

**Noah Holdings Limited [NOAH]
Q2 2021 Results Conference Call
August 17, 2021, 8:00 PM ET.**

Company Representatives
Jingbo Wang, Co-Founder, Chief Executive Officer
Grant Pan, Chief Financial Officer

Analysts
Ethan Wang, CLSA
Emma Xu, Bank of America
Yoyo Fan, CICC

Presentation

Operator: Good day, and welcome to the Noah Holdings Limited Second Quarter 2021 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Ms. Jingbo Wang, CFO (sic). Please go ahead.

Grant Pan: CEO.

Jingbo Wang: CEO. (Speaking foreign language).

(Translated). For today's teleconference agenda, I will first report on Noah's overall performance in the second quarter of 2021, the development of major business segments and the progress of our key strategic projects, next I will walk you through Noah's changes and strategies "from 'product-driven' to 'client-oriented'". Then we will invite our CFO Mr. Qing Pan to introduce the quarterly financial information, followed by Q&A.

With the continuous adjustment of regulations, the compliance cost of the financial industry has increased, while compliance has become a matter of life and death for financial institutions. After an eight-quarter transformation, Noah has not only distributed zero new non-standardized private credit products, but also 100% completed the early or on-schedule redemption of private credit assets in our AUM in this quarter. Since the transformation, Noah has exited RMB32 billion of private credit products and completed distribution to clients. In the first half of 2021, with the promotion of the Noah Triangle service model, we achieved the fastest growth in our diamond- and black-card clients since the transformation. With the strong support of our clients and the efforts of all Noah employees, we have completed the transformation and maintained a year-on-year steady growth in the second quarter.

In the second quarter of 2021, Noah reported net revenues of RMB900 million, a year-on-year increase of 20.3%, while the non-GAAP net income attributable to shareholders reached

RMB340 million, a year-on-year increase of 7.5%. As of June 30, Noah has realized a total non-GAAP net income of RMB800 million, representing 66.7% of the full-year guidance, ahead of planned progress.

In terms of core business data, transaction value in the second quarter was RMB25.0 billion, up 16.6% year-on-year; specifically, the transaction value of private secondary market funds was RMB7.71 billion, up 7.6% year-on-year; mutual funds were RMB9.38 billion, down 13.3% year-on-year, affected by the overall market performance. It is worth mentioning that the AUM inflow of private equity Fund of Funds managed by Gopher was RMB6.47 billion, 2.5 times that of the same period last year; Our performance in the overseas sector also rebounded well this year. The net income of the overseas sector was RMB230 million, a year-on-year increase of 23%; overseas AUM was RMB27.85 billion, up 7.4% over the end of the first quarter of 2021, accounting for 17.1% of the Group's total AUM.

At the beginning of this year, we once again decided to focus on high-net-worth and ultra-high-net-worth clients as our core client base. I am glad to report that as of June 30, 2021, Noah has 6,386 diamond-card clients, an increase of 12.3% in the first half of 2021; 1,482 black-card clients, an increase of 18.7% in the first half of 2021; this is the fastest growing quarter of diamond- and black-card clients since Noah's transformation.

Our core clients' activeness continued to improve year-on-year: in the second quarter of 2021, the total number of active clients including mutual fund-only clients, exceeded 20,000, a year-on-year increase of 38%; the number of active clients excluding mutual fund-only clients, increased by 39% year-on-year in the second quarter; the number of active clients of mutual funds increased by 36% year-on-year.

Noah is committed to the transformation from "product-driven" to "client-oriented". Under the supernova Relationship Managers' communications quantitative plan, the completion rate of the monthly communication between relationship managers and clients has reached 98%; By serving our core clients with the Noah Triangle model and through our digital transformation, we can provide suitable products and services to the right clients at the right time on the premise of better insight into client needs.

In the past, relationship managers were guided by product sales. Now, the change is to adhere to screening and identifying accredited investors, adhere to comprehensive and higher compliance standards, and meet clients' key wealth management needs in the correct way. At the wealth management headquarters, we, on one hand, established a client identification system to accurately identify clients, propose client business strategies and formulate plans, while on the other hand, we improve the talent density in local branches through the identification, screening, training and examination of various roles in the Noah Triangles, so as to realize the transformation from "sprinkler irrigation" to "drip irrigation". Our "client-oriented" philosophy helps us serve our clients more accurately and efficiently.

