

**Noah Holdings Limited [Noah]  
Q3 2022 Earnings Release Conference Call  
November 22, 2022, 8:00 AM ET.**

Company Representatives

Ms. Jingbo Wang, Co-Founder, Chief Executive Officer

Mr. Qing Pan, Group Chief Financial Officer

Ms. Sonia Han, Head of IR

Analysts

Chi Yao Huang, Morgan Stanley

Han Yu, CICC

Ms. Han: Hello dear investors and analysts, and welcome to the Noah Holdings Third Quarter 2022 Earnings Conference Call. Please note your line has been automatically muted and this event is being recorded.

The Company management team will first give a quarterly update presentation. After today's presentation, there will be an opportunity to ask questions. Please use the raise hand function in zoom during the Q&A session, when selected, you can then turn on the microphone to ask a question, and please mute yourself after the question. Thank you. I would now like to turn the conference over to Ms. Jingbo Wang, chairperson and CEO of Noah Holdings. Please go ahead.

**Ms. Wang speaking in Mandarin (as translated)**

On the agenda of today's teleconference, I will first share my views on the macro market, and then introduce Noah's overall performance in the third quarter of 2022, the development of several business sectors, and our overall strategy. Next, let's invite Pan Qing to introduce quarterly financial information, then conclude with an interactive Q&A.

First of all, I would like to report to you that we have received the acknowledgement from the Hong Kong Stock Exchange regarding our voluntary application for a conversion to dual-primary listing in Hong Kong. We thank the recognition from the Stock Exchange. Before the New Year of 2023, Noah will become a dual-primary listed company both in the United States and Hong Kong. Although the compliance requirements of the two jurisdictions are stricter, Noah has also completely resolved the ADR delisting risk.

The third quarter of 2022 is a difficult quarter we have experienced, with the Federal Reserve raising interest rates significantly and the global secondary market continuing to fluctuate; the prevention and control policy of COVID in China has continued to cause lockdowns in different cities across the country, bringing huge challenges to business operations, and our client's investment sentiment continued to be low. With the increasingly fierce competition between China and the United States, as well as the Russia-

Ukraine war, investors' willingness to invest fell to the freezing point in the third quarter. The most urgent demand of clients is to protect the security and liquidity of the investable assets of their own and family's.

The increase of global uncertainty superimposed many external risks, making us feel that the period of strategic opportunities for peaceful development has turned into a wartime state. In times of crisis, how to increase the frequency of contact with clients, increase the clients' wallet shares under management, and protect client assets are the key points of our thinking and action. At such a moment, Noah's management needs to be aware of the market situation and make decisions decisively. The execution team needs to implement efficiently, respond quickly and reconfigure resources quickly to ensure Noah's future survival and development and keep it in a healthy state.

We believe the current macro situation presents not only challenges but also opportunities. The global asset allocation of China's high net worth clients will become a major trend in the future. The end of industrial globalization is exactly the beginning of China's capital globalization. The wealth management needs of overseas Chinese speaking client group are ignored, or at least have not been fully met, and need to be served by financial institutions familiar with their needs. The change of client demand is the core driving force for Noah's international development, and also the key development direction of Noah now and for the future.

In the third quarter of 2022, Noah realized net revenues of RMB680 million, and a non-GAAP net income attributable to shareholders of RMB190 million, both decreased both YoY and QoQ.

As of September 30, the accumulated non-GAAP net income of 2022 has reached RMB860 million, reaching 59.3% of the annual guidance, which is behind the schedule.

In terms of core business data, the transaction value in the third quarter was RMB17.97 billion yuan, down 25.3% YoY and 7.0% QoQ. To achieve such result in this difficult environment makes us feel that the trust of our clients has not come easily. Thank clients for their willingness to continue to put their wallet shares in Noah. In this quarter, the transaction value of mutual funds increased by 30.3% YoY, down 4.4% QoQ. The transaction value of private secondary funds also picked up slightly, to RMB3.33 billion, up 38.9% QoQ. The transaction value of private equity was RMB2.49 billion, down both YoY and QoQ.

