

Confidential Draft

Sunlands Technology Group
First Quarter 2026 Earnings Conference Call Script
May 26, 2026, 6:30 PM BJT

***Operator:** Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' First Quarter 2026 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 2026 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 at ir.sunlands.com. Participants on today's call will be our CEO, Mr. Tongbo Liu, and our Finance Director, Mr. Hangyu Li. Management will begin with prepared remarks, followed by a question-and-answer session.

Before I hand it over to 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 2026 Earnings 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 opened 2026 with net revenues of RMB440.7 million and net income of RMB76.8 million, marking our 20th consecutive profitable quarter. Net income margin reached 17.4%. Selling expenses declined 19.5% year-over-year, representing the largest single-quarter reduction we have recorded in recent years and the third consecutive quarter of year-over-year decline. At the same time, R&D expenses rose 5.6% year-over-year, reflecting our continued investment in technology capability enhancement.

The 9.6% year-over-year revenue decline reflected two concurrent dynamics: continued structural softness in degree- and diploma-oriented programs, and our ongoing recalibration of customer acquisition standards toward higher-quality learner cohorts. While these factors placed pressure on the top line, our profitability reflected the progress we have made in cost structure optimization, operating discipline, and technology-enabled efficiency.

Let me now turn to the performance of our major course categories.

Degree- and diploma-oriented post-secondary programs contributed 17.9% of net revenues in the first quarter of 2026. We continue to manage this segment in line with genuine learner demand, while allocating resources with discipline. Interest-based programs, professional skills, and professional certification preparation together contributed 67.9% of net revenues, and remain important areas of focus as we continue to diversify our revenue mix.

Within this broader category, senior interest-based learning remains one of the areas where we continue to see meaningful long-term opportunity. This quarter, we further deepened our catalogue within the arts by adding new courses such as colored pencil and folk music in response to expressed learner demand. We are also exploring adjacent content directions through early-stage pilots, including language learning, where we have seen initial learner interest.

Beyond course content, we continued to extend the learning experience into more tangible scenarios. We launched study tours designed around our existing course content, so that a learner who has spent a year studying Chinese painting with us can take a natural next step by visiting the landscapes, artists, and museums connected to that tradition. This allows us to deepen the learning journey and reinforce the investment learners have already made, rather than asking them to start from zero in an unrelated program.

We also continued to partner with art galleries and cultural institutions to bring our learners into physical spaces where their coursework comes alive. Through curated visits, online calligraphy and painting students can see master works up close, meet practitioners, and gain a clearer sense of where sustained practice can take them. Initial learner feedback has been constructive and generally positive, and we believe this type of learning reinforcement is an effective lever for improving both completion and repurchase.

These initiatives remain at an early stage, with initial signals warranting continued observation and refinement. We are not simply building a course catalogue, but gradually extending the learning experience into a more integrated and continuous journey for senior learners. Repurchase behavior within our core cohorts continues to provide encouraging indications that, for an increasing share of learners, this evolving experience is gaining resonance.

The most consequential operating development this quarter relates to the continued maturation of our AI capabilities, which we believe may have meaningful implications for long-term operating efficiency.

A year ago, we described AI primarily as a productivity tool. As adoption has broadened across

the business, that framing has continued to evolve. In our customer acquisition workflow, our internally developed AI assistance system has increasingly played a decision-support role. It helps surface signals in live prospect interactions, including sentiment, hesitation, and decision friction, and provides tailored conversational guidance based on each agent's communication style and conversational context.

In parallel, our intelligent voice system has shortened the time-to-first-contact window for new leads, a factor that has historically been associated with conversion efficiency. It has also enabled our human teams to focus more on higher-value interactions that require judgment and empathy, which remain critical to enrollment outcomes.

Looking ahead, we expect AI-driven capabilities to continue to be embedded more broadly across both acquisition and service workflows, supporting ongoing improvements in operating efficiency. Besides, we are also exploring how these capabilities can be extended into broader parts of the learner lifecycle to further improve overall service efficiency and experience.

