



Sunlands Technology Group Announces Unaudited Fourth Quarter and Full Year 2018 Financial Results

March 22, 2019

2018 full year net revenues increased by 103.5% year-over-year
2018 full year gross billings (non-GAAP) increased by 35.0% year-over-year
2018 full year new student enrollments^[1] increased by 35.6% year-over-year

BEIJING, March 22, 2019 /PRNewswire/ -- **Sunlands Technology Group** (NYSE: STG) ("Sunlands" or the "Company"), a leader in China's online post-secondary and professional education, today announced its unaudited financial results for the fourth quarter and full year ended December 31, 2018.

Fourth Quarter 2018 Financial and Operational Highlights

- Net revenues were RMB568.8 million (US\$82.7 million), representing a 65.0% increase year-over-year.
- Gross billings (non-GAAP) were RMB759.8 million (US\$110.5 million), representing a 5.8% decrease year-over-year.
- Gross profit was RMB490.3 million (US\$71.3 million), representing an 84.8% increase year-over-year.
- Net loss was RMB183.7 million (US\$26.7 million), representing a 57.1% decrease year-over-year. Net loss margin, defined as net loss as a percentage of net revenues, decreased to 32.3% from 124.1% in the fourth quarter of 2017.
- New student enrollments were 119,746, representing a 10.8% decrease year-over-year.
- As of December 31, 2018, the Company's deferred revenue balance was RMB3,286.0 million (US\$477.9 million).

Full Year 2018 Financial and Operational Highlights

- Net revenues were RMB1,974.0 million (US\$287.1 million), representing a 103.5% increase from the full year 2017.
- Gross billings (non-GAAP) were RMB3,214.4 million (US\$467.5 million), representing a 35.0% increase from the full year 2017.
- Gross profit was RMB1,643.6 million (US\$239.1 million), representing a 105.5% increase from the full year 2017.
- Net loss was RMB927.0 million (US\$134.8 million), representing a 0.9% increase from the full year 2017. Net loss margin decreased to 47.0% from 94.7% in the full year 2017.
- New student enrollments were 526,014, representing a 35.6% increase from the full year 2017.

^[1] New student enrollments for a given period refers to the total number of orders placed by students that newly enroll in at least one course during that period (including those students that enroll and then terminate their enrollment with the Company).

Mr. Tongbo Liu, Chief Executive Officer of Sunlands, said, "2018 marked a year of strategic positioning and advancements for our Company. We completed our IPO, launched our AI-powered personalized study program, and broadened our graduate and post-graduate program offerings. We ended the year at the top end of our fourth quarter revenue guidance and narrowed our net loss margin.

"In 2018, we started to explore innovative ways to attract more students to our online learning platform. One of our biggest achievements was initiating free trials. By offering potential students our upgraded free trials with introductory seminars and free short-courses, we believe we can increase average gross billings, conversion rates and sales efficiency over the longer-term.

"Our mission is to transform education with technology and innovation to make learning experiences enjoyable and rewarding. In line with these ideals, in 2018, we also began pursuing more user-friendly marketing tactics to introduce potential students not only to Sunlands' online STE platform, but to a broader range of our best-in-class programs. As we strengthen our brand awareness, we are capable of reaching a larger pool of prospective students who may benefit from our courses. In 2019, we will be focused on attracting more students to our platform by expanding our free trials with even more course offerings. We believe these initiatives will help develop online learning habits for more students, transferring them from offline to online, and enhance a stronger brand for Sunlands over the longer-term.

"As a pioneer in the massive and evolving online post-secondary and professional education market, we are dedicated to providing a comprehensive online continuing education ecosystem, powered by our proprietary software that is tailored to each student's learning patterns. In 2019, we will look to further expand our business and gain market share. Empowered by our one-to-many live streaming model, we plan to broaden our course offerings to serve a larger student base and leverage our premier AI-technology and industry leading online education platform to create additional value for our students, teachers, partners and investors," Mr. Liu concluded.

