NOAH HOLDINGS 4Q 2019 EARNINGS CALL EDITED TRANSCRIPT
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OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited Fourth Quarter 2019 Financial Results Conference Call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be a Q&A session. During the Q&A session we ask that you please limit yourselves to two questions and one follow-up. If you would like to ask additional questions, you may re-enter the queue to do so. As a reminder, this conference is being recorded. After the US market closed on Wednesday, Noah issued a press release announcing its Fourth Quarter 2019 Financial Results which is available on the company's IR website at http://ir.noahgroup.com. This call is also being webcast live and will be available for replay purposes on the company's website.

I would like to call your attention to the Safe Harbor statements in connection with today's call. The company will make forward-looking statements including those with respect to expected future operating results and expansion of its business. Please refer to the risk factors inherent in the company's business and that have been filed with the SEC. Actual results may be materially different from any forward-looking statements the company makes today. Noah Holdings Limited does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise except as required under the applicable law. The results announced today are unaudited and subject to adjustments in connection with the completion of the company's audit. Additionally, certain non-GAAP measures will be used in our financial discussion. A reconciliation of GAAP and non-GAAP financial results can be found in the earnings press release posted on the company's website.

Today, the call will be hosted by Ms. Wang Jingbo, Chairlady and CEO and Grant Pan, Group CFO. With that, I would now like to hand the call over to Ms. Wang Jingbo.

[Jingbo Wang – Noah Holdings Co-founder, Chairlady & CEO] (speaks in Chinese)

(Translated) For today's agenda, I will first share my views on the macroeconomy, and then briefly summarize Noah's overall performance for the full-year 2019, the development of our business segments, and the gains and challenges during our transformation. Our CFO, Grant Pan, will follow with a detailed discussion of Noah's full-year and quarterly financial performance. We will conclude the call with questions and answer session.

The past 2019 was a tough year for Noah, where the Camsing incident has tested the bottom line of our business ethics and operations. We didn't expect that 2020 poses an even bigger challenge, or a more ultimate challenge, which tests our attitude as humanity when facing a crisis that's threatening our lives.

At this point, I am very grateful for having experienced the Camsing incident in 2019, which has become a gift with a profound influence on Noah's strategic decisions. Because of the Camsing incident, Noah's management team reflected on how we started. Through listening to the voices of our employees and clients to understand their real demands, we are thinking more about the Company's vision and business plan for the next 5 to10 years. Therefore, we are able to reach a clearer consensus on what we should persist in our core strategy for the long run and what we should abandon immediately. Starting from the second half of 2019, we determined to terminate single counterparty non-standardized private credit assets and fully entered the field of standardized products. Concurrently, we shifted our operations from offline to online. Such initiatives and efforts have fully prepared us to confront the difficult situation in 2020, when containment measures such as mandate travel restrictions and long-time telecommuting deployed to combat the sudden breakout of the global Covid-19 epidemic.

Next, I will go over Noah's 2019 performance.

In 2019, net revenues for the full year reached RMB3.39 billion, up 3.1% year over year; Non-GAAP net income attributable to shareholders reached RMB1.04 billion, up 2.7% year over year. In terms of core operational results, the transaction value of financial products for the wealth management segment was RMB78.5 billion. The AUM of our asset management segment continued to grow, reaching RMB170.2 billion, among which private equity investments reached RMB104.9 billion.

We distributed RMB26.4 billion of standardized products for the full year, up 93.9% year over year. After we stop offering single counterparty non-standardized private credit products, the transaction value of standardized products in the fourth quarter was close to RMB10 billion, representing a significant increase of 580.8% year over year and 30.4% quarter over quarter.

We continued to optimize and upgrade Noah's mutual funds app, Fund Smile. In 2019, the transaction value of mutual funds increased to RMB16.4 billion, setting a new distribution record for a single year and a single quarter. Considering the internal and external challenges we faced, we are satisfied about such achievements in 2019.

During the Covid-19 epidemic this year, transaction value of standardized products maintained an encouraging growth momentum. It demonstrates the initial success of Noah's paradigm shift on the product front. We will scale up investment to consistently refine IT systems and operational processes, so as to continuously optimize clients' experience.

Meanwhile, we have launched a new relationship manager compensation scheme that emphasizes on AUM-based compensation, with an adjusted incentive plan to align the interests of relationship managers, Noah, and clients. We believe such adjustment forms a win-win situation, enhancing client stickiness and relationship managers' loyalty to the Company.

