

**Noah Holdings Limited [Noah]  
Q2 2022 Results Conference Call  
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Company Representatives

Jingbo Wang, Co-Founder, Chief Executive Officer

Pan Qing, Chief Financial Officer

Analysts

Chia Hong, Morgan Stanley

Peter Zhang, JPMorgan

**Presentation**

Operator: Hello, and welcome to the Noah Holdings Second Quarter 2022 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Ms. Jingbo Wang, CEO of Noah Holdings. Please go ahead.

Jingbo Wang: Thank you. (Speaking foreign language).

(Translated). On the agenda of today's teleconference, I'd like to share my views on the macro environment, then introduce the overall performance of Noah in the second quarter of 2022, the development of our major business segments, and our overall strategy. Next, let's invite our Group CFO Pan Qing to introduce the quarterly financial information, followed by our Q & A.

In the past 2 years, the global real economy deleveraging and capacity reduction caused by the epidemic, and the impact of the Russian Ukrainian war, have exacerbated global inflation. In the first half of 2022, China's continuous epidemic prevention and control policy have brought unprecedented challenges to the economic growth of core regions including the Pearl River Delta and the Yangtze River Delta. On one hand, the supply side has been impacted, and the demand side has contracted significantly; on the other hand, expectations are weakening, the economy reached a bottom and the market bottomed out in the second quarter.

As a company headquartered in Shanghai, more than 1,800 employees experienced a lockdown at home in the second quarter. We observed that the investment sentiment of high-net-worth families and private enterprise clients has changed significantly. Improving the safety and liquidity of assets is the first demand of clients. At the same time, the global allocation needs of Chinese private enterprises and high-net-worth families have been significantly improved.

Noah's judgment on client demand and asset allocation suggestions are stability first, survival of the fittest, and domestic/international dual circulation for Chinese enterprises and high-net-worth families. We suggest that clients start the rebalancing of their global asset allocation. The ratio of Chinese and overseas asset allocation is 100:100. Domestic assets are allocated to the Chinese market, and overseas assets are allocated to the international market.

Chinese private enterprises to establish new brands or international headquarters in the overseas market and cultivate the international market completely independently. Domestic headquarters and international headquarters assume different functions. Over time, China's private enterprises and high-net-worth families may make great progress in the process of passive globalization, and even have unexpected surprises.

Noah has been in business for 18 years and has experienced many market cycles. We are also lucky that we had suggested clients to withdraw from assets such as domestic real estate developers' bonds in advance, and protected the assets of clients as much as possible. Noah was listed on the New York Stock Exchange in 2010 and successfully listed in Hong Kong on July 13, 2022. We have also announced the start of the conversion to dual-primary listing.

Today, I hereby sincerely thank the shareholders and investors who gave us great support in the process of Hong Kong's secondary listing. Under the turbulent market environment, our Global Offering was 5.9x oversubscribed, the Hong Kong Public Offering was 3.3x oversubscribed, and specifically, we saw long-term value investors 2.6x oversubscribed. During the secondary listing offering, we received support from many types of new institutional shareholders, which is quite an investor on-boarding achievement in the sluggish market environment.

At the beginning of this month, the board of directors approved Noah's long-term annual dividend mechanism. We plan to pay dividends of no less than 10% of the annual non-GAAP net income in the future, aiming to deliver stable and sustainable return to shareholders.

In the second quarter of 2022, Noah achieved net revenues of RMB738 million, and a non-GAAP net income attributable to shareholders of RMB355 million, up 5.4% year-on-year and 13.3% quarter-on-quarter. As of June 30, the accumulated non-GAAP net income was RMB669 million, reaching 46% of the annual guidance.

In terms of core business data, the transaction value of the second quarter was RMB19.3 billion, a year-on-year decrease of 22.7% and a quarter-on-quarter increase of 28.8%. Among them, the transaction value of private equity was RMB3.9 billion, an increase of 23.2% quarter-on-quarter. Mutual funds were RMB12.2 billion, up 30% year-on-year and 71.4% quarter-on-quarter.

