

**Sunlands Technology Group [STG]
Q4 and Full Year 2021 Earnings Conference Call
April 8, 2021 7:30 AM**

Executives

Yuhua Ye, IR Representative

Tongbo Liu, CEO and Director

Selena Lu Lv, CFO and Director

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Fourth Quarter and Full Year 2021 Earnings Conference Call. Today's conference call is being recorded.

I would now like to turn the call over to your host today, Yuhua Ye, Sunlands' IR representative. Please go ahead.

Yuhua Ye: Hello, everyone, and thank you for joining Sunlands' fourth quarter and full year 2021 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 CFO Selena Lu Lv. 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' Fourth Quarter and Full Year 2021 Conference Call.

The year 2021 was full of uncertainties on both the macro and education industry levels. Given these challenges, we strengthened our focus on healthy, steady growth to overcome obstacles and prepare to capture opportunities ahead of us. More specifically, we strove to streamline our

operations with a leaner organization and disciplined cost control measures, continued to optimize our products mix to concentrate on demand-driven markets, and spent efforts on improving services and acquiring students in a more efficient manner.

As a result of our clear strategic plan and steadfast execution, we are delighted to close 2021 with record-high net profit of RMB150.8 million in the fourth quarter and RMB212.4 million for the full year, delivering on our commitment to balanced growth and profitability. Our improved profitability amidst the year-over-year moderation in gross billings and new student enrollments well reflects the effectiveness of our strategic direction and execution excellence.

Now, let's turn to the performance of each of our major course programs. In terms of professional certification and skills programs, we believe there is still huge market potential on the demand side. On one hand, we have demand from working professionals, who not only seek to stay competitive through job-relevant or credentials courses, but also increasingly take courses to complement their primary skills and develop new interests and hobbies. On the other hand, these programs are also attracting students from a wide range of age groups who are looking for interest-based learning as part of a new lifestyle.

To tap this potential, we continued to focus on developing a diverse range of courses to fulfill the ongoing interest-or role-based learning demand during the fourth quarter. Thanks to our extensive course resources, our net revenues and gross billings for professional certification and skills programs in the quarter increased by 37.5% and 16.5% year-over-year, respectively.

Going forward, we will continue to diversify our course catalogs and tailor our courses to a greater variety of learner groups. As the breadth and depth of our course offerings expand, we believe our professional certification and skills programs will capture the increasing share of the market and realize continued growth.

With respect to our post-secondary courses, as we strove to fine-tune our product portfolios, we strategically shifted our focus toward master's degree-oriented programs to capitalize on growing demand. Most of our students for these programs are working professionals. As the job market becomes more competitive due to ongoing pandemic-related challenges, an increasing number of working-age people are realizing the importance of post-graduate education.

China's 2022 national post-graduate entrance exams received another record-setting number of applicants, jumping by 21.2% year-over-year to 4.6 million, while admission became increasingly difficult, as reflected by an approximately 9% year-over-year decrease in 2021's acceptance rate. While pressures are mounting on their career path and competition for post-graduate education is intensifying, more applicants are turning to us to utilize our professional preparation courses to improve their odds of acceptance and thereby enhance their competitiveness at work, driving increased demand for master's degree-oriented programs.

Riding this tailwind, net revenues from our master's degree-oriented programs grew 5.5% and 37.6% year-over-year for the fourth quarter and the full year, respectively.

Annual gross billings and new student enrollments for this segment also continued their upward trend in full-year 2021 despite a year-over-year decline in the fourth quarter due to the step-up of our balanced growth and profitability strategy. In 2022, we will continue to leverage our highly-

capable teams experienced in MBA exam preparation to solidify our leadership position by expanding our course portfolio and optimizing our teaching and service.

Regarding our STE programs, we remained committed to enriching our course offering, improving operating efficiency and service quality during the quarter. Given our established, effective teaching system and results-driven teaching methods, we continued to deliver high teaching quality and provide premium courses to our students.

Meanwhile, we took further measures to control spending and enhance our student acquisition efficiency, which in turn has driven high-quality growth. Thanks to our effective cost control measures, our cost structure improved during the fourth quarter, with sales and marketing expenses and general and administrative expenses down 44.2% and 7.6% year-over-year, respectively.

However, we continued to pump new blood into our growth strategy by maintaining our investment in new course development, as evidenced by a slight increase in product development expenses of 0.5% year-over-year in the fourth quarter.

