

**Sunlands Technology Group**  
**First Quarter 2023 Earnings Conference Call Script**  
**May 25, 2023, 7:00 PM BJT**

**Operator:** *Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' First Quarter 2023 Earnings Conference Call. At this time, all participants are in listen-only mode. Today's conference call is being recorded. I will now turn the call over to your host today, Yuhua, Sunlands' IR representative. Please go ahead.*

**Yuhua Ye**

Hello, everyone, and thank you for joining Sunlands' First Quarter 2023 Earnings Conference Call. The company's financial and operating results were issued in our press release via newswire services earlier today and are posted online. You can download the earnings press release and sign up for our distribution list by visiting our IR website. Participants on today's call will be our CEO, Mr. Tongbo Liu, and our financial controller, Mr. Hangyu Li. Management will begin with prepared remarks and the call will conclude with a Q&A session.

Before I hand it over to the management, I'd like to remind you of Sunlands' safe harbor statement in relation to today's call. Except for the historical information contained herein, certain of the matters discussed in this conference call are forward-looking statements. These statements are based on current trends, estimates and projections, and therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. For more information about the potential risks and uncertainties, please refer to the company's filings with the Securities and Exchange Commission.

***With that, I will now turn the call over to our CEO, Tongbo Liu.***

**Tongbo Liu**

Thank you, Yuhua.

Hello, everyone. Welcome to Sunlands' First Quarter 2023 Conference Call. Prior to commencing, I would like to kindly remind all attendees that the financial information referenced in this release are presented on a continuing operations basis, and all figures are denominated in RMB, unless explicitly specified otherwise.

As we reflect on the first quarter of 2023, we have witnessed a steadfast and consistent performance amid a challenging operating environment. Our first quarter net revenues remained steady, reaching RMB566.9 million, exceeding the high end of our guidance range. Our net income also experienced a slight year-over-year increase, reaching RMB180.1 million, marking the eighth consecutive quarter of sustained profitability for our company and setting a remarkable net income margin of 31.8%. We remain optimistic about our future prospects based on this encouraging start to the year.

During this quarter, we also achieved a year-over-year increase of 3.8 percentage points in our gross-profit margin, setting a new record high of 88.0%. Meanwhile, we have maintained a sharp focus on diversifying our course content, elevating the quality of our offerings, and optimizing student acquisition processes. These concerted efforts have yielded remarkable results, as evidenced by a substantial year-over-year increase of 22.2% in new student enrollments. Moving forward, we are committed to maintaining this positive trajectory and continuing our success employing our cost-saving and efficiency-enhancing business strategies to support long-term, sustainable growth.

**Now, let's turn to the performance of each of our major course programs.**

For post-secondary programs, our strategic reduction of marketing activities, coupled with increasing market competition from new entrants aiming to tap into the immense potential of this segment, led to a decline in both new student enrollments and gross

billings. Despite facing intense competition and operating within a complex macro environment, we maintain an optimistic outlook for the future of our academic programs. This optimism is particularly bolstered by the rising demand for continuing education, especially driven by the heightened employment pressures. Moving forward, we remain committed to delivering more precisely targeted, high-quality post-secondary courses to our students. We believe that our 20 years of experience in exam preparation, along with our experienced and well-received teaching staff and extensive learning resources, will position us advantageously compared to our competitors in the long run.

The sector comprising professional certification preparation, professional skills and interest courses has demonstrated outstanding performance, with a year-over-year revenue increase exceeding 50.9%. Additionally, our relentless pursuit of developing novel interest programs has consistently borne fruit, propelling the revenue generated by this sector to an impressive growth rate of 105.7%. This substantial increase has cemented it as a significant and reliable source of income for our organization. Building upon this remarkable success, our steadfast commitment drives us to continuously refine our products and services, meeting the evolving learning needs of a broader universe of potential customers, ensuring that we remain at the forefront of the industry.

The domestic economy continues to recover, leading to an overall improvement in the employment situation. However, according to data from the National Bureau of Statistics, since the start of 2023, the youth unemployment rate for individuals aged 16 to 24 has persistently remained at an elevated level, reaching 20.4% in April. The fierce job market competition will continue to drive the growth of online education as job seekers utilize it as a means to enhance their skill sets and improve their chances of securing desirable employment opportunities. Additionally, we have observed that contemporary young individuals demonstrate a general inclination towards interest-based education. They recognize the dual benefits it offers: the opportunity to explore and develop personal interests for personal enrichment and self-fulfillment, as well as the potential for supplemental income or career advancement. Furthermore, there are other notable trends

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that continue to gain momentum, such as the increasing focus on lifelong learning and the shift from offline to online education.