In 2019, Noah's high-net-worth client base continued to expand, with over 35,000 active clients for the year, up 27.7% year over year, which included mutual funds' clients. The number of ultra-high-net-worth clients, black card members, with per capita assets under our management of over RMB90 million, also continued to increase, up 14.7% year over year for 2019. On the wealth management segment, we have established a VIP Center to serve super clients and continuously improve the conversion rate of black card clients.

Thanks to the strategic transition to standardized products, almost all of our business has shifted from offline to online. During the Covid-19 epidemic, 100% of orders placement by our clients are made online. With the development of our online business, in addition to AUM, we have also studied Noah's clients by their behavior patterns and divided them into three categories: discretionary portfolio management, specific product-driven and self-service transactions. We can see that the numbers of all three types of clients have increased.

For our overseas segment, net revenues increased by 25.4% to nearly RMB1 billion, accounting for 27.9% of the Group's total revenues as compared with 22.9% in 2018. AUM reached RMB24.8 billion in 2019, accounting for 14.6% of the Group's total AUM, remaining flat compared with 2018.

With Noah's increasingly comprehensive service offerings, we are strengthening connections with our clients globally with in-depth understandings of their intrinsic and long-term wealth management demands.

By the end of 2019, Gopher's AUM reached RMB170.2 billion, among which, our voluntary decision to cease offering single counterparty non-standardized private credit products caused a net decrease of RMB10 billion in AUM. Other actively managed funds have achieved different levels of growth in AUM. Specifically, AUM of standardized products represented by the public securities products increased by 50.3% year over year, and the AUM of our multi-strategy funds increased by 31.0% year over year. We also achieved solid AUM growth in our conventional products, real estate and private equity.

For public securities products, Gopher focuses on large asset allocation, and pursues low volatility and absolute return, which are high net worth clients' rigid demand. In 2019, the investment return of Gopher public securities flagship FOF and MOM fund was up by over 15%. Our quantitative FOF realized a 34.8% return with a low volatility of 3.8%.

Among Gopher's multi-strategy funds, the Smart Beta index enhanced strategy-Rayliant quantitative strategy fund has generated a return of 30.1% in 2019. Since its launch, this product has generated excess returns for 82% of its clients. All these performances reflect Gopher's continuously strengthened investment and management capabilities in the field of public securities products.

At the same time, I would like to clarify that our high-net-worth clients still have strong demand for our VC/PE and real estate products, which are also our featured products that traditionally had strong performances. We have built a stellar brand image in the market. Our product strategy shift to standardized products does not represent giving up our advantages in these product categories. We will continue to optimize and deepen our operation in this area to enhance our advantages. Specifically, we will keep enhancing our brand and influence through collaborations with the best alternative investment managers, and working with the best alternative investment team in the United States to strengthen our globalization approach.

In terms of operational efficiency, total operating expenses in 2019 were RMB2.48 billion, up 4.8% year over year. Non-GAAP net profit margin was 30.6%, which included one-off expenses of RMB163 million as a result of Camsing-related legal expenses. If, excluding these one-off expenses, the net profit margin would have been 35.4%, showcasing great improvement in management efficiency. It reflects the efforts made by the management in streamlining our operations.

Noah always believes that talents and professionals are the most precious wealth of the Company and has been screening elite relationship managers. Our elite relationship managers contributed to most of our revenue generation capacity, while their turnover rate was only 4.1% in 2019, down 0.5 percentage points compared with 2018. We will continue to strengthen the professional [capacities] of our relationship manager team and provide excellent investment advisory services to clients.

The goal of our transformation and new positioning is to be a platform company that provides comprehensive financial services to clients. With our advantage of serving high-net-worth clients, we are expanding our reach to a broader client base through the Internet. Both our products and channels are open to our partners. Apart from Noah's direct sales teams, opening channels is one of our core future strategies. We are continuously enhancing our internal resources through optimizing and recruiting relationship managers and constructing our VIP Center which serves super clients. Simultaneously, we are cooperating with banks' distribution channels and serving more independent financial advisors.

As part of its overall transformation strategy, the Company has decided to further increase its investment in IT infrastructure and online platform development. This will primarily consist of the major upgrades of the Fund Smile app, the construction of the global version of Fund Smile app and the creation of a new SaaS system for institutional channels.

In 2019, the paradigm shift in China's wealth management space was well underway. Noah was determined to leave the old track and entered a worldwide recognized new arena. We believe that the wealth management market in China is full of new opportunities. We are facing new environment, new market and new clients, as well as a refreshed market landscape and an upgraded mechanism of operation.

