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Q1 2021 360 DigiTech Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the 360 DigiTech First Quarter 2021 Earnings Conference Call. Please also note today's event is being recorded. At this time, I would like to turn the conference call over to Ms. Mandy Dong, IR Director. Please go ahead, Mandy.

Mandy Dong *360 DigiTech, Inc. - IR Director*

Thank you. Hello, everyone, and welcome to our first quarter 2021 earnings conference call. Our results were issued earlier today and can be found on our IR website. Joining me today are Mr. Wu Haisheng, our CEO and Director; Mr. Alex Xu, our CFO and Director; Mr. Zheng Yan, our CRO.

Before we begin the prepared remarks, I'd like to remind you of the company's safe harbor statement. Except for historical information, the material discussed here may contain forward-looking statements based on current plans, estimates and projections. Therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risk and uncertainty. We caution that a number of important factors could cause actual results to differ materially. For information about potential risks and uncertainties, please refer to the company SEC filings.

Also, this call includes discussion of certain non-GAAP measures. Please refer to our earnings release for a reconciliation between non-GAAP and GAAP one. Last, unless otherwise stated, all figures mentioned are in RMB.

I will now turn the call over to Mr. Wu Haisheng, CEO of our company.

Haisheng Wu *360 DigiTech, Inc. - CEO & Director*

(foreign language)

Mandy Dong *360 DigiTech, Inc. - IR Director*

[Interpreted] Hello, everyone. I'm very happy to report a stellar quarter that far exceeded our expectations across the board. The strong growth momentum that we have seen since 2020 Q2 continued in the first quarter, and we had another set of record-breaking operational results.

During the quarter, total loan facilitation was RMB 74.1 billion, up 4-0, 40% year-over-year. Outstanding loan balance increased by 38% year-over-year to RMB 101.9 billion, exceeding RMB 100 billion for the first time. Total revenue was RMB 3.6 billion, up 13% year-over-year. Non-GAAP net income was RMB 1.4 billion, up 452% year-over-year. As we execute on our various strategy initiatives and overall market demand continues to recover, we expect to maintain this robust growth momentum in 2021.

Haisheng Wu *360 DigiTech, Inc. - CEO & Director*

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] While maintaining strong growth, we made significant progress in our technology-driven strategy upgrading and transition. Loan facilitation under the capital-light model and other tech solution models exceeded 50%, 5-0%, of total for the first time. This ratio increased further to 55% in recent months. This marks a fundamental change to the nature of our business.

In addition, our tech-empowered business line advanced on multiple fronts. Our smart marketing service product, Intelligence Credit Engine, ICE, delivered rapid growth. In April, key monthly operating metrics of ICE, such as users with approved credit line, transaction volume and outstanding balance, doubled from the 2020 year-end level. In particular, the transaction volume in April went up by an impressive 200% from the 2020 year-end levels. Moreover, our risk management, RM, SaaS product expanded rapidly. We have now established cooperation with 29 financial institutions under this model, with another 9 in the pipeline.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] In terms of strategic growth drivers, we are very pleased to report remarkable progress in key initiatives, such as embedded finance API model, SME finance and the collaboration with Kincheng Bank of Tianjin, in short KCB. We believe we have successfully upgraded our core growth engines with more comprehensive and diversified operations.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Our embedded finance API model remains very popular among our business partners and connected with more traffic platforms during the quarter. So far, we have established partnerships with 20 leading traffic platforms and further diversified our customer acquisition channels. As of now, embedded finance model has already contributed over 35% of our new customer acquisitions.

V-pocket, our virtual credit card product, added around 1.14 million new merchants during the quarter with over RMB 1.5 billion monthly transaction volume. This product continues to lift overall engagement level and the stickiness of our customer base.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] We launched our SME finance business last year and the segment delivered significant growth in Q1. Leveraging our risk management, RM, expertise in consumer finance, we developed a unique owner plus SME dual-core RM model. Under this model, an SME is evaluated, both as an entrepreneur him/her-self and a business enterprise. This substantially improved our risk management capability and the efficiency in SME lending.

Most of our SME borrowers are engaged in retail, wholesale, hotel, FAB/food and beverage, and manufacturing. In the first quarter, the total amount of new approved credit lines in SME segment increased 67% on a sequential basis.

In addition, our online and off-line borrower acquisition channels expanded rapidly. So far, we have established collaboration with 28 leading partners. This puts us among top SME platforms with the broadest channel coverage. And our SME loan product quickly became one of the favorites among partners.