In the third quarter, Noah's total number of active clients reached 22,641, up 6.5% YoY and 76.0% QoQ. Among them, the number of overseas active clients was close to 1,400, an increase of 84% QoQ. High net worth and ultra-high net worth clients are Noah's core client base, and diamond and black card clients have been growing steadily. By September 30, 2022, Noah had 7,653 diamond clients, up 17.4% YoY; the number of black card clients reached 2,129, up 39.4% YoY. Noah continued to increase the frequency of contact with clients, as well as to recover those lost clients in the process of

exiting private credit funds and real estate funds. As of November 17, 1,014 lost clients had been recovered this year.

It is worth mentioning that our independently developed Smile Treasury Platform focusing on institutional cash flow management was launched in December 2021. By the end of the third quarter, the number of institutional clients who opened accounts and transacted with Smile Treasury had reached 3,237, an increase of 224.3% QoQ. The cash flow management of the real economy, micro businesses and small to medium sized enterprises has not been systematically served in the past. We focus on enhancing the balance and accessibility of wealth management products and services at institutional level, providing dedicated and optimized asset allocation solutions, as well as building a full life cycle and full spectrum wealth management product service system. We will continue to deepen and expand this field, and believe that we can continuously improve the sense of gain, happiness and security of the vast real economy and small and micro enterprises.

In the third quarter of 2022, Noah accelerated the pace of international business development to adapt to clients' global asset allocation needs. In Hong Kong and Singapore, we set up a direct sales team for international wealth management. The international business revenue in the third quarter rose 21.5% QoQ, and its share in net revenues rose to 28.3% from 21.6% in the previous quarter. I believe that Noah's International operations will contribute more revenues to the Group in the near future.

As of September 30, 2022, Gopher's AUM was RMB 156.2 billion, an increase of 0.5% over the end of the second quarter. Among which, private equity increased to RMB132.8 billion yuan; public securities were affected by the fluctuation of NAV, falling from RMB10.7 billion in the previous quarter to 10.2 billion. In terms of real estate funds, our actively managed US rental apartment real estate funds increased from RMB6.2 billion in the last quarter to 6.7 billion. In the primary market, the AUM of Gopher S Fund has also made achievements, with a YoY growth of RMB1.33 billion, to exceed RMB8 billion yuan.

Gopher's overseas AUM rose 7.1% YoY and 3.1% QoQ, and reached RMB30.5 billion yuan. Private equity, public securities and real estate all maintained the growth trend, and achieved a QoQ growth of 1.0%, 4.5% and 30.3% respectively. We maintain good growth expectations on our overseas AUM.

Gopher's wealth “stabilizer” product, Target Strategy, continued to outperform China Securities Index 800 and Shanghai Shenzhen CSI300 significantly in the third quarter, across all stable, balanced and positive strategies. As of November 11, 2022, returns were -1.19%, -6.69% and -9.33% respectively in 2022, while those of CSI 300 and CSI 800 in the same period were -23.32% and -21.66% respectively. The maximum drawdowns of the three strategies since their establishment were - 3.24%, - 10.57%, and - 13.74% respectively, compared with - 33.45% of CSI 300 and - 29.09% of CSI 800 in the same period. It shows that Target Strategy has continuously played a role in stabilizing clients' portfolio amid market fluctuation.

At the beginning of 2022, Noah established a new process to serve high net worth and corporate clients. Based on the macro asset allocation house view of the Chief Investment Office, the client strategy and cross product line solutions of the Chief Strategy Office, combined with the Investment Products and Services Office, Noah provides flexible adjustment and screens out four levels of client asset allocation solutions, including the highest priority/protection and inheritance solution, stabilization solution, liquidity management solution and growth solution. In this extremely uncertain market in 2022, we could say that we have achieved good results and been recognized by clients. We believe that excellent wealth management and asset management companies will make full preparations for the next bull market in a bear market.

After the successful listing of Noah Holdings in Hong Kong, it needs to meet the requirements of both the Securities and Exchange Commission of the United States and the Hong Kong Stock Exchange, and specify the carbon neutral strategy of the Group in the TCFD framework, aka the guideline Recommendations of the Task Force on Climate-related Financial Disclosures. We have launched relevant plans to improve the Group's climate risk management policy, planned to set up a TCFD team for risk control, and completed the relevant climate information disclosure report. The Sustainable Development Committee of the Group incorporates climate risk into the investment management process framework, and regularly submits reports to the Board of Directors. At the same time, we are gradually promoting the inclusion of climate factor assessment in the investment process, and working with the technology team to build a calculation model for carbon footprint of investment portfolio. Sustainable development is our tenet.

