



Evolve
Capital Partners

LexinFintech Holdings

December 2017

Summary of Initial Public Offering

LEXIN 乐信

SPECIALIZED INVESTMENT BANKERS AT
THE INTERSECTION OF FINANCE & TECHNOLOGY

LexinFintech Holdings IPO – Executive Summary

Initial Public Offering Overview

LEXIN 乐信

NASDAQ: LX



Description




LexinFintech Holdings is a leading online consumer finance platform in China. The company offers, through their online platforms Fenqile and Juzi Licai, young, educated adults in China innovative and convenient loan products to fund their credit needs at different stages of their lives. The company also operates an e-commerce channel to offer products in various categories such as home appliances, fashion accessories, home furnishings and decor, apparel, leisure travel and continuing education.



Use of Proceeds

LexinFintech's primary purpose for the IPO is to create a public market for its shareholders and retain talented employees by offering them equity incentives. The company intends to use the proceeds for general corporate purposes such as product development, sales and marketing activities, technology infrastructure, capital expenditure, improvement of corporate facilities and other general and administrative purposes. Remaining proceeds may be used to invest in or acquire complementary businesses and technologies.

Source(s): Company website, 424B4 Filing

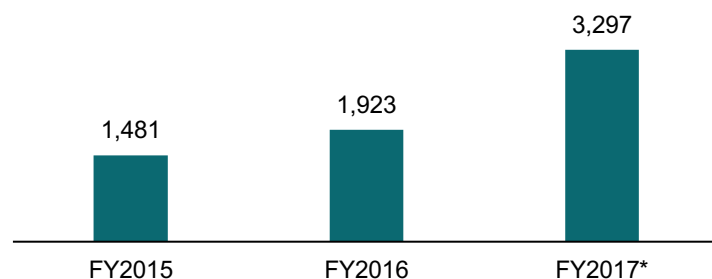
	Headquarters	Shenzhen, China
	Founded	2013
	Employees	2,566
	Listing Date	12/20/2017
	Lead Underwriters	   
	Issue Price	\$9.00
	Shares Offered	12 million (underwriters were offered an option to purchase up to additional 1.8 million shares to cover over-allotments)
	Gross Proceeds	\$108 million

LexinFintech Holdings IPO – Executive Summary

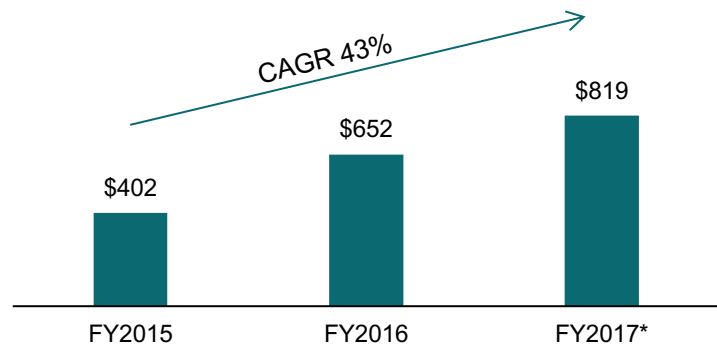
Key Metrics – IPO

Shares Offered at the time of IPO	12 million
Issue Price	\$9.00
Total Shares Outstanding after IPO†	166 million
Market Value at Issue Price**	\$1.5 billion
Enterprise Value at Issue Price#	\$2.9 billion
EV / 2017* Revenue	3.6x
Listing Date	12/26/2017

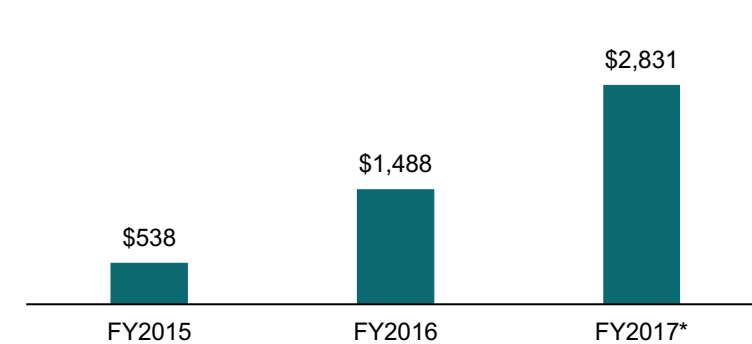
Number of Active Customers (in thousands)



