

**Sunlands Technology Group**  
**Fourth Quarter and Full Year 2023 Earnings Conference Call Script**  
**March 22, 2024, 7:00 PM BJT**

**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Fourth Quarter and Full Year 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' Fourth Quarter and Full Year 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' Fourth Quarter and full year 2023 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.

It is with great pride that we unveil the successful culmination of the fourth quarter, characterized by a noteworthy net profit of 155.2 million and an impressive net profit margin of 28.6%. These metrics underscore our firm financial foundation and steadfast dedication to operational excellence. In the meanwhile, our revenue stands at 542 million, marking a 3.3% increase from the previous quarter and surpassing our earlier forecasts, despite a year-over-year revenue decrease of 6.4%.

Reflecting on the entire fiscal year, we successfully recorded an annual revenue of 2.16 billion and a net income of 640.8 million. Additionally, we observed a significant 15.4% increase in enrollment year-over-year, highlighting the growing demand for our offerings. Our prudent financial management resulted in a net cash inflow from operating activities of over 135 million, laying a solid financial foundation for our future growth initiatives.

Throughout the year, we remained agile in responding to market dynamics and evolving user preferences, driving continuous innovation across our product and service portfolio. A pivotal driver has been the dynamic expansion of our interest-based courses, which experienced a 54.9% year-over-year growth. This sector has emerged as a potent growth catalyst for the company, further solidifying our leading position in the adult education landscape.

Turning to the performance of our major course programs, degree-oriented post-secondary programs accounted for 24.7% of our revenue in 2023. While we continue to optimize this sector's investment, we believe in its promising future. In the current employment landscape, individuals navigating academic pursuits or professional trajectories find themselves confronted with intricate challenges. The symbiotic relationship between salary offerings and educational attainment has become more pronounced. This, in turn, has precipitated a surge in the proclivity of individuals towards pursuing further education.

The sector encompassing professional certifications, skills, and interest programs continues to serve as our key growth engine, showcasing a year-over-year revenue increase of 30.3% and contributing to 67.1% of our total revenue. In 2023, we observed a 21.1% rise in new student enrollments within this sector compared to 2022. Our approach to catering to the growing educational needs of learners across various age groups has been particularly rewarding. Moreover, the standout performance of interest-based education courses remains the foremost highlight of this sector, accounting for 63.0% of our total revenue and experiencing a significant 54.9% year-over-year revenue growth.

In 2023, the user search volume for "adult interest training" has surged, ranking first among the new business segments in the education sector. This trend signifies a growing focus among adults on inner well-being and personal interests, thereby resulting in a discernible concurrent elevation in the demand for associated knowledge and services. Compared to our degree program users who tend to be younger and more career-oriented, the age range of users in the interest sector is much broader, with a significant portion of the user base comprising middle-aged and elderly population.

After several quarters of practical exploration, we have gained a deeper understanding of the elderly learning market, and today I am delighted to share some insights.

Firstly, the expansive nature of China's senior demographic presents a promising landscape for market penetration. As of 2022, China confronted a rare phenomenon of net

population decrease. This marks the first negative growth since the 1960s, signifying the onset of a period of population decline. Additionally, the impending retirement phase of China's second baby boom generation, spanning births from 1962 to 1975, introduces a cohort wielding significant socioeconomic influence. According to the "China Private Wealth Report" released by China Merchants Bank and Bain in 2023, the age group of 50-59 accounts for 20% of the high-net-worth individuals with investable assets of over 10 million. In the past, senior education was predominantly supplied by governmental agencies. However, today's newly retired individuals have the autonomy to select from market-oriented educational institutions and are willing to pay premium prices for such offerings.

Secondly, the nuanced preferences and demands exhibited by elderly cohorts across various age brackets underscore the complexity of this demographic, indicating significant untapped potential. Individuals aged 50-59 display a vibrant demeanor, with a predilection towards cultural and spiritual pursuits such as travel and lifelong learning endeavors. Conversely, those aged 60 and above tend to gravitate towards health-centric consumption patterns, embracing nutritional supplements and care services. Upon meticulous scrutiny of our senior course enrollees, taking our traditional Chinese painting program as an example, individuals aged 46-65 account for 60%, with over 60% being female and 20% from first-tier cities. We define them as the "new generation of vibrant seniors," characterized by high cultural refinement, relative affluence, ample leisure opportunities, and a higher pursuit of spiritual enrichment. Our products are well-received by this golden age group, and we will continue to seize the demands of this demographic to expand the scope of our services in the future.

Drawing inspiration from the developmental trajectory of Japan's elderly industry, notably illustrated by Club Tourism, Japan's leading senior travel conglomerate with a membership base of 7 million, which initially focused on travel products and later expanded horizontally into nursing, insurance, and consumer goods, we aim to maximize user lifetime value through diversified offerings and high-value propositions rooted in effective senior interest education services. For instance, we've launched educational

travel packages, integrating courses with tourism activities. These ongoing and innovative initiatives afford us a swifter and more profound insight into our user base, fueling our imagination for future possibilities.

