**Noah Holdings Limited [NOAH]**
**Q4 2020 Results Conference Call**
**Monday, March 15, 2021, 8:00 PM ET.**

Company Representatives
Jingbo Wang, Co-Founder, Chief Executive Officer
Grant Pan, Chief Financial Officer

Analysts
Emma Liu, Bank of America Securities
Han Pu, CICC

**Presentation**

Operator: Good evening, and welcome to the Noah Holdings 4Q20 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Please note today's conference is being recorded.

I would now like to hand the conference over to Ms. Jingbo Wang, Co-Founder and Chief Executive Officer at Noah Holdings. Please go ahead.

**Jingbo Wang**: (Speaking Mandarin).

(Translated)

Today, for the agenda of the conference call, I will first talk about the macro view, then report on Noah's overall performance in 2020 and the development of our major business sectors. Our CFO Mr. Qing Pan will then introduce the detailed annual financial results, followed by a Q&A session.

Looking back on the past year, the market has been moving forward fast like a high speed train. The supply side reform of China's financial products has continued, and the transfer of household assets to NAV-based products has exceeded market expectations. Among them, the value of new funds increased by 123% YoY to 3.2 trillion; the outstanding amount of non-monetary funds continued to grow, reaching a historical high of 10.99 trillion, an increase of 56% YoY, with a significant increase in equity funds. With the Guidance on Standardizing Asset Management Business of Financial Institutions breaking implicit guarantee, the supply of non-standardized credit products continued to decrease, and the issuance of equity products is accelerated, together with the normalization that houses are for living in and not for speculative investment, capital markets reform and the return rate of equity funds continued to rise. More and more individual investment behaviors have been replaced by institutional management. It is expected that the securities products in the open market will continue to reach record high in 2021.

It has been six quarters since Noah started the transformation from non-standardized products to standardized products. In 2020, the transaction value of standardized products, the number of active clients and the performance-based income have all reached historical high, which are good results we have achieved in the transformation.

In 2020, Noah recorded total net revenues of RMB3.31 billion, dropping slightly by 2.5% YoY; the slight decrease in revenue was mainly due to lower take rate of standardized products, lower revenues from overseas businesses due to the impact from the COVID-19 pandemic. Despite we recorded a GAAP net loss attributable to shareholders of RMB745.2 million, non-GAAP net income attributable to shareholders for the year was RMB1.13 billion, up 25.3% YoY, exceeding our expectations. The GAAP net loss was due to a one-off equity settlement expense in the amount of RMB1.8 billion related to the Camsing settlement plan.

In terms of our core business data, total transaction value of our wealth management segment was RMB94.7 billion, up 20.6% YoY; the transaction value of standardized products reached RMB73.1 billion, up 177.3% YoY; among standardized products, the transaction value of secondary market equity funds was RMB26.0 billion, up 381.8% YoY; the transaction value of mutual funds reached RMB43.3 billion, up 164.7% YoY.

For our overseas business, net revenue for the year was RMB730 million, down 22.9% YoY; AUM was RMB24.9 billion, slightly higher than that of the end of 2019, accounting for 16.3% of the total AUM of the Group, an increase of 1.7% YoY. We believe that in 2021, with the improving global epidemic situation, travel and work restrictions will gradually be lifted, and the demand of clients will bounce back greatly.

In 2020, Noah's high net worth client group continued to expand, with annual active clients of over 39,000, an increase of 11.6% (including mutual funds) YoY; and the number of black card clients increased by 11.6%. For the service model of our black card clients, we have started to pilot the Noah triangle model of professional division and collaborative operations, while providing systematic support for relationship managers, solution experts and operations experts.

For our asset management business, the AUM dropped to RMB152.8 billion by the end of 2020, affected by the continuous voluntary redemption of non-standardized credit products, of which non-standardized credit products dropped by RMB19.4 billion. Other active managed products have achieved different degrees of growth, including 6.1% YoY growth to RMB 9.9 billion in standardized public securities products and 7.7% YoY growth to RMB113.0 billion in private equity products.

In terms of public securities, by the end of 2020, the annual return of Gopher Trend MoM was 17.24%, beating benchmark return of the same period by 10.25%; the Gopher Top 30 fund achieved annualized return of 13.37%, beating benchmark return of the same period by 4.81%. For private equity, Gopher continued to promote FoFs, S funds and co-investment funds, while expanding its direct sales team. It is worth mentioning that the AUM of Gopher's Silicon Valley team in the United States increased USD122 million to USD317 million in 2020 even with the impact of COVID-19.