We are gratified by the outcome that although clients have insufficient investment confidence amid sluggish market, they are still willing to let Noah manage a larger share of their wallets. In this quarter, affected by the market environment and investment sentiment, the overall household savings rate has risen by a large margin. Our transaction value of private secondary funds dropped significantly year-on-year and quarter-on-quarter.

High-net-worth and ultra-high-net-worth clients are our core client group, and Noah's diamond and black card clients have been growing steadily. As of June 30, 2022, Noah had 6,774 diamond clients, which grew 6.1% year-on-year. The number of black card clients reached

1,786, with a year-on-year increase of 20.5%. While continuing to focus on diamond and black card clients, we are also putting forth efforts on identifying and serving potential diamond and black card clients, as well as recovering lost clients and reactivating dormant accounts.

In terms of recovering lost clients and dormant clients, great progress has been made this year. As of August 19, we have recovered 714 lost clients this year.

As of June 30, 2022, Gopher's AUM was RMB155.4 billion, which slightly decreased by 0.4% compared with the end of the previous quarter due to more distribution. Among them, the AUM of private equity stabilized at RMB132 billion, and public securities increased by 3% over the end of last quarter, reaching RMB10.7 billion. In terms of Gopher's real estate AUM, it is mainly composed of the U.S. rental apartment funds and the office buildings located in 2 commercial core areas in China.

Gopher's overseas AUM increased by 6.2% year-on-year and 1.5% quarter-on-quarter, reaching RMB29.6 billion, with private equity, public securities and real estate achieved 1.1%, 6.4% and 2% quarter-on-quarter growth respectively.

In terms of primary market, Gopher completed the exit of 4 projects in the second quarter. The series 6 of S fund continues to raise capital, and with the gradual return of the secondary market valuation, the investment of S fund has entered a safer valuation margin. Gopher's private equity funds raised RMB2.6 billion in the second quarter.

Gopher's Target Strategy products have 3 types of strategies: conservative, balanced and positive. Although the market environment in 2022 remains severe, as of August 12, the performances of the 3 strategies were 0.4%, minus 3.3% and minus 4.7% respectively, while that of CSI300 and CSI800 were minus 15.2% and minus 14.6% respectively in the same period. The performances of Gopher's Target Strategy funds have been far better than that of the comparable indices, effectively controlling volatilities and pullbacks, and playing the role of wealth stabilizer. At the same time, Gopher is also actively incubating different strategies and complementary equity direct investment products.

After the secondary listing in Hong Kong, we began to establish a larger international private banking team and a global product screening team in Hong Kong to meet the global asset allocation and service needs of clients. Noah's Singapore office also began to promote new business plans. Gopher International has also started to build new research capabilities and enrich international product lines to meet clients' demand.

Since its establishment in 2021, the Sustainable Development Committee of Noah Holdings has been practicing the value proposition that sustainable development brings long-term kinetic energy to Noah. It has held regular and irregular meetings to promote the inclusion of relevant ESG issues in the decision-making of investment and product selection, to improve the ESG awareness of clients and business partners, and regularly report to the board of directors and senior management.

In the past year, our ESG promotion work was fruitful. We conducted ESG survey on the black card and diamond card clients in 2021, and the results showed that the popularity of ESG among

high-net-worth clients increased by 35% and reached 80%. Our clients' ESG investment [retention] increased by about 3.5 x to 50%.

Gopher also issued an ESG questionnaire to its investment partners in May this year. The results show that the ESG behavior of the leading asset managers has become more prominent in the past year. Most of them plan to increase the proportion of ESG-related investment products in the next 1 to 3 years, and more than 70% of the institutions have started to practice.

At the same time, we have constantly enriched the product offering of our dedicated online ESG investment sections both onshore and offshore, conducted continuous ESG special investment consultancy training for our relationship managers, and implanted more ESG information and product information in internal and external media platforms. Noah and Gopher are duty-bound to continue to exert our circle influence, improve the research and development of ESG products and enhance the sustainable operation of the Group.

Finally, I would like to say that the future is bright and the road is winding. There was an article entitled Name is Strategy, which said that the name of a company often contains a certain strategy. First, it contains a certain vision, planning and intention; on the other hand, vision, planning and intention will reversely shape our behavior.

