

COMMISSIONED RESEARCH

Waterdrop Inc (WDH US)

From Crowdfunding To Insurtech Leadership With Differentiated Business Model

As a leading insurtech player in China with strong brand equity, Waterdrop has accumulated a sizeable user base and is well-positioned to unlock greater lifetime value for sustained growth. Leveraging its proprietary technology, the company aims to enhance operational efficiency and improve its overall margins. Downside risk appears limited, given its attractive valuation, increasing shareholder returns and solid net cash position. Initiate coverage with a BUY and a target price of US\$2.20.

- Strong brand recognition with integrated business model.** Starting with a medical crowdfunding platform and mutual aid plans, Waterdrop Inc (Waterdrop) has built strong brand awareness across its extensive user base and successfully converted the donors and participants involved in its crowdfunding platform and mutual aid plans into insurance customers of its insurance marketplace. Waterdrop has emerged as one of China's largest independent third-party insurance brokerage platforms by life and health first-year premiums, with 32.3m paying customers contributing to 85% of its total revenue in 2024.
- Unlocking more lifetime value from existing customer base.** We estimate Waterdrop has an untapped customer base of over 300m from its crowdfunding platform and insurance marketplace. We see huge upside potential for Waterdrop to further monetise its existing user base and convert short-term medical product buyers into long-term policyholders through cross-selling and upselling exercises.
- Striving to sustain insurance margin and reduce non-insurance loss.** After reducing its reliance on high-cost third-party channels for customer acquisition, Waterdrop has maintained a stable and healthy operating margin of over 20% in its insurance segment. At the same time, the company is well-positioned to further narrow the losses in its non-insurance segments, particularly its crowdfunding platform, by increasing service fees and enhancing operational leverage. Additionally, Waterdrop is optimising its digital clinical trial solution business structure to drive efficiency. We believe these combined efforts will help improve the company's overall margin, especially its insurance segment.
- Embracing big data and AI technology in insurance service chain.** Waterdrop integrates its advanced technology across its business chain by leveraging proprietary AI and multi-dimensional data insights to optimise customer acquisition, sales productivity, customer engagement and risk management. With consistent R&D investments, Waterdrop will continue to refine its AI-driven operations in order to improve its operating leverage and sales conversion efficiency.
- Low balance sheet risk with solid net cash position.** Waterdrop runs an asset-light business model with minium capex. Since turning profitable in 2022, the company has accumulated strong cash reserves, maintaining a solid net cash position of Rmb3.5b as of 2024. Committed to enhancing shareholder value on top of strong cash flow generation capability, Waterdrop has repurchased 52.1m ADS for US\$104m and plans to distribute dividends semi-annually moving forward.
- Initiate coverage with BUY and target price of US\$2.20,** based on DCF valuation. Our target price implies 1.1x 2025F P/B and 21.1x 2025F PE. Its solid cash level (>90% of its market cap), undemanding valuation (-0.4SD) and high visibility on shareholders returns could provide downside protection to the share price.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2023	2024	2025F	2026F	2027F
Net turnover	2,630.7	2,771.8	3,265.0	3,483.5	3,714.0
EBITDA	6.8	208.8	202.0	382.9	446.0
Operating profit	(6.7)	178.2	171.3	352.1	415.1
Net profit (rep./act.)	167.2	367.5	269.7	421.2	467.1
Non-GAAP net profit	296.7	440.2	384.8	531.9	583.6
EPS (Fen)	4.3	9.9	7.3	11.3	12.6
PE (x)	25.4	11.1	15.1	9.7	8.7
P/B (x)	0.9	0.8	0.8	0.7	0.6
Net margin (%)	6.4	13.3	8.3	12.1	12.6
Dividend yield (%)	2.7	2.7	1.3	2.1	2.3
Net debt/(cash) to equity (%)	(81.9)	(59.9)	(56.6)	(64.1)	(62.8)
ROE (%)	3.6	7.8	5.4	7.8	8.0
Consensus net profit	-	-	418	441	418
UOBKH/Consensus (x)	-	-	0.92	1.21	1.40

Source: Waterdrop, Bloomberg, UOB Kay Hian

BUY

Share Price	US\$1.50
Target Price	US\$2.20
Upside	+46.6%

COMPANY DESCRIPTION

Waterdrop Inc is an insurtech platform headquartered in China. Founded in 2016, Waterdrop offers insurance and healthcare service through its online platforms Waterdrop Insurance Marketplace and Medical Crowdfunding.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	WDH US
Shares issued (m):	370.1
Market cap (US\$m):	555.2
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

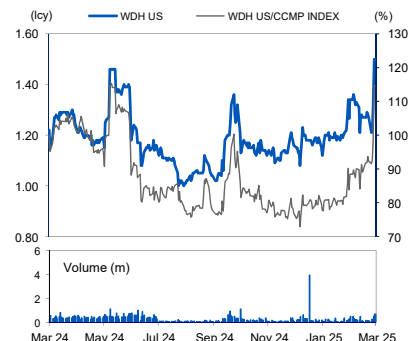
52-week high/low	US\$1.53/US\$0.97			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
18.1	27.1	42.9	23.0	27.1

Major Shareholders

	%
Tencent and its affiliates	22.5
Peng Shen	21.7
Boyu Capital	12.8
Swiss Re Principal Company Asia Pte. Ltd.	5.6
Guang Yang	2.3

FY24 NAV/ADS (US\$)	1.84
FY24 Net Cash/ADS (US\$)	1.33

PRICE CHART



Source: Bloomberg

ANALYST(S)

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*This report uses the closing prices of 13 March 2025*

## Investment Highlights

**Strong brand recognition with integrated business model.** Waterdrop began establishing its brand awareness in 2016 through its medical crowdfunding platform and mutual aid plans. As of 2024, its medical crowdfunding platform was the largest in China with a cumulative 470m donors, serving as one of the key sources of traffic to Waterdrop's insurance marketplace. By combining its customer base with an omni-channel marketing strategy, Waterdrop has emerged as one of China's largest independent third-party insurance brokerage platforms by life and health (L&H) first-year premiums (FYP), with 32.3m paying customers contributing to 85% of its total revenue in 2024.

*Starting with medical crowdfunding platform and mutual aid plans, Waterdrop is now one of the largest independent third-party insurance brokerage platforms in China*

**Unlocking more lifetime value from existing customer base.** We estimate Waterdrop has an untapped customer base of over 300m from its crowdfunding platform and insurance marketplace. We see huge upside potential for Waterdrop to further monetise its existing user base by converting short-term medical product buyers into long-term policyholders through cross-selling and upselling strategies, thereby maximising customer lifetime value. Furthermore, we also view the acquisition of domestic online insurance brokerage Shenlanbao positively as its competitive edge in long-term insurance sales will help Waterdrop strengthen its long-term product offerings and enhance customer retention.

*Looking inward to existing users and pushing long-term product sales to deliver sustained growth*

**Striving to sustain insurance margin and reduce non-insurance loss.** After reducing its reliance on high-cost third-party channels for customer acquisition, Waterdrop has maintained a stable and healthy operating margin of over 20% in its insurance segment. At the same time, the company is well-positioned to narrow losses in its non-insurance segments, particularly its crowdfunding platform, by increasing service fees and enhancing operating leverage. Additionally, Waterdrop is optimising its digital clinical trial solution business structure to drive efficiency. We believe these combined efforts will help improve the company's overall margin, especially its insurance segment.

*Well placed to improve overall margin, bringing it closer to insurance margin*

**Embracing big data and AI technology in insurance service chain.** Waterdrop integrates its advanced technology across its business chain by leveraging proprietary AI and multi-dimensional data insights to optimise customer acquisition, sales productivity, customer engagement and risk management. For example, its proprietary AI models, including the "Waterdrop Guardian" large language model (LLM) and "AI Insurance Expert" enhance user engagement, automate consultations and improve claims processing, ultimately boosting operating efficiency and sales effectiveness. With consistent R&D investments, Waterdrop will continue to refine its AI-driven operations so as to bolster its operating leverage and sales conversion efficiency.

*Adopting AI technology in insurance service chain to improve operational efficiency*

**Low balance sheet risk with solid net cash position.** Waterdrop operates an asset-light insurance distribution model with minimum capex and free cash flow (FCF) generation closely aligned with its earnings performance. Since turning profitable in 2022, the company has accumulated strong cash reserves, maintaining a solid net cash position of Rmb3.5b (including short-term investment balance and long-term debt investments) as of 2024. Committed to enhancing shareholder value on top of strong cash flow generation capability, Waterdrop has repurchased 52.1m ADS for US\$104m and plans to distribute dividends semi-annually moving forward.

*Asset-light insurance business model with strong free cash flow generation capability.*

**Targeting to grow net profit at a five-year CAGR of 25.0% from 2023-28.** Waterdrop delivered a strong bottom line growth of 119.6% yoy to Rmb368m in 2024, supported by an 8.7ppt yoy decline in the cost-to-revenue ratio and solid top-line growth. However, we expect the net profit to fall 26.6% yoy in 2025 due to rising customer acquisition costs and falling interest income amid Fed rate cuts. Despite that, we still estimate the 2025 net profit would be significantly higher than in 2023. Moreover, we expect net profit growth to turn positive again in 2026 and 2027, with yoy increases of 56.1% and 10.9% respectively, driven by sustained FYP growth and improved cost management.

*Bottom line growth to be driven by sustainable FYP growth and improving operating efficiency*

**Valuation**

**Initiate coverage with BUY and target price of US\$2.20.** Our 12-month target price of US\$2.20 is based on a DCF approach. Given the strong cash flow visibility of the online insurance business, characterised by high cash conversion and low capex, we believe a DCF-based valuation is well-suited to reflect Waterdrop’s growth potential and determine its fair value. We discount FCF in 2024-27 using a WACC of 11.4% and apply a 5.0% terminal growth rate, consistent with our assumptions for other DCF-valued fast-growing insurance broker companies. Our target price implies 1.1x 2025F P/B and 21.1x 2025F PE.

**A great bargain for gaining exposure to China’s insurtech sector.** After the recent rally, Waterdrop is still now trading at an undemanding 0.74x 2025F P/B, 0.4SD below its three-year historical average and significantly lower than its 4.0x P/B valuation at the time of its IPO. Despite this, Waterdrop enjoys a valuation premium over its closest US-listed domestic peer, Huize Holdings (Huize), supported by its extensive customer base and above-peers margins. However, Waterdrop is also being undervalued when compared with its global insurance online brokers peers which have an average of 2.6x 2025F P/S and 2.3x 2025F P/B.