With new blood coming in, our front-line talents are undergoing the "survival of the fittest" process all the time. In 2021, Noah ramped up the recruitment of relationship managers, adding nearly 200 new team members in the first half of the year. The turnover rate of elite relationship managers maintained an industry low of 1.7%. During the transformation, we have also made a

new organizational design for our wealth management segment, from the past organizational structure of focusing on product promotion to today's new organizational structure and business scenarios focusing on clients' experiences and needs, as well as customized solutions.

As of June 30, 2021, Gopher's AUM was RMB155.9 billion, stabilized and recovered. We have achieved the milestone of "zero AUM" of non-standardized private credit products. We feel very lucky that this has also given us time and space for reform. Other actively managed funds have posted varying degrees of growth, of which the AUM of public securities was RMB11.12 billion, an increase of 5.5% over the end of the first quarter; the AUM of private equity was RMB127.74 billion, an increase of 4.8% over the end of the first quarter.

Gopher's target strategy products are also among the key strategic focuses the Group. In July, two funds have achieved the target investment return and outperformed the comparable market indexes; the third product has also been launched.

Like the Group, Gopher's transformation is also client-oriented. Firstly, Gopher has established an investment research team of 39 members, which governs the fund research department, the macro strategy team, the credit rating department and corresponding industry teams. Secondly, Gopher endeavors to delve into the client portrait of investing in Gopher products. Based on client needs, Gopher's portfolio management reports have been revised and optimized, with more detailed and readable content, which have obtained positive feedback from clients, so as to drive the governance of portfolio management data and create a digitalized investment management process and system.

In the second half of 2021, we will continue to expand the AR/SR/FR teams and improve the quality of client marketing activities. First, we build multi-level Noah Triangles centered on clients, with 1 AR + 1 FR + several SRs for collaborative team work. ARs, as account managers, are responsible for client origination, providing comprehensive asset allocation services for clients and maintaining client relations; SRs, as product experts, are responsible for providing clients with product introduction and solutions; FRs, as delivery experts, are responsible for providing clients with integrated portfolio reports and interpretation services. Second, we will implement matrix management from the Group to local branches, making sure that each layer performs its own duties from strategic planning to market planning and from quality control to compliance quality control, so as to improve the quality of deliverables.

The transformation we are implementing is to make organizational design with clients as the center, build new business scenarios with survival as the bottom line, identify, evaluate and distribute value based on data, and promote the implementation of transformation with organizational capacity-building. The transformation follows the method of "easy first, difficult later" from the Group to business segments; we will determine the transformation milestones and key inspection points at each stage, and specify the transformation map. We will adhere to the philosophy of client- and future-oriented. Given the inevitable homogenization of standardized products, our services must be more targeted and client-oriented. At the same time, we will pursue long-term sustainable development, give up short-term interests, and strive to become an industry leader in terms of compliant business operation taking survival as the bottom line. We will input thinking framework, methodology and management action for capacity building. In terms of human resources, we will base our evaluation on the value created and distributed by

the employee.

Noah's new ranking and qualification system has been released and implemented. The ranking of employees has been completed. Through post weighing, person-post matching, post determination by responsibility, salary determination by post, post-salary linkage, etc., Noah encourages two-way movement of rankings and post rotation. We have established a qualification system for professional posts, covering the whole talent management life cycle of "selection, education, employment, retention and retirement", broadening the career development channel of employees, and optimizing the salary system. Two thirds staff in key posts have benefited from the salaries increase this time, which contributes to encouraging and retaining core employees and driving the growth and development of all employees. In the mid-term employee experience survey in 2021, 83% of employees believed that the company's objectives and missions are clearer than last year.

The process of transformation has also deepened our understanding of the business. We provide financial products mostly for high-net-worth and ultra-high-net-worth clients, provide family trust, insurance, family office and other services around client motivation, conduct marketing events based on client emotions, hold various client activities in line with their needs, and make structure changes centered on empowering the front line, all of which are based on compliance and digitization ability.

We believe that with the planning of Noah's new headquarters buildings, our client reception interface and visiting experience will be greatly improved in the future. We also plan to comprehensively improve and rejuvenate Noah's brand image, to show a side of Noah with more youth, energy and warmth, to better serve our clients and further empower our front line.

Long-term and sustainable development have always been held high by Noah. The Sustainable Development Committee of Noah Holdings has established the Group's sustainable development structure to enhance ESG awareness.

In May 2021, Noah released a declaration on carbon reduction. We are committed to the principle of sustainable operation, to actively engaged in responsible investment, and set short-, medium- and long-term carbon neutrality goals.