Most importantly, through crisis, Noah's core team has gained a more profound insight into the industry. We spent a lot of time and efforts in aligning interests of our employees and clients. We have re-positioned the core management [capacity] of Gopher Asset Management to focus on comprehensive asset allocation, pursuing products with low volatility and absolute return that are welcomed by high-net-worth clients. We expect huge market potential in this area.

At the same time, we are delighted to see that, with the illusion of implicit guarantees being broken and the reform on the financial supply side, the market has rapidly presented new client demands, which is even exceeding our expectations. On the wealth management product and client fronts, previously, we have completely stopped offering private credit products. Our transformation has just matched clients' new demands, therefore, our products received welcome reception and recognition. The transaction value of standardized products driven by clients' strong demand demonstrates promising momentum and the trend of our transformation, which further proves our strong pressure resilience and resistance.

We believe that a successful wealth management and asset management company shows four features: excellent performance, diversified products, broad distribution channels, and significant AUM scale. Not a single feature can be omitted. Noah has made many achievements in the past 15 years, the most important of which was the establishment of the product platform and direct sales channels that are open to the globe.

In the coming decade, Noah will continue to understand clients' evolving needs, pivot around client interests, and improved stability of our performance. In the meantime, we are opening up our channels to promote our products from direct sales to selling on a commission basis and to serving independent financial advisors, with the goal of constantly expanding our AUM.

The Covid-19 epidemic has pressed the pause button on normal daily operations. Faced with this unexpected situation, we are deeply aware of the importance of online operation and the role of digital [capacities] in Noah's future development. Online transaction capabilities of standardized products will be the key area of our strategic investment going forward. During the epidemic, with diverse and sufficient leading product supplies, we have fulfilled the demands of our clients. In addition, we also introduced a variety of online investor education activities to enhance client stickiness. Such online activities have covered 560,000 people, and help us enhanced interactions and relationships with our clients during the epidemic. These practices during the Covid-19 outbreak also demonstrated the resilience of our business under sudden crisis. We also remain committed to our social responsibility, and have donated cash and valuable medical equipment to Hubei Province through Shanghai Noah Foundation at the beginning of the epidemic outbreak.

Finally, I believe the Covid-19 epidemic will eventually be contained, and life will continue. We regard living as the minimum yet optimal strategy for ourselves, families and businesses. The epidemic is likely to accelerate economic recession, but Noah has already set the bottom line. We have a strong sense of crisis, and we are also firm optimists.

The Camsing incident and the Covid-19 epidemic have served as a wakeup call. We cherish the opportunities to implement fundamental changes to our work, life, and spirit. Our perception of the financial industry, our families, and our core values will all be recalibrated based on common sense and intrinsic quality. We will emphasize a family- and community-oriented, diligent, and healthy lifestyle instead of glorifying lavish entertainment.

We also aim to become real Puritan entrepreneurs to accumulate, to cut costs and to contribute as much as we can, with honesty, dignity, discipline, self-alert, fortitude, and extraordinary perseverance as our core values. These values will allow us to overcome future challenges, rise above corruption and tasteless indulgence driven by basic instinct, and restore order, reason, simplicity and faith in our way of work and style of life. We are confident that such changes will enable us to remain focused on our long-term goals instead of opportunistic tunnel-visioning and short-term results.

Having experienced this unprecedented epidemic, we are confident to become a better firm. We will reserve strength in the downturn for future development, just as we need to squat before leap forward. We are examining our mission, vision, values, and our organizational as well as human resources KPIs through the crisis. We are determined to realize the overall enhancement in our operating concept and mechanism, human resources, technology, products, and market.

In 2019, Noah entered the vast and competitive landscape of standardized products from a small market centering around alternative investments. Our rich experience in the industry, mature market relationship managers and clients, and the management's in-depth understanding and knowledge of the wealth management industry and client needs, all enable us to provide superior services to high-net-worth clients.

2020 will be a new starting point for Noah, and we are confident in our development going forward. In the meantime, we firmly believe that Noah's transformation is in line with the development trend of wealth management and asset management industry in China.

With the gradual containment of the Covid-19 epidemic in China, we can say that we have not wasted this crisis.

[Grant Pan – Noah Holdings CFO]

Thank you, Chairlady, for sharing your thoughts. And this is Grant. Dear investors and analysts, good morning.