**FIGURE 5: DCF VALUATION**

Year to Dec 31 (Rmbm)	2024F	2025F	2026F	2027F
Free cash flow to firm	17	(166)	604	199
Discounting period	0	1	2	3
WACC (%)	11.4	11.4	11.4	11.4
Discounted cash flow	17	(149)	487	144
Terminal growth rate	5.0%			
Sum of discounted cash flow		499		
Discounted terminal value		2,391		
Net cash/ (Debt)		2,921		
Fair Equity Value		5,811		
ADS outstanding (m)	358			
US\$/Rmb	7.3			
Fair value per ADS (USD)	2.20			
Implied 2025F PE (x)	21.1			
Implied 2025F PB (x)	1.1			
Implied 2025F PS (x)	1.8			

Source: Waterdrop, UOB Kay Hian

**FIGURE 6: PEER COMPARISON**

Company	Ticker	Segments	Price @ 12 Mar 25 (lcy)	Market Cap (lcy m)	PE		PB		PS		ROE 2024 (%)	Operating margin 2024 (%)
					2024 (x)	2025F (x)	2024 (x)	2025F (x)	2024 (x)	2025F (x)		
<b>China Insurtech</b>												
Waterdrop Inc	WDH US	Online broker	1.50	572.6	11.1	15.1	0.8	0.8	1.4	1.2	7.3	6.4
Huize Holding	HUIZ US	Online broker	3.21	31.8	8.0	4.1	0.6	0.5	1.0	0.9	6.9	0.9
Zhong An	6060 HK	Digital insurer	12.50	19,072.2	36.0	20.6	0.9	0.8	0.5	0.5	2.7	1.4
<b>US Insurtech</b>												
GooseHead	GSHD US	Online broker	111.6	4,163.0	55.8	58.8	94.8	52.5	13.2	11.2	63.6	19.4
GoHealth	GOCO US	Online broker	12.5	287.6	n.a.	n.a.	1.2	n.a.	0.4	0.3	n.a.	n.a.
EverQuote	EVER US	Online broker	25.68	917.4	29.5	18.3	6.8	5.6	1.8	1.5	29.8	6.4
SelectQuote	SLQT US	Online broker	3.46	595.6	n.a.	28.8	1.8	n.a.	0.5	0.4	n.a.	4.9
Oscar Health	OSCR US	Digital insurer	12.88	3,227.3	n.a.	19.0	3.8	2.4	0.4	0.3	2.8	0.6
<b>Average</b>					<b>28.1</b>	<b>23.5</b>	<b>2.3</b>	<b>2.0</b>	<b>2.4</b>	<b>2.0</b>	<b>9.9</b>	<b>5.7</b>

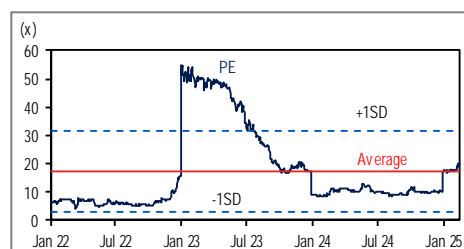
Source: Bloomberg, UOB Kay Hian

**FIGURE 1: P/B BAND**



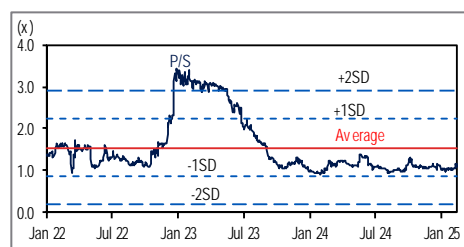
Source: Bloomberg, UOB Kay Hian

**FIGURE 2: PE BAND**



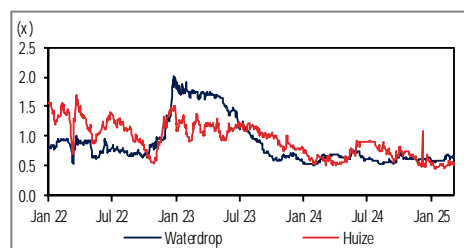
Source: Bloomberg, UOB Kay Hian

**FIGURE 3: P/S BAND**



Source: Bloomberg, UOB Kay Hian

**FIGURE 4: COMPARABLE PEER P/B**



Source: Bloomberg, UOB Kay Hian

Industry Outlook

CHINA INSURANCE MARKET

**Growing at a five-year CAGR of 7.0% to a Rmb7.2t market by 2028.** China's insurance market achieved a total gross written premium (GWP) of Rmb5.7t in 2024, representing a five-year CAGR of 6.0% from 2020-24, slowing down from 9.8% in 2016-20, largely due to the impact of the pandemic. However, GWP growth regained momentum in 2024, rising 11.2% yoy mainly on a strong 13.3% increase in life insurance premiums, fuelled by robust demand for savings products.

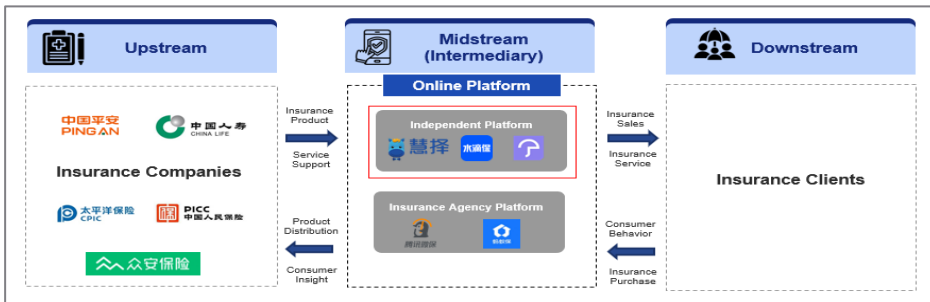
*China insurance market expected to grow at 7% CAGR from 2023-28 as insurance penetration and density still very low*

Being the world's second-largest insurance market, China still has significant growth potential as it is lagging behind developed countries in terms of insurance penetration ratio and insurance density. According to Swiss Re, China's insurance penetration rate stood at 3.9%, vs the global average of 6.8% and the US's 11.6%. Additionally, China's insurance density was US\$489 per capita, significantly lower than the global average of US\$853 and far below the US' US\$8,885. We expect the China market to grow at a five-year CAGR of 7.0% to Rmb7.2t by 2028.

**L&H insurance the key growth driver in the industry.** China's L&H insurance premiums have grown at a faster pace of 6.3% CAGR in the past five years and Frost & Sullivan expects the market size to reach Rmb5.6t by 2028, representing a five-year CAGR of 8.0%. The strong market growth is underpinned by: a) an ageing society, b) rising disposable income in line with economic development, and c) increasing demand for insurance coverage due to significant protection gaps.

*L&H expected to grow at 8.0% CAGR in 2023-28*

FIGURE 7: INDUSTRY VALUE CHAIN OF ONLINE INSURANCE MARKET



Source: NAFR, Frost & Sullivan, UOB Kay Hian

**Third-party online insurance platform.** Growing internet adoption and shifting consumer behaviour have driven the increasing market penetration of online insurance sales. This is seen in the online L&H insurance market in China, as measured by GWP which hit Rmb0.6t in 2023 and is expected to grow further at a five-year CAGR of 29.7% in 2023-28 to Rmb2.0t by end-28. This growth significantly outpaces the 2.3% CAGR of offline insurance sales during the same period. Additionally, customised products and services, along with an enhanced consumer experience throughout the purchasing and claims process, are key factors attracting tech-savvy younger generations to online insurance brokers. Despite the significant growth potential, competition among online insurance brokers remains intense. We believe that independent brokers with strong brand recognition, such as Waterdrop, are well-positioned to differentiate themselves from competitors.

*Third-party online insurance platforms gaining traction*

**Wider adoption of generative AI across insurance value chain.** Insurance companies often grapple with challenges related to vast data accumulation, high labour costs and time-consuming language-intensive tasks such as client services. Recently, several online insurance brokers, including Waterdrop and Huize, have integrated DeepSeek into their insurance business value chains. We have identified a few generative AI use case scenarios in the insurance sector.

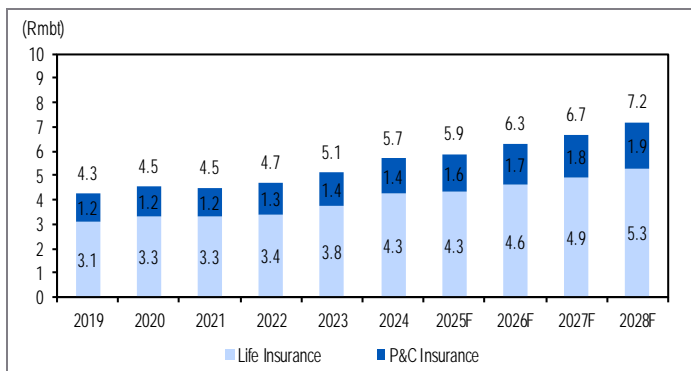
*Application of generative AI could reshape industry*

Firstly, generative AI can automate labour-intensive tasks such as drafting product documentation, processing claims and creating marketing content. This automation enhances operational efficiency while reducing labour costs.

Secondly, generative AI's ability to process large volumes of raw data enables insurers to optimise product development and marketing efforts, improving sales conversion rates. Additionally, it supports actuarial analysis by identifying market trends and facilitating personalised product pricing.

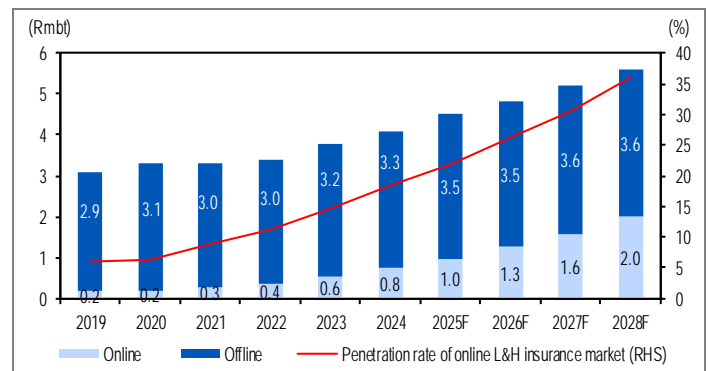
Thirdly, with its natural language processing and advanced reasoning capabilities, generative AI can provide real-time insurance consultations and personalised policy recommendations. It also empowers agents and customer service representatives by enhancing their understanding of customer needs, enabling them to develop more effective sales strategies. This could lead to a more seamless experience and enhance customer stickiness.

FIGURE 8: MARKET SIZE OF CHINA INSURANCE BY PREMIUM



Source: NAFR, Frost & Sullivan, UOB Kay Hian

FIGURE 9: GWP OF CHINA LIFE AND HEALTH INSURANCE MARKET BY ONLINE/OFFLINE



Source: Frost & Sullivan, UOB Kay Hian

CHINA MEDICAL CROWDFUNDING PLATFORM

**Alternative to address significant medical protection gap in China.** According to iResearch, total healthcare service expenditures reached Rmb8.5t in 2022 with a six-year CAGR of 10%. However, China residents are facing a substantial medical protection gap as 43% of medical expenditures were paid out-of-pocket and the ratio was notably higher than that of developed countries such as the US (10%), the UK (12%) and Japan (13%). With the huge financial burden of medical costs even after social medical insurance reimbursement, medical crowdfunding platforms have emerged over the past decade to help patients in need to initiate donation campaigns to cover treatment costs.

