 40,000 to RMB 50,000 trading price of adjacent comparable properties in that area in the past few years.

We plan to finance the transaction with cash on-balance sheet, but we will also look for opportunities to refinance when the cost of financing and timing is right. This is the first time in Noah history to have our own headquarters that will be able to support the growth of business and the need for additional office space in the next 5 to 6 years in Shanghai.

And because of its close proximity to one of the nation's busiest transportation hub, the facility is also an ideal premise to house various client conferences for the Yangzi River Delta region, including Shanghai, Zhejiang and Jiangsu provinces, which is our most important geographic segment and in total, contributes to more than half of our business. The deal is expected to close within the next couple of months, upon the satisfaction of further closing conditions and governmental approvals.

Moreover, I would like to note that we have published our 7th ESG report for the year 2020, outlining our long-term commitments to ESG and responsible investments. And it is available on the ESG section of our website.

Overall, we are very pleased with our first quarter results and the strong growth in client activities, as well as in the key sales force. We also hosted our annual Macau Conference in March and received very nice attendance that is showing that our clients are still very eager to learn about the oversea asset allocation as well as insurance products.

I'm confident with our business development outlook, as we continue to improve our client service experience and optimize our product offerings. So thank you, everyone. And I will now open the floor for questions. Operator?

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Emma Xu with Bank of America.

Emma Xu: (Speaking in Mandarin). Congratulations on Noah for the very good first quarter results. So my question is why don't you revise non-GAAP net income guidance for the full year, because according to the current guidance, it seems that implies for the next 3 quarters that non-GAAP net income will decline close to 13% year-over-year. So what factors hold you back from revising up to the non-GAAP net income guidance?

Grant Pan: Okay. Thank you, Emma. That's a very fair question. First off, obviously, very happy to see the results in the first quarter. But at the same time, we're also conscious about the volatility, especially in the Asia market in China, for the outlook of the rest of the year. So for

that, have much more confidence with our top line. We're still pretty -- I guess we'll be pretty reasonably conservative in terms for the expectation of the super-over-performance for the rest of the year for the market, which in turn, obviously, will impact on the transaction values of clients' investment passion.

And two, as we have mentioned, we'll continue to invest in our strategic initiatives, especially in this year. It's a very critical year to open up a transformation, and some of the investments actually are in talents and some of them are in technology. So the full year impact has not shown in the first quarter, and we expect that the investment continues to ramp up for the rest of the year. So from that standpoint, we're pretty confident applying growth, but at the same time, we want to also make sure that we have enough room for the investment in our strategic initiatives.

Jingbo Wang: (Speaking in Mandari).

(Translated). So Chairlady has also supplemented, in the last few quarters when we're going through our transformation strategy, especially to upgrade our management and also organization capabilities, we're trying to, I guess, transform from a so-called startup company into a really mid-sized level type of modern corporation and organization, which actually requires heavier investments on the management and organizational resources.

Emma Xu: (Speaking in Mandarin). So thank you so much for answering my previous question. And I have a follow -- actually, two follow-up questions. Could you please introduce the latest progress in the second quarter, including major business metrics? And certainly, many domestic Chinese banks are paying more attention to the wealth management sector because this is a very promising sector. So do you -- still increasing competition from the Chinese banks and how will you respond to them?

Jingbo Wang: (Speaking in Mandarin).

(Translated). So yes, to address your second question first, Emma, that as you know, we're always in a very highly competitive market. And because it seems that the transformation or the shift really in the regulatory and policy environment seems we're facing more and more security brokerage firms, as well as banks in this particular market space.

But from a standpoint, Noah has already moved on to stage 2.0 in terms of wealth management industry that it seemed that the banks are just starting their stage in terms of designing the right products and product-driven type strategy in wealth management, while Noah has moved on to really trying our best to match our clients' need with the right products and services as well as the agent and sales network that serve them. So we're really moving on to the right direction and moving into the right stage. Obviously, initial part will be tough and difficult, but we're very confident that we're actually walking on the right track.

Yes, so to add a little more color onto that, especially to elaborate what we mean about our bottom line is for commercial survive or commercial success, is that we always try to ensure that we have a higher standard in terms of compliance than what the regulators have put out for the industry. For example, we're being very selective in terms of our acceptance with screening the clients' profiles. And we actually will take on some clients and at the same time, we'll give up on some clients. Just want to make sure that we always try our best to place the right products for

the right clients at the right place.

But it seems that our competitors aren't, as the new arising competitors that you mentioned, Emma, is still trying to copy probably our older sort of compensation scheme, for example, in their sales force, when we have actually moved on several generations, several upgrades, on the compensation schemes for the sales force. So we believe that we're ahead of the curve, but I want to make sure also we understand initial status -- initial part will be tough already for the challenge.

And to your first question in terms of the operational situation for the second quarter, obviously, I can't tell you too much about the numbers. But we'll continue to market Gopher's target return products, which is met with pretty good acceptance by the clients. I'm pretty confident that the numbers will show up in the first quarter -- in the second quarter. And also we continue to host actually little smaller conferences in Macau for the oversea insurance products, and I'm pretty happy to see the results, especially the positive results on the top line and the profit.

Emma Xu: Thank you. (Speaking in Mandarin).

Operator: Thank you. (Operator Instructions). This concludes our question-and-answer session. I would like to turn the conference back to Mr. Pan for closing remarks.

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