Furthermore, we remain focused on improving student acquisition efficiency by adopting more cost-effective acquisition channels and leveraging cross-selling opportunities, while customizing sales and marketing solutions for different student groups based on their unique profile and needs.

We are pleased to see our strategy already bearing fruit over the past 3 quarters and for the full year 2021. With the successful turnaround in profitability, Sunlands demonstrated both its resilience and agility when navigating challenges amid 2021's shifting industry landscape. In 2022 and beyond, we will continue to align our business operations with our strategic objectives to bring value to our students, employees, shareholders, and the broader society.

With that, I will turn the call to our CFO, Selena, to run through our financials.

Selena Lu Lv: Thank you, Tongbo. Hello, everyone. We are excited to register net income of RMB150.8 million in the fourth quarter, compared to the net loss of RMB73.5 million for the same period last year, marking our third consecutive quarter of profitability.

This solid performance was driven by our 0.7% year-over-year top-line growth and 40.5% year-over-year decline in operating expenses due to our strengthened expense management practices.

Our net profit margin expanded significantly to 25.6% in the fourth quarter, up 38.2 percentage points year-over-year and 10 percentage points quarter-over-quarter.

Looking ahead, we are steadfast in our commitment to offering premium course content and services to our students while adopting effective measures to further reduce costs and boost operating efficiency, aiming to achieve long-term, sustainable growth.

Now let me walk you through some of our key financial results for the fourth quarter 2021. All comparisons are year-over-year, and all numbers are in RMB, unless otherwise noted.

In the fourth quarter, our net revenue was RMB588.9 million, an increase of 0.7% year-over-year.

Cost of revenue decreased by 8.6% to RMB89.4 million in the fourth quarter from RMB97.8 million in the fourth quarter of 2020. The decrease was primarily due to, number one, declined compensation expenses related to our cost of revenues personnel; and number two, reduced insurance-related costs incurred for our integrated online education service package purchased by students.

Gross profit increased by 2.6% to RMB499.5 million from RMB486.7 million in the fourth quarter of 2020.

In the fourth quarter, operating expenses were RMB400.5 million, representing a 40.5% decrease from RMB673.7 million in the fourth quarter of 2020.

Sales and marketing expenses decreased by 44.2% to RMB339.4 million in the fourth quarter from RMB608.5 million in the fourth quarter of 2020. The decrease was mainly due to lower spending on branding and marketing activities, and the declined compensation expenses related to our sales and marketing personnel.

General and administrative expenses were RMB50.5 million in the fourth quarter of 2021, decreasing by 7.6% year-over-year, mainly due to a decrease in rental expenses, and the declined compensation expenses related to general and administrative personnel.

Product development expenses increased by 0.5% to RMB10.7 million in the fourth quarter from RMB10.6 million in the fourth quarter of 2020. Product development expenses were mainly comprised of compensation expenses.

Other expenses were RMB3.1 million in the fourth quarter, compared with other income of RMB109.4 million in the fourth quarter of 2020. The decrease was primarily because of the value-added tax exemption offered by the relevant authorities as part of the national Covid-19 relief effort came to an end in April 2021.

Net income for the fourth quarter was RMB150.8 million compared with net loss of RMB73.5 million in the fourth quarter of 2020.

Basic and diluted net income per share was RMB22.89 in the fourth quarter of 2021.

As of December 31, 2021, the company had RMB676.7 million of cash, cash equivalents and restricted cash, and RMB184.2 million of short-term investments.

As of December 31, 2021, the company had a deferred revenue balance of RMB2,348.2 million compared with RMB3,024.4 million as of December 31, 2020.

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 RMB5.2 million in the fourth quarter compared with RMB4.7 million in the fourth quarter of 2020.

For more of our 2021 full-year financial results, please refer to our earnings press release for further details.

And now for our outlook. For the first quarter of 2022, Sunlands currently expects net revenues to be between RMB590 million to RMB610 million, which would represent a decrease of 15% to 12.1% 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?

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions).

Showing no further questions, this will conclude our question-and-answer session.

At this time, I would like to turn the conference back over to Yuhua Ye, IR representative, for any closing remarks.

Yuhua Ye: 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: Thank you. This concludes the earnings conference call. You may now disconnect your lines and have a wonderful day.