Today we're certainly witnessing lots of turbulences in recent world economy, as well as the coronavirus pandemic. But, when we do look back, the year of 2019 already showed signs of a changing and challenging business environment that ranged from the Sino-US trade friction, the

Hong Kong situation and other geopolitical issues. On top of the external headwind, we underwent a major transformation in our product and service strategy. This last quarter, which is Quarter 3, we ceased the offering of a major product category, the single-counterparty non-standardized private credit. It's a really long name, so I'm going to refer that as SC credit going forward products, that once accounted for as high as over two thirds of the transaction values in last year.

However, as Chairlady Wang has already mentioned, we managed to deliver solid financial results for the full year and achieved our guidance for 2019, reporting a non-GAAP net income of RMB1.04 billion, up 2.7%. And net revenues reached RMB3.4 billion, up 3.1% year over year. While this growth may appear modest comparing to our previous years, but considering the obstacles and changes we had to go through and overcome to get here, Management is very happy with the Firm's resilience and determination.

Now let me take you through quickly further details of the financial results, as well as the performances for the fourth quarter.

For revenues, management fees and performance-based income, which reflect our asset management and investment capabilities, reached nearly RMB2 billion for the year, up 2.1%. Specifically, management fees increased by 3.9%.

On the other hand, we experienced pressure on the one-time commission revenue due to the discontinuation of the offering of SC products, transaction values decreased by 28% year over year to RMB78.5 billion, which led to RMB924 million commission revenue, or 9.4% lower than last year. The transaction values for the fourth quarter, however, stabilized at 13.2 billion, following 13.0 billion last quarter -- I mean, Quarter 3 in 2019. And I am also happy to share that the upward trend in the transaction values is much more obvious in the first three months of 2020. Speaking of transformation to standardized products, the amount of standardized product distributed increased by 94% year over year to RMB26.4 billion, showing a very positive sign for the client acceptance towards the new asset class.

If we do an apple-to-apple comparison, excluding the SC products for both years, the transaction values for Noah's other products reached RMB44.2 billion in 2019, increased by 28.0% from RMB34.5 billion in 2018.

In terms of earnings, for the full year of 2019, we realized non-GAAP net income to Noah shareholders of RMB1.04 billion, up 2.7%. Net margin remained flat compared to the previous year at 30.6%. But this number probably doesn't reflect a complete or real picture of the effort and the results we have achieved in increasing our operational efficiency this year.

We did incur one-off expenses of RMB163 million, or 4.8% of the total operating margin could be attributed to the legal expenses that incurred on the Camsing case, as well as allowances made on accounts receivables in [association] with Camsing. To elaborate on the real OpEx, stringent policy and smarter traveling has cut our traveling and conference costs by 15.0% year over year. And, as some of you may be aware, we commenced the consolidation and simplification of internal organizational structure, that brought down our total headcounts by 13% from year of 2018.

When it comes to the balance sheet, as a result of continuous effort to increase the turnover of our assets, the balance of accounts receivable decreased by 11% year over year. To mind you, that's on the back of increasing revenue. Our current ratio stood at 4.5, with a debt-to-asset ratio of just shy of 20%. Our net assets reached RMB7.87 billion, up 27.4% year over year, and we don't have any interest-bearing debt. I think it is fair to say that Management's consistent effort in preserving capital is one of the reasons that we are able to afford a major transformation in the middle of a year as well as to withstand rainy or even stormy days, if you will, as witnessed by today's backdrop of a worldwide uncertain economy as well as the coronavirus pandemic.

For this fourth quarter, like I have mentioned before, the transaction value has stabilized at RMB13.2 billion. But Management also acknowledges that recovery to full capacity would take some time. Besides the sheer amount, we are more delighted to see the initial sign of success in the standardized products reached just shy of 10 billion, up 580% year over year, and 30% growth quarter over quarter, which sets a record in this product category for a single-quarter transaction.

So after the transformation took place in the third quarter 2019, we had raised a total of RMB17.2 billion worth of standardized products for the second half of 2019. Affected by temporary decrease in the total transaction value, the revenues for this quarter were RMB781 million, down 5% year over year. But our revenues from one-time commissions continued to face the most pressure during the fourth quarter of 2019, recording a 33% decrease year over year. But if you compare it to the last quarter, which is third quarter, it had recovered to RMB 161 million, actually a 7% increase from the third quarter of 2019.