Noah's name is taken from the Bible. First of all, Noah was a righteous man. He chose to live an honest and upright life regardless of the behavior of people around him. He insisted on giving trust and was full of awe for life; his life was full of possible risks. He took precautions and built the ark with gopher wood, making full preparations for the possible flood. Noah was full of courage, forward-looking and correct judgment. The ark carried pairs of healthy species. Noah and them sailed to the future on the ark. This is the meaning of Noah's ark, and it seems to be a metaphor for Noah Holdings' own mission, vision and values.

In 2022, we deeply feel that we have a great responsibility to our clients. The greater the macro uncertainty, the more we need to think calmly and make mature judgments. We believe that beyond wealth lies the wisdom of life. Noah devotes ourselves to creating legacy for clients for generations to come.

Next, let's invite CFO Pan Qing to introduce the financial data of this quarter in detail. Thank you.

Pan Qing: Thank you. Thank you, Chairlady, and hello dear investors and analysts, including our new shareholders who supported our secondary listing in Hong Kong. Following the impacts of major events, such as geopolitical conflicts in the first quarter, the macro environment in the second quarter continued to be under pressure.

As of the end of July 2022, the United States Federal Reserve has raised interest rates by a cumulative 225 bps. In China, prolonged Covid-19 lockdown led to only a 0.4% GDP growth in the second quarter.

Investor sentiment hasn't fully recovered, evidenced by distribution value of mutual fund products in the country decreased by 25.8% year-over-year in the quarter and dropped a

whopping 57.8% year-over-year for the first half of the year, as well as the savings rate has risen to 34% as of the end of second quarter, compared to only roughly 30% pre-pandemic.

At the same time, we're mindful of the tensions between the two largest economies in the world. In July, Noah successfully completed the secondary listing in Hong Kong, partially mitigating the ADRP listing risk. This month, we have also announced to pursue a voluntary conversion to dual primary listing status in the U.S and Hong Kong, open to further result delisting pressure.

We also installed a long-term scheme to pay at least 10% of our non-GAAP net income as annual dividends to shareholders starting from April next year. Hoping to further resolve the delisting pressure.

Now, please let me walk you through more detailed results of the second quarter. Non-GAAP net income was RMB355 million for the quarter, up 5.4% year-over-year and 13.3% quarter-over-quarter. For the first half, it was RMB669 million, representing 46.1% of our full year non-GAAP net income guidance.

Income from operations for the quarter was RMB323 million, a 3.6% decrease year-over-year, but a 3% growth over the last quarter, mainly because of the decreased net revenues for the quarter were partially offset by lower expenses, such as general administrative expenses, marketing and spending, planned activities, as well as more government grants received in the second quarter due to the Covid-19 lockdown in parts of China, especially in Shanghai. Consequently, the operating margin was 43.8%, up 17.4% year-over-year and 11% quarter-over-quarter.

With the orderly resumption of work in major domestic economic regions since June, it is encouraging to witness a recovery in transaction value as expected, which recorded a 28.8% increase over the last quarter from RMB15 billion to RMB19.3 billion. But compared to the last year, it is still down 22%, especially when we had a really strong second quarter last year.

Noticeably, the transaction value of mutual fund products continued to grow against the market tightening, with a significant increase of 71.4% quarter-over-quarter and a 30% year-over-year to RMB12.2 billion. In the second quarter, the total number of mutual fund active clients was 11,248.

The transaction value of private equity increased 23.2% over the last quarter to RMB3.9 billion, but down 39% year-over-year, representing a quarterly recovery that had been expected, while the transaction value of PE products are decreased 40% quarter-over-quarter and 6% to 8.9% year-over-year due to a volatile market environment and less investor interest in the asset class, as expected.

Benefiting from continuing strategic investments in our core client groups, diamond and black card clients grew to 8,560, up 3.3% quarter-over-quarter and 8.8% year-over-year, among which the number of black card clients increased by 20% year-over-year.

We have also been making efforts on reactivating dormant accounts and retrieving lost accounts due to the transformation to standardized products. Our client-centric philosophy will continue to be a key strategy in the long run.

