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PRESENTATION

Operator

Good day, everyone, and welcome to the 360 Finance Third Quarter 2019 Earnings Conference Call. (Operator Instructions) Please also note today's event is being recorded. At this time, I'd like to turn the conference call over to Matthew Li, the company's IR Director. Sir, please go ahead.

Matthew Li ***360 Finance, Inc. - IR Officer***

Thank you, Jimmy. Hello, everyone, and welcome to our third quarter 2019 earnings conference call. Our results were issued earlier today and can be found on our IR website.

Joining me today on the call are Mr. Wu Haisheng, our CEO and Director; Mr. Alex Wu, our CFO; and Mr. Zheng Yan, our Vice President.

Before we begin our prepared remarks, I would like to remind you of the company's safe harbor statement in connection with today's earnings call. Except for any historical information, the material discussed on this conference call may contain forward-looking statements. These statements are based on our current plans, estimates and projections, and therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. For more information about potential risks and uncertainties, please refer to the company's filings with the SEC in its registration statements. In addition, this call will be also include a discussion of certain non-GAAP financial measures. Please refer to our earnings release, which contains a reconciliation of the non-GAAP measures to the most directly comparable GAAP measures.

Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in renminbi.

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

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

Hello, everyone. Thank you for joining our call today. As the leading FinTech company supported by -- (inaudible) the 360 Group, we have always prided ourselves on our market position and sustainable growth. In the third quarter, we continue to achieve healthy and solid growth as we remain committed to reevaluating our strategies in place. Our total registered users increased by 15% from last quarter to 126 million and the loan origination volume increased by 16% from the previous quarter to RMB 26 billion. We have firmly implemented our strategic transition from a traditional loan facilitator to a technology enabler through the capital-light model. In this quarter, loans facilitated under capital-light model accounted for 20% of total loan origination volume, significantly increased from 8% in last quarter. This has not only allowed us to steadily reduce overall operational risk, but also have more free cash to support our daily operations and pilot projects.

In the third quarter, we have devoted efforts through delinquency management for costs and operations management. We managed to bring average user acquisition costs down from last quarter, which improves the lifetime value of our borrowers. We have strengthened our cooperation with financial institutions and we further diversified our funding sources, and as a result reduced our overall funding costs. As of the end of Q3, we have established relationships with 74 financial institutions, increased from 62 a quarter ago.

Our overall funding cost was 8.44% in this quarter, decreased from 8.83% in Q2. Recently, we have observed regulatory tightening and market volatilities. We have been always considering regulatory compliance as a top priority in our business operations, and actively build out a number of measures to cope with the evolving regulatory environment. Backed by the largest Internet security company in China, we are honored to join efforts with regulators and leading companies to establish an anti-scam alert system. In addition, we cooperated with National Internet Finance Association of China to invite regulatory departments, (inaudible) leader and the leading tier companies to advocate for anti-scam and protecting customers' property.

Furthermore, we have received approval from People's Bank of China to connect to its credit system, which will allow us to download and submit data on borrower's credit profile. We believe this will enhance our risk management capabilities by increasing the effectiveness of credit underwriting and borrower's cost of default.

We also increased the adoption of AI robots in collection of default loans and strengthened our quality inspection for collection activities. Additionally, we have joined hands with Shanghai Jiao Tong University to establish a lab to conduct research on the most cutting-edge AI algorithm for application in the FinTech industry. This is an important step for us in developing AI technology and recruiting high-quality AI talent.

In response to the short-term market uncertainties, we expect to adopt a relatively conservative measure of customer acquisition. We have to remain confident in meeting our full year guidance.

In the long run, we will continue focus on quality of growth and the safety of operations, while maintaining a reasonable growth rate. We are committed to delivering greater value to our stakeholders.