As we move forward, we remain committed to adapting our educational offerings to meet the evolving demands of learners and leveraging these trends to facilitate accessible, effective, and lifelong educational experiences.

While we have made significant accomplishments, it is important to acknowledge that we are also confronted with challenges in other aspects of our business. The persistent macro uncertainties and evolving market dynamics have influenced consumer behavior for several of our products offerings, leading to a year-over-year decrease in net revenues. We have been proactive in addressing these challenges by refining our operations and closely managing our expenses. Looking ahead, we will continue to explore other potential revenue streams, diversifying our product and service offerings to enhance our resilience in the face of various challenges. In conclusion, our performance in the first quarter of 2023 reflects our commitment to balanced growth and profitability. We remain focused on delivering high-quality education and expanding our market presence. We extend our gratitude for your presence today and the continued support you provide. Thank you, and we look forward to your valuable engagement.

***With that, I will turn the call over to our Financial Controller, Hangyu, to run through our financials.***

**Hangyu Li**

Thank you, Tongbo. Hello everyone.

I would like to present our first-quarter results, which have met our expectations and demonstrated our steadfast commitment to achieving sustainable growth, despite a 7.6% year-over-year decrease in net revenues.

Throughout the quarter, we maintained our disciplined cost management practices and streamlined operations to boost our efficiency and profitability, leading to a 7.3% year-over-year down in operating expenses. This focused approach to cost optimization has brought positive outcomes, as evidenced by the growth in our net income from RMB179.4 million in the first quarter of 2022 to RMB180.1 million in the current quarter. Looking ahead, we maintain a positive outlook on our long-term growth prospects. We will continue to expand our portfolio of online course offerings, optimize our cost structure, and deliver exceptional services to our students. These strategic measures will enable us to capture the emerging opportunities and consolidate our leadership position in the industry.

Now let me walk you through some of our key financial results for the first quarter of 2023. All comparisons are year-over-year, and all numbers are in RMB, unless otherwise noted.

In the first quarter of 2023, net revenues were 566.9 million, a decrease of 7.6% year-over-year. Cost of revenue decreased by 29.5% to 68.2 million in the first quarter of 2023 from 96.7 million in the first quarter of 2022. The decrease was primarily due to declined compensation expenses related to headcount reduction of our cost of revenues personnel, including teachers and mentors.

Gross profit decreased by 3.5% to 498.7 million from 516.6 million in the first quarter of 2022.

In the first quarter of 2023, operating expenses were 320.7 million, representing a 7.3% decrease from 345.8 million in the first quarter of 2022.

Sales and marketing expenses decreased by 8.0% to 271.4 million in the first quarter of 2023 from 295.0 million in the first quarter of 2022. The decrease was mainly due to declined compensation expenses related to headcount reduction of our sales and marketing personnel.

General and administrative expenses increased by 3.1% to 39.6 million in the first quarter of 2023 from 38.5 million in the first quarter of 2022.

Product development expenses decreased by 21.7% to 9.7 million in the first quarter of 2023 from 12.4 million in the first quarter of 2022. The decrease was mainly due to declined compensation expenses related to headcount reduction of our product development personnel.

Other income decreased by 8.3% to 8.8 million in the first quarter of 2023 from 9.6 million in the first quarter of 2022.

Net income for the first quarter of 2023 was 180.1 million compared with net income of 179.4 million in the first quarter of 2022.

Basic and diluted net income per share was 26.00 in the first quarter of 2023.

As of March 31, 2023, the Company had 721.8 million of cash and cash equivalents, and 87.7 million of short-term investments.

As of March 31, 2023, the Company had a deferred revenue balance of 1,513.9 million compared with 1,690.9 million as of December 31, 2022.

Capital expenditures were incurred primarily in connection with IT infrastructure equipment and a leasehold improvement necessary to support the Company's operations. Capital expenditures were 3.8 million in the first quarter compared with 0.9 million in the first quarter of 2022.

And now for our outlook. For the second quarter of 2023, Sunlands currently expects net revenues to be between RMB480 million to RMB500 million, which would represent a decrease of 9.9% to 13.5% year-over-year. This outlook is based on the current market conditions and reflects the company's management's current and preliminary estimate of market, operating conditions and customer demand, which are all subject to change.

With that, I'd like to open up the call to the questions. Operator?

***[Operator provides instructions and hosts Q&A]***

For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English.

***[After Q&A...]***

**Operator:** At this time, we are showing no further questions, so this will conclude our question-and-answer session. At this time, I would like to turn the conference back over to Yuhua for any closing remarks.

**Yuhua:** Once again, thank you, everyone, for joining today's call. We look forward to speaking with you again soon. Good day and good night.

**Operator:** This concludes this conference call. You may now disconnect your line. Thank you.

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