Pricing of SME products is generally below 24%, with better risk performance, longer tenor and larger ticket size than consumer loans, which results in higher take rate around roughly 8%. With huge market potential, more supportive regulatory environment and attractive economic returns, we believe SME presents a very promising opportunity for our long-term growth.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Our collaboration with KCB essentially kicked off in the first quarter. Our deep-rooted strategic relationship has translated into strong business results. Within just a few months, total accumulative loan facilitation volume from KCB reached around RMB 18 billion, with a loan balance at around RMB 13 billion. KCB now has become our largest partner in terms of volume. Yet our strong strategic partnership is more than just the scale of the business.

More importantly, this trusted partnership has boosted operational efficiency for both parties. And it, in turn, serves as a showcase and helps us to improve efficiency when we work with other financial institutions. We have seen positive demonstration effects that have led to notable improvements in our overall efficiency.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] We continued to improve funding efficiency and optimize asset quality. Our overall funding costs have been on a gradual downward trend over the last few quarters as we built more diversified funding sources.

So far this year, we have issued a total of RMB 2.1 billion ABS, ranking #4 in the market with an average coupon rate of 5.6%. Key leading indicators of asset quality further improved and reached a new set of best record in our history. At this point, M1 collection rate increased to over 91%, and day 1 delinquency rate dropped further to 4.9%, the best ever.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Last, let me share a few thoughts regarding current regulatory environment. We believe that the Guidelines of Commercial Banks' Online Lending Practice issued by CBIRC in July 2020 provided a basic regulatory framework for loan facilitation business. It sets some very specific practice samples of the loan facilitation model. We have always conducted our business in strict compliance with this framework.

That is one of the reasons why our loan facilitation model has been well accepted by almost 100 financial institutions partners. We have little exposure to joint lending and student lending and stick to our role as a tech-empowered loan facilitator. We also make sure we do not issue ABS over the leverage limit.

As you may know, we were among the 13 major fintech Internet platforms that the regulator invited to meet recently. At the meeting, the regulator acknowledged the importance of our role in improving the efficiency of financial services, providing service to unmet demand and reducing transaction costs. We believe the meeting was a necessary step to apply fair and balanced regulatory supervision to market participants and promote the healthy development of the platform economy.

Strengthening supervision of the leading players will increase clarity to the regulatory direction of the industry, reduce regulatory overhang and promote a healthy and more consolidated market space. Compared to the other fintech companies at the meeting, our business models are relatively simple and straightforward. We have consistently held our operations to the highest compliance standards. Therefore, we are very confident we can meet any regulatory requirements applied to this industry. As the regulatory framework becomes more clear, we believe that leading fintech platforms like ourselves will embrace a historical era of growth.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Overall, we are very excited that we are off to a very strong start in 2021. For the first time, loan balance topped just over RMB 100 billion and the capital-light model contributed more than half of our loan book. Our strategy initiatives delivered better-than-expected results, and there is more regulatory clarity for the leading fintech platforms. All of this give us full confidence for our development in 2021 and beyond.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Now let me turn it over to our CFO, Alex, to run through more detailed info.

Zuoli Xu 360 DigiTech, Inc. - CFO & Director

Okay. Thank you, Haisheng. Good morning, and good evening, everyone. Welcome to our quarterly earnings call. For the interest of time, I will not go over all the financial line items on the call. Please refer to our earnings release for the details.

As Haisheng mentioned, we had experienced robust consumers' demand for credit, along with further improvement in asset quality in Q1 as the Chinese economy continued on a steady upward trend and the Chinese New Year-related seasonality was muted than normal.

Total net revenue for Q1 was CNY 3.6 billion versus CNY 3.34 billion in Q4 and CNY 3.18 billion a year ago. Revenue from credit-driven service, capital-heavy was CNY 2.45 billion compared to CNY 2.56 billion in Q4 and CNY 2.81 billion a year ago. The sequential and year-on-year decline was in part due to the facilitation volume mix change as capital-heavy contribution decreased significantly. Although a recovery in average pricing offset some of the negative impact on a sequential basis.

During the quarter, average pricing was about 26.6% compared to 25.3% in Q4 and 28.2% a year ago. Going forward, we are expecting a relatively stable pricing environment throughout 2021. Revenue from platform service, capital-light, was CNY 1.15 billion, compared to CNY 780 million in Q4 and CNY 373 million a year ago. The robust growth was mainly driven by a 58% sequential growth in facilitation volume from capital-light, ICE and other technology solutions, while the underline take rates for the platform service were relatively stable. We expect capital-light contribution percentage to continue to increase throughout 2021 and eventually account for a clear majority of our total volume by the year-end.