And one more thing, we are glad to hear that FountainVest, one of the leading private equity funds in China, have completed a deal with several of our pre-IPO investors and became a significant shareholder through 360 Finance. FountainVest targets to act as a long-term institutional investor of our company, whose investments helps to improve our shareholder structure and the (inaudible) issue. FountainVest comes with its deep understanding of China market and the FinTech industry. We expect them to provide us with very good advice and insights on corporate strategy and capital market, among other things. On behalf of company, we extend our warmest welcome to FountainVest as our shareholder and Board member.

With that said, I will now turn the call over to our CFO, Alex, to discuss our financial results.

Jiang Wu *360 Finance, Inc. - CFO*

Thank you, Haisheng. Hello, everyone. Since our operational and financial results were released earlier today, I will only comment on a few highlights. As Haisheng just mentioned, we achieved a solid operational result in a lot of areas of our business which, in turn, generated healthy financial results. Compared with Q2, our total net revenue in this quarter increased by 16% to CNY 2.6 billion, operating income increased by 14% to CNY 924 million, and net income increased by 19% to CNY 734 million. In addition to achieving solid and healthy growth, we have firmly implemented our strategic transition from the traditional loan facilitator to a technology enabler through the capital-light model.

In this quarter, loans facilitated under the capital-light model accounted for 20% of the total loan origination volume, significantly increased from 8% in the last quarter. In this quarter, revenue generated from the capital-light business was CNY 336 million or 13% of the total net revenue, compared with CNY 140 million or 5.1% of the total net revenues in the previous quarter. This has not only allowed us to steadily reduce our operational risk, have more free cash to support our daily operations and pilot projects, but also provided us with more cushion for the uncertainties down the road. More importantly, we have constantly adopted a prudent policy for financial and operational management. This is illustrated by our commitment to originating more on-balance sheet loans to better match our revenue with cash flow as long as the cost of consolidated trusts were reasonable. In the third quarter, on-balance sheet loans accounted for 16.6% of the total loan origination volume, increased from 9.5% in the last quarter.

On the other hand, we maintain our prudent attitude towards risk management to ensure sufficient provisions for credit risks related to both on- and off-balance sheet loans. Our prudent provision policies also reflect the other service fee revenues, that's the item in the P&L, which include the revenue from excessive guarantee liabilities released upon expiry of the underlying loans.

In this quarter, the other service fee revenues increased by 42% from the previous quarter to CNY 282 million. This was primarily due to the increase in the revenue from referring borrowers to add on platform and increase of the release of guarantee liabilities mentioned above.

Although this strategic initiatives enable us to reduce our overall operational risk, we need to be frank that they have caused a negative impact on our profitability. As a result, we have rolled out a number of initiatives to cut cost and offset the impact on our earnings.

Firstly, we have strengthened our cooperation with financial institutions to diversify our funding source and trimmed our overall funding cost. Our overall funding cost was 8.4% in the third quarter. In July, we successfully issued CNY 1 billion ABS with attractive comprehensive cost at about 5.6%, despite the challenging domestic ABS market.

Secondly, through our delinquency management of sales and marketing, we managed to bring the average user acquisition cost down to CNY 246 per each user we granted credit line compared with CNY 262 in the previous quarter. And thirdly, we are striving to reduce our effective tax rate, which will -- we expect to be reflected in our future earnings.

In response to short-term market uncertainties, we expect to adopt a relatively conservative measure of customer acquisition going forward in the near term. However, we remain very confident in meeting our full year guidance and maintain sustainable growth in the long run.

With that, I will conclude our prepared remarks and open the floor for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Steven Chan from Haitong International.

Sik Tin Chan ***Haitong International Research Limited - Executive Director***

This is Steven Chan of Haitong International. Three quick questions. First of all, about the take rate of the capital-light model and the take rate of the guarantee model. Could you share with us what's the take rate in Q3 for each of them? And your plan to -- how long are you going to convert your capital-light model into 100% of your whole loan book? That's the first question. Second question, I noticed that there was an item related to interest expenses, which is net after the total operating costs. And then at the same time, there is a short-term loan of about CNY 1.5 billion. So could you share with us what's that about?