This quarter's revenues from recurring service fees, or management fees if you will, and performance-based income increased by 14.6% year over year to RMB530 million, driven by our long-term dedication to strengthening our asset management and investment capabilities. Recurring service fees increased by 4.5% year over year as a result of the continuous growth of AUM. It's also worth mentioning that out of the RMB58 million performance-based income this quarter, about RMB16 million out of that comes from standardized products managed by external managers. It reflects our ability to select outstanding products and create value and return for clients as a wealth and asset manager.

And in compliance with regulatory guidance, we actively reduced the lending business volume this quarter, resulting in the 16.3% year-over-year decline in other service fees.

Operating profit for the quarter was RMB120 million, comparing to RMB160 million same period last year. But again, I'd like to remind you that one-off expenses, as I mentioned before, we are recording this quarter was about RMB80 million. So, actually, excluding that we would have had operating profit of RMB200 million.

The after-tax net income for this quarter was RMB118 million. Non-GAAP net income was about the same number, RMB117 million, representing a decrease of RMB107 million year over year. In addition to the changes in net income itself, the difference also comes from non-GAAP reconciliations for the two periods that includes fair value changes in equity investments, as well as share-based compensation. That two amounts contributed around RMB40 million to the difference.

As Chairlady has taken us through quite a great details in business segments, I would go light on segment-based analysis on this call. But just to highlight a few points:

For the wealth management segment, revenues arising from the value-adding services that is classified as other revenues for the year were RMB220 million, up 96% year over year, demonstrating our ability to satisfy our client's comprehensive need for services other than purely financial products.

And our asset management segment continued its trend of high net profit margin that was recorded at 50% for the year, 3% higher.

For the overseas business, net revenues increased by 25.4% to nearly RMB1 billion for the year, accounting for about 28% of the Group's total revenues. So it really reflects the progress and execution of our globalization strategy.

Lastly, about the guidance, I'd like to remind you that the guidance we put forward in the 6K reflects our best estimate as of now of how the coronavirus pandemic would impact our business. But uncertainty remains, depending on when the travel bans and normal social order will be restored at some of the oversea area, because some of the oversea value-adding services we offer to our clients, for instance insurance services, actually do require physical visits to the oversea area.

But from what we have seen so far in the first three months this year, we expect the impact on conventional financial product sales to be limited and we are reasonably confident on the recovery or even moderate growth in total transaction values in 2020.

In the meantime, we are determined to make our transformation a long-lasting success, and will further increase our investments in building IT infrastructure, system platforms, as well as investments in talents. Our management has laid out a very comprehensive plan on these initiatives and I estimate that investment will account for between 3% to 5% of the total net revenues.

Last but not least, responsible investment has become a global trend. In China, regulators and institutions are also actively encouraging and adopting such approach. Noah has completed a series of ESG initiatives since 2014 and was included in the MSCI China Index and MSCI Overseas China Index in 2018. And in 2019, we have implemented ESG into our group strategy development and corporate governance. We will continue pursuing sustainable growth in ESG in 2020.

Questions and Answers

[Ethan Wang – CLSA]

I have three questions. The first one is on wealth management segment. So on a Q-on-Q basis, we're seeing that the transaction volume per active client has been on a declining trend. And so we think there may be two reasons. The first may be because of the increasing -- the relatively fast increase of active clients. And the second reason may be from our strategy refocus on the standardized products. But we want to hear more from the Management on these issues. That will help the investors.

My second question is on the Gopher Asset Management side. On a Q-on-Q basis in the fourth quarter the total AUM has declined. So we wonder the reason behind. So except for the credit products, the [ARPU] has also declined. So is there any special reason behind this?

And my third question is on the Covid-19 impact. Management has shared their view on this, but we want to understand more about wealth management side, because Noah has been focusing on the standardized products and we understand that in the first quarter this year the domestic Asia market has been very strong. So have you seen any strong growth in Noah's standard product sales in first quarter? Thank you.

[Grant Pan, Noah Holdings CFO]

Thank you, Ethan. I'm going to take the first two questions and Chairlady Wang will be adding a little bit more thoughts on the Covid-19 part.

So I think you have actually pointed out pretty accurately in terms of average transaction value change in the fourth quarter. Yes, we do have more active orders, if you will, on standardized products in this quarter. So you can actually see that our active clients for the quarter reached 15,000. But as a feature of the standardized product, the average purchase is probably not as high as the conventional, for example the PE orders or some of the credit products. So that's one of the reasons. But the level of activeness that we would like to see is definitely showing the signs. So that's a very encouraging sign as well.

