

# **PUYI INC. FISCAL YEAR 2023 EARNINGS CONFERENCE CALL EDITED TRANSCRIPT**

September 25, 2023 9:00PM (US EST)

Operator:

Ladies and gentlemen, welcome to Puyi Inc.'s fiscal year 2023 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:

Good evening. Welcome to our earnings conference call for the fiscal year 2023. Our annual report on Form 20-F has been uploaded to the website of U.S. Securities and Exchange Commission earlier today, and 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 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 20-F. We do not undertake any obligation to update these forward-looking information except as required under the applicable laws.

Joining us today are our chairman of the Board and 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 2023, and together with Mr. Hu, will answer your questions after the prepared remarks. Now I will turn the call over to Mr. Ren.

CEO Yong Ren and CFO Anlin Hu (Translated):

Good evening, everyone. Welcome to our 2023 fiscal year earnings conference call. Here with me is our Chief Financial Officer, Mr. Anlin Hu. First of all, I will give you an overview of our

financial and operational conditions for the fiscal year 2023, then I will discuss briefly our business outlook for the future. Finally, we will have a Q&A session to answer any questions you may have.

Now let me present an overview of our operational results and business initiatives in the fiscal year 2023.

In the fiscal year 2023, influenced by various factors such as strict control measures due to the COVID-19 pandemic in late 2022, the trade tension between U.S. and China, and the geopolitical conflicts, the economic situation has been complex and challenging. The capital market has shown a volatile trend, resulting in a lack of investor confidence and relatively weak overall investment sentiment.

Against this backdrop, our management team has adhered to the principle of prudent management in the fiscal year 2023. On the one hand, we focused on our core business and vigorously developed institutional business, with transaction value of our publicly raised fund products contributed by institutional clients exceeding RMB5 billion, representing a year-on-year growth of approximately 266%. On the other hand, we explored the demands of high-net-worth clients and expanded family office business by promoting insurance premium trust products. As of June 30, 2023, we had assisted an aggregate of 366 affluent family clients to set up trust accounts with entrusted assets of RMB4.1 billion through our trust consulting services. Furthermore, we continuously worked on reducing costs and increasing efficiency, while enhancing professional skills by providing internal training. In the fiscal year 2023, we were able to reduce our operating costs by 34% compared to the previous year, and our operating losses also reduced by 28%.

Our main business operations and strategies during the fiscal year 2023 are reported as follows:

1. Firstly, we focused on our core business of distributing market-oriented funds to individual investors and strengthen our professionalism to meet individual investors' needs.

On the one hand, by accompanying investors through the uncertainties, we aimed to strengthen long-term relationships with them.

Since January 2023, China has entered the post-epidemic era, but the expected economic "revenge" rise did not come as expected, followed by a poor economic and capital market performance, which has affected investor confidence. To address this issue, we adhered to investment education of "long-term investment mechanism" to boost our clients' investment sentiment. At the same time, collaborating with outside professionals, we introduced our investment advisory services to our clients to improve analysis of our fund product portfolios, to reduce product volatility under the current weak market performance, and to stabilize our clients' investment sentiment. We are pleased to see that after carrying out this initiative, we have gained trust and praise of our clients. As of June 30, 2023, most of our clients who hold portfolio products were willing to purchase our investment advisory services, which could bring us new sources of revenue growth.

On the other hand, we have enriched our fund product lineup and implemented precise marketing strategies.

We deeply understood the importance of enhancing our own investment research capabilities and providing more fund products to meet the diverse needs of investors.

In terms of publicly raised fund products, we further expanded our publicly raised fund product portfolios by increasing the number of public fund companies we sourced products from, which increased from 89 as of June 30, 2022 to 103 as of June 30, 2023, including a total of approximately 7,646 publicly raised fund products. In addition, we added two new fund product portfolios according to the needs of clients in the market, including the automatic redeem product – a target-yield product which automatically redeems when reaching the target profit rate, and the smart regular investment product – a smart product which periodically advises investors to contribute different amounts of investments based on the current market condition. Through the "new products bringing in new investments" strategy, these two differentiated and customized products met the needs of clients and stabilized the balance of publicly raised fund products.

Regarding privately raised fund products, we have further enhanced the diversity of our private fund strategies, particularly by timely launching convertible bonds and commodity futures strategies based on market demand. These strategies can capture profit opportunities for clients in volatile market conditions.

2. Secondly, we upgraded the institutional transaction platform based on our core transaction system to achieve breakthrough and growth of institutional business

Institutional investors possess characteristics such as large capital size, stable investments, and high platform stickiness. Gaining favor from institutional investors plays an important role in the next phase of development for our company's publicly raised fund business. In the fiscal year 2023, we have increased investment in the transaction platform designed for institutional investors based on our core system and have attracted a number of institutional investors. We believe that the upgrade and construction of the institutional transaction platform will soon bring returns to the growth of the publicly raised fund business.

