

YRD Earnings Call Transcript

Date: 2025-11-25

Quarter: 3

Operator: Good day, and welcome to the Yiren Digital Ltd. Third Quarter 2025 Earnings Conference Call. Please note this event is being recorded. I would now like to turn the conference over to Keyao He. Please go ahead.

Keyao He: Thank you, Operator. Good morning and good evening, everyone. Today's call features a presentation by our Founder, Chairman, and CEO of Yiren Digital Ltd., Mr. Ning Tang, and our CFO, Mr. Ka Chun Hui. There will be a Q&A session after the prepared remarks. Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the Safe Harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. Such statements involve risks, uncertainties, and factors that can cause actual results to differ materially from those contained in any such statements. Further information regarding such risks, uncertainties, or factors is included in our filings with the U.S. Securities and Exchange Commission. We do not undertake any obligation to update any forward-looking statements as required under the relevant law. During the call, we will be referring to certain non-GAAP financial measures and supplemental measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP financial measures and reconciliation to GAAP measures, please refer to our earnings press release. I will now pass it to Ning Tang for opening remarks. Thank you all for joining us today.

Ning Tang: This past quarter presented a more challenging operating environment than we have seen in recent periods, driven primarily by heightened regulatory uncertainty and a more cautious credit backdrop. While these factors weighed on parts of our business, we moved quickly to adjust our risk posture and protect asset quality. I am pleased to share that these actions have been effective. At the same time, our Internet insurance segment continued to deliver solid growth, reinforcing the resilience and diversification of our platform. As we look ahead, we remain focused on disciplined execution and positioning the company for the next generation of fintech with AI and blockchain. As part of our ongoing transformation, we continue to advance our agentic AI capabilities to enhance process efficiency and strengthen unit economics. These innovations are helping us offset the margin pressure associated with rising credit risk. Our agentic platform, MagicQ, is already demonstrating meaningful impact, improving sales conversion, elevating risk controls, and driving greater overall productivity. With that, let me walk you through the key business highlights for the quarter. First, turning to our financial services segment. We facilitated RMB 20.2 billion in loan origination during this quarter, up 51% year over year. Our repeat borrowing rate remained at a record high of 77%, in line with last quarter and 16 percentage points higher than a year ago. While the number of our total borrowers decreased by 11% to 1.3 million compared to the same period last year due to the tightening of credit policies, our total cumulative borrower base increased by 21% year on year to 14 million. We also continued to see healthy structural improvements across our borrower base. The average size for new loans from our lending platform rose from RMB 7,000 to RMB 10,100, driven by our ongoing shift towards higher credit quality customer segments and better credit predictability from repeat borrowers. We expect this favorable mix trend to continue as we continue to trade up for better quality borrowers. Our agentic AI has delivered a remarkable boost in our operations. For marketing, our AI-driven marketing agent