In terms of the shift in Gopher's AUM, you're right. The majority of the shift actually contributes to our voluntary and actually accelerated repayments of the credit products. And the two decreases, and actually a very slight decrease, in PE and RE products are normal expirations as we have recorded carry, performance-based income, for this quarter, so one for the real estate piece and the other one is for the private equity piece.

So I don't know if we answered that, your first two questions. If it does, I can probably start on the third question in terms of the pandemic situation.

Ethan Wang: Yes. That's perfect. Thank you, Grant.

[Jingbo Wang – Noah Holdings Co-founder, Chairlady & CEO]

[Translated by Grant Pan] Yes. we actually -- because of the impact on the traveling, so we didn't hold the Diamond Gala, as originally scheduled. But I guess we got lucky that the real strong performance in Asia market, as well as the equity market, really stimulates the passion of clients' investment need or demand during that period. So we're actually prepared to move lots of the conferences as well as knowledge sharing online that maintain the level of activity, especially interactions with our clients during that period.

So it doesn't seem that the virus situation that impacted the level of activities between -- especially our interactions with the clients so much. And we are actually very happy to see the distribution or transaction value on -- by exceeding our expectations originally.

Grant Pan: Ethan?

Ethan Wang: Okay. Thank you.

[Yuan Xue – CICC]

Grant Pan: Okay. Thanks, Mr. Xue. And let me translate your question first.

The first question from CICC, Mr. Xue, is that for the wealth management segment we do have probably higher decreased speed operating profit than the deterioration on the net total revenue. So the reason is really because of the one-off expenses that really was mainly attributed to the wealth management segment. So [basically] the Camsing-related legal fees, as well as some of the accounts receivables allowance was recorded in that particular segment. If we do exclude those amounts, the actual operating profit margin was slightly higher than the same period in 2018. So basically, to be concise, there was a one-off expense recorded in the particular segment.

In terms of the investments in IT infrastructure, so we had a pretty long stretch of discussions amongst the management, I guess also thanks to the pandemic situation that people cannot travel. So we're able to lock everybody in the board room to have extensive discussions on the strategic transformation, and lots of time actually attributed to the strategy on how to enhance our clients' experience, user experience, as well as the RM's user experience, on the online platforms.

And our main platform for the standardized products is called Smiling Fund App, as well as the continuing investments to enhance that, as well as once you deal with the standardized product, the transaction volume probably goes from 200, 300 orders a day to now 20,000 or 15,000 a day. So we actually wanted to make sure that the infrastructure from the capacity standpoint, as well as the security standpoint, can handle that kind of transaction volume.

We'll also actually be investing in the global version, if you will, of Smiling Fund App in Hong Kong and we're already started a team of 30 people and started the initial launch of that particular product.

[Katherine Lei – J.P. Morgan]

Katherine Lei: So I have two questions. The first question is still on product. On your standardized products, can you give us more details from, say for example, how is it different from the standardized product offered by, say, China Merchant Bank or other product manufacturers like the banks.

The second thing is that in terms of say the subscription fee and then the management fee of this standardized product, how is it -- can you give us more details on that? And how does it differentiate from, say, the non -[standardized] product that you offered before? So this is the first question.

The second question is still on the Camsing case. Can you give us some updates on, say, what is the progress with the legal procedure? And then [what] should we expect that there will be some kind of verdict from the court? And, also, on client activities, can you give us some color on, say for example, what's the percentage of clients affected by the Camsing case have already placed new orders, or their sentiments? And then also the RM reactions to this case so far? Thank you.

Grant Pan: Thank you, Katherine. Give me a couple of minutes to translate that question for everyone. Sorry for [this side]. Just one second.

So for your first question, Katherine, let me address the first one, in terms of the subscription fee rate. The revenue structure from the standardized bond we have mentioned before. I guess to give everybody on the call background, is when we first started the transformation to standardized products in the third quarter of 2019, the main product we referred to were the standardized bond funds. And for the standardized bond funds typically you would only charge management fee, without subscription fees. So I guess the total revenue side was slightly lower than the [SC] credit products.

But right now we're actually developing quite a few products that would provide people with a little bit more balanced portfolio. So it basically would have 50/50 or 20/80. You have a little bit of stock flavor in that particular product. So, we're able to charge a distribution fee, [up to] classic 1% distribution fee. And, depending on the manager, we actually are typically able to share about 50 basis points to 80 basis points with the manager. So basically the entire product will have an increased sort of fee rate from 60 basis points to actually 150 or 170. So I guess from that standpoint the transformation in products will provide more gross profit to us on that particular category.