And finally, of course, we noticed that your provision has increased quite substantially for both, you mentioned -- or even for off-balance sheet as well. So could you share with us, is it more related to supply and increase in general provisions or because -- or is it more related to you an increase in stuff like delinquency? So that's why you have to make your provisions? And what's the guarantee cost currently in the third quarter compared with second quarter? And finally, a very short one. Sorry, that I -- could you remind us your full year guidance again? That's it.

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, Steve. I will take the first question. So on the tax rate, under the -- we call this traditional facilitation model, the gross take rate is around 14% in the third quarter, it's in a quite relative stable. And -- but for the capital-light model, it actually decreased a little bit to below -- slightly below 10%. That's because in the second -- in the third -- second quarter, we primarily also the assets priced at high end to the financial institution partners. And in the third quarter, we're starting to offload the assets with slightly lower APR to the financial institutions, which will naturally bring down the take rate for the capital-light model. That's within our expectation.

And the second question, I'm not quite get it. Which number are you looking at from the P&L? Can you please...

Sik Tin Chan ***Haitong International Research Limited - Executive Director***

Okay. You're talking about in P&L, in the third quarter, there is an item called CNY 25.5 million. I think it's an interest expenses below the total income from operations. Total operating costs and expenses and income from up -- below the item income from operation, there is an item, interest expense net, which is 25,546. And correspondingly, we are seeing short-term loans of 1,535 million. So just want to know what -- I suppose you guys will be cash rich, so what's that about? Is that related to ABS or something else?

Jiang Wu ***360 Finance, Inc. - CFO***

Yes, yes. That's related to -- yes, Steven, you are right. That's related to ABS.

Sik Tin Chan ***Haitong International Research Limited - Executive Director***

Okay, okay. And then provisions, is it more related to general or specific provisions to increase and the guarantee costs?

Jiang Wu ***360 Finance, Inc. - CFO***

Yes. Your third question -- yes, maybe our Vice President for the Risk Management, Mr. Zheng will answer that in Chinese and maybe translate it a bit in English.

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Matthew Li ***360 Finance, Inc. - IR Officer***

[Interpreted] Steven, this is Matthew. Let me translate it for Mr. Zheng. So in the third quarter, if you annualize, our provision rate was around 7.1% of the loan volume. It's slightly higher than 6.18% in the second quarter. But if you look at the other revenue item on our P&L, which includes the release of guarantee liabilities upon the provision of underlying loans. So this illustrates our consistently prudent treatment policy for provision related to credit risk. In general, we believe our prudent policy will improve our overall resilience for risk in the long term.

Sik Tin Chan ***Haitong International Research Limited - Executive Director***

Sorry, can I have a very, very quick one. So do you have any guidance for provisions? Because now you have make it up to 7.1%. Do you think that the provision will likely to go down in the final quarter? And then, as I mentioned, most of your full year guidance and also related to question one, again, what will be the timing for you to have 100% capital-light loan portfolio?

Jiang Wu ***360 Finance, Inc. - CFO***

Let me take that, Steven. So for the guidance, we only provide that we maintain our guidance for the full year. We gave the guidance earlier this year, so on the revenue, it's CNY 8 billion to CNY 8.5 billion. We are very confident -- as I just mentioned, we are very confident to beat that guidance. And our company is very conservative in terms of the verbal communication. We don't revise it up or down the road. We just make sure that we beat the guidance. So that's -- hopefully, I can answer that question to you.

Secondly, in terms of the time line for this model switching, obviously, our ultimate target will be primarily to -- our revenue primarily driven by the so-called capital-light model, but we need to keep a fine balance between the top sustainable business and the profitability. So we will gauge the process down the road. And we don't think 100% capital-light model will not happen next year. We're still evaluating the percentage. We will give you the guidance -- more clear guidance by end of this year or early next year.

