

## **PUYI INC. FISCAL YEAR 2020 EARNINGS CONFERENCE CALL EDITED TRANSCRIPT**

September 28, 9:00 PM (US EST)

Operator:

Ladies and gentlemen, welcome to Puyi Inc's Fiscal Year 2020 Earnings Conference Call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be a Q&A session. For your information, today's conference call is being recorded; this conference call is also being broadcasted live over the Internet and will be available for replay purposes on the company's website.

I'd like to turn the meeting over to your first speaker today, Ms. Jing He, Puyi's General Manager of financial reporting department. Thank you. Please go ahead.

Jing He:

Thanks, operator. Good evening. Welcome to our earnings conference call for fiscal year 2020. Our annual report on Form 20-F has been uploaded to the U.S. Securities and Exchange Commission earlier today, and the same version is also available on our IR website.

Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but not limited to, those outlined in our filings with the SEC, including our 20F. We do not undertake any obligation to update this forward-looking information except as required under applicable law.

Joining us today are our Chief Executive Officer, Mr. Yong Ren and Chief Financial Officer, Mr. Anlin Hu. Mr. Ren will walk you through our business and financial conditions of the fiscal year 2020. And he, together with Mr. Hu will answer your questions after the prepared remarks. Now I will turn the call over to Mr. Ren.

CEO REN Yong (Translated):

Good Evening. Thank you for joining us today on the conference call for the fiscal year 2020. Here with me is our Chief financial officer, Mr. Anlin Hu. We will begin today's call with an overview of financial and operational results of the fiscal year 2020, then followed by a brief discussion of our business outlook of the fiscal year 2021. We will take your

questions after the report.

1. Firstly, let's take a look at our business development in the fiscal year 2020

We are an innovative wealth management company with fintech as our core competitiveness, as such, during the fiscal year 2020, we increased investment in upgrading our information technology platforms and achieved remarkable results, as illustrated below:

We have cooperated with Hang Seng Electronics to create an independent business system, which will be operational by the end of 2020.

We have strengthened the construction of online trading system and it is expected that online transaction processing services for privately raised fund products will be launched by the end of 2020, which will greatly enhance the growth of our privately raised fund products' sale.

We have developed and will continue to optimize the "i Financial Planner", an intelligent business platform. Relying on our financial technology, "i Financial Planner" provides seed clients with client data management, account transaction management, asset dynamic management services. At the same time, it provides one-stop business management tools such as investor preference analysis, asset allocation analysis, market information interpretation, and financial product deconstruction. We make full use of our accumulated big data together with artificial intelligence technology to launch professional, individual and comprehensive family financial wealth management planning services, which enable us to assist our seed clients to meet their wealth management needs at different levels.

We also upgraded our online investor education service. We set up "Puyi business school" and "Puyi Academy" platforms to provide online training for seed clients and investors, respectively. Both platforms are designed to cultivate investors' scientific thinking of logical asset allocation.

Through the construction of information technology platforms, our app "Puyi Fund" had over 960,000 registered clients as of June 30, 2020. For the fiscal year 2020, the number of registered clients of "Puyi fund" increased by 290,000, representing an increase of 169.2% compared to the number of newly registered clients of the fiscal year 2019. "Puyi fund" is becoming more and more popular among the young middle-class population. We are also expanding our client base through online channels, using publicly raised fund products as the client traffic entrance point.

In addition to the buildup of online platforms, we were also optimizing our offline channels. During the fiscal year 2020, we classified our seed clients into different levels and strengthened their trainings, and accelerated the professional development

of our sales and service team. According to the criteria of performance, professional ability and learning willingness, we divided the original seed clients into three categories: seed clients, elite seed clients and independent financial advisors. We provided different levels of support to different levels of seed clients, and more importantly we provided different levels of training to fully support the specialization and professionalization of seed clients. We have set up a series of systematic professional training and assessment procedures. We select and cultivate seed clients to become our exclusive independent financial advisors who have the professional ability to provide family asset allocation services. In addition to seed client channels, we are actively exploring new marketing channels. We have established and will continue to establish cooperative relationships with various wealth management entities in the market.

Recently, the wealth management industry becomes more and more standardized and mature, and as a result, the focus of wealth management market will turn to standard market-oriented products. After the issuance of the 2018 asset management guidelines, the CSRC issued the Measures for the Supervision and Administration of Publicly Offered Securities Investment Fund Distributors (herein after referred to as the "Distribution Measures") in August 2020, which will become effective on October 1, 2020. Pursuant to the Distribution Measures, third-party fund distributors, like us, are defined as organizations that are specialized in distributing publicly raised funds and privately raised funds that invested in public securities, which are both considered market-oriented products.