So in terms the difference how it competes with our counterparty's, CMB's, market of standard products, I'm going to invite Chairlady to give us a little more insight on that.

[Jingbo Wang – Noah Holdings Co-founder, Chairlady & CEO]

[Translated by Grant Pan] So the main difference between our standardized product offer to the clients and also the CMB also come with [the bank's] standardized products, one of the biggest differences, is the holding period, or holding duration. So average holding period for the Bank's products is probably between 54 days, so basically less than 2 months. And for Noah's products that we offer to the clients, usually have a 3-year lock-in period -- 3-year lock-down period. So for 1 year, it's hard lock and 2-years soft lock. So with that longer holding period, the clients actually are able to benefit from -- most people that -- most investors having difficulty making money, even with the excellent fund, is the wrong timing of entering and exit.

Because of the ability to actually provide that kind of longer holding period, the good managers, the top managers in the market, are willing to work with us. And because of that, they're also willing to have a pretty good sharing portion of the management fee with us.

And if you look at the Gopher's AUM breakdown, about a pretty good majority of that is actually assets with longer durations. For example, the PE has a 10-year holding period, as well as the multiple-strategy assets that actually doesn't have a defined period of holding, so usually it's between 5 to 7 years on average. Also, we're changing the relation manager's compensation scheme to be from one-time commission-transaction-based, to have more flavor on the AUM-based compensation scheme. So from the RM standpoint, they're more incentivized to sell longer period of product, so that we actually have a cumulating effect on the AUM that they actually serve their clients with.

So in terms of the Camsing update, because of the coronavirus impact the pace of the investigation actually slows down a little bit. Like I've mentioned before, it has basically completed the stage of police investigation and been passed to district attorney. But I guess the processing time will be lengthened a little bit because of the recent pandemic impact.

Grant Pan; Chairlady also wanted to share two very encouraging data point. One is for the Camsing clients. About 30% of the clients have made separate new orders with Noah. And that total amount is about 3 billion, so close to the entire, I guess, principal for the Camsing products.

And one other one is the Huishan Dairy client. The original principal for that investment is about 500 million. And also, 30% of that group of clients have made separate new orders with Noah and the amount actually is also close to 3 billion. But if you look at that, that is, like, 6x of what they had in Huishan product.

So that really provides us with pretty encouraged sign of clients' continuous trust and satisfaction with Noah's services.

Katherine, does that answer your questions?

Katherine Lei: Yes. Can I follow up with two more questions? Sorry.

Grant Pan: Yes.

Katherine Lei: On the standardized products, what is your average ticket price of the standardized product? Because our concern is that would that be substantially -- will that have a difference with, say, the other standardized products ticket size that are available in the market? So this is for one.

Our second one is that -- I'm not so sure if I have missed it in an announcement. What is your profit guidance for 2020? Thank you.

Grant Pan: Okay. Katherine, let me answer the guidance. Yes, we do have the guidance in the 6-K, in the last paragraph on forecasts. That number is between 800 million to 900 million non-GAAP net income. Okay?

In terms of the average transaction value and ticket size and your concerns on standardized products, I'll ask Chairlady to give you a little bit more insight on that.

Jingbo Wang: [Speaks in Chinese]

[Translated by Grant Pan] So when our clients actually make the purchases online, they will go through the relation managers and do some self-service directed transactions on the standardized products. We're actually seeing that trend to continue in the future.

In terms of average ticket size of standardized, obviously comparing to probably private equity or real estate in the past, the one-off order probably will appear lower. But in terms of frequency, as well as the actual transactions that will occur, the total amount, we expect that to be higher. I think that's pretty evident, will be pretty evident, when we have the quarter-one results come in.

Katherine?

Katherine Lei: Yes. I think that's good. Thank you.

[Daphne Poon – Citi Bank]

Grant Pan: Hi, Daphne.

Daphne Poon: Thanks for taking my questions. So the first question, I just wanted to understand more about the driver for your 2020 guidance. So more specifically, on the transaction value outlook for this year do you expect that to actually drop year over year?

And in terms of the product mix, on the standard products we are seeing pretty good momentum, but would you also talk more about the other products, for example, the PE product? What are we seeing on the momentum here? I guess that over the past two years, PE has been relatively muted because of the whole industry slowdown. But just wondering whether you expect any recovery or pickup in the volume for 2020. And also, what would be the overall AUM growth for this year? Do you expect positive AUM growth?