Operator

Our next question comes from John Cai from Morgan Stanley.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Congratulations on the solid results and the strong growth momentum. I think that you mentioned about regulatory tighten and market volatilities. Just wonder, how have -- so have our loan book being impacted by that already? I know that we raised the provision in the third quarter. I just want to try to understand, is that conservative approach towards future potential risk pick up? Or we already see some impact on our existing loan books? And more specifically, I understand that we have a relatively wide risk spectrums. I just wonder, if there's any impact or are we concerned about a certain segment that will be impacted by this volatility entitlement? And secondly, I want to ask about the acquisition costs. It seems it's down on a sequential basis. Just wonder what's our outlook for that.

Jiang Wu ***360 Finance, Inc. - CFO***

Sure. John, let me take this first question, and probably our CEO, Haisheng, may answer your second question in terms of acquisition cost. So for the provision, obviously, everybody noticed that for the provision for loan amortized cost increased a lot compared with last quarter. That's not relative to the worsening of the asset, it's just because we cumulate on-balance sheet assets in the past 2 quarters. It's a natural result. It's not something we see as a bad sign for the asset quality. Okay. Because, initially, we used relatively high-quality asset to put on our balance sheet. As we increase the scale of on-balance sheet assets, we kind of touch on the median quality assets. So the provision would naturally go up. Simply, it just -- simply use that number divided by the on-balance sheet loan origination, you will see that percentage, it's in line with our assets, the whole book asset quality. So it's not related to the current situation. That's the first point we want to address.

The second point is that we do see there are uncertainties driven asset quality bumping on the road. We closely monitor that. Right now, we think the asset quality is still manageable, and we still feel comfortable with our asset quality. Hopefully, I answer your question, this -- the first question. And I will turn to Mr. Haisheng to your second question.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Matthew Li ***360 Finance, Inc. - IR Officer***

[Interpreted] John, probably I'll translate the first point. So in Q3, we did see a decline of our user acquisition cost. But at the same time, we also have seen the absolute number of borrowers we acquired increased by roughly 20% from the previous quarter and also with better credit profile. So in general, we see the customer acquisition efficiency in the third quarter has improved a lot.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Matthew Li ***360 Finance, Inc. - IR Officer***

[Interpreted] And this is because we spend a lot of efforts and investments on the development of AI system, which enabled us to cover more user acquisition channels and improve the quality of users and the efficiency of our user acquisition.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Matthew Li ***360 Finance, Inc. - IR Officer***

[Interpreted] So for our expectation of user acquisition cost in the future, that will depend on a number of different factors including our target growth rate, the market competition dynamics. But what we can assure you is that we will continue to invest more in the development of the AI technology to further optimize our user acquisition system and efficiency.

Operator

Our next question comes from Daphne Poon from Citi.

Daphne Poon ***Citigroup Inc, Research Division - Associate***

So my first question is about the -- actually, the regulatory outlook for the loan facilitation model, especially risk-taking part. So I think recently, there has been some possible potential tightening against this risk tightening -- risk-taking model. And some of your peers have also been quite aggressively moving towards the long risk-taking or you call the capital-light model. So I would like to -- we'd like to hear your view on that in terms of the migration outlook. And I heard you mention that you have no rush to ramp up the capital-light model yet, but do you see any like concerns from the regulatory side? And secondly is also regarding the capital-light model. So on the take rate, so you started with 36% APR loan and then you -- this quarter, you lowered the APR, and that also bring down the take rate. So I would be wondering in terms of the outlook, do you have any guidance in terms of what kind of APR would be the sustainable level for that model. And also, what would be the sustainable take rate for that?

