

**Noah Holdings Limited [NOAH]  
Third Quarter 2020 Results Conference Call  
Monday, November 30, 2020, 7:00 PM ET**

Company Representatives

Jingbo Wang, Chairlady, Chief Executive Officer  
Grant Pan, CFO

Analysts

Ethan Wang, CLSA  
Xue Yuan, CICC  
Daphne Poon, Citi

**Presentation**

Operator: Good day, and welcome to the Noah Holdings Limited Third Quarter 2020 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 Jingbo Wang. Please go ahead, sir.

Grant Pan: Thank you.

Jingbo Wang: 2020 is a new beginning. After 30 years of development, Shanghai has developed into an international financial center specializes in RMB-oriented asset allocation. Currently, more than 50% of the RMB assets held by overseas market entities are here, making the city an open RMB asset allocation center. This year, 2020, also marks Noah's 15th year of inception and Noah Holdings' 10th listing anniversary on the New York Stock Exchange. Noah was founded in Shanghai; we are still headquartered here. We are grateful for this great city's development and its support for us as a firm.

It has been five quarters since the Camsing incident last year, and our transformative shift from single counterparty private credit products into standardized products. We thank our team for their efforts and the market for its support.

Today, I feel honored to report our satisfactory achievements in the third quarter to our shareholders and analysts. Both transaction value of standardized products and the number of active clients reached a record high. Clients' confidence is restored and team morale is good. It is evident that our strategic transformation has reached a successful milestone.

I would like to first brief you on Noah Holding's overall performance in the third quarter of 2020, the development of our major business segments, the growth targets, as well as investment strategy. Then I would like to share my opinions on macro and regulatory landscapes. Then Grant will present the financial results for the third quarter, followed by a Q&A session.

Starting from the third quarter of 2019, Noah ceased the offering of non-standardized single counterparty private credit products, accelerated the redemption of these products, and transformed to full-scale public securities products. After five quarters of transformation, with the strong support of our clients and the continuous efforts of our team, transaction value for the quarter reached RMB28.8 billion, up 158.3% year-on-year and 34.2% quarter-on-quarter, marking one of the highest quarters for transaction value in the past 15 years. Among which, the transaction value of standardized products reached RMB20.8 billion this quarter, up 18% year-on-year, and up 16% quarter-on-quarter, a historical high.

The transaction value of onshore and offshore mutual funds reached RMB14.1 billion, up 206.3% year-on-year, and up 18.6% quarter-on-quarter. We have established close partnerships with 18 out of the 20 mutual funds in China.

For secondary market equity funds, we raised RMB6.3 billion, which grew nearly ten-fold year-on-year and up 25.6% quarter-on-quarter. We also maintained our leading position in private equity products this quarter with a transaction value of RMB7.2 billion, up 107.7% year-on-year, and up 183.1% quarter-on-quarter. It is worth mentioning that Gopher's S Secondary Fund Series V received commitments of RMB 1.5 billion in the quarter and has become our clients' preferred featured products in terms of both scale and performance.

In the third quarter of 2020, Noah achieved net revenues of RMB859.1 million, up 14.9% quarter-on-quarter and achieved non-GAAP net income attributable to shareholders of RMB301 million, maintaining the record high level of last quarter. Overseas revenue was still soft due to Covid-19, but was offset by the increased onshore revenue. We are confident in meeting our full-year non-GAAP net income guidance.

Due to impact from the pandemic, the net revenue of our overseas business has achieved RMB158 million, down 30.2% year-on-year and down 14.6% quarter-on-quarter, accounting for 18.4% of the group's total net revenues.

In the third quarter of 2020, the number of active clients, inclusive of mutual funds clients, rose to 20,509, up 105.9% year-on-year and up 39.5% quarter-on-quarter, reflecting the restoration of clients' confidence. Specifically, there were 17,536 onshore and offshore active mutual funds clients, up 167.6% year-on-year and up 42.1% quarter-on-quarter. Moreover, as of the end of September 2020, there were 944 black card clients, up 7.9% year-on-year and up 4.9% quarter-on-quarter.

As of September 30, the turnover rate of elite relationship managers remained at the industry's lowest level of 2.3%. In an effort to upgrade the model of relationship managers serving clients, we have transformed the single relationship manager service model into a teamwork-based iron triangle model, ensuring that there is a dedicated team providing services to our diamond and black card core clients, continuously improving our service quality and operational efficiency.

At the 2021 Group Strategy meeting held in October, the Company as a whole established a client-centric growth strategy. To further improve client service experience and to better reach and serve our high-net-worth clients, we have also implemented a new talent strategy to continuously recruit and invest in new talents and relationship managers.