And also, the next is about the operating margin outlook. So as you mentioned, you expect to spend more on the IT buildout. Does that mean that operating margin, we should see a decline in this year, or there is actually additional room for you to maybe cut the cost for headcount reduction, et cetera?

And lastly, also want to check on the management fee that we see in the fourth quarter, that the management fee is still pretty high. Just wondering what's the driver here, whether that is also because of the -- some early redemption of your private credit partners? Thank you.

Grant Pan: Okay. Thank you, Daphne. Give me a second.

Okay. So in terms of the guidance, the total transaction value to -- not only referring to standardized product, but the entire transaction value, we actually are reasonably confident, or expect, a recovery or even moderate growth, than the total transaction value in 2019. So obviously the main drivers come from standardized products. But that's not to say that we're going to, like we have mentioned before in the speech, that we're going to give up or move away or disregard clients' demand on private equity products as well as real estate products and other traditional popular products. So as a matter of fact, we actually have already put out a schedule of top private equity managers as well as continue with some efforts to find excellent projects on real estate and other alternative investments, if you will.

So I guess the transformation, I want to clarify again, is moving away only from the single-counterparty credit product. We'll still continue to offer and actually find good products for our clients to have, especially private equities. We actually will have a pretty good distribution of a particular big name in the first quarter this year already.

And also, in terms of total AUM for Gopher, because of the continued redemption, as we plan, to basically to reduce the balance on the SC credit products for the year, so it will continue to come down. It will partly offset the growth in the total AUM in Gopher in 2020. So we expect that the AUM for Gopher to be flat with 2019.

In terms of operating margin, like I mentioned before, we're actually quite -- did quite a little bit of work this year, especially after the second quarter. We would have had an operating profit margin of around 35% to 36% if we didn't have the one-off expenses, as well as the write-off of accounts receivable, which we don't expect to have very unusual one-off expenses relating to this particular matter in 2020. So I guess in terms of operating profit margin, I'm pretty comfortable to predict should still be -- pivot around 30%, like we have done in the past. Obviously, if there's room for further improvement, we'll continue to do that.

I think one of the things that I'd like to mention is once the pandemic started, after New Year's festival, Noah was the first one who comes out and say, "Okay, we probably want to plan for emergency." While we do have very healthy cash flows and profits, Noah was among first ones to actually exercise the non-paid leaves as well as the senior management's waiver or even a very significant reduction on their salary for the two months. So we're very cautious on the costs. I want to assure you of that.

And in terms of the operating fee, management fee for the fourth quarter, yes, we did have a little bit of the management fee sort of similar to third quarter in the back end. But the number is not really significant in the fourth quarter. So still it's a continuous growth in AUM, especially the growth in standardized products. So the management fee rate might be low for this type of product, but the actual growth in volume for the standardized products actually is pretty significant, as we have mentioned in the speech.

Thank you, Daphne.

Daphne Poon: Okay. Yes. Can I just quickly follow up on the PE side? So [will you say] that actually in both client demand and the supply is improving, 2020, and that would drive the recovery in the volume or AUM?

Grant Pan: Right. Is that a question or a comment?

Daphne Poon: It's a question. Just want to confirm.

Grant Pan: You wanted to confirm the PE also will grow? We have -- could you repeat that last part?

Daphne Poon: Yes. So there is real recovery on both the demand and the [product] supply side for PE? [Indiscernible] …

Grant Pan: Yes. Yes. Yes.

Daphne Poon: …although constraint under supply?

Grant Pan: Yes. I think we'll basically see the recovery on both the supply and demand side. Well, the supply never went away, like I mentioned, or shared, earlier, that there's some seasonality in terms of PE's offering or doing their fundraising, so a little bit of randomness in that timing, if you will. But this year the actual stronger performance in the secondary market do drive the need for good PE products, but only associated with the top names. We see that actually very apparent at our clients. Actually it's a probably general market condition that clients concentrate their capital investment in the top names. But for the smaller and less known names, they will have a little bit of a challenge. So we do see a recovery in the PE fundraising in both supply and demand side, if you will.

Daphne Poon: Okay. That's very helpful. Thank you.

Operator: Thank you. And as there are no more questions at the present time, I would like to return the floor to Management for any closing comments.

Grant Pan: Okay. If we don't have any further questions, that will be all. We've also scheduled some conference calls afterwards. If you have questions that went unanswered, feel free to contact me or the IR team directly.

Operator: Thank you so much. Today's conference call has now completed. Thank you for attending today's presentation. You may now disconnect your lines.