It's also worth mentioning that among active clients, the number of clients who purchased insurance products during the quarter was 1,009, 16x more than the first quarter of 2022, and 3x more than the same period last year, as we resumed the sales of certain products after resulting a temporary regulatory requirement in the first quarter this year.

Net revenues in the quarter was RMB738.1 million, down 17.9% and 7.2% quarter-over-quarter, mainly due to decreases in performance-based income.

As the transaction value of private equity mutual funds and insurance products recovered in the quarter, our one-time commission more than doubled quarter-over-quarter to RMB207 million, but still down 16.1% year-over-year due to less public securities distributed.

Recurring service fees remained relatively stable at RMB458.9 million, a decline of 7.9% year-over-year and 5.2% quarter-over-quarter, mainly due to NAV adjustments. Performance-based income swapped to RMB25.9 million, down 78.8% and 85% quarter-over-quarter primarily due to the lack of profitable exits from public securities.

Net revenues from other service fees for the second quarter of 2022 were RMB46.4 million, a 44% increase from the corresponding period in 2021, primarily due to more value-added services Noah offers to our high-net-worth clients since the Shanghai lockdown.

Let me go back and do a quick correction. When I mentioned the transaction value of private products, saw a decrease of 40% quarter-over-quarter -- should be transaction value of private secondary products saw a decrease of 40%.

Now the segmented results. As for our segmented results, net revenues from the Wealth Management segment were RMB509 million, down 18.7% year-over-year and 12% quarter-over-quarter due to a slowdown in transaction value during the quarter. Net revenues from the asset management segments were RMB210 million, down 17% year-over-year, but up 5% quarter-over-quarter.

Gopher's AUM was RMB155.4 billion as of June 30, 2022, slightly lower than RMB156.1 billion at the end of first quarter due to more distributions and redemptions during the quarter.

Moving on to the balance sheet, we remain in a healthy liquidity position as the current ratio stood at 3.2x. The debt to asset ratio was 19.4, still with no interest-bearing debt on our book. By the end of second quarter, we have RMB3.6 billion in cash. It should also be noted that net proceeds of the Hong Kong secondary listing have not been included yet until the next quarter.

Supported by this healthy balance sheet and continuous strong cash flow-generating capabilities, we announced that the board had approved and adopted an annual dividend policy on August 10. In normal circumstances, the annual dividends to be declared and distributed in each calendar year shall be in principle no less than 10% of the Group's non-GAAP net income attributable to the shareholders of the preceding financial year, as reported in the company's audited financial statements, which aims to provide stable and sustainable returns to the shareholders of the company. The dividend will be subject to shareholder approval at the AGM no later than the end of June each year. Once approved, the dividend shall be declared by the company and paid out to the shareholders.

Being confronted with the current complex international geopolitical environment, the board has approved a motion to pursue the voluntary conversion to dual-primary listing on Hong Kong Exchange, which will further eliminate the risk of U.S. delisting. We want to thank the investors who supported our Hong Kong secondary listing, and hope to provide the market with positive outcome in the coming months.

Our CI office also published the management outlook for the second half of 2022, reiterating the protection of full growth strategy for our clients. Meanwhile, we suggest our clients to initiate investments strategically out, both onshore and offshore, also known as dual circulation. We're mindful of changing and challenging market scenarios, and will adjust our strategy accordingly.

Again, we sincerely thank our shareholders for ongoing trust and support, and strive to create long-term value for our clients and for our shareholders. Thank you, everyone, for listening. And I will now open the floor for questions.

## Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). [Chia Hong] with Morgan Stanley.

Chia Hong: (Speaking foreign language). Maybe I'll just briefly translate. The first question is about the client base. We are delighted to see, given under a very volatile market environment, we're still achieving a steady growth in the number of key clients, brand clients, diamond cards. So just wondering, management, if we can share any of the drivers behind it? And do we have any target or plans over the number growth this year or next year?

And second question is on the number of relationship managers, which is we think is important to keep to the high-hedge service. And we see the number has kind of fluctuating between 1,200 and 1,300 in the last 2 years, and with some slightly declining in the past 2 months, 2 quarters. So wonder how is the team's reaction or acceptance to the newly-completed restructuring on the conversation (indiscernible) system? And do we have any target for the next 2 to 3 years?