In terms of improving operation efficiency, the operating expenses for the full year were RMB2.05 billion, down 17.3% YoY. Non-GAAP's net margin attributable to shareholders was 34.2%, up 7.6%

year on year. Operating profit margin increased from 27.0% in 2019 to 38.1% in 2020. The management efficiency of the company has been greatly improved.

The digital transformation of Noah has achieved great results in the past few quarters, mainly reflected in the improvement of operation efficiency. The 1.0 version of KYC/KYA/KYP digital platform is online, to more accurately identify clients, understand products and match relationship managers. We also upgraded the client interface of Fund Smile, built an overseas platform iNoah, and launched the relationship managers work station.

In 2021, we will continue to invest in our technology system, for the digitalization and intelligence of our business online operations in the front-end client interfaces, the middle end relationship managers working platform and Gopher's investment management platform, as well as the back-end management platform, to continuously improve our service quality and efficiency, and finally improve our client experience.

In 2020, Noah started comprehensive organizational change, to promote organizational leadership capability systematically, and transform Noah from a traditional green train to a modern version of high speed Electric Multiple Units (EMU). It is a long-term and continuous process to free Noah's existence from any unique individual, to establish a company that runs on organizational leadership. We have established eight committees, launched a rotation scheme for core positions, and enabled young people to take on important roles. The eight committees include: Strategy Committee, Talent Committee, Operation Committee, Science and Technology and Revolution committee, Product Committee, Ethics Compliance Committee (including compliance and discipline supervision committee), Client Interest Committee, and ESG Sustainability committee. Each Committee has its own responsibilities and together form a more effective collective decision-making mechanism.

On organizational talent side, we have launched a two-wheel driving mechanism of position qualifications and performance management, to achieve the marketization of our incentive mechanism by matching personnel and positions, weighing of positions, grading by positions, and compensation by grade. Meanwhile, the KPI system runs through and leads to the realization of strategic objectives. The KPI system and our strategic targets are fully aligned, as we say, all force through one point, all benefits from one source.

Noah has been working for 15 years in the wealth management and fund distribution industry, with strong investment advisory capabilities and professional advantages. We have been revising and piloting our new relationship managers' compensation scheme to upgrade the assessment mechanism to meet the needs of our clients of standardized products. We include the indicators of AUM, client satisfaction and product coverage ratios into performance appraisal. We believe that our market share will continue to improve in the future with the wealth management industry transformation and funds investment consultancy pilot.

In 2020, Noah set up a new business segment alongside wealth management and asset management and named it Noah Digital Intelligence. Mr. Chen Jin, the former General Manager and co-CEO of Zhongan Online P&C Insurance, joined Noah Digital Intelligence as CEO. We look forward to building a new intelligent open platform to serve IFAs, and becoming a new channel of Noah's wealth management platform, and promoting the 2B business development of the segment using technology.

In hindsight, Noah has abandoned the non-standardized private credit products from the third quarter of 2019, and firmly transformed to standardized and NAV-based products; we proposed the settlement plan for Camsing clients in the second quarter of 2020, and reached settlements with nearly 70% of the clients by the end of the year; by the first quarter of 2021, we have completed the early redemption of most of the "non-standardized private credit products in our AUM. Throughout 2020, we took on initiatives of organizational change and matching positions with talents, on the changes of product end and relationship managers, circling around client-centric and survival as the bottom line philosophies. Our management team is very happy to see that Noah has achieved smooth transformation and good growth in the tough environment in 2020; but at the same time, we are aware that the rainstorm has made the water rise, we are just lucky ducks rising with water in the pond. Of course, it is gratifying that although we have not surpassed the market, we are in the process of change, playing light and keeping up with the pace of the market.

I am proud that in the past few quarters, Noah's management team has experienced major crisis projects, financial rectification and epidemic risk, and the team has maintained a relatively healthy organizational state, played lightly and gained new growth space. The deep thinking of our core team is aligned, which brings about cognitive change. A new management strategy has gradually been established and we reached consensus on it.