We also note the government's attention to and emphasis on the elderly industry. On January 15, 2024, the General Office of the State Council of China issued the first dedicated document supporting the development of the silver economy, which specifically mentioned enriching elderly education services. We will continue to increase investment in course development for this burgeoning demographic. We've curated a range of specialized offerings, including premium Chinese painting and music courses, supplemented by a variety of offline events tailored to diverse situational contexts. Notably, our senior brand clinched the prestigious "Craftsmanship Service Award" from People's Daily Online, a testament to our unwavering pursuit of excellence.

As we progress into 2024, we remain committed to consistently exploring and refining our product mix targeting different age groups while amplifying our operational efficiency improvement efforts to support our long-term, sustainable growth. Since our initial public offering, the company has been consistently progressing with stock repurchases. As of December 31, 2023, under the share repurchase plans adopted in December 2021 and August 2018, we have successfully executed the repurchase of American Depositary Shares (ADS), equivalent to approximately 420,000 ordinary shares, representing a total investment of 15.7 million USD. Looking ahead, we pledge to fortify shareholder value through ongoing share repurchases, underscoring our steadfast commitment to shareholder interests.

***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 am pleased to present our fourth quarter results. Over the past year, we have been committed to achieving sustainable growth, placing a high priority on improving operational efficiency and optimizing our cost structure. We continued our impressive level of profitability with a net profit margin of 28.6%, up 3.5 percentage points quarter-over-quarter. This demonstrates the effectiveness of our operational strategies and highlights our ability to adapt to changing market conditions. It is also important to highlight that our net cash inflows from operating activities for the year exceeded 135 million, providing a solid financial foundation for the sustainable development of our business. This success is a direct reflection of our commitment to strengthening our core competencies, allowing us to quickly adjust our strategy in response to changing market conditions and consumer demands.

Notably, since the fourth quarter of 2021, our net profit margin has remained above 20%, which is a testament to the strength and resilience of our business model. Looking to the future, we will continue to focus on refined operations and efficient financial management to ensure the Company's sustained, healthy and stable development. In addition, we will strictly follow the instructions of the Board and implement strategic share repurchases to enhance shareholder value.

Now let me present to you some of our key financial results for the fourth quarter of 2023. All comparisons are year-over-year, and all figures are in RMB unless otherwise noted.

For the fourth quarter of 2023, net revenues decreased by 6.4% to 541.7 million from 578.6 million in the fourth quarter of 2022. The decrease was primarily due to a year-over-year decline in gross billings from post-secondary courses in 2023.

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Cost of revenues decreased by 2.0% to 73.8 million in the fourth quarter of 2023 from 75.3 million in the fourth quarter of 2022. The decrease was primarily due to lower compensation expenses related to a reduction in our cost of revenues headcount.

Gross profit decreased by 7.0% to 468.0 million in the fourth quarter of 2023 from 503.3 million in the fourth quarter of 2022.

In the fourth quarter of 2023, operating expenses were 348.9 million, representing a 3.8% increase from 336.0 million in the fourth quarter of 2022.

Sales and marketing expenses increased by 12.2% to 305.8 million in the fourth quarter of 2023 from 272.5 million in the fourth quarter of 2022. The increase was primarily due to increased spending on sales activities, including higher sales force compensation, as well as higher spending on brand and marketing activities focused on interest-based courses.

General and administrative expenses decreased by 36.8% to 35.5 million in the fourth quarter of 2023 from 56.1 million in the fourth quarter of 2022. The decrease was primarily due to lower office costs and rental expenses resulting from the early termination of certain office spaces.

Product development expenses increased by 3.6% to 7.6 million in the fourth quarter of 2023 from 7.4 million in the fourth quarter of 2022.

Net income for the fourth quarter of 2023 was 155.2 million compared with 181.0 million in the fourth quarter of 2022.

Basic and diluted net income per share was 22.59 in the fourth quarter of 2023.

As of December 31, 2023, the Company had 766.4 million of cash, cash equivalents and restricted cash and 142.1 million of short-term investments, compared with 757.4 million

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of cash, cash equivalents and restricted cash and 70.5 million of short-term investments as of December 31, 2022.

As of December 31, 2023, the Company had a deferred revenue balance of 1,113.9 million, compared with 1,690.9 million as of December 31, 2022.

Capital expenditures were primarily for information technology (“IT”) infrastructure equipment and leasehold improvements required to support the Company’s operations. Capital expenditures were 0.2 million in the fourth quarter of 2023, compared with 0.7 million in the fourth quarter of 2022.

*For more details on our full-year 2023 financial results, please see our earnings press release.*

Now for our outlook. For the first quarter of 2024, we currently expect net revenues to be between 500 million and 520 million, a year-over-year decrease of 8.3% to 11.8%. This outlook is based on current market conditions and reflects the Company’s management’s current and preliminary estimates of the market, operating conditions and customer demand, all of which are 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...]*

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**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.