continues to deliver strong results. It enhanced customer profiling accuracy and expanded the pool of identified high-intent users by 38% quarter over quarter. In addition, our proprietary AI agent now generates tailored responses across a wide range of customer inquiries, effectively reactivating dormant users and driving a 15% increase in their ATP engagement. For customer service, our LLM-powered service robot continues to strengthen its performance, with response accuracy rising from roughly 80% to over 92%. Meanwhile, the rate of inquiries requiring escalation to human agents declined by nearly 15% quarter over quarter. For quality control and risk management, we continue to optimize our multi-model models. Fraud detection coverage increased from a weekly manual sampling of 450 cases to 5,800 by agentic AI, while accuracy improved to 91%. Now let's turn to capital allocation. As of September 30, 2025, our total outstanding loan balance is RMB 34.2 billion, representing 10% quarter-to-quarter growth. Our funding cost rose by 55 basis points during the quarter, in line with the sector trend. We are now included in the YBASE of nearly 30 compliant funding partners under the new regulatory framework, positioning us as one of the leading players in the market. Asset quality and credit risk, we continue to see industry-wide pressure this quarter. Although we proactively tightened our credit policies, our risk indicators edged up in Q3. As of September 30, our one to thirty-day delinquency rate stood at 2.7%, while the thirty-one to sixty-day and the sixty-one to ninety-day delinquency rates were 1.7% and 1.4%, respectively. The good news is that we see that risk indicators for the loan portfolio from new borrowers begin to trend down in November, which is proof of the effectiveness of our upgraded credit strategy. However, from a conservative point of view, we expect the industry-wide impact on the overall asset quality to continue in the fourth quarter and that the recovery is likely to begin early next year as the market stabilizes. Our AI-driven collection capabilities play an important role in mitigating early-stage synthesis. This automation drove productivity growth, reducing labor costs by an average of RMB 5 million per month, up from RMB 2.7 million in the second quarter, while improving service quality. Turning to our overseas business, our Indonesian operations launched on schedule in September 2025, and we expect this segment to contribute significant growth in 2026. Now turning to our insurance brokerage business. After navigating significant regulatory headwinds and commission pressure in 2024, we entered 2025 with a transformed operating model. Our insurance business has shifted from a high-touch, high-cost brokerage approach to a digital, low customer acquisition cost, high-margin model by tapping into new insurance demand within our existing customer acquisition channels on the platform. This has allowed us to focus on a healthier, more profitable customer base that is contributing meaningfully to segment margins. In 2025, gross written premium reached RMB 1.15 billion, an increase of 35% quarter over quarter. Revenue from the segment was RMB 84.2 million, up 45% from the prior quarter. Our Internet insurance business continued its rapid expansion, delivering RMB 196 million in annualized premium, representing 204% quarter over quarter growth. Total customer numbers rose 93% quarter over quarter to 229,353, driven by more precise marketing and still low penetration within the target segment. We expect the Internet insurance business to sustain strong momentum over the coming quarters. Finally, while we continue to strengthen and scale our core business, we are also investing strategically into the future. Building on our technology capabilities and our position within the broader fintech ecosystem, we are exploring new ways to better serve customers and manage assets through AI and blockchain-enabled solutions. We see AI and blockchain as core strategic pillars for the future of our business, especially as we expand our footprint globally. We are investing in the systems and capabilities needed to build our next-generation fintech infrastructure while deepening partnerships with key industry players. In October, we signed an MOU with TrainUp, a leading crypto solutions provider in Singapore, and we also announced our plan to launch an Ethereum staking service, which is currently undergoing testing. This initiative marks an important milestone in our journey toward delivering seamless 24/7 global financial services. Over the next few quarters, we look forward to introducing additional products designed to enhance financing efficiency and asset monetization for our customers. To conclude on the quarter, while the third quarter brought its share of challenges, the progress we have made demonstrates that our diversification and forward-looking strategy are working. We have built a stronger, more resilient foundation that positions us well for sustainable growth and value creation in the quarters ahead. I am confident that by staying disciplined and continuing to execute on our priorities, we will emerge even stronger. With that, I will now pass it over to Ka Chun Hui, who will

provide more details on the financials for the quarter.