As microeconomic activities continue to recover in China, demand for Internet traffic also increased significantly along the way. As a result, we have experienced some uptick in sales and marketing expenses. Average customer acquisition cost per user was -- per user with approved credit line was RMB 212 in Q1, compared to RMB 198 in Q4. Meanwhile, we also noticed a clear pickup in customers' drawdown activity during the quarter. As a result, we were able to maintain a stable and satisfied ROI despite increases in customer acquisition costs. We will continue to use life cycle ROI as a key metric to determine the pace and scope of our customer acquisition strategy. For 2021, at this point in time, we believe current market conditions support a more proactive approach to accelerate the growth of our business.

Non-GAAP net income was CNY 1.41 billion in Q1 versus CNY 1.31 billion in Q4 and CNY 255 million a year ago. We once again set a new record in quarterly profitability driven by higher facilitation volume and noticeable improvement in asset quality. As we previously communicated to the market, with the transition toward a more technology-driven business model, the structure of our financial model has gradually changed. For Q1, we have seen significant improvement in operating margins as increasing contribution from capital-light and other technology solutions will generally lead to higher margin structure.

We continue to expect the overall profitability growth to more or less keep pace with the facilitation volume growth for 2021.

With strong operating results and increased contribution from a capital-light model in Q1, our leverage ratio, which is defined as a risk-bearing loan balance divided by shareholders' equity, further declined to 5.4x from 6.6x in Q4 and 9.5x a year ago. We expect to see continued deleveraging in our business driven by accelerating movement towards capital-light model and solid operating results.

Meanwhile, our provision coverage ratio reached 554% in Q1 compared to 470% in Q4 and 401% a year ago. This was the highest provision coverage ratio in our corporate history, reflecting significant improvement in asset quality and our conservative approach in estimating provisions. However, as capital-light becomes a clear majority of our operations in the future, and we are deeply in the safe zone in terms of the provision coverage, we believe these metrics become less relevant to reflect the nature of our business in the future.

Total cash and cash equivalents increased to CNY 9.2 billion in Q1 from CNY 7.7 billion in Q4. Nonrestricted cash was approximately CNY 6 billion in Q1 versus CNY 4.4 billion in Q4. A significant portion of our cash was allocated to security deposits with our institutional partners and the registered capital of different entities to support our daily operations. While we continue to generate strong cash flow through operations, we will also proactively deploy cash to expand our business, invest in key technologies and satisfy potential regulatory requirements. We believe that sufficient cash position will not only enable us to compete in this ever-changing market, but also position us to capture potential growth opportunities in the market recovery.

Finally, let me give you some update about our outlook for 2021. While overall business trend has been stronger than we expected so far this year, we intend to keep our tradition of conservative approach in providing forward guidance. As such, for now, we would like to maintain our 2021 total volume guidance of between RMB 310 billion to RMB 330 billion, representing year-on-year growth of 26% to 34%. Meanwhile, we expect total facilitation volume for Q2 should be in the range of RMB 85 billion to RMB 87 billion, representing 15% to 17% sequential growth. We will reevaluate full year guidance when we report our Q2 results. As always, this forecast reflects the company's current and preliminary views which is subject to material changes.

With that, I would like to conclude our prepared remarks. Operator, we can now take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is Jacky Zuo from China Renaissance.

Jacky Zuo *China Renaissance Securities (Hong Kong) Limited, Research Division - Analyst*

(foreign language) Congrats for the strong results. I have 2 questions. Number one is about our SME loan products. I saw we had a very strong Q-on-Q growth in our SME financing. So just want to understand what is the APR loan size, unit economics about this SME financing product, and what is our volume target for SME this year? And I think Mr. Wu, our CEO mentioned that the take rate is now about 8%. So how -- compare the 8% with our overall loan take rates.

And secondly is about our tech exports business, which is the ICE. So just want to understand what is the difference between ICE and our other capital-light loan facilitation products? What is the take rate and what are the bank partners for these products? So I observed that our reported loan volume definition changed a bit this quarter. I think start to include this ICE loan volumes. So just want to check what is the ICE loan volume for this quarter and last quarter.

Haisheng Wu *360 DigiTech, Inc. - CEO & Director*

(foreign language)

Mandy Dong *360 DigiTech, Inc. - IR Director*

[Interpreted] Sure, Jacky, let me handle your first question. Well, you are absolutely right. We see a significant growth in our SME business in the first quarter. As you know, there are actually 2 types of SME products in the market. The first type, actually, we view it more related to consumer finance product. A lot of peers, they expanded the existing consumer finance product to anyone to the -- who are the management or the owner of SMEs. This actually has quite similar unit economics with consumer finance products. This is not what we are pursuing.