In the fiscal year 2023, our institutional business in the financial institution market achieved a breakthrough -- we currently have institutional clients covering most types of financial institutions, including banks, insurance companies, security companies, futures companies, and trust companies. In the fiscal year 2023, the transaction value of publicly raised fund contributed by institutional clients exceeded RMB5 billion.

3. Thirdly, we vigorously developed our family office business by promoting insurance premium trust products, and the number of completed trust consulting service projects reached a new record high

As of June 30, 2023, we had assisted an aggregate of 366 affluent family clients to set up trust accounts with entrusted assets exceeding RMB4.1 billion through our trust consulting services. At the same time, we have diversified and will continue to diversify our service offerings for our high-net-worth clients through establishing cooperation with education service providers, tax firms, law firms, healthcare service providers and other professional firms. We believe that through our comprehensive service offerings, our capabilities in serving high-net-worth clients will continue to improve, creating greater value for clients and achieving a more stable and sustainable development.

4. Fourth, we developed a self-developed IT infrastructure to assist in the continuous improvement of our core businesses

In the fiscal year 2023, we have concentrated our resources on supporting the development of our core businesses. We have placed emphasis on upgrading the Puyi Fund app, institutional transaction platform, family office business internal system and our core transaction system.

For the Puyi Fund app, we further improved it as a “full-scope online transaction processing service platform”. We successfully upgraded its intelligent investment advisory system through digitalization and artificial intelligence, integrating companionship and advisory service to the client’s entire investment lifecycle.

In terms of institutional transaction platform, we have launched a smart port system to connect with other financial institutions’ systems to support the development and expansion of our financial institutional clients. We have also optimized and iterated the functionality of the institutional transaction platform, further enhancing our service level.

For our family office business internal system, we have focused on three key aspects. We have integrated our IT infrastructure to connect with other trust companies’ systems and their information network, achieving information flow digitization and improving trust process efficiency. Then we have strengthened our digitalization construction by opening self-service channels and allowing our financial advisors real-time tracking of trust progress and status. Lastly, we have overall optimized and improved our family office business internal system to better support the development of our family office business.

In terms of core transaction system, we have replaced and iterated the functionalities by expanding the existing functional system, such as adding payment systems and investment advisory systems.

5. Fifth, we deeply optimized our organization and expense management, achieving a significant cost reduction

In terms of marketing expense control, considering the current external operating environment and the company's yet to achieve profitability, we have changed our marketing initiatives for

publicly raised fund product portfolios from stimulating the growth of new accounts to stimulating the growth of new investments.

In terms of organizational structure, we divested one subsidiary and closed several branch offices with long-term losses and minimal business activities, in conjunction with personnel optimization.

In conclusion, during the fiscal year 2023, we have significantly alleviated resource consumption, resulting in a 34% year-on-year decrease in operating costs.

Next, I will briefly discuss the financial condition of our company in the fiscal year 2023.

Our net revenues for the fiscal year 2023 were RMB114.4 million (US\$15.8 million), with a decrease of 39.4% year-on-year as compared to RMB188.7 million in the fiscal year 2022. Now let's turn to each individual business line:

First, for our wealth management services

Net revenues generated from our wealth management services decreased year-on-year by 44.6% from RMB171.5 million in the fiscal year 2022 to RMB95.0 million (US\$13.1 million).

Net revenues generated from distribution of privately raised fund products decreased year-on-year by 58.2% from RMB61.6 million in the fiscal year 2022 to RMB25.7 million (US\$3.6 million) in the fiscal year 2023. The decrease was primarily due to (i) the investors' negative sentiments for privately raised fund products and other high-risk products and the investors' willingness to redeem funds has increased due to market volatility. Therefore, during the reporting period, both the transaction value and outstanding balance of our privately raised fund products have decreased, resulting in a decrease in commission income (including management fees); and (ii) the performance-based income of RMB1.8 million(US\$0.3 million) in the fiscal year 2023, as compared to RMB3.1 million in the fiscal year 2022, representing a year-on-year 40.2% decrease; and

Second, for our asset management services;

Net revenue from asset management services in the fiscal year 2023 was RMB2.0 million (US\$0.3 million), representing a 66.3% year-on-year decrease from RMB5.9 million in the fiscal year

2022. The decrease was primarily due to a 96.0% decrease in performance-based fees generated by our actively managed fund of funds from RMB2.4 million in the fiscal year 2022 to RMB96,000 (US\$13,000) in the fiscal year 2023.

Last, for our other services.

Revenue from other services in the fiscal year 2023 was RMB17.4 million (US\$2.4 million) increased by 54.2% year-on-year from RMB11.3 million in the fiscal year 2022. The increase was mainly attributed to the growth in trust consulting services and insurance services.