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, Daphne. Let me take your questions. The first thing is the -- about the facilitation model. Obviously, there are a lot of talks in the past few months in terms of regulation change. We noticed that as well. That's why we firmly to commit our transition from the traditional model to the capital-light model. That's one of the reasons quite obviously. The second thing is the reason we're not in rush just because based on our conversation with the regulators business is still underway. Just remind everybody how long that finalization about P2P issue to form up. But it's not just something can come into choose in one night. So we will take it very seriously, but we're definitely not in the rush to make a quick decision on that. We will closely monitor that process. But just assure all investors and the international capital market community, we are very responsible for all the stakeholders, we'll not put our business model under danger in the loan -- on the loan.

Second question regarding the capital-light model's take rate. You are right, this -- naturally, if we take the capital-light model, the take rate will drop-down, right? So we'd never deny that. But what we can see is that there are a lot of moving parts in terms of this business model. For example, we see that funding cost decreased in the past few quarters. They're constantly decreasing. With more diverse funding source, we are capable to decrease the funding source -- cost a little bit further. As we just mentioned, we issued CNY 1 billion ABS in the third quarter. Just to remind everyone, the ABS -- domestic ABS market was very challenging in the past few quarters because of regional banks, they have some issues there. But we still can successfully manage that. Things happen. So we are confident to do that.

The other moving part is, as Haisheng just mentioned, the sales marketing -- the cost. Obviously, the trend is not a one-way ticket. We still see some way to control that, that cost. We will closely monitor that on an ROI basis. We'll make sure that every dollar we're putting, we have at least make a certain amount or say decent amount of profit. The third thing is that if we take this capital-light model, we don't take any provisions. Just to remind everyone, the provision accounted for a slight portion of the whole economics, right? So there are so many moving parts. So if you ask me today, what's the guidance in terms of breakeven point, it's -- to be honest, we can't give you an exact number right now. I think this is very responsible for the all investors. But we will closely monitor that, make sure that this is not a loss-making business. Hopefully, I answered your questions.

Daphne Poon ***Citigroup Inc, Research Division - Associate***

Yes. So maybe just following up on the capital-light model. So actually, my question is, if you have to like further ramp up the capital-light model to expand to more funding partners, does that mean that the APR would potentially have to come down further, maybe some banks or other financial institutions, they may only take 24% APR? So...

Jiang Wu ***360 Finance, Inc. - CFO***

Yes. You are right.

Daphne Poon ***Citigroup Inc, Research Division - Associate***

In that sense that, I guess, like, where you see that APR stabilizing for that capital-light model?

Jiang Wu ***360 Finance, Inc. - CFO***

Yes. You are right. Obviously, when we work with some larger scale banks, they will have some requirement in terms of APR, then we will -- and also -- corresponding assets to them. But just to remind everyone that if we price that at a lower APR, which means that the delinquency were naturally lower.

Operator

Our next question comes from Jacky Zuo from China Renaissance.

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

Congrats for the solid results. So several follow-up questions. First one is on the customer acquisition cost. We mentioned in our results announcement that we will be conservative in acquiring customers in the near future. So does that mean we will see a decline probably in the sales marketing item? And so in my view, probably, we want to acquire good quality customers. So a related question is, what is our APR trend probably in the third quarter and the quarter afterwards? And second question is about our funding cost. We mentioned earlier that our funding costs roughly dropped about 40 bps, if I remember right, in this third quarter. So does that all come from the issuance of lower cost ABS? Or we also get cheaper funding from our funding partners? And what will be the funding cost trend going forward? And my last question is also about regulations. So today, we saw news -- media report that the regulator actually encourage P2P to convert to micro -- online micro lending companies with roughly 6x maximum leverage. So since licensing is kind of one regulation direction, so just wondering, do we prepare to kind of acquire or apply lending license? And do we sense that it will open up the ABS market as well going forward?