The second type is actually what we are pursuing now. It is actually more directly related to SME enterprise itself. We focus on the operational metrics of the SME companies. By doing this risk management of SME products, we leverage our existing expertise in

consumer finance, and uniquely developed the dual-core risk management model. That means we evaluate this SME owner, both as owner himself also as a SME enterprise. This shows a much better unit economics than the general consumer product.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Sure. As we focus on the second type, we see some more directly related or the truly SME loans because this has larger market potential and better unit economics return. The average APR of this product is 20%. If for -- we -- for those more related to the tax-related SME loan or the invoice-related, average APR is around 16%. Ticket size of SME loan is RMB 210,000. As we mentioned in the prepared remarks, the take rate is around 8%, which is almost twice, double the size of the consumer finance loan.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As for your second question about the ICE product, as you can see its full name is Intelligence Credit Engine product. It's focused more on the smart marketing service. As you see, we have accumulated around 100 financial institutions. Due to the very long-term cooperation with them, we know their preference and their ability very well, and we divided them into different layers according to their capabilities of risk management.

For those who had the intention to improve their risk management probability or they already have very strong risk management capability, we will deliver the ICE product to them, which just focus on the customer acquisition service. Therefore, as we compare to capital-light model, the ICE model just provided the customer acquisition service. The take rate is comparatively lower.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As we cooperate with various type of financial institution like consumer finance, corporate banks, et cetera, there is not much difference among the loan assets we allocated to them. As we mentioned in the remarks, the last quarter, this volume of ICE reached CNY 2.4 billion, which doubled the size from last quarter.

Operator

Next question is Richard Xu from Morgan Stanley.

Ran Xu Morgan Stanley, Research Division - MD

(foreign language) Basically, 2 questions. One is in terms of the funding partners. We're certainly increasing our cooperation with Kincheng Bank. But going forward, how do we allocate the loan allocation among different funding partners? And any major differences on the take rate?

Secondly is in terms of volume allocation between ICE product and other products, certainly take rate is different. So what will be the long-term strategic thinking on the loan allocations?

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Sure, Richard. Let me address your funding question. First of all, the diversification of funding source is always the goal we're pursuing, and we will keep that. Secondly, for KCB, as you know, we have deep-rooted relationship with KCB. It's better to use KCB as a showcase and to demonstrate it to other financial institutions. In addition, as you see, we carry out a lot of strategic initiatives this year. It's easier for us to explore the new products with the KCB collaboration.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Yes. Due to our deep-rooted relationship with KCB, there might be short-term difference compared to the take rate when we cooperate with other financial institution. But if we take a longer-term view, we'll definitely work with all the partners on the same business term.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] The fundamental reason is our loan product is very competitive in the market. Even there are short-term difference between the KCB business terms with other financial institution business terms, KCB can be as a showcase. And in the long term, other financial institutions will catch up with the equal terms.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As we always spare no effort becoming the top leader in fintech that covers every process or every function of the whole business operations. Therefore, as for your question, how we allocate different assets or products among these 100 financial institutions. So there is -- actually, we look at the business needs from the funding partners. For example, if the funding partner, they need a comprehensive product, then we provide capital-light product. If the funding partner, they are very strong in risk management, then we only provide a smart marketing product. If they already have a very strong source of customers, then we provide the RM SaaS product to them. All in all, we provide a service based on the business need of our funding partners.

Operator

The next question is Yada Li from CICC.

Yada Li China International Capital Corporation Limited, Research Division - Analyst

(foreign language) Okay. Then I will translate my questions. Congrats to our solid results. So today, I have 2 brief questions. And the first one is regarding our strategic partnership with KCB. So I noticed that KCB has become the largest institution partner in terms of the loan facilitation volume. So could you please share with us more information on how much contribution actually comes from the KCB in terms of the loan origination in 1Q '21?

And the second question is about our progress on the SME loan business. So given our SME loan business has been well on track, so could you please elaborate more on how much contribution comes from the SME loans in terms of the loan origination in 1Q '21? And how much contribution it will be by the end of this year?

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Yes, you are right. As you can see, in terms of business volume, KCB has already become our largest partner. As mentioned in the prepared remarks, in Q1, GMV cooperated with KCB totaled RMB 18 billion with loan balance RMB 13.3 billion. As we further advance the business initiative with KCB, we expect to see this number going up in the following quarters.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] The second question about the SME loss. We mentioned that there are 2 definitions about SME. For the broader definition that is consumer finance loan related to SME owner or management. In the last quarter, this product contributed around 30% to 40%, and we expect to see this number right now up to around 60% to 80% at the year-end.