For asset management, as of September, 2020, Gopher's AUM stood at RMB155.7 billion, driven by continued voluntary early redemption of single-counterparty credit funds, down 11.8% year-on-year and down 2.3% quarter-on-quarter. The share of PE and public securities funds in total AUM increased by 10.3% and 1.6% year-on-year, respectively. The overseas AUM was RMB25.5 billion, accounting for 16.4% of the total AUM, a slight increase from the previous quarter.

According to the new regulations on mutual funds distribution, Gopher has started establishing a direct GP sales system to provide support for its direct sales management of various fund managers. Gopher is expected to further expand its PE FOFs' size in the future. As the size of Gopher's FOFs expands, we will continue to promote our ecological collaborations with leading VC/PE partners.

The reform of the Chinese capital markets, including Sci-Tech Innovation Board, aka the STAR Market, and registration-based IPO system, will play a long-term role in improving the performance of leading primary market funds, consequently benefiting Noah's clients.

In addition to the continuous development of PE funds, Gopher will also improve its R&D and investment research to circle around the purpose of creating value for our clients. To expand the AUM of PE funds is a key strategy to provide differentiated investment solutions for our high and ultra-high-net-worth clients by focusing on generating absolute returns for them through multi-strategy funds. The scale of Gopher's target return multi-strategy funds increased 571.4% year-on-year in 2020.

In terms of company management in 2020, we have initiated a comprehensive business transformation by digitalizing Noah's 15-year long industry knowledge and offline operations experience, to improve the precision and efficiency of our daily operations. We are committed to focusing on KYC, Know Your Clients; KYA, Know Your Agents; and KYP, Know Your Products, in order to digitally understand client needs, identify the ability and type of relationship managers, as well as label fund products, in order to accurately match the three. Digitalizing our compliance capability based on KYC, KYA and KYP is also our key focus.

2020 is the turning point of the wealth management industry in China. China's wealth management industry has bidden farewell to the era based on implicit guarantee, and entered into a new stage of standardized NAV-based assets, testing the all-round capabilities of financial institutions. We believe that in the new era of transparency and fair competition, the industry will develop faster after adjustments. Institutions that survive the transformation will capture higher market share as a result.

China's personal and household savings have reached RMB100 trillion. The overall AUM of private banks has reached RMB14 trillion. There are more than 800,000 high-net-worth private bank clients, yet 80% of the total investable assets still remain in the savings accounts, or haven't been managed by wealth managers. This deep and broad market's competitive landscape is still fragmented, and we expect the market consolidation and the formation of major players in the industry to be completed around 2025. Meanwhile, an industry transformation will be preliminarily completed through digitalization of operation capabilities and industry research-based investment capabilities.

Noah is currently at a turning point, a key turning point. We need to build a process-oriented company with a clearer organizational structure and methodology; conduct a digital transformation to make information more accessible and transparent; use KYC, KYA and KYP to improve the quality of the services offered by relationship managers to clients. Accuracy and efficiency are the two key words.

Looking ahead to 2021, we have proposed to achieve high-quality growth in the future based on digitalization, and set challenging goals in key dimensions including high-net-worth client base, AUM, transaction value, and revenue targets. We plan to invest no less than 3% of the annual total net revenues in the R&D of client user interface and technology, respectively.

As we celebrated our 15th inception anniversary and 10th listing anniversary on the New York Stock Exchange on November 10, 2020, we raised the theme One Vision, One Heart and One Battle. Noah's 4 founders, more than 100 core management and 15 black card clients departed from Zhangye, part of the Gobi, to walk along the road the legendary Monk Xuanzang of the Tang Dynasty had covered to rewind Noah's founding journey once more. It is clear to us that this is a journey of exploration and refinements for the brave. It is also a tough growing process in which both the team and individuals need to work hard and challenge ourselves.

Noah's staff and clients spent two days walking 66 kilometers in the Gobi Desert, resembling Noah's determination to start a new undertaking. That journey represented One promising company with endless future having united One group of hard workers in order to pursue One new dream from One new beginning. During the challenging journey to the Gobi Desert, everybody deeply understood the spirit of Gobi. It didn't matter where we came from or how strong we were, but that we were all determined to challenge everything and win victory, and take action to go all out and work hard.

At the recap camp meeting on the Gobi journey, the four founders of Noah -- myself, Yin Zhe, Wei Yan, and Zhang Xinjun -- decided to let go of our titles as founders, and reinvent ourselves collectively by being elected again.

