

Sunlands Technology Group
Third Quarter 2025 Earnings Conference Call Script
November 20, 2025, 8:00 PM BJT

Operator: *Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Third Quarter 2025 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' Third Quarter 2025 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 representative, 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' Third Quarter 2025 Conference Call. Prior to commencing, I would like to kindly remind all attendees that the financial information referenced in this release is presented on a continuing operations basis, and all figures are denominated in RMB, unless explicitly specified otherwise.

We're pleased to see that the company has now entered a phase of steady and healthy growth. Our performance in this quarter once again underscores the resilience of our business model and the effective execution of our strategic roadmap. We delivered net revenues of 523.0 million, coupled with a pronounced acceleration in profitability, as net income surged 40.5% year-over-year to 125.4 million. This achievement validated the durability and scalability of our operations. Our strategic pivot towards high-margin, demand-driven course categories continues to yield tangible financial benefits. The net margin expanded significantly to 24.0%, primarily attributable to an optimized revenue mix and disciplined cost management.

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

Our legacy degree and diploma programs continue to play a stable, supportive role, accounting for approximately 15% of total revenue. The strategic reallocation of resources away from this segment has empowered us to aggressively capture growth in more dynamic markets.

Moving to our non-degree offerings, including professional certification and interest-based courses, collectively accounted for approximately 73% of total revenue in the third quarter. In this sector, we continuously optimize our services and expand our offerings by launching new programs tailored to diverse user groups. These initiatives aim to provide

engaging and interactive experiences, improve learning outcomes, and ultimately create value for our users.

Building on this momentum, we continue to deepen our presence in one of our most distinctive segments — senior learning. As an early mover in this space, we have established a strong foundation, particularly in arts education, where our curriculum breadth and pedagogical depth remain unmatched. Yet as the market evolves and competition intensifies, we have deliberately shifted from rapid scale to quality-driven growth, ensuring the long-term resilience of our business. In a recent feature by Beijing News, several of our senior learners shared their enthusiasm and renewed sense of vitality — reaffirming the social and emotional impact of our mission to make lifelong learning both enriching and transformative.

We have also successfully cultivated a vibrant, private ecosystem for this cohort, which continues to demonstrate exceptional engagement. Our senior learners are not only embracing online learning as a lifestyle but also forming vibrant social ecosystems through our platform. Courses have become gateways to renewed identity, connection, and wellbeing.

To further enrich this experience, we actively pioneer innovative collaborations across industries. Last quarter, we partnered with a leading television channel to co-host a cultural initiative celebrating traditional arts, and organized an immersive learning journey that allowed senior learners to explore the origins and beauty of Chinese calligraphy. Our pipeline for the coming quarter remains robust, with a series of integrated learning-life initiatives already in motion. We are launching charity programs in rural schools, participating in senior expos, organizing calligraphy competitions, and preparing for Spring Festival events. These activities are designed to help older users rediscover purpose, foster social connections, and shine in every aspect of their lives. This holistic approach not only amplifies the intrinsic value of our educational offerings but also builds a powerful and sustainable competitive moat.

Parallel to these offline initiatives, we are elevating the learning experience through an AI-driven transformation of our platform. In response to learners' key needs—extending post-course engagement, preventing knowledge loss, ensuring 24/7 personalized support, and bridging the gap between theory and practice—we have introduced two intelligent assistant modules powered by large language models. The Course Intelligent Assistant delivers round-the-clock reinforcement and precise explanations, while the AI Agent enables seamless, natural-language interaction to translate knowledge into actionable insights.

As we continue to advance the integration of AI across our operations, the results have been encouraging. Our internal data shows that AI-assisted automated grading now covers over 70% of assignments, increasing review efficiency by more than eight times and achieving an accuracy rate above 95%. This has significantly reduced repetitive workloads for instructors and enhanced teaching quality.

Looking ahead, the adult education sector is entering a new phase driven by high-quality growth. For Sunlands, growth is no longer measured solely by scale, but by the balance of efficiency, innovation, and long-term value. We believe that healthy cash flow, organizational agility, and a learner-centered product mindset will remain the core pillars of Sunlands' competitiveness in this new stage.

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 Director, Hangyu, to run through our financials.

Hangyu Li

Thank you, Tongbo. Hello everyone.

The third quarter results underscore the Company's focus on profitable growth and operational excellence. Net revenues for the quarter increased by 6.5% year-over-year to 523.0 million, primarily fueled by the strong performance of our interest-based courses. A key highlight was the substantial growth in profitability. Gross profit rose 13.1% to 462.7 million, outpacing revenue growth. This, together with a 5.5% reduction in total operating expenses, drove net income to 125.4 million, with the net margin reaching 24.0%. The Company's balance sheet remains robust, with ample cash and cash equivalents and short-term investments. We have also maintained our streak of generating positive net cash from operating activities, underscoring the health of our core business.

In the third quarter of 2025, the gross billings per new student enrollment for interest, professional skills and professional certification preparation courses grew 11.7% year-over-year, reflecting steady user acquisition momentum despite a more selective marketing approach. This growth indicated that we were attracting more committed users and achieving better monetization from each new cohort. The combination of enrollment growth and improved unit economics demonstrates the effectiveness of our refined strategy—focusing not merely on scale, but on sustainable, high-quality growth.

Looking ahead, we are uniquely positioned at the confluence of demographic tailwinds and technological innovation. Our leadership in serving the silver economy, backed by a profitable and scalable model, sets the stage for continued value creation for our users and shareholders alike. We extend our sincere gratitude to our team and our shareholders for their continued support.

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Now let me walk you through some of our key financial results for the third quarter of 2025. All comparisons are year-over-year, and all numbers are in RMB, unless otherwise noted.

In the third quarter of 2025, net revenues increased by 6.5% to 523.0 million from 491.3 million in the third quarter of 2024. The increase was primarily due to shorter average service period in 2025, resulting in increased revenue recognition year-over-year.

Cost of revenues decreased by 26.5% to 60.3 million in the third quarter of 2025 from 82.1 million in the third quarter of 2024. The decrease was mainly due to declined cost of revenues from sales of goods such as learning materials and books.

Gross profit increased by 13.1% to 462.7 million in the third quarter of 2025 from 409.2 million in the third quarter of 2024.

Sales and marketing expenses decreased by 7.7% to 279.7 million in the third quarter of 2025 from 303.0 million in the third quarter of 2024.

General and administrative expenses increased by 4.3% to 36.0 million in the third quarter of 2025 from 34.5 million in the third quarter of 2024.

Product development expenses increased by 48.2% to 8.7 million in the third quarter of 2025 from 5.8 million in the third quarter of 2024. The increase was mainly due to increased compensation expenses related to headcount expansion of the Company's product development personnel.

Net income for the third quarter of 2025 was 125.4 million, as compared to 89.3 million in the third quarter of 2024.

Basic and diluted net income per share was 18.64 in the third quarter of 2025.

As of September 30, 2025, the Company had 601.0 million of cash, cash equivalents and restricted cash and 176.5 million of short-term investments, as compared to 507.2 million of cash and cash equivalents and 276.0 million of short-term investments as of December 31, 2024.

As of September 30, 2025, the Company had a deferred revenue balance of 695.5 million, as compared to 916.5 million as of December 31, 2024.

And now for our outlook, for the fourth quarter of 2025, Sunlands currently expects net revenues to be between 440 million to 460 million, which would represent a decrease of 4.9% to 9.0% 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.

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.