Currently nearly two-thirds of Noah's employees are female. I also signed the Women's Empowerment Principles (WEPs) of UN Women, creating opportunities for women to hold management positions, and helping more women improve their economic ability.

Looking forward to a better tomorrow for sustainable wealth management and asset management industries.

Now, our CFO, Mr. Pan Qing will introduce to you the 2Q21 financial data in detail. Thank you.

Grant Pan: Thanks, Sonia, and thank you, Chairlady. Dear investors, analysts, good morning; very happy to share with you another solid quarter with the strong growth achieved across revenues, profits and transaction values over the comparable period from last year.

We are also very excited to see the robust growth in our client activities, especially a record-high

growth in Black Card clients, benefiting from the continuous implementation of our upgraded client service model and digitalization strategy.

As of the first half of 2021, we also recorded non-GAAP net income of RMB800 million, which was ahead of schedule to meet the full-year guidance of RMB1.2 billion to RMB1.3 billion.

Another notable milestone in this quarter is that we have successfully exited and made full distributions to our clients, all of the non-standardized single counter-party private credit products within our AUM, aside from unsettled portion of Camsing and Huishan products. That distribution totaled over RMB32 billion since the transformation started in second quarter of 2019.

We have also successfully settled with over 70% of clients affected by Camsing incidents. With this overhang removed, we are pleased to see that our AUM has stabilized and entered into a stage with steady growth. Our efforts were also recognized by S&P Global Ratings as S&P has recently lifted our rating outlook to stable for the next 24 months and affirmed our long-term investment grade credit rating BBB-minus.

Like the Chairlady has pointed out, after 8 quarters of challenging yet effective transformations, we have successfully turned the corner and are now heading toward a new stage of growth.

Now please let me walk you through more detailed results of this quarter. Net revenues in the second quarter were RMB899 million, down 26.6% quarter-over-quarter comparing to the last quarter, but up 20% year-over-year. One-time commissions were RMB246 million, up 94.5% year-over-year, driven by increased client activity and transaction values, but also down 23.6% quarter-over-quarter.

Recurring service fees were close to RMB500 million, up 5% year-over-year and 5% quarter-over-quarter driven by steady growth in our AUM.

Performance-based income was RMB122 million, up 34% year-over-year and down 70% quarter-over-quarter.

Income from operations was RMB335.4 million during this quarter, up 5% year-over-year and down 33.2% quarter-over-quarter and the operating margin was 37.3%.

Looking at a 6-month period, we achieved net revenues of RMB2.1 billion in the first half of 2021, up 42% from the same period last year. This was mainly contributed by a [69]% increase in one-time commissions due to a strong growth in transaction values as well as higher than expected carry income achieved in the first half of the year. This impressive growth and our top line performance was backed by robust client activities especially among our Black Card and Diamond Card client group.

Our Black Card clients grew 18.7% to 1,482 from 2020 and our core client group, including Black and Diamond Card clients, comparable with a traditional private banking client group increased by 13.5% from 2020, totaling 7,868 clients. This shows that our strategy to invest heavily on this initiative has been working well, and we'll continue to sponsor Diamond, Black Card program to increase our market share of the ultra-high-net-worth peer. Our Black Card and

Diamond Card clients typically contributed to over 70% of total transaction values, as well as the AUM.

Over the second half of 2021, we will continue to release our strategic spending budget to better implement and improve our upgraded client service model, and continue to focus on the retention and expansion of our core client group over the long term.

Active clients in the first half also increased by 46% year-over-year to 32,945, and as a result, total transaction value is RMB52.1 billion, a 16.7% increase year-over-year, compared to the first half of 2020.

Notably, transaction value of long duration products, such as private secondary market fund products was RMB20.6 billion, up 10% year-over-year. In addition, the AUM of private equity fund fund-of-funds products managed by Gopher also increased by 13.6% year-over-year. This increase in the volume of such products will also benefit us in the long-term with steady sources of recurring service fees.

Operating income for the first half was RMB837 million, up 45% from last year, and operating margin was 39.4% compared to 38.6% from the previous year. Compensation-related expenses were RMB977.9 million, up 40.6% from the previous year.

Selling expenses also increased by 70% to RMB182.3 million. The increase in compensation, as well as selling-related expenses, was a reflection on efforts in talent acquisitions as well as resumed marketing activities as of year 2020 was impacted by the outbreak of COVID-19 when the marketing activities was relatively limited.

Non-GAAP net income for the first half was close to RMB800 million, up 40% year-over-year.