Looking forward to 2021, we have four key objectives: first is client-oriented, organizational capacity-building enabled by digitalization; second is organizational change, new momentum generated by post rotation, young executives in new posts, to forward our business development; third, we hope to incentivize our relationship managers by the pilot and implementation of the new compensation scheme; and lastly, the new positioning and new start of Gopher.

On wealth management side, we aim to fully upgrade client interface, and improve the client service experience; at the product end, we aim to understand the client needs, establish deeper strategies with the leading GPs and fund managers, and provide one-stop comprehensive service for the product suppliers; at the investment end, build investment and research capability, design new products and improve the investment capability around client demand; at the technology end, complete the KYC/KYA/KYP digital online platform and application, construct digitalized organization capacity, to improve the efficiency, to understand the client needs more accurately and provide services for clients through digital transformation of all aspects of our operations and management. Digital and intelligent online operations of Noah will get us closer to high net worth clients, and better understand the needs of product suppliers, understand and identify the skill sets of our employees, to eventually match the three.

Wealth management and asset management are promising industries. Noah holds a key position in a market with huge growth potential. We believe that the current China's capital market is very close to that of the United States in the late 1970s, when the GDP per capita exceeded US $10,000; however financial assets only accounted for roughly 30% of the household investable assets in China; the market value held by institutional investors was just 18.5%, there is still a huge space for industry development. In such a great era full of opportunities, we would not be opportunists. Our focus is to go "further".

We look forward to a beautiful 2021!

**Grant Pan**: Thank you Chairlady, and hello investors and analysts. We are excited to share with you the strong financial results for 2020, delivering a successful transformation in our product offering in the midst of a strong A share market and favorable primary market environment. Despite that we recorded a net loss of RMB745.2 million in 2020, we have achieved a full year Non-GAAP net income of RMB1.13 billion, up 25.3% YoY.

It is an honor to have ongoing support from our clients, partners and shareholders in the past year. We remain optimistic on the future growth in the wealth and asset management industry and the group's potential to become a major independent player.

I would also like to mention that the GAAP net loss of RMB745.2 million for the year was due to a one-off equity settlement expense of RMB1.8 billion related to the Camsing settlement plan. This expense consisted of RMB1.3 billion representing 67.5% of the clients who had settled with us; and RMB0.5 billion, for the rest of the clients who had not signed the offer but we anticipate a settlement will be reached in certain way, at similar cost. The latter was recorded as a contingent liability from a conservative standpoint. As of December 31, 2020, 100% of the Camsing settlement plan expenses have been booked into the fourth quarter. Excluding the settlement expense, non-GAAP net income was RMB1.1 billion, up 30.7% YoY.

Now please let me walk you through more detailed financial results of the fourth quarter and full year 2020.

Despite the contraction in overseas insurance due to COVID-19 travel ban and our continuous streamline efforts on the lending business, net revenues for the year were RMB3.3 billion, slightly down YoY by 2.5%. Excluding overseas insurance, net revenues in 2020 were up 7.6% YoY.

One-time commission revenue in 2020 was RMB804.3 million, down 13.3% YoY, again due to a decrease in overseas insurance distribution. Overseas insurance contributed RMB154 million net revenue in 2020, comparing with RMB462.8 million in 2019, down by 66.7%. Excluding overseas insurance, one-time commissions were up 40% YoY. Recurring service fees and performance based income were RMB1.9 billion and RMB387.4 million, up 4.5% and 244.4% YoY respectively. Specifically, private equity and public securities contributed to 55.7% and 39.2% of the performance based income respectively, reflecting robust exit activities in the primary market and our product selection capabilities in the secondary market.

Other service fees were RMB194.2 million, down 62.3% YoY as we continue to reduce our lending products offering. We are restructuring lending and other businesses into a new consolidated business segment, Noah Digital Intelligence, to offer open services to-IFAs and to B.

As one of the main objectives of our 2020 strategy, we have achieved a full recovery in the total transaction value, with a total of RMB94.7 billion, up 20.6% YoY. The transaction value of standardized products was RMB73.1 billion, up 177.3% YoY, offsetting the decrease in the offering of credit products, marking a successful transformation. In addition, PE products recorded RMB17.9 billion of distribution, supported by strong primary market and our strategic relationships with industry-leading GPs.

After six quarters since the transformation of our products offering, we are very happy to see the number of active clients including mutual fund clients increased 11.6% YoY to 39,285 in 2020. The number of black card clients stood at 985 as of December 31, 2020, also up 11.6% compared with December 31, 2019. The number of diamond clients reached 4,551, increased by 2.2% comparing to last year.