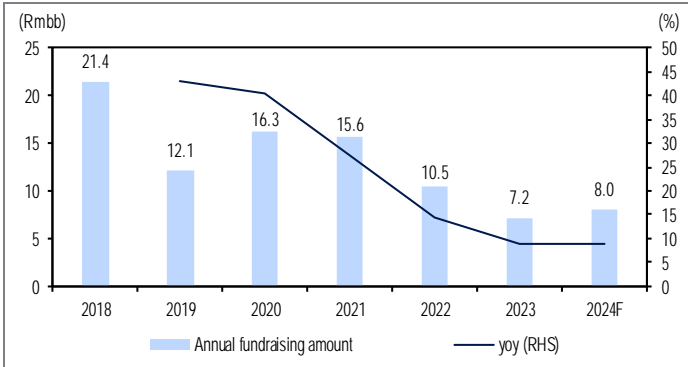
*Crowdfunding seen as a way to alleviate the financial burden of patients*

**Rmb90b funds accumulated in the past decade.** Since the establishment of China's first major illness crowdfunding platform, the industry has been developing for nearly a decade. Over 600m people nationwide have participated in fundraising and donation activities for medical crowdfunding projects. According to iResearch estimates, the cumulative funds raised from China's medical crowdfunding platforms reached Rmb89.9b in 2023, and could have reached Rmb97.9b in 2024.

**Survival of the fittest.** After experiencing rapid growth from 2017-20, the industry underwent a phase of consolidation, with weaker players exiting the market due to high operating costs. As a result, it has gradually evolved into a more regulated and highly-concentrated market. Waterdrop is the dominant leader with a 90% share of China's crowdfunding market, thanks to its technological capabilities and the absence of administration fees at the initial stage in its bid to accumulate users. In Dec 24, three medical crowdfunding platforms – Waterdrop Medical Fundraising platform, Qingsongchou and Nuanxin Huimin – were designated by the Ministry of Civil Affairs as the officially-recognised personal help-seeking online service platforms. We expect this to lead to further industry consolidation as other crowdfunding platforms may be forced to cease operations under the new regulations.

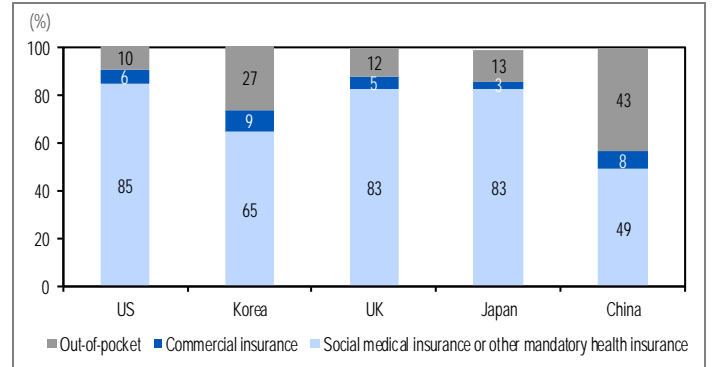
*Medical crowdfunding market highly concentrated with Waterdrop as the dominant player*

FIGURE 10: ANNUAL FUNDRAISING AMOUNT OF CHINA MEDICAL CROWDFUNDING INDUSTRY



Source: iResearch, UOB Kay Hian

FIGURE 11: HEALTHCARE EXPENDITURE BY PAYMENT METHOD BY COUNTRIES IN 2021



Source: iResearch, UOB Kay Hian

**Business Outlook**

**UNLOCKING MORE LIFETIME VALUE FROM EXISTING CUSTOMER BASE**

**Accessing Waterdrop’s untapped user base.** As of 2023, Waterdrop's insurance marketplace had attracted 115.3m insured customers (32.3m or 28% of them are paying customers), while its crowdfunding business had expanded to a platform with 470m users. If we assume that 50% of Waterdrop’s crowdfunding platform users are potential insurance customers and factor in 83m non-paying insurance customers from its insurance marketplace, the company has a potential customer pool of over 300m yet to be tapped.

*We estimate Waterdrop has a potential customer pool of over 300m yet to be tapped.*

**FIGURE 12: WATERDROP CUSTOMER BASE AT A GLANCE**



Source: Waterdrop, UOB Kay Hian

**Converting donors to insurance customers.** A survey by iResearch on crowdfunding platform users revealed that only 13% of them had purchased L&H insurance, and their average medical protection gap was 32%. According to management, FYP from new short-term policies sourced through Waterdrop’s crowdfunding platform accounted for 10-13% of total FYP in 2023. Given the significant medical protection gap of its large crowdfunding user base, we believe there is substantial potential to further expand its paying customer base.

*Exploring potential customers from own crowdfunding platform*

**Uphold cross-selling and upselling strategy to maximise customer lifetime value.** Since the company made a strategic shift in late-21 to monetise its existing customer base instead of acquiring new customers through third-party channels, Waterdrop has focused on converting short-term medical product buyers into long-term policyholders. This approach has proven effective, with brokerage revenue from long-term insurance products rising from 28% in 2021 to 37% in 2023. We see this as a positive move, as long-term products have larger ticket size (12.5x that of short-term products) and this strategy also comes with lower acquisition costs. Waterdrop has also developed an offline brokerage business to boost its long-term product sales, but the development is still at a nascent stage with the business having generated only Rmb0.1b in FYP in 2023.

*Striving to boost long-term L&H insurance sales through internal conversions and offline presence*

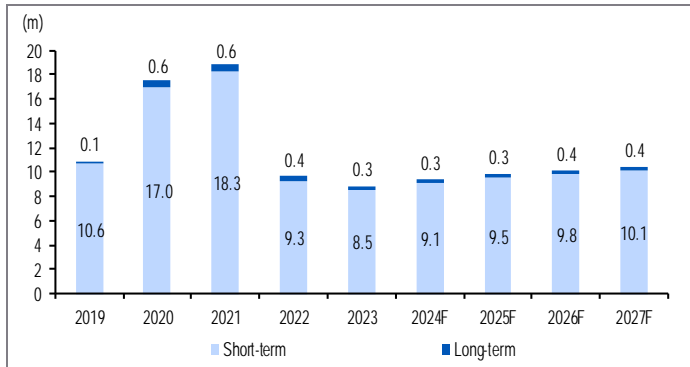
**Acquisition of Shenlanbao as a complementary move.** Shenlanbao is an online platform specialising in insurance-related educational content and product reviews with more than 10m highly-engaged users. The platform also owns an insurance broker licence with a focus on long-term insurance products and has issued 820,000 policies so far. Waterdrop acquired a 60% stake in Shenlanbao with a cash consideration of Rmb216m in 2023 and we believe Shenlanbao’s competitive edge in long-term insurance sales will help Waterdrop strengthen its long-term product offerings and enhance customer retention.

*Waterdrop acquired Shenlanbao to expand long-term product offerings and service capabilities*

**Contract asset mix as a key metric to evaluate the strategy.** Contract assets are the estimated commission revenue that is contingent on future premium payments from policyholders and retention-based bonuses. Waterdrop will amortise contract assets over the lifetime of a policy, and an increase in the balance of non-current assets could indicate a potential shift in product mix towards long-term policies. In 2024, Waterdrop’s non-current contract assets had a balance of 154m, accounting for 20% of total contract assets (2021: 5%).

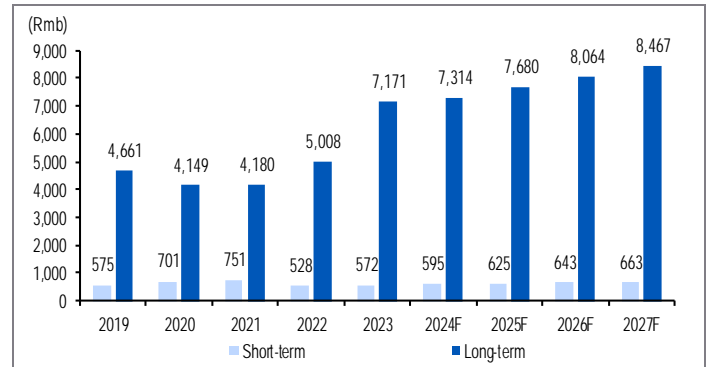


FIGURE 13: NUMBER OF POLICIES



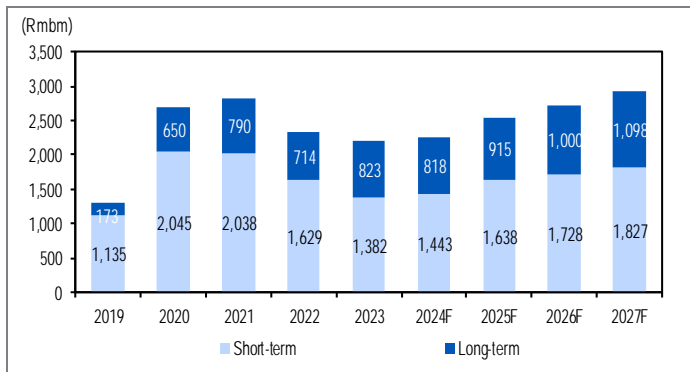
Source: Waterdrop, UOB Kay Hian

FIGURE 14: AVERAGE TICKET SIZE



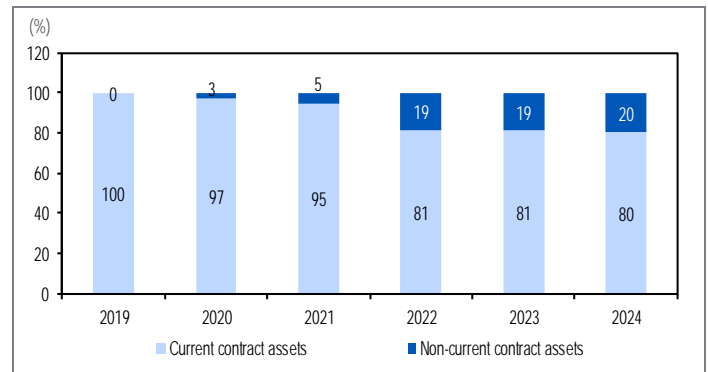
Source: Waterdrop, UOB Kay Hian

FIGURE 15: BROKERAGE REVENUE BY INSURANCE PRODUCTS



Source: Waterdrop, UOB Kay Hian

FIGURE 16: CONTRACT ASSETS MIX



Source: Waterdrop, UOB Kay Hian

STRIVING TO SUSTAIN INSURANCE MARGIN AND REDUCE NON-INSURANCE LOSS

**Balancing customer acquisition and profitability.** In 2021, Waterdrop chose to reduce its dependence on customer acquisition through costly third-party channels and instead focused on monetising its existing user base. Although this strategy adversely affected sales growth in 2022 with FYP from third-party channels plunging 90% yoy, the company successfully reduced its customer acquisition cost by 75% from Rmb248 per new customer in 2021 to Rmb63 in 2023. Additionally, it has improved unit economics, shifting from an operating loss of Rmb43 per policy in 2021 to an operating profit of Rmb60 per policy in 2023. Although Waterdrop moderately increased its investment in third-party channels and acquired Shenlanbao in 2023 to boost sales growth momentum, the operating margin of its insurance segment remained stable at a healthy level of above 20% in 2024.