As for the first half segmented results, net revenues from wealth management segment was RMB1.5 billion, up 43.5% year-over-year accounting for about 70% of total net revenues. Net revenues from asset management segment was RMB526 million, up about 51.6% year-over-year.

Total AUM increased by 1.2% from the previous quarter to RMB155.9 billion. And we have revised the Camsing-related AUM adjusted for the amount that has been settled.

Looking at our balance sheet, we have successfully closed the acquisition of our new office property and new headquarters, and the related amount has been reflected in the property and equipment section. We financed the transaction with cash on the balance sheet and still have a healthy cash balance of RMB2.7 billion by the end of the quarter.

The debt-to-asset ratio improved to 22.5% from 24.8% in the previous quarter, and we'll continue to have no interest-bearing debt on our book.

We are also very excited to join the group of prestigious investors and recently closed a round of fundraising in iCapital Network, a market leader in global fintech platform for alternative investments. Through this highly synergetic strategic partnership, we look forward to improving our overseas product offerings to include more high-quality global private equity, and secondary market fund products for our clients. We also worked closely with iCapital to expand the

international distribution channel for Gopher products.

Moreover, I would like to highlight our continuous efforts in ESG initiatives, aside from accomplishments mentioned by Chairlady Wang, while also establishing investment and product processes to incorporate criteria in relation to ESG. We hope to be able to offer more ESG-related investment products to our clients in the near future.

In conclusion, with a successful completion for a standardized transformation that started in the second quarter of 2019, we are well positioned to enter into the next phase of business growth. We will continue to invest in talents, technology infrastructure to strengthen our competitive advantage in client servicing and product diversity.

So thank you, everyone, for listening. I will now open the floor for questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Ethan Wang with CLSA.

Ethan Wang: (Speaking foreign language). I have 2 questions. The first one is the mutual fund. Since you disclosed the transaction volume of mutual funds, we want to understand more on the retention rate side. So have you seen any material changes in the retention rates, or have you seen any large redemption from the second quarter? And if possible, can we get some color on the latest transaction volume on mutual funds in July and August so far?

The second question is on real estate because recently, regulators have temporarily halted the registration of residential real estate private funds. So is that going to affect our real estate product sales in the future?

Grant Pan: Okay. Thank you, Ethan. For the first question, I think we did notice or a sort of slightly slowing down on the mutual fund distribution, probably about 13%. But as to the question of the retention of such mutual funds, we only noticed about 4 days of slower or shorter in terms of the retention period as of June 30. But the total AUM mutual funds is still keeping a pretty stable balance, the reason being that, I think how the clients purchased or allocated funds into mutual funds with Noah is actually not so much to the volatility of the market, but rather the product-to-product sort of interval where they need to park their funds.

So I guess the behavior is a little bit different from the retail markets. But as you have pointed out, we believe the entire market on Asia has at least cooled down a little bit compared to the prior periods.

Jingbo Wang: (Speaking foreign language)

Grant Pan: So the impact on the residential type of property funds to us was very minimal. We did have at the peak probably in 2015, we had about RMB100 billion in real estate-related funds, but we have exited fully from that maximum funds in 2017. And currently we don't have

anything that in the residential property type of fund investments. The only thing we're still holding is in some of the equity type of real estate funds as well as the holding of several office buildings in Shanghai.

Ethan Wang: Thank you. Got it. Thank you.

Operator: Emma Xu with Bank of America.

Emma Xu: (Speaking foreign language). So I have two questions. The first one is regarding the distribution of private equity and private -- and hedge fund products because we have seen the tightening of IPO of ADR recently. So will it impact the transaction value of your key product as well as the exit of your existing key products? And recently, we see fixed market volatility, so will it also impacts the distribution value of your hedge fund products?

And the second question is about what is the settlement expense in second quarter? As you know, most of the Camsing-related clients have been settled in the fourth quarter of last year. So what's the additional one in this year?

Grant Pan: Thank you, Emma. Let me get the first question out of the way. In terms of the settlement in second quarter, well, basically, when clients came to us and asked for a little bit more time and negotiated for the settlement plan, usually, obviously, we'll cope with that. So there will be -- here, there are some settlements done during the second quarter. We had about additional 30 people to 40 people that came to settle with us in the first half of the year. But obviously, we're not going to go ahead and do any broad offering or any new type of settlement plans. So they came and take a relatively similar settlement process to what we had offered in last year.

So I'll hand the question to Wang. (Speaking foreign language).

Jingbo Wang: (Speaking foreign language).