Since the beginning of 2019, we have actively embraced the changes of the policy and market trend, optimizing our product structure and strategically shifting our focus to market-oriented products. On the one hand, we have devoted more resources to the promotion of publicly raised fund products, and positioned the FoF-type of packaged publicly raised fund products as core products to expand our client base. On the other hand, since the first half of our fiscal year 2020, we completely ceased the distribution of non-standard products, downsized the distribution of privately raised fund products - private equity series, and focused on the distribution of privately raised fund products - public securities series, particularly the FoF series.

During the fiscal year 2020, our strategy for shifting to market-oriented products has achieved initial results, and the proportion of our market-oriented products has increased significantly within the company's product offering structure. As a typical representative of market-oriented products, publicly raised funds are increasingly popular with emerging middle-class investors due to their extremely low barrier, high transparency, convenience in trading and strong liquidity. For the fiscal year 2020, the transaction value of publicly raised fund products increased by 86.0% year-on-year, reaching RMB6.9 billion (US\$1.0 billion), and accounting for more than 80% of the total transaction value of the wealth management products we distributed. As such, the net revenue generated from publicly raised fund products increased by 432.7%

year-on-year, reaching RMB48.9 million (US\$6.9 million), and accounting for 45.9% of the total net revenue from wealth management services. As of June 30, 2020, the outstanding balance of publicly raised fund products increased by 168.4% year-on-year, reaching RMB3.4 billion (US\$0.5 billion). In summary, publicly raised fund products, particularly FoF-type of packaged publicly raised fund products, have become our core products to expand client base and greatly supplemented the Company's total net revenue.

For distribution of privately raised fund products, we have focused on the distribution of public securities series products. For the fiscal year 2020, the total transaction value of privately raised fund products was RMB1.1 billion (US\$0.2 billion), among which public securities series products accounted for RMB0.9 billion (US\$0.1 billion) and 80% of the total transaction value. Among public securities series, the transaction value of FoF type products was RMB0.4 billion (US\$59.7 million), accounting for 36.8% of the total transaction value of privately raised fund products.

For the fiscal year 2020, we invested approximately RMB38.5 million (US\$5.5 million) in market promotion activities for publicly raised fund products, and accordingly, the aggregated number of clients of publicly raised fund products increased by more than 300%, reaching 300,000. The average client acquisition cost was approximately RMB170 per client. The substantial growth of the aggregated number of clients demonstrates that the packaged publicly raised fund products on a dollar-cost averaging basis provided by us are highly attractive to investors, and that our market promotion strategy is effective. For the fiscal year 2020, the number of our clients of publicly raised fund products was 260,000, among which clients of FoF-type of packaged publicly raised fund products accounted for 250,000 and 96.7% of the total clients. As long as clients continue investing in our FoF-type of packaged publicly raised fund products, the outstanding balance will continue to grow and form a snowball effect, and as a result, the Company's net revenue will achieve organic growth. At the same time, through our extensive operation of the large and loyal client base attracted by publicly raised fund products, we have explored and will continue to explore mass affluent clients to be our potential high-net-worth clients who may contribute to the sale of our privately raised fund products.

In terms of product supply, we act as the buyer investment consultant, focus on serving the emerging middle class and mass affluent families in China, make packaged products as our core products, and provide products at all risk levels to meet the multi-level and diversified needs of clients. As of June 30, 2020, we have launched five packaged publicly raised fund products, covering the risk level from moderate to aggressive. At the same time, we have also improved our privately raised fund products that invested in public securities. As of June 30, 2020, we have launched a total of six FoFs that invested in public securities.

Expanding client base, layered management of clients and focus on packaged products are the three main strategies we settle on and these strategies have been

gradually verified.

In terms of optimizing back-office professional capabilities, we have hired a number of experts and teams in the areas of product and risk control. These experts' participation will greatly improve the Company's asset management ability, investment research ability and risk control ability.

2. Next, we will briefly discuss our financial conditions for the fiscal year 2020.

For the fiscal year 2020, net revenues decreased year-on-year by 36.3% to RMB129.5 million (US\$ 18.3 million). Now let's turn to each individual business line:

*Firstly, our wealth management services*

Net revenues generated from our wealth management services decreased year-on-year by 44.9% to RMB106.4 million (US\$15.1 million). In particular,

Net revenues generated from distribution of publicly raised fund products (including packaged fund products) were RMB48.9 million (US \$6.9 million), representing a 432.7% increase from RMB9.2 million year-on-year. The increase was primarily due to an increase in commissions as a result of the increase in transaction value of distribution of publicly raised fund products. The transaction value of publicly raised fund products increased by 86.0% year-on-year from RMB3.7 billion for the year ended June 30, 2019 to RMB6.9 billion (US\$1.0 billion) for the year ended June 30, 2020.