Ka Chun Hui: Thank you, Ning. Hello, everyone. I will now walk you through our financial performance for the third quarter this year. Please refer to our earnings release and IR deck for further details, both available on our website. For the third quarter, total revenue grew by 5.1% year over year to RMB 1.55 billion, mainly attributable to 70% growth from the Financial Services segment. It was partially offset by the decline in revenue from the consumers and lifestyle segment, as we announced the mid-decommission of the business in 2024. In the Financial Services segment, total loan facilitation volume increased by 51% year over year. The increase was driven by growth in average loan ticket size, the growth of repeated borrowers, and an increase in loan referral revenue. The loans from repeat borrowers account for 77% of the total loan volume facilitated in the third quarter this year, up 16 percentage points compared to the same period last year. As the credit from repeated borrowers is more predictable, it allows us to extend the credit without substantially affecting our portfolio risk. The average size for new loans from our lending platform increased by 44% to RMB 10,100. Overall, the revenue from this segment increased by 70% year over year to RMB 1.4 billion in the third quarter. The revenue growth is driven by our loan guarantee services revenue, which reached RMB 1.4 billion in the third quarter, up nearly 2.4 times year over year, driven by higher loan facilitation under the risk-taking model. As our service revenue and loan facilitation from the risk-taking model increases, our provisions for contingency liability also increased by 68.8% year over year to RMB 460 million. But as the economic benefits of the guarantee services are recognized over the next few quarters, the total of guarantee liabilities of RMB 930 million will be recognized as revenue over the next few quarters. The contribution margin for the entire Financial Services segment improved from 5.2% in 2024 to 23% in the third quarter, driven by a 27.1% decrease in the origination expense while the revenue grew by 70%. In the insurance segment, our gross written premium in the third quarter was RMB 1.15 billion, up 35% from the second quarter this year. It is showing a sign of recovery for this business. Compared to the third quarter of 2024, the premium is still down by 15%. The total premium is slightly down by 1.5% year over year. We have successfully turned around the business. The main growth contributor is the Internet insurance line that we launched in the first quarter. In the third quarter, the gross premium from the Internet insurance line was RMB 196 million, representing 204% growth quarter over quarter. We expect this growth momentum will continue in the next few quarters and have significant revenue contribution to the overall insurance line. One thing to highlight is that the margin and the take rate for the Internet insurance business is much higher than the traditional brokerage line because the clients for this segment come from our customer traffic from insurance and other business segments. These customer segments are of better risk quality than traditional insurance carriers are not able to reach. As such, the Internet insurance business has lower customer acquisition costs, better revenue sharing with the carriers, and no commission cost. The margin is expected to increase as the premium scales, which will benefit the bottom line. On the expense side, sales and marketing expenses in the third quarter decreased by 1.2% year over year to RMB 332 million. The marketing expenses decreased while our total loan facilitation increased by 51%. This is the result of better AI-assisted precision marketing that drives a higher sales conversion, effectively lowering the borrower acquisition cost. Research and development expenses decreased by 39% year over year to RMB 92 million. This is because, during the same period last year, there was a one-off large system development project. The origination, servicing, and other operating costs decreased by 27% year over year to RMB 150 million because of the 27.1% decrease in the origination expense from the financial services business due to the improved collection efficiency driven by AI and lower commission costs from the traditional insurance brokerage line. General and administrative expenses for the quarter increased by 30% year over year to RMB 104 million, primarily due to increased personnel-related costs to strengthen our risk management and to fund the plan for new business initiatives such as the development of the next-generation fintech that we mentioned in the announcement in October. The allowance for contract assets and receivables and others for the quarter increased by 142% year over year to RMB 229 million. This is driven by higher receivables from loan facilitation services and guarantee services as the loan volume has grown with particular strength from the risk-taking model that generates higher service revenues. Along with the increase in the self-funded loan balance in 2025, provisions for contingent liability this year increased by 69% year over year to RMB 460 million because of the increase in loan volume facilitated under the

risk-taking model. Net income for the third quarter was RMB 318 million, translating to RMB 3.65 per ADR share or USD 0.51 per ADR share. This represents a 12% decline from the second quarter of this year. The pressure on profitability is attributed to multiple reasons, including the substantial upfront provisions under our risk-taking loan facilitation model, industry-wide volatility in asset quality, a declining fee rate for the loan facilitation business following the new regulation, as well as the decreasing commission rate in our traditional insurance brokerage line. Our net margin declined slightly from 22% in the prior quarter this year to 20%. However, we maintain a very good cash position. The net cash outflow from operations in the third quarter was RMB 1 million, and our balance sheet remained robust with a total cash equivalent and restricted cash of RMB 4 billion. This will position us well to address any future challenges and to capture new opportunities. Looking ahead, we remain cautiously optimistic about our business. While we anticipate volatility in the credit and regulatory risk environment, our disciplined credit policy, enhanced risk management capability, and effective risk revenue model will position us well in this market environment. Our international business and Internet insurance segments are expected to drive higher revenue growth and margin growth in the next few quarters. For 2025, we are projecting revenue to be in the range of RMB 1.4 billion to RMB 1.6 billion, reflecting our disciplined approach to growth and risk management. That's the end of my part of the presentation. Thank you very much.

Operator: Thank you. And operator, we are open for Q&A.; We will now begin the question and answer session. The conference has now concluded. If you have any questions, you are welcome to contact the company's IR team. Thank you for attending today's presentation. You may now disconnect.

Ka Chun Hui: Thank you.