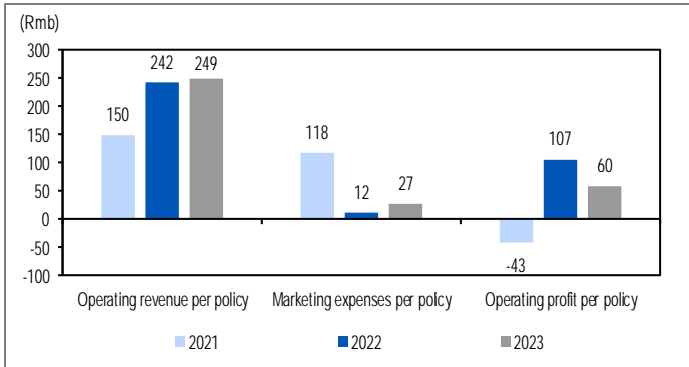
*Achieving balance between customer base expansion and profitability in insurance segment*

FIGURE 17: CUSTOMER ACQUISITION COST

	2019	2020	2021	2022	2023
Accumulated paying customers (m)	8.8	19.2	28.2	30.1	32.3
New paying customers (m)	7.1	10.4	9.0	1.9	2.2
Marketing expenses (Rmbm)	793.4	1,743.0	2,232.9	120.5	240.4
Customer acquisition cost (Rmb)	111.7	167.6	248.1	63.4	109.3

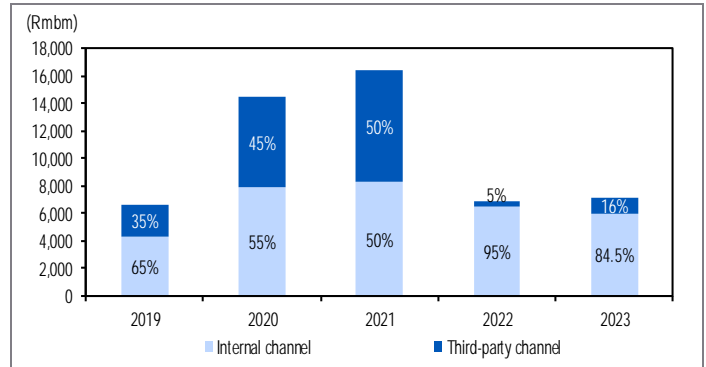
Source: Waterdrop, UOB Kay Hian

FIGURE 18: INSURANCE UNIT ECONOMICS ANALYSIS



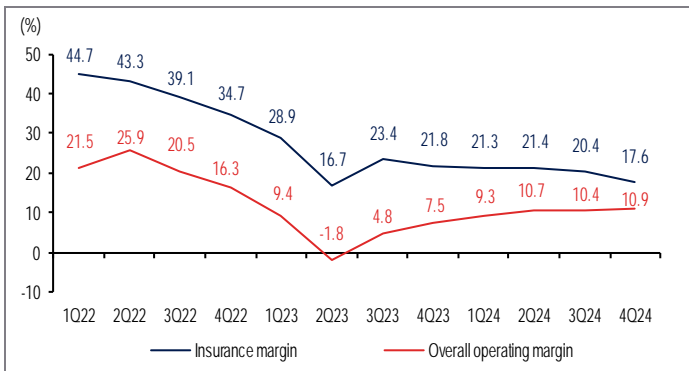
Source: Waterdrop, UOB Kay Hian

FIGURE 19: FYP CHANNEL MIX



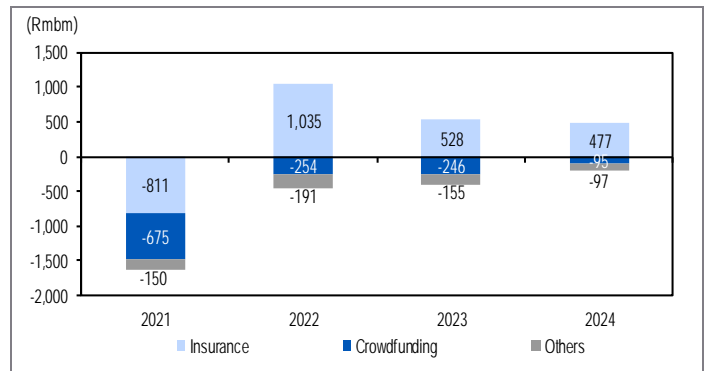
Source: Waterdrop, UOB Kay Hian

FIGURE 20: OPERATING PROFIT BY SEGMENT



Source: Waterdrop, UOB Kay Hian

FIGURE 21: OPERATING PROFIT BY SEGMENT



Source: Waterdrop, UOB Kay Hian

**Narrowing non-insurance segment loss to improve overall profitability.** We understand that achieving breakeven for its crowdfunding business is challenging for Waterdrop due to its high operating cost. However, we see potential for reducing operating losses in this segment now that the company is permitted under new regulations to charge a reasonable service fee to cover platform operational costs. Additionally, it raised the service fee from 3% to 6% in 2023. In addition to generating revenue, Waterdrop has actively enhanced operational efficiency in its crowdfunding segment by adopting AI applications in risk management measures across the entire crowdfunding campaign process.

*Charging reasonable service fee and enhancing operational efficiency to reduce loss in crowdfunding segment*

**Recalibrating its new business initiatives to maintain a more sustainable business model.** Management has indicated a more cautious approach to investing in new business initiatives, especially in the Digital Clinical Trial Solution, which helps pharmaceutical companies recruit patients for clinical trials. While the number of enrolled patients and revenue have grown significantly over the past two years, this segment remains loss-making. Moving forward, management aims to enhance operating efficiency in the patient recruitment process, such as leveraging its core competencies in data analysis to support more clinical trial programmes with the existing business team.

*More cautious about investing in new business initiatives*

**EMBRACING BIG DATA AND AI TECHNOLOGY IN INSURANCE SERVICE CHAIN**

**Scenario-based business model powered by differentiated data insights.** Leveraging its integrated business model and extensive user base across its medical crowdfunding and insurance marketplace platforms, Waterdrop accumulates multi-dimensional data insights from its users and also collaborates with, insurance carriers, research institutes and pharmaceutical companies. Utilising this wealth of data, Waterdrop conducts in-depth analysis to generate insights and monetise them across its business ecosystem.

*Big data helps Waterdrop gain competitive advantages*

For instance, Waterdrop provides technical support services to sales personnel, including insurance brokerages and agencies, through a data-driven proprietary customer relationship management (CRM) system to enhance their sales productivity. Additionally, it offers its insurance partners insights to underwriting data and claim behaviours, enabling them to design more customised products with new features tailored to customer needs.

**Consistent R&D investment strengthens technological capabilities.** According to management, Waterdrop has been investing in generative AI since 2019, with an annual allocation of Rmb300m. Waterdrop has spent an average of 11% of its total revenue, or around Rmb274m, on R&D expenses in the past few years to support technologies and infrastructure.

*Consistent R&D investments*

**Implementation of proprietary AI solution across all aspects of business.** Leveraging on enormous real-world data sets in the insurance industry that Waterdrop accumulated over the past few years, the company managed to develop its own insurance-specific LLMs tailored to its business scenarios such as consultation, underwriting, claims processing, customer service and product innovation. For instance, Waterdrop’s “Insurance AI Agent” is capable of fully autonomous decision-making, including understanding user needs, modelling health risks, and interpreting policies during conversations with users that can last up to 50 minutes. According to management, the LLM is able to generate millions of monthly medical insurance premiums by handling user inquiries.

*AI-driven insurance ecosystem taking shape*

**More advanced AI integration beyond simple automation.** Waterdrop is now focusing on two key directions in its LLM applications: Co-pilots and AI Agents designed to directly serve users. Co-pilots are utilised in quality inspection and the insurance sales process. Waterdrop anticipates that the former applications will lower frontline quality control costs by 40%, while the sales Co-pilot aims to empower human agents by enhancing sales efficiency through rapid summarisation of client intent and personalised product recommendations.

Waterdrop has also implemented its self-developed AI Agent across three different business scenarios: AI Health Insurance Agents, AI Service Assistants, and the AI Insurance Planner. The AI Health Insurance Agents facilitate complex voice-based consultations and currently generate millions in medical insurance premiums per month, with projections to reach 10m by the end of 2025. Meanwhile, Waterdrop has integrated DeepSeek into its AI Insurance Planner, leveraging its advanced long-chain reasoning capabilities to deliver real-time, high-quality family insurance consultation and planning services, enhancing both user experience and long-term growth potential. Additionally, Waterdrop has embedded its AI Service Assistant, “Baoxiaohui,” into its app to handle user inquiries related to policies and insurance products.

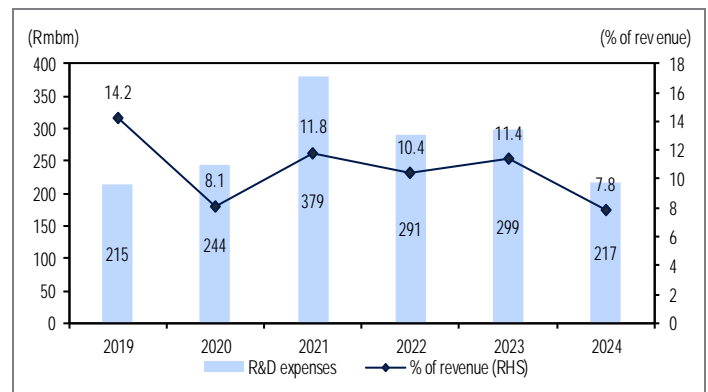
Waterdrop remains committed to leveraging its proprietary AI tools to enhance operational efficiency, optimise sales processes and manage customer service personnel in a more cost-effective manner.

FIGURE 22: WATERDROP GUARDIAN FEATURES



Source: Waterdrop, UOB Kay Hian

FIGURE 23: R&D EXPENSES



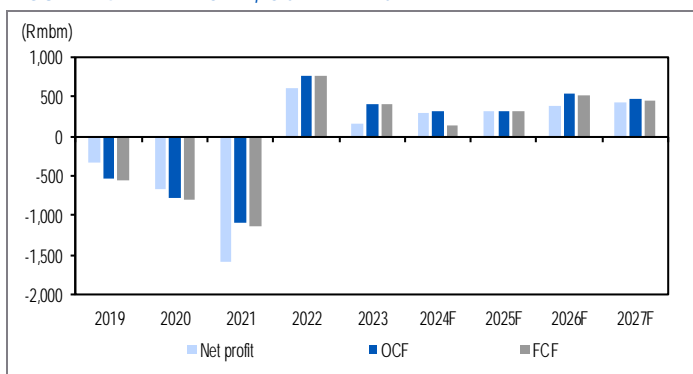
Source: Waterdrop, UOB Kay Hian

LOW BALANCE SHEET RISK WITH SOLID NET CASH POSITION

**Brokerage business is asset-light business model with limited capex.** As an online insurance broker, Waterdrop operates an asset-light insurance distribution model, as it does not bear underwriting risks and receives commissions almost immediately after sales. Over the past few years, the average collection period for its receivables has remained below 90 days. Its primary working capital requirements stem from accounts receivable and contract assets. Additionally, its capital expenditures have historically accounted for less than 1% of total revenue. As a result, its operating cash flow (OCF) and FCF closely align with its earnings performance. Waterdrop's OCF and FCF turned positive in 2022, driven by an earnings improvement after the company decided to optimise customer acquisition costs. In 2023, Waterdrop generated Rmb407m in OCF, more than sufficient to cover the cash consideration of Rmb216m for the Shenlanbao acquisition in the same year.