Mr. Steven Yipeng Li, Chief Financial Officer of Sunlands, said, "The continuous growth in the number of students^[2] drove our growth in the fourth quarter, with our net revenues and gross profit increasing by 65.0% and 84.8%, respectively, year-over-year. Expanding our free trials with introductory seminars enabled us to enhance our sales productivity and efficiency, and our net loss margin decreased to 32.3% during the quarter from 124.1% in the fourth quarter of 2017. We plan to further invest in our growth by continuing to acquire and engineer best-in-breed content for our platform that supports our student acquisition efforts and maintains our leadership in the online post-secondary and professional education market."

[2] Number of students for a given period refers to the total number of orders placed by students which remain in their respective service periods.

Financial Results for the Fourth Quarter of 2018

Net Revenues

In the fourth quarter of 2018, net revenues increased by 65.0% to RMB568.8 million (US\$82.7 million) from RMB344.7 million in the fourth quarter of 2017. The increase was mainly driven by the growth in the number of students in the fourth quarter of 2018 compared to the fourth quarter of 2017, following new student enrollments continuous increase over the past years.

Cost of Revenues

Cost of revenues decreased by 1.1% from RMB79.4 million in the fourth quarter of 2017 to RMB78.5 million (US\$11.4 million) in the fourth quarter of 2018.

Gross Profit

Gross profit increased by 84.8% to RMB490.3 million (US\$71.3 million) from RMB265.3 million in the fourth quarter of 2017.

Operating Expenses

In the fourth quarter of 2018, operating expenses were RMB699.7 million (US\$101.8 million), representing a 0.2% increase from RMB698.0 million in the fourth quarter of 2017.

Sales and marketing expenses increased by 2.5% to RMB530.1 million (US\$77.1 million) in the fourth quarter of 2018 from RMB517.3 million in the fourth quarter of 2017. The increase was mainly due to increases in spending on branding and marketing activities, including investments in broadening Sunlands' search engine and mobile application channels.

General and administrative expenses decreased by 15.5% to RMB142.6 million (US\$20.7 million) in the fourth quarter of 2018 from RMB168.7 million in the fourth quarter of 2017. The decrease was mainly due to significant share-based compensation expenses recognized in the fourth quarter of 2017.

Product development expenses increased by 125.6% to RMB27.0 million (US\$3.9 million) in the fourth quarter of 2018 from RMB11.9 million in the fourth quarter of 2017. The increase was primarily due to an increase in the number of employees and compensation paid to Sunlands' course and educational content professionals and technology development personnel during the quarter.

Net Loss

Net loss for the fourth quarter of 2018 was RMB183.7 million (US\$26.7 million), compared with RMB427.8 million in the fourth quarter of 2017.

Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share was RMB26.68 (US\$3.88) in the fourth quarter of 2018.

Cash and Cash Equivalents and Short-term Investments

As of December 31, 2018, the Company had RMB1,248.8 million (US\$181.6 million) of cash and cash equivalents and RMB1,028.6 million (US\$149.6 million) of short-term investments, respectively, compared to RMB559.5 million of cash and cash equivalents and RMB353.1 million of short-term investments, respectively, as of December 31, 2017.

Deferred Revenue

As of December 31, 2018, the Company had deferred revenue balance of RMB3,286.0 million (US\$477.9 million).

Capital Expenditures

Capital expenditures were incurred primarily in connection with purchases of buildings and IT infrastructure equipment necessary to support Sunlands' operations. Capital expenditures were RMB263.1 million (US\$38.3 million) in the fourth quarter of 2018, compared to RMB307.2 million in the fourth quarter of 2017.

Financial Results for the Year of 2018

Net Revenues

For the year of 2018, net revenues increased by 103.5% to RMB1,974.0 million (US\$287.1 million) from RMB970.2 million in the year of 2017. The increase was mainly driven by the growth in the number of students in the year of 2018 compared to 2017, following new student enrollments continuous increase over the past years.

Cost of Revenues

Cost of revenues increased by 94.0% from RMB170.3 million in the year of 2017 to RMB330.4 million (US\$48.1 million) in the year of 2018. The increase was primarily due to the increase in compensation for our faculty members, which mainly included teachers and mentors, as we continued to retain our existing faculty members and attract new faculty members.