Last but not the least, let's elaborate on our strategic plans and outlook for the future.

Against the backdrop of the current unfavorable environment, we will strive for sustainable development through the efforts of management and all employees. Despite facing challenges, there are also factors such as favorable policies that provide us with bright long-term prospects. For example, in July 2023, the 2023 July Politburo meeting and the State Council Executive Meeting made consecutive statements to invigorate the capital market and boost investor confidence. Then in August, multiple positive news were released, including the announcement by the Ministry of Finance to halve the stamp duty, the announcement by China Securities Regulatory Commission to slow down the pace of IPOs and control the reduction of shareholdings for large shareholders, and encourage margin financing. We will closely follow the national policies and focus on the following key areas in the future:

1. First, to further enrich the product portfolios to seize opportunities for development;

The distribution of publicly raised fund product portfolios is our core and main business, characterized by publicly raised fund product's stability and transparency. We believe that publicly raised fund product portfolios will become the preferred financial products for clients seeking stable returns. As bank interest rates decline and the traditional insurance annuity products which have 3.5% annual compound interest rate becomes history, investors, particularly middle-class investors, are more inclined to products with lower volatility or more pronounced returns. Timely utilizing our own research and investment capabilities, along with the long-term accumulation of diversified publicly

raised fund products, we have developed a portfolio product with an expected yield of 4.5%, which has been launched in September 2023. We believe that this product will meet the urgent needs of investors and can serve as an effective tool to maintain and expand our client base. Looking ahead, as the financial market continues to develop and the demand of investors for stable returns increases, the publicly raised fund product portfolios will continue to play an important role in the business of third-party fund distribution companies like us.

On the other hand, we will continue to update the offering of privately raised fund products and replace old products with the new exceptional and distinctive fund products, enriching our equity investment strategies and enhancing the generation of excess returns for our clients.

Indeed, the recent reduction in subscription and management fees by publicly raised fund companies has had an impact on our future revenue. However, in the long run, we will listen carefully to the needs of our clients, continuously optimize our product strategies, provide professional investment services, and launch more stable products to provide clients with a sense of stability and well-being. At the same time, this will help to maintain our foundation and achieve continuous growth in our client base, ensuring steady development of our company.

2. Second, to strengthen the mindset of serving large institutional clients and actively expand institutional business;

With the continuous development of the financial market, the institutional business holds tremendous potential for third-party fund distribution companies like us. In particular, banks and insurance companies, as clients, possess significant scale and extensive influence in the financial sector, making them to be important partners for our company. In the future, we will strengthen the mindset of serving large institutional clients, establish deep partnerships with key institutional clients, and assign dedicated teams for institutional client maintenance. Through the collaboration with outside investment research teams, professionals of Puyi Family Office department and other resources, we expect to empower our institutional clients, deepen our presence in the banking and insurance industries to achieve multidimensional and profound strategic cooperation, expand business scale with key institutional clients, and stabilize the foundation of our institutional business.

3. Third, to continuously optimize our IT systems to support the development of core business

In the future, we will, based on business development needs and with a focus on serving financial advisors, concentrate on the digitization and intelligent construction of core business operations. Key aspects include:

For our core transaction system, we will work on effectively allocate resources and systematically advance our self-developed processes, and place emphasis on payment routing system. This includes connecting with multiple banks through direct channels, thus maximizing efforts to reduce payment fees and enhance user experience.

For our Puyi Fund app, we will strengthen its digitization and intelligent construction, enhance online operational capabilities, improve the asset allocation and recommendation system, and increase user stickiness and activities, driving fund transaction value and daily outstanding balance growth.

For our institutional transaction platform, we will fully support the development of institutional business by improving platform functionality based on the needs of our institutional clients. Building upon our self-developed core transaction system, we will construct a platform that supports various business developments, including facilitating the transaction of privately raised fund products for institutional clients.

For our “i Financial Planner” app, we will continuously enhance the involvement and management of financial advisors. On the one hand, we will gradually establish a financial advisor membership management system to optimize the financial advisors’ experience and increase their loyalty. On the other hand, we will develop data visualization capabilities to track and analyze fund transaction data, thereby better supporting financial advisors in their fund sales.

Based on the long-term positive outlook for China’s economic development and the government’s favorable policies towards the capital market, we believe that there will be substantial benefits for the wealth management industry in the future. We will lead all our partners to respect risks, fear no challenges, work together with unity and determination, operate in compliance and deliver high-quality services.

Jing He:

That ends with the prepared remark, now we will open for questions. Operator, please?

Operator:

No questions.

Jing He:

Thank you very much for attending today's conference call. If you have any questions, feel free to contact us any time. Thank you.

Operator:

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