Although we have encountered great challenges in the macro perspective, Noah adheres to the core values of "client-centric and survival as the bottom line", and the Company has maintained a healthy state of existence. The organizational change promoted by Noah in the past three years has also highlighted the value this year.

The optimization of the client service model of the relationship manager end, from a single relationship manager to the "Noah Triangle" model, makes the development of our international wealth management possible. On the client development side, through the reform of Leads to Cash, under the difficult market situation this year, we have made hard won achievements in the treasury management business of small to medium-sized enterprises, both in terms of the number of clients and AUA.

Psychologist Abraham Maslow once said: " In any given moment, we have two choices: step forward into growth or step backward into safety." It may be too grand to think about the destiny of the country, but based on ourselves, for market participants and individuals, even in difficult situations, we still believe that to gather together the power of each Noah employee, we can seize the opportunity in the challenge, expand and strengthen our international business, maintain the leading position in China, and achieve our value of professionalism and empathy.

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

**Mr. Pan:**

Thank you Chairlady, hello dear investors and analysts.

First please allow me to share with you some good news - Following our successful secondary listing in Hong Kong in July, On October 19, we received the acknowledgment from the Hong Kong Stock Exchange in respect of our application of voluntary conversion to dual-primary listing in Hong Kong. The effective date on which the Primary Conversion is expected to be before December 31, 2022. With the successful conversion, we will be dual-primary listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, which removes our ADR delisting risk because HK shares and ADRs are fully fungible. We also hope to be able to join the Stock Connect link in the future which will allow investors from the Chinese stock market be our shareholders.

We are mindful that following the impact from continued geopolitical conflicts in the second quarter, the macro environment in the third quarter continued to be highly challenging. The United States Federal Reserve raised rates twice in the third quarter (July 27 and September 21), each time by 75bps, following its rate hikes in March (25bps), May (50bps) and June (75bps), followed by another 75bps on November 3, that means a cumulative 375bps in 2022, the highest level in 14 years. In China, lockdown measures that came with covid-zero policy was not alleviated as many had originally anticipated, further affected investors sentiment, especially towards making investment decisions in large sums and in equity market products. This is evidenced by the drop of mutual fund NAV of 0.7% (or by RMB201 billion) in the quarter and also the declining of revenue from fund distributions across the industry.

Now please let me walk you through more detailed results of the third quarter.

As a result of the challenging market environment and dampened investor sentiment, total transaction value decreased to RMB18.0 billion, down 25.3% YoY and 7.0% QoQ. The transaction value of private equity declined by 34.4% YoY and 36.5% QoQ to RMB2.5 billion.

Noticeably, the transaction value of private secondary products saw a significant increase of 38.9% QoQ to RMB3.3 billion, representing a short rebound but still down 68.5% YoY.

Moreover, the transaction value of mutual fund products was RMB11.7 billion, up 30.3% YoY and down 4.4% QoQ.

Total number of active clients for the quarter was 22,641, a 6.5% increase YoY, and a 76.0% increase QoQ. Benefiting from continued strategic investments in our core client group, diamond and black card clients grew to 9,782, up 14.3% QoQ and 21.6% YoY, among which, the number of black card clients and diamond card clients increased by 39.4% and 17.4% YoY respectively, thanks to the operation enhancements of a more targeted client segmentation strategy and resumed client events. Our client-centric philosophy will continue to be a key strategy in the long run.

It is also worth mentioning that through our self-developed customized treasury platform Smile Treasury, which was launched in December 2021, the number of institutional clients boomed to 2,522 as the end of the third quarter, more than doubled from the end of the last quarter. We believe there remains a large treasury management market potential for these under-served small to medium-sized enterprises, and we will keep developing this segment with our comprehensive product line and well-established service network.

As a result of slower placement in equity market products, we have seen perhaps the slowest quarter in recent years. Non-GAAP net income was RMB190.9 million for the quarter, down 32.8% YoY and 46.2% QoQ. As of September 30, 2022, it was RMB860 million, representing 59.3% of our full-year Non-GAAP net income guidance floor.

Income from operations for the quarter was RMB231.8 million, a 1.3% growth YoY due to our tighter expense control policy; but a 28.3% decrease QoQ, due to a 7.3% decrease in net revenue and an 8.1% increase in operating costs and expenses as less expenses were incurred in the second quarter of 2022 due to the unprecedented COVID lockdown in Shanghai.