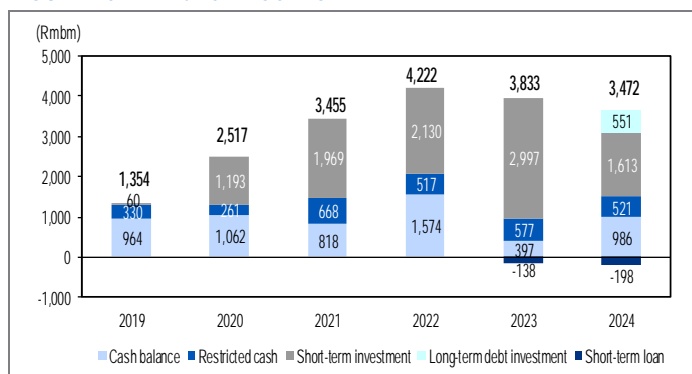
*Low balance sheet risk with minimum capex*

FIGURE 24: NET PROFIT, OCF AND FCF



Source: Waterdrop, UOB Kay Hian

FIGURE 25: NET CASH POSITION



Source: Waterdrop, UOB Kay Hian

FIGURE 26: LOW CAPEX AND WORKING CAPITAL REQUIREMENT

(Rmbm)	2019	2020	2021	2022	2023
Operating revenue	1,511	3,028	3,206	2,802	2,631
Net profit	-322	-664	-1,574	608	164
Changes in working capital	-246	-505	192	6	103
OCF	-533	-777	-1,097	766	407
Capex	-13	-27	-36	-12	-14*
FCF	-546	-804	-1,132	754	393

\*Excluded the cash consideration of Rmb216m for the acquisition of Shenlanbao

Source: Waterdrop, UOB Kay Hian

**Ample cash level.** Waterdrop has accumulated substantial cash reserves on the back of consistent profitability since 2022. Despite acquiring Shenlanbao and spending Rmb526m on share repurchases, the company maintained a strong net cash position of Rmb3.8b in 2023. The net cash position moderated 9.4% yoy to Rmb3.5b in 2024, as management has reallocated some short-term investments into long-term products to secure higher returns amid Federal Reserve rate cuts. Additionally, Waterdrop is actively exploring other inorganic growth opportunities and has scaled back short-term financial management to enhance liquidity. The company's primary investment assets consist of low-risk US Treasury bonds and wealth management products.

*Building ample cash reserves in past two years*

**Enhancing shareholder returns.** Waterdrop vows to deliver substantial returns to investors in the long run, leveraging on its strong cash flow generation capability. Waterdrop has cumulatively repurchased 52.1m ADS with US\$104m considerations and announced a total cash dividend of US\$0.04 per ADS in 2024, implying a dividend yield of 3.1%. If we include the share buyback, the shareholder return yield could exceed 6%. Moving forward, management also plans to distribute dividends semi-annually in the future.

*Committed to delivering substantial returns to shareholders*

Earnings Forecasts

**Revenue set to grow at a four-year CAGR of 9.3% from 2024-28.** In 2024, insurance-related income (brokerage income and technical service income) contributed 85.3% of total revenue while crowdfunding and other segments accounted for 9.7%/5.1% respectively. Hence, brokerage income from insurance sales is the main revenue source. Management is eyeing a 20% yoy top-line growth in 2025. Overall, we forecast Waterdrop’s revenue growing at a four-year CAGR of 9.3% from Rmb2.8b in 2024 to Rmb4.0b in 2028.

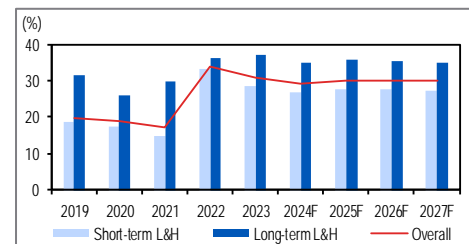
- Insurance segment is expected to deliver 9.3% CAGR from 2024-28.** The insurance segment earns brokerage income and technical service fees. The primary drivers of brokerage income are FYP and the take-rate (combination of commission and retention rates). FYP growth is largely driven by the number of policies sold and the average ticket size. We project policy sales growing at a four-year CAGR of 4.5% from 2024 to 2028, supported by: a) Waterdrop’s efforts to maximise the lifetime value of existing customers, and b) customer base expansion through the omni-channel marketing strategy. The average ticket size is expected to increase at a four-year CAGR of 5.2%, fuelled by a higher proportion of long-term savings products. We expect the take-rate to remain relatively stable at 30%, driven by increasing FYP contributions from high-commission long-term policies and improved retention of short-term policies, offset by regulatory pressures and rising competition affecting product commission rates.
- Crowdfunding and other segments are poised to grow at a four-year CAGR of 7.8% from 2024-28,** primarily driven by increased crowdfunding service income following the crowdfunding service fee rate hike from 3% to 6%. Meanwhile, revenue from the digital clinical trial solution may experience a slower growth in 2025, as Waterdrop prioritised operational efficiency over scale expansion.

**Operating cost and marketing expenses may edge up in 2025 on more aggressive marketing campaigns.** Waterdrop’s operating costs mainly comprise: a) payroll for insurance agents, consultants and customer service personnel; and b) cost of referral and service fee. Operating costs grew faster than revenue in 2024, largely due to the acquisition of Shenlanbao. However, the operating cost-to-revenue ratio should come down gradually in the future as synergies and economies of scale materialise. In addition, we estimate a 26% yoy increase in selling and marketing expenses in 2025 as management plans to implement a more aggressive client acquisition strategy through third-party traffic channels to expand its customer base and achieve its 20% revenue growth target.

**Improving operating margin outlook on continued efficiency gains.** Although selling and marketing expenses may see a surge in 2025, we still foresee Waterdrop’s operating expense-to-revenue ratio moderating from 46.1% in 2024 to 41.4% by 2028. We believe the company’s strong technological capabilities, particularly in AI applications, will help enhance sales conversion efficiency and improve operating leverage in its crowdfunding and other business segments. Overall, we project Waterdrop’s operating profit growing at a four-year CAGR of 27.3% from 2024 to 2028, with operating margin improving to double digits.

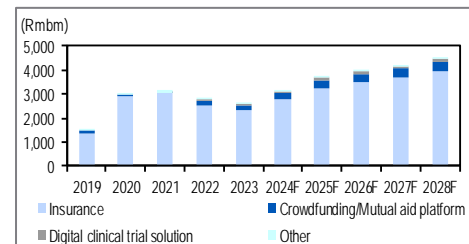
**Targeting to grow net profit at a five-year CAGR of 25.0% from 2023-28.** Waterdrop delivered a strong bottom line growth of 119.6% yoy to Rmb368m in 2024, supported by an 8.7ppt yoy decline in the cost-to-revenue ratio and solid top-line growth. However, we expect the net profit to fall 26.6% yoy in 2025 due to rising customer acquisition costs and falling interest income amid Fed rate cuts. Despite that, we still estimate the 2025 net profit would be significantly higher than in 2023. Moreover, we expect net profit growth to turn positive again in 2026 and 2027, with yoy increases of 56.1% and 10.9% respectively, driven by sustained FYP growth and improved cost management.

FIGURE 27: TAKE-RATE



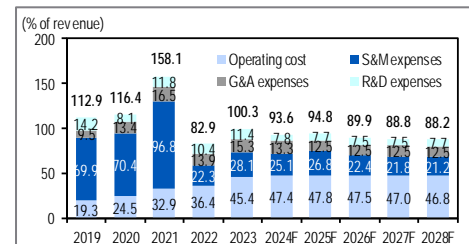
Source: Waterdrop, UOB Kay Hian

FIGURE 28: REVENUE BREAKDOWN



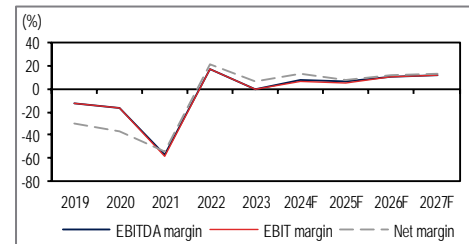
Source: Waterdrop, UOB Kay Hian

FIGURE 29: OPERATING COST AND EXPENSES (% OF REVENUE)



Source: Waterdrop, UOB Kay Hian

FIGURE 30: PROFIT MARGIN PERFORMANCE



Source: Waterdrop, UOB Kay Hian

**FIGURE 31: PROFIT & LOSS**

Year to 31 Dec (Rmbm)	2023	2024	2025F	2026F	2027F
Revenue, net	2,631	2,772	3,265	3,483	3,714
Operating expenses	-2,637	-2,594	-3,094	-3,131	-3,299
<b>EBIT</b>	<b>-7</b>	<b>178</b>	<b>171</b>	<b>352</b>	<b>415</b>
Other non-operating income	35	33	0	0	0
Associate contributions	0	0	0	0	0
Net interest income/(expense)	136	149	109	94	95
<b>Pre-tax profit</b>	<b>164</b>	<b>361</b>	<b>280</b>	<b>446</b>	<b>510</b>
Tax	-1	-10	-8	-22	-41
Minorities	4	17	-2	-2	-2
<b>Net profit(rep./act.)</b>	<b>167</b>	<b>368</b>	<b>270</b>	<b>421</b>	<b>467</b>
Non-GAAP net profit	167	368	270	421	467
Deprec. & amort.	14	31	31	31	31
EBITDA	7	209	202	383	446
<b>Per share data (Fen)</b>					
EPS - diluted	4.3	9.9	7.3	11.3	12.6
Reported EPS - diluted	4.3	9.9	7.3	11.3	12.6
Book value per shares (BVPS)	123.9	134.1	144.6	157.2	170.9
Dividend per share (DPS)	2.9	2.9	1.5	2.3	2.6