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you. I think for the first question, our CEO will answer that. I will take the rest.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Matthew Li ***360 Finance, Inc. - IR Officer***

[Interpreted] The first point is, in Q4, we expect to adopt a more conservative growth target since we're currently very confident in meeting our full year guidance gave to market.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Matthew Li ***360 Finance, Inc. - IR Officer***

[Interpreted] So as we see, there are overhand regulatory uncertainties on the market. We believe too much exposure to the media or to our marketing channels may bring potential risks for the leading companies as a 360 Finance.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Matthew Li ***360 Finance, Inc. - IR Officer***

[Interpreted] Yes. So as of now, we have accumulated a huge number of borrowers on our database. So our target is to develop more potential from these borrowers and serve them -- provide them with more products and services. So if you look at the numbers, there are already more than 10 million users have completed transactions through our platforms. Going forward, we target to provide more services to these users. And in this quarter, we also tailor-made a product to retain our existing users and provide more services to them. That's it.

Jiang Wu ***360 Finance, Inc. - CFO***

Okay. I will take the last questions, Jacky. So for the ABR trend, what we can see is it would -- we see the trend would be relatively stable. It will fluctuate between 28% to 30%. But in the general trend, we will slightly go down a little bit, but it should be quite stable at this stage.

For the funding cost, the decrease of funding cost, there is mix effort of the ABS and decrease of funding costs from financial institutions. We do see their strong demand for our assets from the financial asset -- financial institutions. So the funding cost actually go down from their end. So it's a mix, to answer your question.

The third thing you mentioned is regulation license issue. Yes, we noticed that this new circular, Circular 83, I think, or 85, I can't remember the exact number, but we did notice that. And just to remind everyone, we do have online micro lending license. So if that regulation comes out, it will -- it's a very nice change for us. What we can do is just increase our registered capital, then we can do more business under this license. So to your question, for micro lending license, we don't need another one and we don't need P2P to convert micro lending license. But we are really open for all options to other big -- so-called big license. But right now, there is no any firm discussion at this stage. We just open for all options. Hope we answered your questions.

Operator

(Operator Instructions) Our next question comes from John Cai from Morgan Stanley as a follow-up.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Just want to follow-up on -- still on the market conditions that we are seeing. So it seems that we are still resilient in terms of the asset quality in terms of the growth outlook. I just wonder, are you seeing a lot of the players asset in the market and -- smaller players, obviously? And I noticed that we also refer some traffic to others. Would that -- would these asset of smaller players in certain ways impacted our [referral] revenue?

Jiang Wu ***360 Finance, Inc. - CFO***

Yes, John, you are right. Obviously, we can't comment on other players, but we do -- as usual, we do see any tightening regulation as an opportunity for us to grab the market shares. And we do have the resilience to meet all the regulations, whether new or old regulations.

And in terms of referral business, you are right. We were impacted by these uncertainties. We do see this happened in the past few quarters again and again. But given that, that business has contributed a very small portion in terms of our overall revenue, we don't think this will have a significant impact on our overall performance.

Operator

And our next question comes from Matthew Larson from National Securities.

Matthew Larson;National Securities Corporation

I got on a little late, so I apologize if I am asking a question that might have already been addressed. A couple of things. I see on November 27, a group called FountainVest bought 11.5 million shares. Was that newly issued shares? Or were these shares bought, I guess, from some other current shareholder?

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, Matt. Let me take your question. In short, it's not new shares. The FountainVest bought shares directly from our existing shareholder. I think we mentioned that in the past few quarters that we have the so-called legacy shareholders who helped our Chairman privatize 360 couple of years ago. When we spun off from 360, those shareholders become our shareholders. So according to our understanding, FountainVest bought shares from those legacy shareholders. But given that, that transaction has happened between FountainVest and our existing shareholder, for the details that we're not quite clear. We do believe that the FountainVest will issue some documents like 13D, you will find out more details on that.