Today, we have also announced a share buyback plan approved by the Board of Directors. Based on our confidence in the Company's development and long-term value, we have been granted permission to install a 2-year maximum USD100 million share buyback plan. We thank the shareholders for your patience and support.

Now, let's welcome our CFO Grant Pan to present the third quarter financial results.

Grant Pan: Thank you, Chairlady, and thank you, Sonia, for translating. Hello, everyone. We are very excited to share with you the strong financial results for the third quarter of 2020, marking a very successful transformation arising from resumed client trust and confidence of the economic outlook. We are also very happy to report that we are ahead of the schedule to deliver the full year non-GAAP net income guidance amidst a very volatile and challenging environment this year.

Net revenues for the third quarter of 2020 were RMB859 million, up 2% year-over-year and 15% quarter-over-quarter. Non-GAAP net income for the quarter was RMB301 million, marking a total year-to-date non-GAAP net income of 2020 of RMB864.2 million, achieving 96% of full

year guidance.

By revenue contribution, we achieved one-time commission revenue in the amount of RMB194.8 million, compared with RMB150 million in the same quarter last year, up almost 30% and 53.5% quarter-over-quarter. Considering this growth is achieved with very little contribution from overseas insurance due to the Covid-19 situation, we are very happy to see the full recovery of our capability of providing the right products to our clients.

As mentioned by Chairlady Wang, what's truly encouraging for us is to see the record number of active clients reaching 20,509 this quarter, up 105.9% year-over-year and almost 40% quarter-over-quarter. The growth was fueled by increased activities in both the conventional products and mutual funds distributions. We believe this indicates a restored client confidence, and a sign of resumed rapid business growth.

Total transaction value of the financial products we distributed during this quarter was RMB28.8 billion, an increase of 122% from a year ago, among which RMB20.8 billion were public securities products or standardized products, also a record high for this category since listing. After five quarters of transformation, public securities product has fully replaced non-standardized single counterparty credit funds and became the number one one-time commission contributor.

At the same time, PE products, Noah's specialty, also had good distribution momentum, and recorded RMB7.2 billion, a 107.7% increase, supported by leading GPs' products, as well as Gopher's own PE secondary fund that recorded RMB1.5 billion of fund raising.

The recurring service fees in the third quarter were RMB560 million, up 8% year-over-year and 18% quarter-over-quarter, contributing to 65.2% of total revenues. The growth of our accumulated distributed products, as well as the high quality of our assets under management, continue to provide strong revenue streams. Another key attribute of the growth was back-ended management fees arising from accelerated redemption of the credit products.

Total performance-based income for the third quarter of 2020 was RMB70.5 million compared to RMB42.4 million for the same period last year, up 66% year-over-year. The main drivers for strong performance-based income were private equity products, as well as private securities funds we placed for our clients, demonstrating our increasing capabilities in product selection and also investment.

Operating profit for this quarter was RMB347.2 million, up 48.2% year-over-year and 8.7% quarter-over-quarter. Operating margin stood at 40.4%, even with decreased government subsidies. Total compensation cost was down by 8.2% year-over-year this quarter, but up by 9.6% quarter-over-quarter due to relationship manager commissions arising from increased distribution value, as well as continued recruitment of senior executives and relationship managers.

By segment, net revenues from the wealth management business were RMB627.7 million, up 15.7% and 15.6% quarter-over-quarter, which contributed to over 73% of total net revenues. And the net revenues from the asset management business amounted to RMB222.4 million, down 7.5% year-over-year, but up 22.4% quarter-over-quarter.

Our lending and other business continued to contract, as we are now in the process of restructuring that segment to form a digital and technology-powered wealth management ecosystem with new channels, new platforms and new products, including the new comprehensive services, called Noah Digital Intelligence, on the backdrop of the evolving regulation as well as industry digitalization.

On the balance sheet side, as of September 30, 2020, the Company had RMB4.6 billion in cash and cash equivalents, improved from RMB4.2 billion in the last quarter. We continue to maintain a healthy financial position with no interest-bearing debt on our book. And our healthy cash flows also allow us to announce a 2-year up to USD100 million share buyback plan today, which reflects our continued confidence in our business and China's wealth management and asset management industries in the future.

As Chairlady mentioned, we just celebrated our 10th listing anniversary on New York Stock Exchange. And we believe this quarter's strong performance marked just the beginning of the next exciting chapter for Noah. I am very proud that, as a firm, we have demonstrated resilience when facing such a major strategy shift and a huge environment pressure of 2020 by continuously delivering strong financial results quarter-by-quarter in all key metrics, including top line net revenues, bottom line, distribution values as well as the number of active clients.