Gross Profit

Gross profit increased by 105.5% to RMB1,643.6 million (US\$239.1 million) from RMB799.9 million in the year of 2017.

Operating Expenses

For the year of 2018, operating expenses were RMB2,672.5 million (US\$388.7 million), representing a 54.7% increase from RMB1,727.6 million in the year of 2017.

Sales and marketing expenses increased by 59.3% to RMB2,152.8 million (US\$313.1 million) from RMB1,351.8 million in the year of 2017. The increase was mainly due to increases in (i) our sales and marketing compensation; and (ii) spending on branding and marketing activities, including investments in broadening our search engine and mobile application channels.

General and administrative expenses increased by 29.4% to RMB443.7 million (US\$64.5 million) from RMB342.9 million in the year of 2017.

Product development expenses increased by 131.3% to RMB76.0 million (US\$11.1 million) from RMB32.9 million in the year of 2017. The increase was primarily due to an increase in compensation for our course and educational content professionals and technology development personnel during the quarter.

Net Loss

Net loss for the year of 2018 was RMB927.0 million (US\$134.8 million), compared with RMB918.7 million in the year of 2017.

Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share was RMB147.27 (US\$21.42) in the year of 2018.

Capital Expenditures

Capital expenditures were incurred primarily in connection with purchases of buildings and IT infrastructure equipment necessary to support Sunlands' operations. Capital expenditures were RMB518.4 million (US\$75.4 million) and RMB398.9 million for the years ended December 31, 2018 and 2017, respectively.

Outlook

For the first quarter of 2019, Sunlands currently expects net revenues to be between RMB550.0 million to RMB570.0 million, which would represent an increase of 35.3% to 40.3% year-over-year.

The above outlook is based on the current market conditions and reflects the Company's current and preliminary estimates of market and operating conditions and customer demand, which are all subject to substantial uncertainty.

Exchange Rate

The Company's business is primarily conducted in China and all of the revenues are denominated in Renminbi ("RMB"). This announcement contains currency conversions of RMB amounts into U.S. dollars ("US\$") solely for the convenience of the reader. Unless otherwise noted, all translations from RMB to US\$ are made at a rate of RMB6.8755 to US\$1.00, the effective noon buying rate for December 28, 2018 as set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 28, 2018, or at any other rate.

Conference Call and Webcast

Sunlands' management team will host a conference call at 7:30 AM U.S. Eastern Time, (7:30 PM Beijing/Hong Kong time) on March 22, 2019, following the quarterly results announcement.

The dial-in details for the live conference call are:

International: +1-412-902-4272

US toll free: +1-888-346-8982

Canada toll free: +1-855-669-9657

Mainland China toll free: 400-120-1203

Hong Kong toll free: 800-905-945

Hong Kong: +852-3018-4992

Please dial in 10 minutes before the call is scheduled to begin. When prompted, ask to be connected to the call for "Sunlands Technology Group." Participants will be required to state their name and company upon entering the call.

A live webcast and archive of the conference call will be available on the Investor Relations section of Sunlands' website at <http://www.sunlands.investorroom.com/>

A replay of the conference call will be available 1 hour after the end of the conference call until March 29, 2019.

International: +1-412-317-0088

US toll free: +1-877-344-7529

Canada toll free: 855-669-9658

Replay access code:10129493

About Sunlands

Sunlands Technology Group (NYSE: STG) ("Sunlands" or the "Company"), formerly known as Sunlands Online Education Group, is the leader in China's online post-secondary and professional education in terms of gross billings in 2017, according to iResearch. With a one-to-many, live streaming platform, Sunlands offers various degree and diploma-oriented post-secondary courses as well as online professional courses and educational content, to help students prepare for professional certification exams and attain professional skills. Students can access its services either through PC or mobile applications. The Company's online platform cultivates a personalized, interactive learning environment by featuring a virtual learning community and a vast library of educational content offerings that adapt to the learning habits of its students. Sunlands offers a unique approach to education research and development that organizes subject content into Learning Outcome Trees, the Company's proprietary knowledge management system. Sunlands has a deep understanding of the educational needs of its prospective students and offers solutions that help them achieve their goals.