Matthew Larson;National Securities Corporation

Okay. And then just trying to get my arms around the cautionary or bearish case on the whole industry, because the regulatory environment has been tightened. And it's something you all have to negotiate, but this is nothing new, this has been going on for 2 years. And it has resulted in the exit of perhaps thousands of companies, many P2P players, which in the short term, presumably, has caused some liquidity issues because people who might have loans with some of these companies that are exiting the industry have trouble refinancing, which might be one of the reasons why firms like yourself and others are seeing maybe an uptick in provisions and delinquencies that hopefully might abate as the short-term loans roll over, I mean, in -- for me, as an investor, you never like to see companies with a very low valuation as a price to earnings valuation that can't seem to attract investors because that means that maybe those earnings are going to disappear or turn into losses, and the book value might be impaired. But what I don't see which is what we saw here in the United States and globally, I guess, during the financial crisis where you had companies in the financial area, I'll just throw out names like Lehman Brothers and Bear Stearns, who were trading every day through their -- well below their book values because their book values weren't accurate and they were leveraged, say, 30:1.

Companies in your industry tend to be leveraged 2, 3, 4, 5:1, and everybody seems to be reining in some of their lending until they can get their arms around some of the delinquencies that might be creeping higher, which are manageable right now, but it's no secret that the economy has been a little weak in the PRC. And if you believe in cycles, because that's why the term cycle even exists, there's every reason to believe there'll be an up cycle at some point, of which you'll see loan growth and even more manageable delinquencies. So with that being said, your company has several hundred million in cash, and if you just have flat earnings or even slightly declining earnings within a year, year or 2, you'll have cash in your market value, assuming that the stock never goes up, which in a sense, you could just go private. So with that assessment, can you critique or pick any holes in it because you're not saddled again with subprime assets that have no liquidity, where there's no bid for them. Your loans that might be having a problem because the delinquencies are creeping higher, are just going to roll off anyway, and you don't have to renew them, at least that's how I look at it. So can you give me a sense of your next year's guidance? Do you see growth, I mean, from this year? Is that something you can talk about?

Jiang Wu ***360 Finance, Inc. - CFO***

Yes, sure. Really appreciate your insights on the cycle and the concerns on the overall industry. It's more like guidance for us. I really appreciate, Matt. And if you ask if there is any potential loophole in our business model, I would say, nobody is perfect, okay. So we do see we have a lot of room to improve, that's why starting from Q2, we firmly to -- starting to switch up -- do this transition -- business model transition from the traditional facilitation model to the capital-light model. If -- for the capital-light model, we take 0 principal risk on the table and off the table. So if you take a look at our leverage, so-called leverage ratio, it actually decreased in the past few quarters, we can calculate that. I think everybody can calculate that. We provide all the data. And going forward, obviously, the capital-light models will increase the -- the volume will increase. So we see our business model will be more sustainable going forward. And -- but you are right, what we -- the ultimate goal for us is to survive the credit cycle and make profit for all the shareholders, right? So we will closely monitor that. And -- but if you ask me the guidance for specific numbers the next year, we cannot give you that. But what we can say that is we will see growth next year.

Matthew Larson;National Securities Corporation

All right. I mean, it's really all -- I'm sorry, go ahead.

Jiang Wu ***360 Finance, Inc. - CFO***

Yes, go ahead. Go ahead.

Matthew Larson;National Securities Corporation

Well, when a company such as yours is valued at, say, 2 to 2.5x current year's earnings, and you have -- I'm not looking at it, but you've got like CNY 500 million roughly in cash and restricted cash and your market cap is CNY 1.1 billion. If you just show any growth, right, then the multiple is still going to remain extremely depressed relative to really any other asset class out there. And that's really all investors, myself included, care about is that it's not -- you're not circling the drain, and you're overwhelmed with that lending decisions -- legacy lending decisions. And instead, you're saying that there will be some growth, but you just can't give accurate guidance yet, but we would expect to get that in the coming weeks or months. So that's what investing is all about. So all right. Well, you've kind of answered my questions, because I'm trying to get arms around this industry because it's kind of on my radar. So thanks for your insight and your information.

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you. We will definitely give the market the guidance in the coming -- in the near-term for the next year.

Operator

Ladies and gentlemen, with that, we'll conclude today's question-and-answer session and today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you.