Source: Waterdrop, UOB Kay Hian

**FIGURE 32: BALANCE SHEET**

Year to 31 Dec (Rmbm)	2023	2024	2025F	2026F	2027F
Cash/Near cash equiv.	3,971	3,120	3,121	3,802	4,039
Accounts receivable/debtors	1,266	1,336	1,629	1,562	1,783
Other current assets	190	183	354	219	392
<b>Current assets</b>	<b>5,426</b>	<b>4,638</b>	<b>5,104</b>	<b>5,583</b>	<b>6,214</b>
Fixed assets	34	240	168	155	141
Investments	212	1,114	1,114	1,114	1,114
Intangible assets	477	461	511	525	541
Other non-current tangible assets	-	-	-	-	-
<b>Total non-current assets</b>	<b>722</b>	<b>1,816</b>	<b>1,793</b>	<b>1,794</b>	<b>1,797</b>
<b>Total assets</b>	<b>6,149</b>	<b>6,454</b>	<b>6,897</b>	<b>7,377</b>	<b>8,011</b>
Accounts payable/creditors	1,190	1,241	1,359	1,389	1,532
Short-term debt/borrowings	138	198	150	150	150
Other current liabilities	42	45	45	45	45
<b>Current liabilities</b>	<b>1,370</b>	<b>1,485</b>	<b>1,554</b>	<b>1,584</b>	<b>1,726</b>
Long-term debt	-	-	-	-	-
Deferred tax liability	73	84	84	84	84
Other non-current liabilities	27	11	11	11	11
<b>Total non-current liabilities</b>	<b>101</b>	<b>95</b>	<b>95</b>	<b>95</b>	<b>95</b>
<b>Total liabilities</b>	<b>1,470</b>	<b>1,580</b>	<b>1,649</b>	<b>1,679</b>	<b>1,821</b>
Minority interest - accumulated	93	76	76	76	76
<b>Shareholders' equity</b>	<b>4,586</b>	<b>4,797</b>	<b>5,172</b>	<b>5,622</b>	<b>6,114</b>
<b>Liabilities and shareholders' funds</b>	<b>6,149</b>	<b>6,454</b>	<b>6,897</b>	<b>7,377</b>	<b>8,011</b>

Source: Waterdrop, UOB Kay Hian

**FIGURE 33: CASH FLOW**

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F	2027F
<b>Operating cash flow</b>	407	447	56	780	346
Pre-tax profit	164	361	280	446	510
Tax	-1	-10	-8	-22	-41
Deprec. & amort.	14	31	31	31	31
Working capital changes	103	-21	-362	215	-271
Non-cash items	134	86	115	111	116
<b>Cash from investing activities</b>	<b>-1,173</b>	<b>302</b>	<b>-96</b>	<b>-67</b>	<b>-70</b>
Capex (growth)	-14	-180	-15	-16	-17
Others	-1,159	482	-81	-51	-52
<b>Cash from financing activities</b>	<b>-377</b>	<b>-154</b>	<b>-101</b>	<b>-83</b>	<b>-92</b>
Dividend payments/share repurchase	-526	-215	-53	-83	-92
Issue of shares	12	0	0	0	0
Proceeds from borrowings	167	61	-48	0	0
Others/interest paid	-30	0	0	0	0
<b>Net increase/(decrease) in cash</b>	<b>-1,144</b>	<b>594</b>	<b>-140</b>	<b>631</b>	<b>185</b>
Beginning cash	2,092	974	1,568	1,428	2,058
Changes due to forex impact	26	-61	0	0	0
<b>End Cash</b>	<b>974</b>	<b>1,507</b>	<b>1,428</b>	<b>2,058</b>	<b>2,243</b>

Source: Waterdrop, UOB Kay Hian

**FIGURE 34: KEY METRICS**

Year to 31 Dec (%)	2023	2024	2025F	2026F	2027F
<b>Growth</b>					
Turnover	(6.1)	5.4	17.8	6.7	6.6
EBITDA	(98.6)	2965.5	(3.3)	89.6	16.5
Pre-tax profit	(74.0)	119.6	(22.2)	58.9	14.5
Net profit	(73.6)	119.8	(26.6)	56.1	10.9
Net profit (adj.)	(73.6)	119.8	(26.6)	56.1	10.9
EPS	(72.7)	129.3	(26.6)	56.1	10.9
<b>Profitability</b>					
EBITDA margin	0.3	7.5	6.2	11.0	12.0
EBIT margin	(0.3)	6.4	5.2	10.1	11.2
Gross margin	54.6	52.6	52.3	52.5	53.0
Pre-tax margin	6.2	13.0	8.6	12.8	13.7
Net margin	6.1	13.3	8.3	12.1	12.6
ROE	3.4	7.8	5.4	7.8	8.0
ROA	2.7	5.8	4.0	5.9	6.1
RONTA	0.0	3.6	3.0	5.3	5.6
<b>Leverage</b>					
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Debt to total capital	2.9	4.1	2.9	2.6	2.4
Debt to equity	3.0	4.1	2.9	2.7	2.5
Net debt/(cash) to equity	(81.9)	(59.9)	(56.6)	(64.1)	(62.8)
Current ratio (x)	4.0	3.1	3.3	3.5	3.6

Source: Waterdrop, UOB Kay Hian

## Appendix I – Company Background

**Laying the groundwork for an integrated digital healthcare platform.** Waterdrop was founded in 2016 by Peng Shen, a key member of the founding team at Meituan Waimai (Meituan). The company initially launched the Waterdrop Mutual Aid platform in May 16, followed by the Waterdrop Medical Crowdfunding platform in Jul 16. Since both were non-profit businesses, Waterdrop quickly expanded into the insurance brokerage business by acquiring Shuidi Insurance Brokerage in Sep 16. This paved the way for the introduction of Waterdrop Insurance Marketplace in May 17. The company shut down its mutual aid business in Mar 21 in order to focus on its core businesses and avoid any regulatory uncertainty.

At the same time, Waterdrop explored additional business opportunities and established Miaoyi Hulian Technology in Jul 18 to operate general healthcare and pharmaceutical services. To further strengthen its insurance business, the company acquired Tairui Insurance Agency in Jun 20, enabling offline insurance agency operations. In Jun 23, Waterdrop expanded its presence in the insurance brokerage sector and diversified its user acquisition sources by acquiring Shenlanbao. In Aug 23, Waterdrop Financial Services (HK) officially opened to provide customers with one-stop wealth management solutions. According to Bloomberg, Waterdrop is considering a secondary listing in Hong Kong within two years as it is actively growing its business outside mainland China, especially in Hong Kong.

**Strong base of cornerstone investors.** Waterdrop went through at least five rounds of fundraising and raised Rmb3.3b prior to its IPO. The principal shareholders include: a) Tencent, which also provides marketing and payment processing support to the company; b) Boyu Capital; c) Gaorong Capital; and d) Swiss Re. In May 21, Waterdrop went public on the New York Stock Exchange (NYSE), becoming the first Chinese insurtech company to list on NYSE.

### FUNDRAISING HISTORY

Date	Round	Capital raised (Rmbm)	Investors participation
May 2016	Angel financing	50	n.a.
Aug 2017	Series A	160	Tencent, SinoVation Ventures, Gaorong Capital, IDG Capital, Meituan and RedAvenue Foundation
Mar 2019	Series B	500	Tencent, Gaorong Capital, IDG Capital, and BlueRun Ventures
Jun 2019	Series C	1,000	Boyu Capital, Tencent, CICC, Gaorong Capital
Aug 2020	Series D	US\$230m	Swiss Re, Tencent, IDG Capital and Light-up Capital

Source: Waterdrop, UOB Kay Hian



## Appendix II – Management Line-up

**Young and capable management team.** Waterdrop’s management team is relatively young and possesses extensive experience in the internet industry. The founder and several core management team members have known each other since their time at Meituan. Founder and CEO Peng Shen was part of Meituan’s founding team for the food delivery platform, where he started out as the business head in Jul 13, and expanded the business nationwide in a short period. After leaving Meituan, Mr Shen and two co-founders established the Waterdrop Medical Crowdfunding platform and quickly rolled out Waterdrop Insurance Marketplace to monetise user traffic.

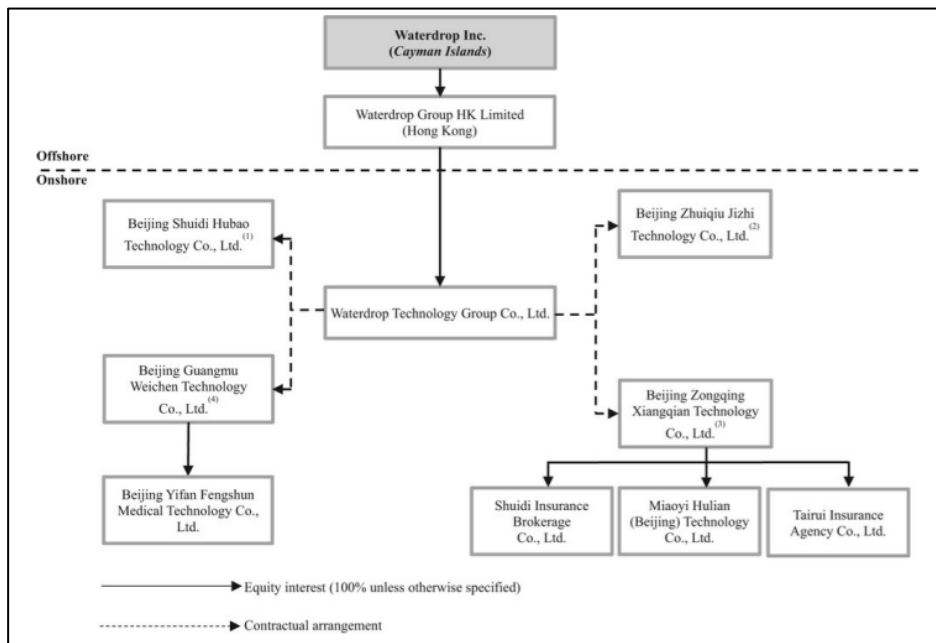
### SELECTED KEY PERSONNEL

Name	Position	Age	Experience
Peng Shen	Founder, CEO and Chairman of the Board of Directors.	37	Mr. Peng Shen is the founder, and has served as the chairman of board of directors and chief executive officer since Waterdrop’s inception in 2016. Mr. Shen has extensive experience and expertise in the technology and internet sectors in China. Prior to founding Waterdrop in April 2016, he joined Meituan at its earlier stage in 2010 and served as business head of Meituan’s food delivery business since July 2013. Mr. Shen received a master’s degree in retail management from NEOMA Business School in France, an EMBA from Tsinghua University School of Economics and Management, and a PhD in Hotel and Tourism Management from The Hong Kong Polytechnic University.
Guang Yang	Co-Founder, Director, Vice President of Finance and General Manager of International Business	38	Mr. Guang Yang is the co-founder, has served as director, vice president of finance since June 2022 and general manager of international business since March 2023. He also served as general manager of the insurance division from November 2016 to March 2023. Prior to co-founding Waterdrop in April 2016, Mr. Yang served as the director of the strategy and investment department of Meituan from March 2015 to August 2016. Before 2015, he was a senior manager at CEC Capital Group and served as a senior consultant of the M&A transaction service team at Deloitte Touche Tohmatsu Limited. Mr. Yang received an honors degree in actuarial science specialising in finance from the University of Waterloo.
Wei Ran	Director and General Manager of Insurance Technology Business	37	Mr. Wei Ran has served as the director and general manager of the insurance technology business since March 2023. Prior to that, he was the head of strategy and business analysis for the company since June 2016. Before joining Waterdrop, he worked as a senior strategy analyst at Meituan Waimai from July 2015 to June 2016 and strategic consultant at Accenture Consulting. Mr. Ran obtained a bachelor’s degree in Economics from Shanghai Jiaotong University in June 2009, and a master’s degree in Software Engineering from Peking University in June 2013.
Xiaobo Zhou	Head of Research and Development	43	Mr. Xiaobo Zhou has served as the head of research and development since October 2020 and is responsible for the operation of research and development department. Prior to joining Waterdrop, he worked at Beijing Zhongguancun Ronghui Financial Information Service Co., X Financial, Baidu Inc. and Tencent. Mr. Zhou received a PhD in communication and information systems from University of Science and Technology of China.
Jieru Li	Board Secretary and Head of Corporate Strategy	36	Ms. Jieru Li joined Waterdrop in March 2021 and she has served as the board secretary and head of corporate strategy, where she is responsible for the group’s strategic development, capital markets, and board operations. Before joining Waterdrop, Ms Li worked at Bain & Company, Beike and China Life Private Equity Investment Co. and she has over 10 years of experience in corporate M&A activities and private equity investments. Ms. Li holds a bachelor’s degree in Finance from Tsinghua University and an MBA from Columbia University in the US.
Xiaoying Xu	Head of Finance	44	Ms. Xiaoying Xu has served as the head of the finance since December 2022. She has more than 10-years experience in the finance department of Meituan. Prior to that, she worked in a foreign-invested company and an A-share listed company. Ms. Xu received a bachelor’s degree from Renmin University of China and an EMBA from China Europe International Business School. Ms. Xu also holds ACCA and CMA certificates.
Xiaolei Sun	Vice President of Human Resources and Organisation Development	37	Ms. Xiaolei Sun has served as the head of human resources and organisation development since January 2021 and is in charge of the human resources and organisational development of the company. Ms. Sun has more than ten years of experience in entrepreneurship and business management for companies in the Internet-related industry such as Meituan Waimai and Sohu.com Limited. She received a bachelor of arts degree and a bachelor of laws degree from Xiamen University in 2008.