About Non-GAAP Financial Measures

We use gross billings and EBITDA, each a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes.

We define gross billings for a specific period as the total amount of cash received for the sale of course packages, net of the total amount of refunds paid in such period. Our management uses gross billings as a performance measurement because we generally bill our students for the entire course tuition at the time of sale of our course packages and recognize revenue proportionally over a period. EBITDA is defined as net loss excluding depreciation and amortization, interest expense, interest income, and income tax expenses. We believe that gross billings and EBITDA provide valuable insight into the sales of our course packages and the performance of our business.

These non-GAAP financial measures should not be considered in isolation from, or as a substitute for, their most directly comparable financial measure prepared in accordance with GAAP. A reconciliation of the historical non-GAAP financial measures to their respective most directly comparable GAAP measure has been provided in the tables included below. Investors are encouraged to review the reconciliation of the historical non-GAAP financial measures to their respective most directly comparable GAAP financial measures. As gross billings and EBITDA have material limitations as an analytical metric and may not be calculated in the same manner by all companies, it may not be comparable to other similarly titled measures used by other companies. In light of the foregoing limitations, you should not consider gross billings and EBITDA as a substitute for, or superior to, their respective most directly comparable financial measures prepared in accordance with GAAP. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

Safe Harbor Statement

This press release contains forward-looking statements made under the "safe harbor" provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "confident" and similar statements. Sunlands may also make written or oral forward-looking statements in its reports filed with or furnished to the U.S. Securities and Exchange Commission, in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Any statements that are not historical facts, including statements about Sunlands' beliefs and expectations, are forward-looking statements that involve factors, risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such factors and risks include, but not limited to the following: Sunlands' goals and strategies; its expectations regarding demand for and market acceptance of its brand and services; its ability to retain and increase student enrollments; its ability to offer new courses and educational content; its ability to improve teaching quality and students' learning results; its ability to improve sales and marketing efficiency and effectiveness; its ability to engage, train and retain new faculty members; its future business development, results of operations and financial condition; its ability to maintain and improve technology infrastructure necessary to operate its business; competition in the online education industry in China; relevant government policies and regulations relating to Sunlands' corporate structure, business and industry; and general economic and business condition in China. Further information regarding these and other risks, uncertainties or factors is included in the Sunlands' filings with the U.S. Securities and Exchange Commission. All information provided in this press release is current as of the date of the press release, and Sunlands does not undertake any obligation to update such information, except as required under applicable law.

For investor and media enquiries, please contact:

Yingying Liu
IR Director
Tel: +86 182 5691 2232
Email: ir@sunlands.com

The Piacente Group, Inc.
Brandi Piacente
Tel: +1-212-481-2050
Email: sunlands@tpg-ir.com

Ross Warner
Tel: +86-10-5730-6201
Email: sunlands@tpg-ir.com

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except for share and per share data, or otherwise noted)

| | As of December 31, As of December 31, | | |
|---|---------------------------------------|-----------|---------|
| | 2017 | 2018 | |
| | RMB | RMB | US\$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 559,459 | 1,248,810 | 181,632 |
| Short-term investments | 353,070 | 1,028,564 | 149,598 |
| Prepaid expenses and other current assets | 48,993 | 124,908 | 18,169 |
| Amounts due from related parties | 250,096 | - | - |
| Deferred costs, current | 55,073 | 180,657 | 26,275 |
| Total current assets | 1,266,691 | 2,582,939 | 375,674 |
| Non-current assets | | | |
| Property and equipment, net | 525,288 | 559,511 | 81,377 |
| Intangible assets, net | 1,552 | 1,369 | 199 |
| Deferred costs, non-current | 43,187 | 146,610 | 21,324 |
| Long-term investments | 3,300 | 30,009 | 4,365 |
| Other non-current assets | 129,641 | 418,700 | 60,897 |
| Total non-current assets | 702,968 | 1,156,199 | 168,162 |
| TOTAL ASSETS | 1,969,659 | 3,739,138 | 543,836 |

LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' DEFICIT

LIABILITIES

Current liabilities

Accrued expenses and other current liabilities (including accrued expenses
and other current liabilities of the consolidated VIEs without recourse to
Sunlands Technology Group of RMB223,298 and RMB241,204 as of

| | | | |
|---|-----------|-----------|---------|
| December 31, 2017 and December 31, 2018, respectively) | 235,900 | 455,284 | 66,218 |
| Deferred revenue, current (including deferred revenue, current of the consolidated VIEs without recourse to Sunlands Technology Group of RMB1,325,954 and RMB1,765,085 as of December 31, 2017 and December 31, 2018, respectively) | 1,325,954 | 1,765,085 | 256,721 |
| Payables to acquire buildings (including payables to acquire buildings of the consolidated VIEs without recourse to Sunlands Technology Group of RMB180,390 and nil as of December 31, 2017 and December 31, 2018, respectively) | 240,390 | 61,540 | 8,951 |
| Long-term debt, current (including long-term debt, current of the consolidated VIEs without recourse to Sunlands Technology Group of RMB nil as of December 31, 2017 and December 31, 2018) | - | 32,500 | 4,727 |
| Total current liabilities | 1,802,244 | 2,314,409 | 336,617 |

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS-continued

(Amounts in thousands, except for share and per share data, or otherwise noted)

| | As of December 31, As of December 31, | | |
|---|---------------------------------------|-----------|---------|
| | 2017 | 2018 | |
| | RMB | RMB | US\$ |
| Non-current liabilities | | | |
| Deferred revenue, non-current (including deferred revenue, non-current of the consolidated VIEs without recourse to Sunlands Technology Group of RMB784,474 and RMB1,520,940 as of December 31, 2017 and December 31, 2018, respectively) | 784,474 | 1,520,940 | 221,212 |
| Other non-current liabilities (including other non-current liabilities of the consolidated VIEs without recourse to Sunlands Technology Group of nil and RMB135 as of December 31, 2017 and December 31, 2018, respectively) | - | 17,147 | 2,494 |

| | | | |
|---|------------------|------------------|----------------|
| Long-term debt, non-current (including long-term debt, non-current of the consolidated VIEs without recourse to Sunlands Technology Group of RMB nil as of December 31, 2017 and December 31, 2018) | - | 225,625 | 32,816 |
| Total non-current liabilities | 784,474 | 1,763,712 | 256,522 |
| TOTAL LIABILITIES | 2,586,718 | 4,078,121 | 593,139 |
| MEZZANINE EQUITY | | | |
| Series A convertible redeemable preferred shares | 292,000 | - | - |
| Series B convertible redeemable preferred shares | 601,605 | - | - |
| Series B+ convertible redeemable preferred shares | 131,104 | - | - |
| TOTAL MEZZANINE EQUITY | 1,024,709 | - | - |
| SHAREHOLDERS' DEFICIT | | | |
| Ordinary shares (par value of US\$0.00005, 1,000,000,000 shares authorized; 4,329,000 and nil shares issued and outstanding as of December 31, 2017 and December 31, 2018, respectively) | 1 | - | - |
| Class A ordinary shares (par value of US\$0.00005, 796,062,195 shares authorized; nil and 1,818,383 shares issued as of December 31, 2017 and December 31, 2018, respectively; nil and 1,773,301 shares outstanding as of December 31, 2017 and December 31, 2018, respectively) | - | 1 | - |
| Class B ordinary shares (par value of US\$0.00005, 826,389 shares authorized; nil and 826,389 shares issued and outstanding as of December 31, 2017 and December 31, 2018, respectively) | - | - | - |
| Class C ordinary shares (par value of US\$0.00005, 203,111,416 shares authorized; nil and 4,265,286 shares issued and outstanding as of December 31, 2017 and December 31, 2018, respectively) | - | 1 | - |
| Treasury stock | - | - | - |
| Additional paid-in capital | 289,674 | 2,391,822 | 347,876 |
| Accumulated deficit | (1,922,748) | (2,849,770) | (414,482) |
| Accumulated other comprehensive (loss)/income | (8,759) | 118,827 | 17,283 |