Operating profit was RMB1.3 billion in 2020, up 37.5% YoY, and operating margin improved from 27.0% in 2019 to 38.1% in 2020, as we continue to optimize operating efficiency. Non-GAAP net income attributable to Noah's shareholders was RMB1.1 billion, up 25.3% YoY and beating our previous guidance of RMB900 million – RMB1 billion by 12.5%.

Net loss attributable to Noah's shareholders was RMB745.2 million, as we incurred a non-cash one-off share-based settlement expense of RMB1.8 billion in relation to the Camsing settlement plan. As of the offer deadline December 31, 2020, approximately 67.5% of the Camsing investors had accepted the settlement plan, representing approximately 70.7% of the total outstanding Camsing fund balances.

On balance sheet side, we continued to improve liquidity as our cash balance stood at RMB5.0 billion, and we continued our exit efforts in long-term investments, which decreased by 39.1% since last year. We recognized contingent liability in the amount of RMB530.4 million from the Camsing settlement plan in relation to those clients who have not reached settlement agreements with the Company. Accordingly, 100% of the settlement related items were expensed as of December 31, 2020. Our current ratio stood at 3.7, with a debt to asset ratio of 22.6%. I'm confident to say that with a well-capitalized balance sheet, we are well-positioned to invest in new R&D efforts and implement new growth initiatives, which will pave the path for a new era of growth for Noah.

When it comes to quarterly numbers, we have also achieved a good performance. In terms of our fourth quarter financial results, we recorded net revenues of RMB953.2 million, up 20.9% YoY and 11.0% QoQ, supported by strong performance based income amounting RMB206.6 million, up 258.8% YoY and 193% QoQ. One-time commission was RMB271.7 million, up 69.4% YoY and 39.4% QoQ, driven by strong domestic insurance product sales. Recurring income was RMB435.9 million, down 6.5% YoY and 22.2% QoQ, due to the decrease in back-end management fee related to the redemption of credit products.

Operating income for the quarter was RMB335.5 million, up 165.7% YoY but down 3.4% QoQ as a result of increasing offline client events and compensation expenses in the quarter. Non-GAAP net income was RMB262.5 million, up 121.1% YoY and down 11.5% QoQ. Net loss attributable to Noah's shareholders was RMB1.6 billion. Excluding the one-off Camsing share based settlement expense, net income was RMB255.4 million, up 148.5% YoY and down 10.6% QoQ.

For business segments, net revenues from the wealth management business were RMB2.4 billion for the year, up 2.0% YoY, accounting for 71.6% of the total net revenues. Net revenues from the asset management business amounted to RMB875.5 million, up 11.7% YoY on strong performance based income realization, contributing for 26.5% of the total revenues.

I would like to note that the non-GAAP net income of RMB1.2 billion to RMB1.3 billion guidance for 2021 reflects management's current business outlook, as we are excited to see a strong year of financial and operational performance in 2020 and are reasonably optimistic about the growth in 2021.

As mentioned by Chairlady Wang, we have made a comprehensive plan to resume growth mode: from the top line, to the number of core clients, and most importantly, in digitalization and technology. The expansion obviously will require a heavy input in talents, client-oriented marketing events, as well as tech-infrastructure, and we target to maintain a mild growth in the bottom line and speed up our expansion in market share and advancement in technology.

Lastly, I would like to emphasize our commitment to ESG and responsible investment. We've started the process to look into launching ESG related investments products to serve our sophisticated HNW clients, and we will update the market accordingly.

Thank you again everyone, now we will open the floor for questions.

**Questions and Answers**

**Operator**: We will now begin the question-and-answer session. [Operator Instructions]. Emma Liu from Bank of America Securities.

**Grant Pan**: Hi, Emma.

**Emma Liu**: (Speaking mandarin). Now, so maybe I can briefly translate my question. So the first question is about the growth plan. Noah management mentioned that Noah is now in a growth mode, and you already have planned for your top line growth, client growth, etc. So could you provide us the guidance for active client growth in 2021 and for the long term, because transaction volume can be volatile due to market volatility. But deep client growth and the number of client growth, the increase of revenue and profit is just a matter of time. So could you provide us more details and your growth plan for client number? And how do you plan to achieve the target?