Source: Waterdrop, UOB Kay Hian

## Appendix III – Organisational Structure

### CORPORATE STRUCTURE



Source: Waterdrop, UOB Kay Hian

### PRINCIPAL SHAREHOLDERS (AS OF DEC 23)

	Common Shares Beneficially Owned			
	Class A Common Shares	Class B Common Shares	% of Total Common Shares	% of Aggregate Voting Power
All Directors and Executive Officers as a Group	107,951,050	801,904,979	24.7	72.5
<i>Peng Shen</i>	4,000	801,904,979	21.7	71.4
<i>Guang Yang</i>	86,386,000	-	2.3	0.9
<b>Principal Shareholders:</b>				
Entities affiliated with Tencent	830,085,007	-	22.5	8.2
Investment funds affiliated with Boyu Capital	470,735,258	-	12.8	4.7
Swiss Re Principal Investments Company Asia Pte. Ltd.	206,362,384	-	5.6	2.0

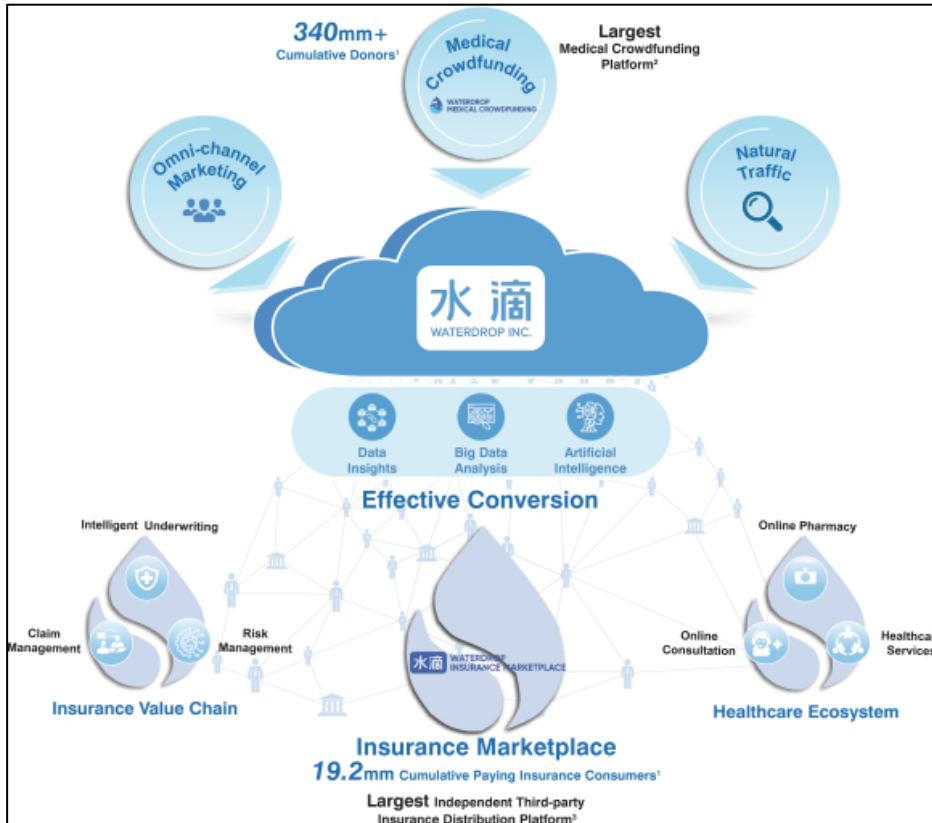
Note: Class A common share is entitled to one vote, and each Class B common share is entitled to 9 votes.

Source: Waterdrop, UOB Kay Hian

**Appendix IV – Business Model**

Waterdrop presents itself as a leading technology platform dedicated to insurance and healthcare services with a positive social impact. Waterdrop is one of the largest independent third-party insurance brokerage platforms in terms of L&H insurance FYP. Its comprehensive business model comprises three operating segments: a) Waterdrop Insurance Marketplace; b) Waterdrop Medical Crowdfunding; and c) healthcare-related services, including digital clinical trial solution and digital multichannel marketing solution.

**BUSINESS MODEL AT A GLANCE**



Source: Waterdrop, UOB Kay Hian

**WATERDROP INSURANCE MARKETPLACE**

**Offering comprehensive protection coverage.** Waterdrop offers a wide range of L&H insurance products through Waterdrop Insurance Marketplace (水滴保), partnering various insurers. As of Dec 23, the company had collaborated with 101 insurance carriers – 61 life insurers and 40 property and casualty (P&C) insurers – to provide over 1,300 insurance products. Among them, 600 were short-term products, while 757 were long-term L&H policies. Waterdrop collaborates with several well-known insurance partners, including Ping An Insurance Group, PICC Group, Taikang Insurance Group, China Life Insurance Company, and China Taiping Insurance. According to FYP breakdown, Waterdrop's primary sales have traditionally come from short-term insurance products. However, in the past two years, the company has been increasing the proportion of long-term insurance products in its sales mix. Waterdrop also allows its customers to opt for monthly payments for products that are normally paid annually, so as to make its more products more affordable and increase customer stickiness.

**Co-designing insurance products with insurers.** Additionally, Waterdrop works closely with insurance partners to design and develop customised insurance solutions tailored to customer needs, leveraging on their advanced data analysis and actuarial capabilities. According to Waterdrop, these co-developed products are typically offered exclusively on Waterdrop Insurance Marketplace and can be launched in as short as one week. Currently, co-designed products make up the majority of the insurance offerings available on the platform.

**Focusing on underserved populations.** Waterdrop Insurance Marketplace has accumulated a total of 115.3m insurance customers, including 32.3m paying customers as of Dec 23. The company primarily targets tech-savvy young individuals and breadwinners in lower-tier cities where traditional insurance adoption is low, offering them affordable and innovative insurance solutions. Additionally, Waterdrop is also engaged as a leading operating agency or distributor in a few cities' Hui Min Insurance (惠民保) projects, which are city-based medical insurance plans endorsed by local governments to complement national social security funds. This involvement allows Waterdrop to extend its reach to underserved markets and enhance user retention by providing coverage beyond commercial insurance.

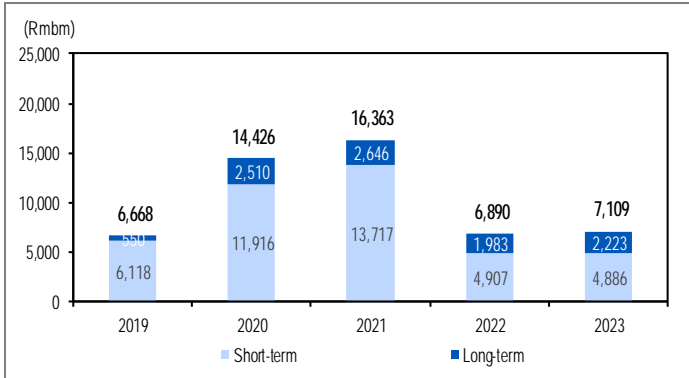
PRODUCT OFFERINGS ON WATERDROP INSURANCE MARKETPLACE

Source: Waterdrop, sdbao.com/, UOB Kay Hian

**Advanced omni-channel strategy for customer acquisition.** Waterdrop employs a multi-faceted approach to reaching customers, utilising: a) internal traffic from its medical crowdfunding platform, b) repeat customers, and c) third-party traffic channels. Among these, third-party channels generally come with higher acquisition costs and Waterdrop made a strategic move in 2022 to reduce reliance on third-party channel traffic for customer acquisition. As a result, FYP slumped 48.7% yoy in 2022 as third-party channel traffic contributed only 5% of total FYP (2021: 49.6%). To further diversify its customer acquisition channels, Waterdrop has taken proactive measures such as launching an offline agency team and acquiring Shenlanbao.

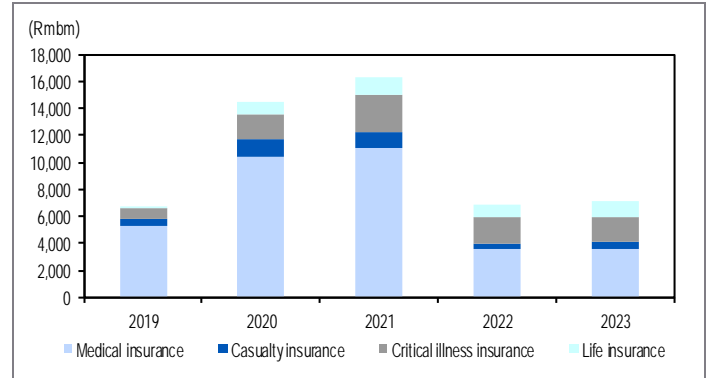
**Main revenue source.** Waterdrop generates insurance income through commission fees earned from distributing insurance products on its marketplace. These brokerage commissions are calculated as a percentage of the premiums paid by customers. The company primarily focuses on short-term insurance products, which accounted for 68.7% of FYP and 52.5% of total revenue in 2023. However, Waterdrop's effort to boost its long-term insurance policy portfolio has been gaining traction, particularly following the acquisition of Shenlanbao. As a result, FYP and brokerage income from long-term L&H insurance sales saw yoy growth of 12.1% and 15.1% respectively in 2023. Additionally, Waterdrop generates technical service revenue by offering services such as marketing services, claim review and risk management services to insurance companies through its proprietary CRM system. Overall, the insurance business contributed 89% of Waterdrop's total revenue in 2023.