Net revenues generated from distribution of privately raised fund products were RMB 44.5 million (US\$6.3 million), representing a 70.2% decrease from RMB150.0 million year-on-year. The decrease was primarily due to (i) the decreased transaction value of privately raised fund products as we further optimized our product portfolio and significantly downsized the distribution of privately raised fund products - private equity fund series; (ii) the outbreak of COVID-19, which had an material adverse impact on our offline distribution of privately raised fund products; and (iii) the decrease in recognized performance-based fees to RMB6.8 million (US\$1.0 million) for the year ended June 30, 2020, from RMB46.9 million for the year ended June 30, 2019.

Net revenues generated from distribution of other financial products (mainly exchange administered products) were RMB13.1 million (US \$1.9 million), representing a 61.8% decrease from RMB34.3 million year-on-year. This decrease was primarily due to the fact that we switched our focus to distribution of fund products and ceased to offer exchange administered products since October 2019.

*Next, our asset management services*

Net revenues generated from asset management services were RMB23.0 million (US\$3.3 million), representing a 732.4% increase from RMB2.8 million year-on-year. This increase was primarily due to (i) an increase in management fee income due to the significant increase in our AUM; and (ii) an increase in performance-based income allocated to us due to positive performance of Hebi FoF series and Ruixuan FoF.

*Last, our corporate finance services*

Net revenues generated from corporate finance services was RMB6,000 (US\$1,000). We ceased corporate finance services primarily because we further consolidated our resources to mainly focus on the development of wealth management services.

3. And the last but not least let's elaborate on our strategic planning and outlook for the fiscal year 2021

In terms of information technology, we will continue to strengthen the construction of fintech, by focusing on construction of independent business system, family asset allocation system, online trading system for privately raised fund products, "i Financial Planner" platform, and intelligent operation system.

In terms of sales channel expansion, on the one hand, we will vigorously develop online channels, focus on clients' financial investment demands, and coordinate the operation of online platforms such as "Puyi fund" app and our official accounts on Wechat. We intend to improve the client activity and retention rate through operations of activities, contents and clients. On the other hand, we will continue to speed up the transformation process of seed clients to professional financial advisors, and promote the establishment of directly operated branches in central cities to build a business support system covering the national central cities such as market development and client service.

In terms of middle-and-back office operation and management, we will optimize our ability to manage clients. With the support of information technology, we will gradually build a four-dimensional intelligent operation management system, including intelligent data, intelligent operation, intelligent business management and intelligent client service.

In terms of market promotion, our strategy to increase marketing and promotion activities for packaged publicly raised fund products to further expand our client base has achieved remarkable results. In addition, the strategy to use packaged publicly raised fund products on dollar averaging basis as core client acquisition tool has proven to be effective. In the fiscal year 2021, we will continue to invest extensively in market promotion to obtain more clients and increase outstanding balance of publicly raised fund products, which may lay a solid foundation for our long-term strategy.

In terms of asset management and risk management, on the one hand, we will continue to improve our ability in research and risk management through introduction of external professionals; and on the other hand, we will sort out the process of research and risk management, and establish a standardized and systematic research and risk management system.

In terms of compliance, we always treat compliance management as the red line and lifeline for operation, particularly we will carry out more stringent sales suitability management, product introduction management, sales personnel's qualification management, seal and documentation management, and company's core data management in fiscal year 2021.

Since early 2020, the novel coronavirus COVID-19 surfaced in parts of China. The promotion and transaction of privately raised fund products are mainly conducted offline. The offline branch office staffs lacked face-to-face communication opportunities with clients due to the impact of the epidemic, and as a result, the sale of privately raised fund products has been affected. In addition, this year's sale has also been affected by our product structure transformation to truly market-oriented products, and with the substantial resource to market promotion activities for publicly raised fund products, our net revenue and net income declined compared to the previous year, but these results are under the control of the management.

In the fiscal year 2020, product structure transformation strategy actively adopted by us has been achieved, and extensive resource invested in market promotion activities for publicly raised fund products has also made great return. With the strict control measures of the Chinese government, the epidemic situation has been effectively controlled, and China's economy has returned to the normal track. The growing number of emerging middle-class and mass affluent families have restored their confidence in China's overall economy recovery, and their investment demand for wealth preservation and appreciation remains strong. In the fiscal year 2021, we will continue the three core strategies "Expanding client base, layered management of client and focus on packaged products", and with the effective implementation of the above measures, the management is confident of the strong development of the company in the future!

Jing He:

Thank you for listening, now we will open for questions. Operator?

Operator:

No questions.

Jing He:

Seems no questions at this time. And we have no closing comments. Thank you everyone, for attending our fiscal year 2020 earnings call. If you have any further questions, please feel free to contact us. Thank you very much. Operator?

Operator:

Thank you. The conference has now concluded. Thank you again for attending today's presentation. You may now all disconnect your lines.