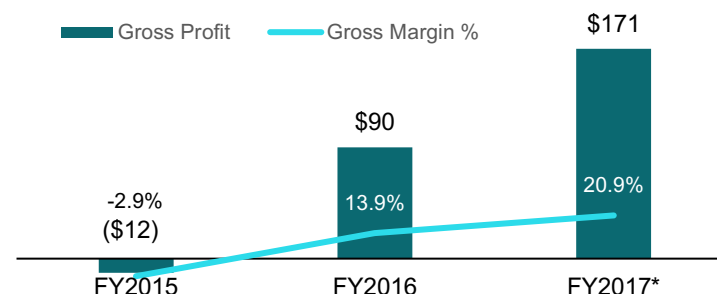
Total Revenue (\$mm)



Outstanding Principal Balance (\$mm)



Net Income (\$mm)



Net Income (\$mm)



Source(s): Capital IQ, Pitchbook, 424B4 Filing

† Total shares outstanding are counted as total number of ADS. 1 ADS = 2 Class A shares. There are 217 million Class A shares and 110 million Class B shares outstanding as of September 30, 2017

* Trailing 12 months as of September 30, 2017

** Market value has been calculated by multiplying Total Shares Outstanding with the Issue Price

Enterprise Value has been calculated by adding Net Debt as of September 30, 2017 to Market Value at Issue Price.





LexinFintech Holdings IPO – Executive Summary

Company Overview

LexinFintech offers credit products to a targeted cohort of educated, young adults in China with increasing consumption needs and high-income potential. The company also operates an e-commerce channel to offer competitively priced products.

- LexinFintech is a technology-enabled, online consumer finance platform in China serving the credit needs of educated, young adults. The company has a target customer cohort of educated, young adults between the ages of 18 and 36, who have high-income potential, growing financial needs and demand an efficient customer experience.
- The Company offers its credit products, such as personal installment loans and installment purchase loans, through its online platform Fenqile. Additionally, LexinFintech offers competitively priced products through their online e-commerce channel that allows customers to use their credit lines to finance purchases and the company to track their spending needs.
- LexinFintech uses the Hawkeye credit assessment engine, powered by proprietary algorithms that predict income potential and behavior of each customer by using over 1,000 decisioning rules on proprietary data from 6.5 million customers and 22 million credit applications.
- LexinFintech was founded in 2013 and is headquartered in Shenzhen, China. The company operates only in China.

Key Statistics

 Loans	\$9 billion in loans originated since August 2013 (as of 9/30/17)
 Total Loan Value	\$2.8 billion outstanding principal balance (as of 09/30/17)
 Clients	3.3 million active customers (as of 09/30/17)
 Revenue	\$819 million in the last twelve months, growing at a CAGR of 43% from 2015 (as of 9/30/17)

Source(s): Company Website, 424B4 Filing

LexinFintech Holdings IPO – Executive Summary

Products and Services

Loan Products - Uses of Funds

Le Credit is the credit line without a set maturity date offered to customers. The amount of credit ranges from \$75 to \$2,705, although creditworthy existing customers may be granted up to \$7,515. The terms of the loan are flexible depending on the credit assessment. Customers may use the entire amount towards purchases on Fenqile's e-commerce channel, but only a percentage of the credit line may be applied towards personal installment loans to obtain cash.

- **Personal installment loans** – Maturity for this loan generally ranges from 1 month to 36 months. Customers can use this loan to obtain cash or to purchase from third-party merchants on Fenqile's e-commerce marketplace. These uses are tracked. Customers are also allowed to use this loan to finance other needs that are permissible, such as education, cost of living or driving school expenses, which are not tracked but are specified on the loan applications. Terms of the repayment schedule can be flexible depending on the customer's credit profile. APR for these loans ranges from 14% to 36%.
- **Installment purchase loans** are available to approved Le Credit customers to finance purchases on the company's e-commerce channel. This access allows the company to track the customer's use of loans.

Source(s): Company Website, 424B4 Filing

* 1 USD = 6.653 RMB

	Personal Installment Loans	Installment Purchase Loans
Use	Finance needs such as education, cost of living or driving school expenses. Needs to mentioned on the loan application.	Finance purchases on the company's e-commerce channels.
APR	14% - 36%	14% - 24%
Payment terms	Monthly repayment	Downpayment ranging from 0% to 50% + monthly repayment + service fees
Duration	Up to 36 months	Up to 36 months
Outstanding principal balance	\$2.1 billion	\$0.3 billion
Tracked	Partially. Only purchases on the e-commerce channel are tracked. Other third-party expenses are selected on the loan application.	Yes. Purchases on the e-commerce website can be tracked.

LexinFintech Holdings IPO – Executive Summary

Products and Services

Investors - Sources of Funds

LexinFintech benefits from diversified funding sources and offers products designed to cater to various investors according to their risk-return parameter preferences.