FYP BY SHORT-/LONG-TERM PRODUCTS



Source: Waterdrop, UOB Kay Hian

FYP BY PRODUCT TYPE



Source: Waterdrop, UOB Kay Hian

WATERDROP MEDICAL CROWDFUNDING

**Founded to support those in their hour of need.** Established in Jun 16, Waterdrop Medical Crowdfunding (水滴筹) is a platform where patients facing heavy medical costs can initiate crowdfunding campaigns to fund their treatments. As of Dec 24, the platform had supported 3.4m patients in raising Rmb67.5b in donations from around 470m generous donors. According to iResearch, the total cumulative funds raised through medical crowdfunding platforms in China hit Rmb89.9b in 2023. We view Waterdrop Medical Crowdfunding as the leader in this market with a 90% market share.

Once a funding campaign is approved by Waterdrop, a shareable link is generated. The patient’s relatives, friends and acquaintances then distribute the link through their social networks to expand public reach, attract more donors and increase donations. At the same time, Waterdrop provides technical support to enhance online visibility and offers one-on-one consultation services through its crowdfunding consultant team.

WATERDROP CROWDFUNDING PROCESS

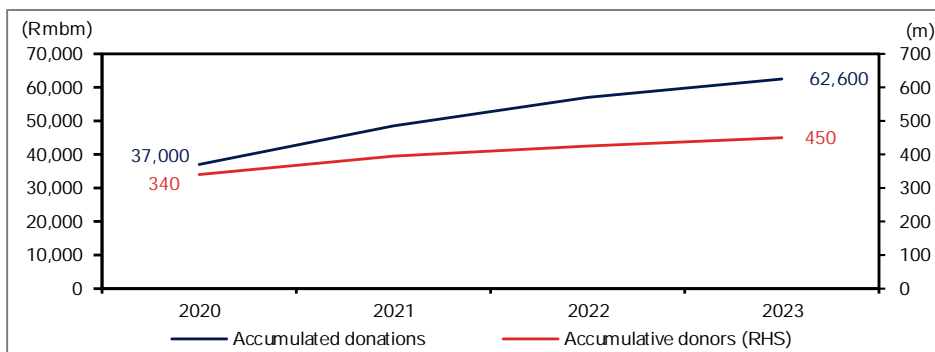


Source: Waterdrop, UOB Kay Hian

**Strong brand recognition underpins effective traffic conversion.** Waterdrop aims to raise awareness of insurance protection and to build brand recognition in its enormous user base. This emotional connection makes users more likely to purchase insurance from Waterdrop than from other purely commercial platforms. According to Waterdrop’s disclosure in 2020, over 24% of accumulative donors on the platform had subsequently purchased its insurance products or mutual aid products, accounting for 13.0% of FYP in 2020. Waterdrop also leverages patient resources from its crowdfunding platform to connect pharmaceutical companies with patients for clinical trials involving new drugs or therapies.

**Aiming to reduce operating loss by charging service fee.** Waterdrop’s crowdfunding platform operated on a free-of-charge model until Apr 22, when it introduced a 3% service fee on the total funds raised per campaign to support platform operations. In 2023, the fee was increased to 6%, contributing to an improvement in the crowdfunding platform’s operating margin from -151.0% in 2023 to -36.3% in 2024. We believe the regulatory risk associated with this fee adjustment is minimal, as the government’s recently-issued document “Measures for the Administration of Online Service Platforms for Individuals Seeking Financial Help” permits crowdfunding platforms to charge reasonable fees.

WATERDROP CROWDFUNDING PLATFORM OPERATING STATISTICS

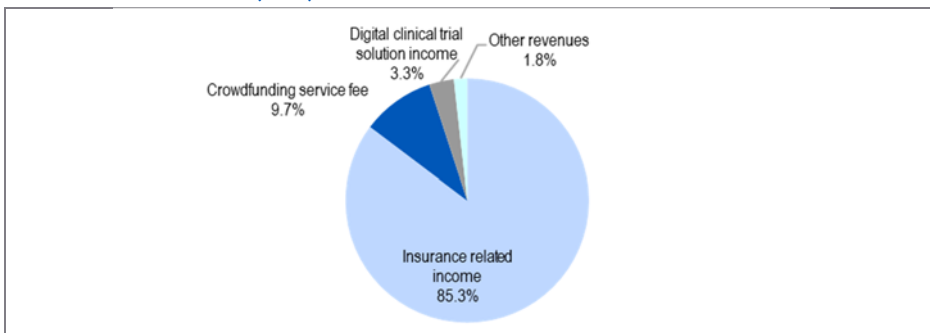


Source: Waterdrop, UOB Kay Hian

DIGITAL CLINICAL TRIAL SOLUTION

**Exploring new revenue growth sources along CRO service value chain.** In 2021, Waterdrop rolled out E-Find Patient Recruitment to help pharmaceutical companies find suitable patients for clinical trials and charges a fixed fee for each successful match. By leveraging Waterdrop Medical Crowdfunding’s patient dataset, Waterdrop can effectively connect pharmaceutical companies with potential patients who qualify for clinical trials. As of Sep 24, the company had enrolled over 10,395 patients in 1,212 clinical trial programmes in collaboration with 177 pharmaceutical companies and contract research organisations (CRO). Revenue from digital clinical trial solution skyrocketed from Rmb0.6m in 2021 to Rmb91.1m in 2024. However, the revenue contribution was still relatively small, accounting for just 3.3% of total revenue in 2024, and the segment was still loss-making with an operating loss of Rmb96.5m in 2024.

REVENUE BREAKDOWN (2024)



Source: Waterdrop, UOB Kay Hian

BUSINESS RELATIONSHIP WITH TENCENT

**Cooperation with principal shareholder.** Waterdrop has close business ties with Tencent, its principal shareholder which held around 22.5% stake in Waterdrop as of Dec 23. For example, Waterdrop leverages on the extensive traffic in Wechat to acquire new users for its medical crowdfunding business through the practice of sharing Wechat-based links. Waterdrop also conducts business through the official Wechat account and mini programs. Furthermore, Tencent provides payment processing services via Wechat Pay to collect payment from insurance consumers and donors. The services provided by Tencent to Waterdrop reached Rmb135.5b in 2023, or 5% of the latter’s total operating costs and expenses.

RELATED PARTY TRANSACTIONS WITH TENCENT

(Rmbm)	2021	2022	2023
Services provided by Tencent	570.5	83.9	135.5
Marketing services	487.1	20.7	79.5
Payment processing services	38.0	27.8	23.8
Cloud technology services	45.3	35.3	31.4
Others	0.1	0.1	0.9
Services provided to Tencent			
Advertising services	2.0	1.0	0.6

Source: Waterdrop, UOB Kay Hian

## Appendix V – Risk Factors

**Regulatory crackdown is over but uncertainty still persists.** Financial regulators have consistently tightened oversight of the internet insurance industry in recent years. Their goal is to ensure that insurtech companies operate within their licensed scope while enforcing compliance with insurance sales and marketing regulations to protect consumer interest. As a result, the business operations and financial performance of Waterdrop could be materially affected. For example, implementation of the “Consistency of regulatory reporting and actual actions” policy in Oct 23 has caused a drop in commission rates in the insurance intermediary sector, hurting brokers’ revenue outlook. However, the impact to online insurance product sales is smaller and Waterdrop can adjust the fee structure between commission income and technical service fee to mitigate the regulatory impact.

Additionally, Waterdrop Medical Crowdfunding will be subject to scrutiny under the amended Charity Law and the Ministry of Civil Affairs issued “Measures for Administration of Online Service Platforms for Individuals Seeking Financial Help” in Dec 24 to set up a legal framework for the online fundraising sector, with special regulations for anti-fraud measures, fee structure and management of donation funds. Additional costs may be required to fulfil the latest regulatory requirement but we do not think it will affect the synergies between Waterdrop’s medical crowdfunding platform and its other businesses. However, with Waterdrop being officially designated as one of the approved personal help-seeking online service platforms, the sustainability of its crowdfunding business is secured. Overall, the regulatory pressure on Waterdrop in the near term is manageable, in our view.

**Intensifying competition.** The China’s online insurance service industry is highly competitive with Waterdrop facing various market participants, including: a) other online third-party insurance platforms such as Xiaoyusan and Huize, b) traditional offline insurance intermediaries such as FanHua Inc, c) online insurance agents backed by tech giants such as Tencent WeSure and Ant Financial, and d) online direct sales channels of insurance companies. The keener competition may lead to higher marketing expenses and greater dependence on costly external traffic channels for customer acquisition.

**Brand recognition and reputation.** Charity activities are always under public scrutiny. Fraudulent incidents on the Waterdrop Medical Crowdfunding platform, such as falsified medical or financial records and misuse of charitable funds, could severely impact Waterdrop’s reputation and disrupt its business operations. To mitigate potential fraud, Waterdrop has established a comprehensive risk management framework for its crowdfunding business. This includes a big data-driven intelligent verification system and offline crowdfunding consultant teams to verify patient information. Additionally, Waterdrop has established an independent custodian bank account for medical crowdfunding campaigns in order to ensure that funds are directly remitted to hospitals, preventing fund misappropriation.

**Other risks** may include: a) relationships with insurance companies, b) further slowdown in China’s economy which will affect insurance demand, c) data privacy and cybersecurity crises, and d) failure to improve customer retention and conversion rates.

**Appendix VI – Key Assumptions**
**KEY ASSUMPTIONS ON EARNING FORECASTS**

Revenue breakdown (Rmbm)	2023	2024	2025F	2026F	2027F	2028F
FYP	7,110	7,473	8,892	9,540	10,237	10,925
Short-term insurance	4,887	5,136	6,342	6,728	7,138	7,573
Long-term insurance	2,223	2,336	2,550	2,811	3,099	3,352
<b>Operating revenue</b>	<b>2,631</b>	<b>2,772</b>	<b>3,265</b>	<b>3,483</b>	<b>3,714</b>	<b>3,954</b>
Brokerage income	2,205	2,194	2,655	2,836	3,038	3,248
Technical service income	136	129	139	146	151	155
Crowdfunding service fee	163	268	323	348	365	383
Digital clinical trial solutions	100	91	97	101	106	112
<b>Cost breakdown (Rmbm)</b>						
Operating cost	1,196	1,315	1,559	1,655	1,746	1,850
<b>Operating expenses</b>	<b>1,442</b>	<b>1,279</b>	<b>1,535</b>	<b>1,477</b>	<b>1,553</b>	<b>1,635</b>
Selling expenses	740	695	875	780	810	837
G&A expenses	402	368	408	435	464	494
R&D expenses	299	217	251	261	279	304
<b>Key assumptions (%)</b>						
FYP growth	3.2	5.1	19.0	7.3	7.3	6.7
Commission rate	31.0	29.4	29.9	29.7	29.7	29.7
Cost of revenue (% of rev)	45.4	47.4	47.8	47.5	47.0	46.8
Selling expenses (% of rev)	28.1	25.1	26.8	22.4	21.8	21.2
G&A expenses (% of rev)	15.3	13.3	12.5	12.5	12.5	12.5
R&D expenses (% of rev)	11.4	7.8	7.7	7.5	7.5	7.7

Source: Waterdrop, UOB Kay Hian



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