To close, this quarter reflects disciplined execution against the priorities we outlined at the start of the year. Revenue mix continues to evolve, profitability remains supported by operating discipline, and our technology capabilities continue to deepen. We believe the investments we are making today are strengthening the foundation for sustainable long-term development. As these initiatives continue to mature, we remain focused on disciplined execution and prudent resource allocation.

That concludes Tongbo's prepared remarks. I will now turn the call over to our Finance Director, Hangyu, to walk through our financial results.

Hangyu Li

Thank you, Tongbo. Hello, everyone.

I am pleased to share our financial results for the first quarter of 2026. This quarter, our numbers demonstrate the rewards of our strategic persistence. As Tongbo discussed, we have deliberately prioritized revenue quality and learner cohort health over raw top-line scale. This disciplined execution has translated into a leaner cost structures, healthy margins, and a resilient balance sheet.

Our focus on precision has led to a significant milestone in cost management, with selling expenses declining by 19.5% year-over-year. This marks the largest single-quarter reduction we have recorded in recent years, and our third consecutive quarter of year-over-year decline.

While we prudently managed overhead, we continued to expand our technological edge. Our product development expenses rose by 5.6% year-over-year, reflecting our commitment to embedding AI deep into our operations. The scaling of our AI capability is already serving as a primary operational catalyst to enhance delivery, automate engagement, and offset structural costs.

These strategic trade-offs have directly reinforced our profit quality and bottom-line resilience. Despite 9.6% year-over-year decline in net revenues, our profitability remained strong. We maintained a solid gross margin of 86.5%, while our net income margin expanded robustly to 17.4%.

Securing this execution is our resilient balance sheet position. Our robust liquidity profile provides us with the strategic flexibility required to fully absorb macroeconomic variations while aggressively compounding capital into our priority growth initiatives.

Now, let me walk you through some of our key financial results for the first quarter of 2026. All comparisons are year-over-year and all figures are in RMB unless otherwise noted.

In the first quarter of 2026, net revenues decreased by 9.6% to 440.7 million from 487.6 million in the first quarter of 2025.

Cost of revenues decreased by 17.7% to 59.5 million from 72.3 million in the first quarter of 2025, mainly due to a decline in costs related to learning materials, books, and service fees paid to educational institutions.

Gross profit was 381.1 million, compared to 415.3 million in the first quarter of 2025. Gross profit margin expanded to 86.5%, up from 85.2% in the prior-year period.

Total operating expenses were 284.3 million, a 16.7% decrease from 341.1 million in the first quarter of 2025.

Sales and marketing expenses decreased by 19.5% to 241.9 million from 300.4 million in the first quarter of 2025, primarily due to optimized compensation for sales personnel and more targeted branding and marketing activities.

General and administrative expenses increased by 4.1% to 35.9 million from 34.5 million in the first quarter of 2025.

Product development expenses rose by 5.6% to 6.6 million from 6.2 million in the first quarter of 2025.

Net income for the first quarter of 2026 reached 76.8 million, compared to 75.2 million in the first quarter of 2025.

Basic and diluted net income per share was 11.48 in the first quarter of 2026.

As of March 31, 2026, the Company held 547.2 million of cash, cash equivalents and restricted cash, alongside 236.0 million of short-term investments, compared to 576.8 million of cash and

cash equivalents and 235.9 million of short-term investments as of December 31, 2025.

As of March 31, 2026, the Company maintained a deferred revenue balance of 500.5 million, compared to 585.3 million as of December 31, 2025.

Turning to our outlook, for the second quarter of 2026, we expect net revenues to be between 410 million to 430 million, representing a decrease of 20.2% to 23.9% year-over-year. This outlook is based on current market dynamics and reflects our preliminary assessment of macro conditions and learner demand patterns, which remain subject to substantial uncertainty.

This concludes our prepared remarks. We will now open the call for questions. Operator, please go ahead.

[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.