For the second, a more strict definition of SME here, that is definitely the goal we are pursuing that is more related to the SME enterprise itself. We target to reach 10 billion loan balance at the year-end. If you recall, our guidance of loan total volume is CNY 310 billion to CNY 330 billion at year and roughly you can get the contribution ratio.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Let me add more color about SME. Although it's at a very early stage of this product, we try in multiple directions to further develop this product. For example, for very premium SME enterprise borrowers, we may grant around 1 million ticket size products. And we expect to share more when we see more results coming out.

Zuoli Xu 360 DigiTech, Inc. - CFO & Director

Sorry, this is Alex Xu, the CFO. I'll probably add a couple of details to your questions. First of all, regarding the KCB's volume, as Haisheng mentioned, after the month of April, the accumulated volume from KCB is about CNY 18 billion. But I guess your question is about Q1. For Q1, KCB's volume is roughly CNY 10.8 billion roughly speaking. So you can use that CNY 10.8 billion to calculate the percentage ratio there.

And then regarding the SME there, as Haisheng mentioned, there are 2 definitions. One is more narrowly defined. The other one is more kind of a broad definition. We use sort of a restrictive definition for SME, meaning for those enterprises, those are the loans issued to the enterprise, with actual operation with sales received, with taxation information and those kind of things. That's the narrowest definition for SME. For that, the total sort of loan volume up to April, it's already at -- that is CNY 5.8 billion. Yes, it's 5 -- sorry, it's not April. To the first quarter, it's RMB 5.8 billion. And the loan balance for this restricted definition, it's roughly CNY 7.5 billion at the end of the first quarter. Keep in mind, this sort of narrowly defined SME loans typically has a much longer duration than the consumer loans, which will result in a pretty fast buildup of the balance as time goes. That's my sort of added couple of points there. Thank you.

Operator

Next question is Steven from Haitong International.

Steven Chan Haitong International Research Limited - Executive Director

(foreign language) I'll translate it. Two questions. One is about a follow-up question on the SME loan facilitation business. I would like to understand the share of SME loans with collateral or secured SME loans and unsecured SME loan so far up until maybe April. And how do you compare the asset quality of SME loans relative to the consumer finance loans we have done in, say, different asset quality indicators?

That's the first question. And the second question is, could you share with us why we have a rise in customer acquisition cost in Q1 on a Q-o-Q basis? And what will be our outlook on the trend of customer acquisition costs for the rest of '21?

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Yan Zheng 360 DigiTech, Inc. - Chief Risk Officer

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] So in fact, the risk of our SME customer is lower than the overall market, about 70% to 80% of overall level. And we use the dual-core engine to control this SME product, which means that the enterprise class business owner and the use of the dual engine can match the dual-core product. Otherwise, we will operate more in this -- owners like individual customers. But this is obviously a difference between individuals and small business.

Yan Zheng 360 DigiTech, Inc. - Chief Risk Officer

(foreign language)

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As we shared with the market before, when we actually conduct our real operations, it's not the CAC cost we are looking at. It's the ROI, return on the investment, of customers we look at. As for the first quarter, we believe we successfully conducted a better customer acquisition strategy. It's demonstrated by higher customer approval rate and larger ticket size, which in turn improved the ROI.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As we expand the SME business, if we purely look at the SME metrics, since SME loans have the larger ticket size, longer tenor and a lower APR. On the CAC level, it will push up this number. However, in actual business operation, we believe expanding SME is a much better business decision for us as the asset quality is better and a higher ROI and better unit economy.

Haisheng Wu 360 DigiTech, Inc. - CEO & Director

(foreign language)

Zuoli Xu 360 DigiTech, Inc. - CFO & Director

Steven, this is Alex. I just want to add one follow-up point from Haisheng's point. As Haisheng mentioned, that as we expand into the SME, one nature of the SME business is that large ticket size, longer-duration loans, which also associated with a much higher per ticket customer acquisition cost, okay? And because we are kind of a growing SME business in the Q1, more, I guess, proactively, that mix change also results in a little bit higher kind of per credit line customer acquisition cost as we reported. So if you sort of get rid of SME portion, just look at the consumer portion, the change was not as high as the our reported number. So just one add up to the point. Thank you.

Operator

Due to time constraints, I will now hand the session back to management for closing debrief. Please go ahead.

Zuoli Xu 360 DigiTech, Inc. - CFO & Director

Okay. Thank you, everyone, for joining us for the conference call. If you have additional questions, please feel free to contact us. And that's it for the call. Thank you. (foreign language)

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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