Consequently, the operating margin was 33.9%, up 8.7% YoY and down 9.9% QoQ.

We expect to see continued challenges from the FED rate hikes, sporadic lockdowns in China due to its prolonged COVID-zero policy, as well as volatile public market. Considering the impact of these factors on clients' investment sentiments, the Company revised its estimated non-GAAP net income attributable to Noah shareholders for the full year 2022 from a range of RMB1.45 billion to RMB1.55 billion as previously published, to a range of RMB1.0 billion to RMB1.1 billion.

In addition, to comply with the applicable requirements under the Hong Kong Listing Rules and be in line with the general market practice for companies with primary listings in both the United States and Hong Kong, we will no longer publish this annual forecast after the conversion to a dual-primary listing in Hong Kong, starting from our results announcement next quarter.

As a result of lower transaction value, net revenues for the third quarter were RMB684.5 million, down 24.7% YoY and 7.3% QoQ. One-time commissions fell to RMB99.9 million, down 53.6% YoY and 51.7% QoQ. Recurring service fees were fairly stable, with RMB489.6 million, up 6.7% QoQ but still down 13.6% YoY affected by NAV movements of private secondary products. Performance-based income grew to RMB27.6 million, up 6.8% QoQ but down 66.4% YoY, while net revenues from other service fees continued to grow to RMB67.3 million, an 50.5% increase YoY and a 45.2% increase QoQ, mainly due to more value-added services Noah offers to our high net worth clients.

As for our segmented results, net revenues from the wealth management segment were RMB465.9 million, down 28.7% YoY and down 8.4% QoQ, due to a decrease in

transaction value during the quarter. Net revenues from the asset management segment were RMB200.3 million, down 17.0% YoY and down 4.8% QoQ.

Gopher's AUM stayed relatively stable at RMB156.2 billion as of September 30, 2022, slightly higher than RMB155.4 billion at the end of the second quarter.

Moving on to the balance sheet, we remain in a healthy liquidity position as our current ratio stood at 3.7 times. The debt to asset ratio was 17.9%, still with no interest-bearing debt on our book. By the end of the third quarter, we had RMB4.3 billion in cash. Supported by a strong balance sheet, we expect to announce our dividend payout ratio in the second quarter of 2023.

In light of the current volatilities in the public market, Noah CIO Office reiterated the house view of domestic-international Dual Circulation and suggests our clients to balance their portfolio accordingly. We have implemented stricter cost control measures internally while committing to further develop our international operations. Noah will for the first time host a global black card gala event in Singapore next month, together with diamond client events in various cities in China, hoping to better understand clients' domestic and international asset allocation needs.

Again we thank all shareholders and analysts for your ongoing trust and support. Thank you everyone for listening, I will now open the floor for questions.

## **Questions and Answers**

Ms. Han: Thank you grant. Dear investors and analysts, you can now use the raise hand function in zoom during the Q&A session. When selected, you can turn on the microphone to ask a question, and please mute yourself after the question. Thank you. Now the first question comes from Chiyao from Morgan Stanley.

Chiyao Huang: Good morning, management. Thank you for the opportunity to let me ask a question. I have two questions. The first one is that I saw a very strong growth in the number of diamond and black card clients in the third quarter QoQ. Especially in such a challenging market environment, what are the main driving factors behind this? The second one is about the overseas strategy. I want to ask whether the company has analyzed existing clients and their wallet shares of domestic and overseas assets. What is our current share, what is the potential, and what are the driving forces needed to continuously improve the wallet shares of these overseas assets in the future?

Qing Pan: I will take the first question, and the Chairlady will comment on your second question.

The first question, we actually installed the diamond black card client strategic program. We actually strategic budget side to side that program has been running for over two years. This is the third year actually, the group that's running this project has obviously

gained more experiences and also the programs we have increased more client-centric, especially incentives for our RM to actually bring in high potential client with more accurate KYC programs, as well as importantly that supported by the budget they are able to host those mini diamond clients by our client conferences. It will locally and be able to increase the interaction frequency with the potential clients. And another measurement that has been very effective is the MGM program that we have installed in place that basically encourages our black card and diamond clients to bring in their circle of friends to participate. Actually most of them are now marketing events that to help them getting more familiar with NOAH as well as the trust towards the brand name, which also is one of the strategic program investments this year for the branding.