Grant Pan: So Emma, obviously, the funds that you could also have exiting path through overseas listing, as well as domestic listing, but doubtless to say that the pressure recently on retention, obviously, increased the uncertainty on the short-term outlook on the capital market.

But we hold a view that it's the transformation from new economy -- or from old economy to new economy that cannot be reversed in terms of how the clients are allocating, as well as placing their funds in the future, especially that a good portion of our clients actually probably came from the so-called traditional type of industry. So they have the urge, as well as the demand, to actually transform their own enterprise as well as through investing into new economy to increase their exposure into the new economy.

So there may be short-term volatilities in such investments, but I guess the long-term outlook of how they would place and allocate their assets into the new economy, that will not be reversed; especially looking at how today's China market for people to invest. And obviously, the real estate is not an ideal target anymore also as well as some of the so-called non-standardized products have been pretty much cleaned out by the regulators. So there isn't much option for people to make investments. That's why although there is short-term volatility, the equity

markets continue to stay very active in the recent period.

And also in addition, our U.S. products, especially the products that's being operated by our New York and Silicon Valley team are still delivering pretty strong performances by investments in companies in the States, as well as some of the real estate projects that are generating pretty strong cash flows for our clients. So their products actually being very popular for the first half of the year, and we have mentioned that the income and also operations for the overseas portion of Noah this year have actually seen a pretty strong recovery.

Thank you, Emma. Does that answer your question?

Emma Xu: It did, yes.

Operator: (Operator Instructions). Yoyo Fan with CICC.

Yoyo Fan: (Speaking foreign language). Okay. I will translate my questions. So my first question is regarding the number of the clients. Would you please give more detailed explanations on the reason of the exciting growth of the Black Card and Diamond clients?

And the second question is regarding the relationship managers. I wonder what the numbers or, say, the percentage of our elite relationship managers? And we also see that the turnover rate of elite relationship managers was 1.7%, slightly higher than that of the previous year. And I wonder what's the reason behind that? Yes, that's my questions.

Grant Pan: Thank you. So let me first try to break down the portion of the elite RM. It actually takes part about 30% of the total RM team for the second quarter. That's actually been pretty stable for the past quarters also. In terms of the growth in --

(Cross-Talk)

Okay. I will continue to also provide some insight from my perspective. Actually, I'm one of the project leaders in terms of the Black Card and Diamond Card Program that's being established this year, and we have done a few things. Aside from the Noah Triangle service model as well as the digitalization, we actually made additional investments and continue -- we'll make additional investments in the second quarter -- in the second half of the year to greatly enhance the benefit system and loyalty program in the Black Card and Diamond Card program.

As you may have noticed in the past few quarters that we have had some very unique activities, and also pretty exclusive activities for the Diamond, Black Card clients including the snowboarding with the world champion, now who is actually a full-time employee of Noah, as well as a sort of closed-door scenario to host a group of Black Card clients in the Summer Palace. Things like that, I think, is actually part of a systematic effort to make sure that they not only receive the most suitable products in financial products, as well as they will have a very unique client service experience with Noah.

So obviously, that type of investments helped our relation managers to be able to actually connect or reconnect with their core client group very effectively. And I think that's one of the strongest reasons that we see a pretty big push in terms of the growth in the core client group,

which is the market share that everybody in the industry has targeted to increase. So we're very happy to see that the strategy is working, and we will continue to invest in that particular sector.

Jingbo Wang: (Speaking foreign language).

Grant Pan: Yes. And Chairlady made a very good clarification, and this is probably the last time we have this named so-called reference to elite relation managers, as that our service model to our clients have transformed to a team of service providers to our clients in terms of Noah Triangle service model. So in the past, that we completely rely on one person to make the service, the product, recommendation to our clients; that era probably has passed.

We'll continue to push forward the model of servicing our clients with a full team, with a product specialist, with a service specialist, as well as the Chief Relation Managers, who actually to look at a client's complete set of need in terms of asset allocation and other service needs. So I think that's a very good clarification that we're probably moving toward a more complete service type with a team to our clients.

(Speaking foreign language), Yoyo?

Yoyo Fan: (Speaking foreign language).

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Grant Pan, CEO (sic), for any closing remarks.

Grant Pan: Okay. I'm the CFO, by the way. Thanks a lot for the promotion. And thank you, everybody, on behalf of the company, also Chairlady Wang. Thanks for your time. And very happy and encouraged to see that after 8 quarters' transformation, we are actually heading towards a new stage of growth, and hope to continue to deliver strong results for our investors. Thank you.

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