| | | | |
|---|-------------|-----------|----------|
| Total Sunlands Technology Group shareholders' deficit | (1,641,832) | (339,119) | (49,323) |
| Noncontrolling interest | 64 | 136 | 20 |
| TOTAL SHAREHOLDERS' DEFICIT | (1,641,768) | (338,983) | (49,303) |
| TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' DEFICIT | 1,969,659 | 3,739,138 | 543,836 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except for share and per share data, or otherwise noted)

| | For the Three Months Ended December 31, | | |
|--|---|-----------|-----------|
| | 2017 | 2018 | |
| | RMB | RMB | US\$ |
| Net revenues | 344,657 | 568,799 | 82,728 |
| Cost of revenues | (79,376) | (78,515) | (11,420) |
| Gross profit | 265,281 | 490,284 | 71,308 |
| Operating expenses | | | |
| Sales and marketing expenses | (517,330) | (530,100) | (77,100) |
| Product development expenses | (11,948) | (26,956) | (3,921) |
| General and administrative expenses | (168,732) | (142,613) | (20,742) |
| Total operating expenses | (698,010) | (699,669) | (101,763) |
| Loss from operations | (432,729) | (209,385) | (30,455) |
| Interest income | 6,753 | 23,421 | 3,409 |
| Interest expense | - | (2,171) | (316) |
| Other income, net | 170 | 1,179 | 171 |
| Loss before income tax expenses | (425,806) | (186,956) | (27,191) |
| Income tax expenses | - | - | - |
| (Loss)/gain from equity method investments | (1,993) | 3,288 | 478 |
| Net loss | (427,799) | (183,668) | (26,713) |

| | | | |
|---|-----------|-----------|-----------|
| Less: Net loss attributable to noncontrolling interest | (78) | (1) | - |
| Net loss attributable to Sunlands Technology Group | (427,721) | (183,667) | (26,713) |
| Net loss per share attributable to ordinary shareholders of | | | |
| Sunlands Technology Group: | | | |
| Basic and diluted | (100.64) | (26.68) | (3.88) |
| Weighted average shares used in calculating net loss | | | |
| per ordinary share: | | | |
| Basic and diluted | 4,249,989 | 6,883,286 | 6,883,286 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands)

| | For the Three Months Ended December 31, | | |
|--|---|-----------|----------|
| | 2017 | 2018 | |
| | RMB | RMB | US\$ |
| Net loss | (427,799) | (183,668) | (26,713) |
| Other comprehensive (loss)/income, net of tax effect of nil: | | | |
| Change in cumulative foreign currency translation adjustments (25,775) | | 1,820 | 265 |
| Total comprehensive loss | (453,574) | (181,848) | (26,448) |
| Less: comprehensive loss attributable to noncontrolling | | | |
| interest | (78) | (1) | - |
| Comprehensive loss attributable to Sunlands Technology | | | |
| Group | (453,496) | (181,847) | (26,448) |

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| SUNLANDS TECHNOLOGY GROUP |
|----------------------------------|

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| RECONCILIATION OF NON-GAAP MEASURES TO THE MOST COMPARABLE GAAP |
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| |
|-----------------|
| MEASURES |
|-----------------|

| (Amounts in thousands) | | |
|----------------------------------|---|-------------|
| | For the Three Months Ended December 31, | |
| | 2017 | 2018 |
| | RMB | RMB |
| Net revenues | 344,657 | 568,799 |
| Less: other revenues | (2,025) | (697) |
| Add: tax and surcharges | 12,493 | 21,879 |
| Add: ending deferred revenue | 2,110,428 | 3,286,025 |
| Less: beginning deferred revenue | (1,659,084) | (3,116,225) |
| Gross billings (non-GAAP) | 806,469 | 759,781 |
| | | |
| | | |
| Net loss | (427,799) | (183,668) |
| Add: income tax expenses | - | - |
| depreciation and amortization | 2,813 | 8,013 |
| interest expense | - | 2,171 |
| Less: interest income | (6,753) | (23,421) |
| EBITDA (non-GAAP) | (431,739) | (196,905) |