And the second question is about the utilization of cash, which amounted to around RMB5 billion by end of 2020 and accounted for 53% of total assets. You've mentioned previously that you may look to use that cash for some M&A, or other potential investments. Could you provide some source? What are the potential area for M&A or investment and what is the logic behind?

**Grant Pan**: Okay. So I'm going to translate a little bit of Chairlady's answer and also have my own inputs as well. So she just stressed that we have again clarified and cleared our strategy focus to continue to focus on high net worth individuals and also super-high, ultra-high net worth individuals. So basically, in addition to the number of clients that we have, also actually focus on increasing the quality of services to this type of client.

And also in terms of market share, not only just again on the sheer number of the client groups, as well as the wallet share of the existing client groups, one of the things that we have mentioned in the speech is about new service model that we have been implementing for the past year that started the implementation in the last few months. Basically, we have a so-called triangle service model to our clients, as compared to a single point of contact in the past only through the relation manager.

Now we have basically 3 elements in the service: One is the AR, which is the account representative, will be supported by 1 or 2 -- one or more solution representative, who actually has the expertise in the product and services that fit our clients' needs, as well as the [SR], which is basically the service representatives, so that our clients actually have a full scope of better client experiences under this new service model.

We have seen the passion from the front-line individuals. We actually also realized through this model, that they actually increased the service capacity to our clients even for the so-called elite relation managers, basically, will expand their capacity to serve more clients, and get higher client wallet share.

But in addition to that, Emma, as you have asked about what strategy we have, we do actually clearly set a very clear number of increase in the core client groups for 2021. I'm a little bit reluctant to give guidance on that, as it depends actually on quite a few different factors, so I don't want to this to be misleading. But I can tell you that it will be a pretty major growth, and it will be a clear focus in terms of continued growth and increase that type of corporate clients. Like you said, it will greatly improve the adhesiveness of our client relationships. So that's the answer for the first question.

And in terms of the use of cash, Emma, I understand our focus on that. So basically, one of the information that we have disclosed in the 6-K, as you can see, that we have used part of the proceeds to repurchase our stock for US$100 million, where basically, we have completed that repurchase by end of February or March.

And in terms of opportunities we've been looking at for the acquisitions, I think we have been very actively looking. And when it comes to actually financial type of institutions, either domestically or oversea, as you would imagine, that we're being very careful in terms of performing due diligence, or figuring out what is the right synergy before actually proceed. So obviously, it's very difficult to promise that we will acquire or buy anything. But I guess one of the things I'm confident to say that it remains in the arsenal of the strategy that we are looking at to expand certain capabilities or service or technology or asset management, it also remains one of the targets that we continue to look at.

Emma, does that answer your question?

**Emma Liu**: Thank you.

**Operator**: Thank you. [Operator Instructions]. Han Pu from CICC.

**Han Pu**: (Speaking mandarin). We see our number of the relationship managers was stable quarter-on-quarter, while slightly decreased year-on-year. And could you please give us more color on the future growth plans of our relationship managers, and also more introduction on the structures under our triangle service model?

**Jingbo Wang**: (Speaking mandarin).

**Grant Pan**: So that's a very good question, very insightful actually. In terms of the 1,200 RMs that we have currently, we believe that actually, the new triangle mode will continue to be able to help us grow the talent pool of the RM. As you would imagine, that the service mode had been sort of switched from a single-man army into actually a more coordinated group of individuals that will be able to serve our clients. So basically, the more experienced elite RM will be assisted with probably solution experts, as well as the fulfillment representative, basically the service type of RM. And this particular mechanism actually will enable the younger professionals to actually come into the industry and have an opportunity to learn, beside elite RM, which we actually have a very low turnover ratio, to actually be able to provide more a full comprehensive service to our clients.

So believe that the number of RM actually will continue to see an accelerated growth in terms of relation managers when we are implementing this triangle mode, especially that in terms of cities that will be more or less into a more coordinated operational unit, rather than a single point of contact through the RM to serve the client in the past.

**Han Pu**: (Speaking mandarin). Thank you very much, very helpful.

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

**Grant Pan**: Okay. And thank you, investors and analysts, for your time. I'm very happy and excited to share the strong performance for the full year with you. And obviously, if you have more detailed questions, we have arranged one-on-one sessions later on. So we'll talk to you later. Thank you very much.

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