So I guess it's a comprehensive set of factors, but I think more importantly is that the culture of the organization have been improved greatly over the last 3 years when we are implementing client-centric policy from the top to the frontline. Everybody is more client-centric service oriented. I think that's probably one of the very important reasons.

Ms. Wang (as translated): I would also like to add that, first of all, from the end of last year to the beginning of this year, our CIO report proposed "Protection over Growth" to our clients. In fact, this year you can see that the global private banks, especially the Mandarin speaking Chinese customers, still have very serious losses in real estate. However, due to the market environment Noah had encountered in the past few years, our AUM of Chinese real estate developers' high yield bonds is almost zero. In the past two years, our client satisfaction is very high, and many clients who left in the past have returned. I think one is that our CIO's view is relatively correct, protection before growth. The other is that from last year to this year, our clients actually benefited from our strategy recommendations, so we regained their trust. In terms of overseas strategy and overseas driving factors, Noah set up an office in Hong Kong since 2012. Our clients are mainly entrepreneurs and small and medium-sized business owners. Especially clients from the import and export, foreign trade industries.

So we have also laid some foundation in the past 10 years. The total number of overseas clients we have served is over 10,000. In the past, we have done relatively long-term private equity products, and the AUM in the United States is still relatively large. These clients have generally enjoyed our entire service, and they think our service is very stable. We have set up trust service very early.

I think the first core driving factor is that Noah did not have a direct sales team overseas in the past. We are more product experts and investment consultants. Since the second and third quarters of this year, we have set up direct sales teams in Hong Kong and Singapore, and then we have come to cultivate our existing customers. I think the effect is quite obvious. Of course, there is also a point because the Federal Reserve raised interest rates this year, so a relatively simple product like fixed deposit is actually preferred by Chinese clients, so there will also be some growth. In terms of the growth of overseas AUM, we are still optimistic about the future.

Yao Chi: Thank you very much. That's very helpful.

Qing Pan: Thank you, we'll take another question.

Sonia Han: The second question comes from Han Yu from CICC.

Han Yu: My first question is regarding to relationship managers. The number of relationship manager has achieved slightly growth quarter on quarter. I just wondering the future recruitments, plan of relationship managers. And my second question is regarding to overseas business, in the third quarter of 2022, overseas revenue contribution increased to 28%. And management please introduce to us overseas business expansion strategy. Thanks.

Ms. Wang (as translated): I think that at the relationship managers' end, we are mainly going to upgrade the team. Although the market is not good, there is a lot of talents available. We mainly hope to improve the quality. At the expansion end, we will pay more attention to the expansion of relationship managers overseas. We have also made some plans, including in Hong Kong, Singapore and the United States. We will build direct sales teams. I think this is an important core key point for the development of overseas businesses.

In terms of overseas business, I think it is similar to our domestic practice. First, we must expand Gopher asset management. Our AUM is also from fund of fund to follow-up investment to direct investment, as well as expanding our product line. Second, we have also launched iNoah. Some analysts may have seen that our main positioning is to enable clients to have more product categories on our platform, and to place orders online comprehensively. Then we will expand overseas mutual fund business.

In addition, we also talked about the development of institutional clients, those small institutions using Smile Treasury. This year, we have achieved fruitful results, reaching more than 3,000 clients. We also have some statistics: Many of these clients have dollars, because they are very prominent in the foreign trade industry. I hope we can also help them manage their US dollar deposits on the premise that the overseas US dollar interest rate is relatively high.

The third is the direction of insurance inheritance and value-added services, which we attach great importance to both domestically and internationally. The current clients' demand for insurance, trust planning and identity planning is very strong, so we are also trying to expand our team to be able to undertake such services.

To sum up, these points are international. One is to establish our offline wealth management team overseas, the second is to optimize our online ordering process, and the third is to expand our product line to make our overseas product line more complete.

Han Yu (CICC): Thank you, very clear.

Ms. Han: Dear investors and analysts, you can now use the raise hand function. When

selected, you can turn on the microphone to ask a question, and please mute yourself after the question, thank you. If there are no further questions, then the conference is now concluded. Thank you all for participating, have a nice day or a nice evening. Thank you.