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except for share and per share data, or otherwise noted)

| | For the Years Ended December 31, | | |
|------------------|----------------------------------|-----------|----------|
| | 2017 | 2018 | |
| | RMB | RMB | US\$ |
| Net revenues | 970,162 | 1,973,985 | 287,104 |
| Cost of revenues | (170,261) | (330,376) | (48,051) |
| Gross profit | 799,901 | 1,643,609 | 239,053 |

| | | | |
|---|-------------|-------------|-----------|
| Operating expenses | | | |
| Sales and marketing expenses | (1,351,811) | (2,152,830) | (313,116) |
| Product development expenses | (32,862) | (76,022) | (11,057) |
| General and administrative expenses | (342,906) | (443,691) | (64,532) |
| Total operating expenses | (1,727,579) | (2,672,543) | (388,705) |
| Loss from operations | (927,678) | (1,028,934) | (149,652) |
| Interest income | 13,578 | 70,355 | 10,232 |
| Interest expense | - | (2,171) | (316) |
| Other income, net | 276 | 32,090 | 4,667 |
| Loss before income tax expenses | (913,824) | (928,660) | (135,069) |
| Income tax expenses | - | - | - |
| (Loss)/gain from equity method investments | (4,890) | 1,710 | 249 |
| Net loss | (918,714) | (926,950) | (134,820) |
| Less: Net (loss)/income attributable to noncontrolling interest (136) | | 72 | 10 |
| Net loss attributable to Sunlands Technology Group | (918,578) | (927,022) | (134,830) |
| Net loss per share attributable to ordinary shareholders of | | | |
| Sunlands Technology Group: | | | |
| Basic and diluted | (232.80) | (147.27) | (21.42) |
| Weighted average shares used in calculating net loss | | | |
| per ordinary share: | | | |
| Basic and diluted | 3,945,864 | 6,294,870 | 6,294,870 |

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands)

For the Years Ended December 31,

2017 2018

| | RMB | RMB | US\$ |
|--|-----------|-----------|-----------|
| Net loss | (918,714) | (926,950) | (134,820) |
| Other comprehensive (loss)/income, net of tax effect of nil: | | | |
| Change in cumulative foreign currency translation adjustments | (8,759) | 127,586 | 18,557 |
| Total comprehensive loss | (927,473) | (799,364) | (116,263) |
| Less: comprehensive (loss)/income attributable to noncontrolling | | | |
| interest | (136) | 72 | 10 |
| Comprehensive loss attributable to Sunlands Technology | | | |
| Group | (927,337) | (799,436) | (116,273) |

SUNLANDS TECHNOLOGY GROUP

RECONCILIATION OF NON-GAAP MEASURES TO THE MOST COMPARABLE GAAP

MEASURES

(Amounts in thousands)

| | For the Years Ended December 31, | |
|----------------------------------|----------------------------------|-------------|
| | 2017 | 2018 |
| | RMB | RMB |
| Net revenues | 970,162 | 1,973,985 |
| Less: other revenues | (5,978) | (6,961) |
| Add: tax and surcharges | 34,712 | 71,779 |
| Add: ending deferred revenue | 2,110,428 | 3,286,025 |
| Less: beginning deferred revenue | (727,569) | (2,110,428) |
| Gross billings (non-GAAP) | 2,381,755 | 3,214,400 |
| Net loss | (918,714) | (926,950) |
| Add: income tax expenses | - | - |
| depreciation and amortization | 8,109 | 25,778 |
| interest expense | - | 2,171 |

| | | |
|-----------------------|-----------|-----------|
| Less: interest income | (13,578) | (70,355) |
| EBITDA (non-GAAP) | (924,183) | (969,356) |

SOURCE Sunlands Technology Group

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