Jingbo Wang: (Speaking foreign language).

Pan Qing: (Speaking foreign language). Okay. So to your first question, we believe that because of the complex situation, especially face the lockdown, so it has been quite difficult to get to the client scenario, especially in the offline situation. So what we have been doing is really to serve and make the existing client base increase their satisfactory level. And the majority of the growth achieved in the diamond and black card clients here is from the existing clients when they actually made more investments and upgrades internally.

And at the same time, the strategy of making the existing clients happy, and they are more willing to actually bring in their clients and make referrals. So we actually have another program

called MGM, Member Get Member, which has shown actually very positive progress as well. It seems that the strategy has been working.

And just a little bit of supplement to what Chairlady has mentioned. Another thing is that we have been continuously investing and upgrading our branding, as well as the benefits of some that's associated with the black card and diamond card members. In the past, it's mostly probably just some rebates or some points that's associated with benefits; but at this time, we actually added a lot more benefits in terms of free classes, free lessons, that can get on investors as well as some other educational sessions, which actually have been very welcomed by the client. So basically, internal system during the lockdown will actually have more time to invest, as well as (indiscernible) to actually increase the satisfactory level of the clients greatly.

In terms of the relationship managers' team, obviously, we're still eyeing for growth, but I think the strategy for this year is mainly for making room for better talent to come in and to upgrade the talent mix. Especially, we're investing more heavily towards the fresh graduates from good schools. I want to make sure actually we have a younger pipeline for the future RMs team.

At the same time, we're also actually having another program called (Speaking foreign language), which means that we're actually targeting to recruit good veterans into Noah. And so the overall strategy undoubtedly will be towards the growth of our team. But at the same time, we also make sure that the quality is well selected.

We're also actually planning to invest quite heavily in terms of teams that's in Hong Kong and Singapore, will probably see a greater growth speed in that team in these two places. Do we have your question?

Chia Hong: Yes, thanks very much, management.

Operator: (Operator Instructions). Peter Zhang with JPMorgan.

Peter Zhang: (Speaking foreign language). I will do the translation. So my question is while the second half outlook -- because we noticed [we] maintained our non-GAAP focus, so which will translate to quite strong growth in second half non-GAAP profit goals. So we are wondering what will be the key driver? And what's, say, (indiscernible) outlook in second half?

Qin Pan: Okay. Thank you, Peter, appreciate your question. Yes, we actually are [readily] happy, especially with the challenges that we faced in the second quarter, especially one of our main cities. Shanghai, also the headquarter of Noah, faced 2 months lockdown, and still be able to actually obtain a 46% progress. And actually, the non-GAAP net income actually, it's growth over both last quarter as well as year-over-year.

So we believe that we are still on track to make the full year guidance, especially for the industry seasonality, majority of the big so-called client conferences and marketing events usually occur in the second half of the year. For example, we have (Speaking foreign language), which are both the end of year, as well as the beginning of year, major marketing points; as well as the main event of black card gala every year usually takes place in November and December. So we still believe that a good wave of marketing events, as well as client conferences, are waiting to happen.



Obviously, we are prudently optimistic about how the client sentiment will be before the big conference in probably October, November. But we believe that no matter what the outcome is, once our clients' sentiment actually sees some sort of level of certainty, they will definitely have a higher sentiment of making especially investment; and probably easier for them to make investment decisions. So that's primarily the reason behind.

(Speaking foreign language).

Jingbo Wang: (Speaking foreign language).

Thank you.

Pan Qing: (Speaking foreign language).

Operator: (Operator Instructions). This will conclude our question-and-answer session. I would like to turn the conference back over to Grant Pan for any closing remarks. Please go ahead.

Pan Qing: Thank you, operator, and thank you very much, our investor analysts. We have 2 quarters to go, and we're striving to get positive results for the market. Thank you very much for your time.

Operator: The conference has now concluded.

Jingbo Wang: Thank you.

Operator: Thank you for attending today's presentation. You may now disconnect.