Looking ahead, as a member of management team, on top of the continuously managing healthy profit margin and cash flows, I am also dedicated to investments in areas where we can develop our strategic capabilities for the long term, especially in technology, in enhancing client experience as well as strategic investments, which will help our client-centric digitalization of our operations and growth targets.

Now we open the floor for questions. Thank you.

## **Questions and Answers**

Operator: (Operator Instructions). Ethan Wang with CLSA.

Ethan Wang: I have two questions. The first is on your full year guidance. I am wondering if your full year guidance is too conservative because based on your first three quarters' results, it seems like you can slightly increase your full year guidance. If we can reasonably expect a YoY growth from our fourth quarter revenue, then guidance should also be higher. How do you think about that? That's my first question.

My second question is on regulations, and there are two parts: Can we get an update on the latest development of the mutual fund advisory license? My second question is on your internet deposits imitative because the regulators have recently tightened their grip on this particular area. Will this affect your business down the road, and what's our latest trend for the deposit business?

Grant Pan: Hi, Ethan. Can you repeat the last half of your question about the internet deposit?

Ethan Wang: Sure. It seems that regulators have recently tightened on internet deposit, PBOC and financial regulators have stated irregularities in this area pending further regulations. Would this affect your business because previously, we were planning to distribute products by going through this system. Does changing regulator landscape affect your plan?

Grant Pan: Thank you for your question. I'll take the first question and Chairlady Wang will address the second.

For the first question, I believe when we gave the full year financial guidance at the beginning of the year, the outlook for 2020 was quite uncertain. We believe that we made a reasonable, not overly conservative guidance I believe at that time, it was still challenging looking at the road ahead of us, especially knowing that the Hong Kong border wouldn't open soon. As a result, we would be missing a significant revenue source from overseas insurance. We don't believe that the target was set too overly conservative, and were very lucky to see a very strong financial performance in the third quarter. However, we remain in line with our full year guidance.

As you know, in the wealth management industry, we do experience seasonality in the fourth quarter because it's holiday season, as well as the fund uses for institutions. As a result, we still aim to remain maintain the initial guidance, although we're very confident that we'll be close to reaching or slightly exceeding our annual guidance.

Operator: Daphne Poon.

Daphne Poon: Firstly, congratulations on the strong results. I have three questions. The first question is regarding your Gopher management fee. We saw that the management fee has been increasing consistently in the past few quarters. In the latest quarter, by our calculation, it's about 92 basis points. Are there any particular drivers behind that trend? Does the management sees this as a sustainable trend?

The second question is also regarding Gopher. We noted that the AUM growth from Gopher has been a bit muted in the past few quarters. I am wondering what's the reason behind, and what's the outlook there? Furthermore, could the management share the outlook on the overall Gopher AUM, like when you expect for a turnaround? Would that occur sometime next year?

Lastly, is there any update on the Camsing incident in terms of your client acceptance of the settlement scheme so far?

Grant Pan: Daphne, I am going to answer your question on the Gopher management fee. Firstly, it will keep going up once we have d higher concentration in private equity, as PE products have higher management fee than the credit products, which have little recurring management fee.

The second driver behind your suggested increasing trend has little to do with the continued exit of the credit products that have back-ended management fees. We expect the increasing concentration in PE products to continually bringing in healthy management fee flow.

In terms of the Camsing update, we have, as of November 13, the first batch signing day for the settlement plan, we have two batch dates. As of the first batch day, we have signed 215 contracts with our clients, and as of yesterday, 240 clients, so nearly one-third of the affected clients,

almost 30% of the total amount outstanding. As a result, about RMB1 billion and 215 in number of holders. The second batch signing will commence at the end of the year, which will be the end of the settlement plan. We expect the total number of Camsing clients accepting the settlement to be around 50% to 60% of total affected clients by conservative estimate.

Daphne Poon: Is the estimate of 50% to 60% for second batch or total number of affected clients?

Grant Pan: It refers to the total number of clients. Usually, the settlement dollar amount also coincides with the percentage of clients accepting the settlements, about 50% to 60% acceptance rate, and 50% to 60% of the total settlement plan dollar value. That figure is on the conservative side. If we are being optimistic, I think it's probably in the range of 70% to 80%. We'll see how the settlement plan signing process unfolds.

Daphne Poon: Okay. Got it. Thank you.

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

Grant Pan: Thank you to our shareholders and analysts. We are very excited to deliver these results for you. And we'll have one-on-one calls afterward to discuss our 3Q results in more details. See you in a bit.

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