- **Individual investors** – LexinFintech offers individual investors access to invest in asset classes and investment products with attractive risk-adjusted returns through their online platform Juzi Licai. Currently, there are 133,000 individual investors on the platform. Investors can choose from several investment programs with different terms and returns. The minimum commitment required is only \$15 and investment periods can range from 1 week to 24 months.
- **Institutional funding partners** – include commercial banks, consumer finance companies, licensed financial institutions, and peer-to-peer lending platforms. These investors invest through the *direct lending program* to qualified customers who are referred by LexinFintech. The company's proprietary *Wormhole* system connects funding partners with consumers. Institutional investors agree on aggregated amounts of funds, maximum credit limit on an individual customer, maximum maturity and an annualized interest rate. Terms can range from 1 to 36 months. Currently, there are 30 funding partners in the program.
- **Investors purchasing asset-backed securities** – LexinFintech securitizes the financing receivables arising from online direct sales through the transfer of those assets to a securitization vehicle. The securitization vehicle then issues debt securities to third-party investors. The company issues both public and private asset-back securities.

Source(s): Company Website, 424B4 Filing

Sources of Funds Breakdown

Outstanding Balance in 2017		
	USD (\$mm)	%
Individual Investors	\$1,376	59.8%
Institutional Funding Partner	\$927	40.2%
Asset-Backed Securities	–	–
Total	\$2,302	100.0%

Loan Application & Approval Process



LexinFintech Holdings – Executive Summary

Company Strengths & Revenue Breakdown

LexinFintech is a technology-enabled online consumer finance platform that uses proprietary algorithms and large datasets for credit assessment. The company matches investors with young, educated adults who require credit products.

LexinFintech's Key Strengths

- A leading and fast-growing online consumer finance platform that is well positioned to capture the long-term growth potential of China's lending market for a young, educated population
- Educated, young adults in China
- Advanced and customized credit risk management
- Superior customer experience supported by an efficient and robust technology platform
- Targeted and cost-effective customer acquisition strategy
- Diversified and scalable sources of funding
- Self-reinforcing and demographically targeted ecosystem, creating powerful network effects

Breakdown of Principal Amount in 2017

Credit Risk Level	USD (\$mm)	%
A	\$1,655	35.2%
B	\$1,072	22.8%
C	\$904	19.2%
D	\$624	13.3%
E	\$353	7.5%
F	\$48	1.0%
N	\$50	1.0%
Total	\$4,706	100.0%

Annual Delinquency Rate

	1 - 29 days	30 - 59 days	60 - 89 days	90 - 179 days
December 31, 2015	1.66%	0.38%	0.22%	0.47%
December 31, 2016	1.32%	0.55%	0.43%	0.84%
September 30, 2017	1.64%	0.55%	0.48%	1.22%

Source(s): Company Website, 424B4 Filing

LexinFintech Holdings IPO – Executive Summary

Market Opportunity

LexinFintech operates in a segment of the financial services industry that provides lending products to underbanked consumers in need of convenient and flexible access to credit and other financial products. The company believes that their target customers, young, educated adults, have increased demand for consumer financing products to cover their growing needs. LexinFintech is well positioned to take advantage of secular trends supporting the expenditure on consumer financing products.

LexinFintech's target, the educated, young adult population in China, is booming

The total outstanding loan balance of the educated, young adult population of the online consumer finance market is expected to grow at a CAGR of 64.1% from \$10.2 billion in 2016 to \$73.8 billion in 2020. Educated, young adults go through a consumption upgrade as their financial needs grow along with their rising incomes, and thus the increasing ability to repay borrowings with their income.

Private consumption in China is growing rapidly

The outstanding principal loan balance of the consumer finance market has proliferated at a CAGR of 29.4% from \$504 billion in 2014 to \$844 billion in 2016, according to Oliver Wyman. Further, it is expected to grow to \$1655 billion by the end of 2020 at a CAGR of 18.3%. Growth in private consumption will allow for the rapid development of the online consumer finance market.

Consumer finance market in China is highly underpenetrated and underdeveloped

In 2016, the ratio of the balance of China's overall unsecured consumer loans to GDP was only 9%, as compared to 15% in the United States, according to Oliver Wyman. Additionally, approximately 72% of China's population, or 1 billion people, did not have credit ratings compared to only 14% of the US population.

Source(s): 424B4 Filing

Growth Strategy

Invest in technology

- Invest in biometric recognition, artificial intelligence, and cloud computing
- Improve proprietary platform, funding and risk assessment technologies and invest in predictive anti-fraud mechanism
- Expand data collection to improve credit assessment

Diversify funding sources

- Design differentiated investment products to meet varying risk-adjusted return requirements of investors
- Strengthen cooperation with financial institutions and institutional funding partners

Grow customer base

- Increase credit limits for creditworthy clients and offer flexibility towards applying entire credit line towards personal installment loans
- Enhance network of strategic partnerships and launch co-branded credit cards with partnered banks
- Broaden product offerings on e-commerce channel

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