

**Sunlands Online Education Group [STG]  
Q3 2022 Earnings Conference Call  
November 23, 2022 6:30 AM ET.**

Executives

Yuhua Ye, IR Representative

Tongbo Liu, CEO and Director

Selena Lu Lv, CFO and Director

Hangyu Li, Financial Controller

**Presentation**

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Third Quarter 2022 Earnings Conference Call. (Operator Instructions). 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 2022 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, and our Financial Controller Hangyu Li. Selena will provide an update on our operational performance on behalf of our CEO, Mr. Liu, and then Hangyu will give you an overview of our financial performance on behalf of Selena. 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 our 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 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 CFO Selena Lu Lv.

Selena Lu Lv: Thank you, Yuhua. Hello, everyone. Welcome to Sunlands' Third Quarter 2022 Conference Call. Despite the macroeconomic uncertainty and shifting industry landscape, we delivered encouraging results in the third quarter with sequential top line growth, further bottom-line improvement and increased new student enrollments. These achievements testified to the effectiveness of our strategic initiatives to prioritize profitability and healthy growth.

Amid the ongoing pandemic and uncertain macro environment, our third quarter net revenues came in at RMB576.2 million, up by 3.8% quarter-over-quarter despite a 3.2% year-over-year drop. To navigate the macro challenges, we remained laser-focused on cost optimization and profitability rather than blind pursuit of scale expansion.

We adopted multiple measures to enhance our operational efficiency and streamline our organization during the quarter. Due to our effective expense control measures and improved operational efficiency, we reduced our G&A expenses by 29.6% year-over-year and 4.7% quarter-over-quarter. These cost reduction initiatives enabled us to deliver on our commitment to creating additional shareholder value with sustained profitability.

Our third quarter net income reached RMB168.1 million, representing an 81.1% year-over-year increase and a 46.7% quarter-over-quarter increase, demonstrating our organization's resilience during tough times like these.

With a leaner and more efficient organization, we also further refined our product strategy in the third quarter. We focused more on margin accretive programs and allocated our capital and human resources accordingly to expand our course offerings in these programs, leading to an optimized product lineup and more diversified course content.

Additionally, we leveraged our solid and convenient online teaching infrastructure and learning resources to further refine our services, which has increased our user stickiness and cross-selling opportunities. Given this, we have transformed our student acquisition methods, focusing more on users' lifetime value instead of investing heavily in marketing activities.

As you may have seen in our earnings release published earlier today, our sales and marketing expenses declined by 23.9% year-over-year and 8.2% quarter-over-quarter. And as a percentage of net revenues, sales and marketing expenses were down by 12.7 percentage points year-over-year. Despite that, our new student enrollments for the quarter rose by 44.7% year-over-year and 11.8% quarter-over-quarter, reaffirming the effectiveness of our business strategies.

Turning to our learning programs. Our professional certification and skills programs continued to grow strongly, as evidenced by a 91.3% year-over-year increase in new student enrollments, which drove gross billings to rise by 51.8% year-over-year.

Net revenues generated by this sector also increased by 83.7% year-over-year. This growth was primarily attributable to our efforts in expanding our course catalog to target diverse age groups, as we sought to capture the rising demand we witnessed for various skills and hobbies courses during the quarter.

In the third quarter, pandemic-associated lockdowns led to the postponement or cancellation of certain qualification tests, affecting our exam preparation programs for those tests. Nevertheless,

demand for our preparation courses for professional exams remained solid, as intense career competition prompted working professionals to enhance their competitiveness or sharpen their skills with courses from educational providers such as Sunlands.

In addition to courses for working professionals, we continued to develop new courses to satisfy other cohorts' learning and leisure needs. We are excited about what we are offering and will offer our students, as we have always been committed to helping to build a lifelong learning society. We will continue to capture opportunities in this sector to deliver more high-demand courses and high-quality services to our students.

Thanks to our extensive course options, premium course quality, and experienced teaching staff, we are pleased to see students across a wider range of ages adopting our platform, as well as greater diversity in the courses they choose. As a result, we achieved sequential growth in new student enrollments for our professional skills programs for 5 consecutive quarters.

We are also glad to have played a part in helping our students achieve their learning goals, bringing them a sense of fulfillment. Going forward, we will continue to adjust our course offerings in this sector based on market demand, maximizing our value by further contributing to our students' success and our society as a whole.

Next, our master's degree-oriented programs. During the quarter, the challenging macro environment, the pandemic, and the competitive market dynamics continued to weigh on our performance in this category. Due to macroeconomic weakness, some people may choose to delay their higher education plans, as the cost for obtaining an MBA degree is relatively high compared to other self-improvement options. Meanwhile, the pandemic also prevented some people from pursuing overseas postgraduate education.

Lastly, market competition was increasingly intense since more industry players joined this sector after the K-12 education industry reform. Taken together, these factors resulted in reduced demand for our master's degree-oriented preparation courses, leading to a decline in gross billings and new student enrollments.

Before I conclude, I would like to mention that alongside our efforts to solidify our industry position with our existing learning programs, we have also been prudently exploring some other new business initiatives to drive our future growth. We are conducting in-depth market research on these initiatives, such as combining retail or commerce with course sale. By maximizing our strengths as an education provider to expand our product and service portfolio, we look forward to enhancing our risk management and creating additional revenue streams while bringing more value to our students.

Looking ahead, we are confident that our proven business strategies and continued commitment to delivering premium and tailored courses to more students will help us navigate current challenges and achieve meaningful growth.

That concludes Tongbo's prepared remarks. With that, I will turn the call over to our Financial Controller, Hangyu, to run through our financials on behalf of me.

Hangyu Li: Thank you, Selena. Hello, everyone. We are pleased with our third quarter results amid a soft macro environment. Our net revenues reached RMB576.2 million during the quarter, exceeding the high end of our guidance range by 6.7% despite a slight 3.2% year-over-year decrease.

Benefitting from our dedicated efforts and measured steps in cost control and operational efficiency enhancement, our third quarter operating expenses declined by 24.5% year-over-year and 7.4% quarter-over-quarter. As a result, we maintained our profitability with a net income of RMB168.1 million, up 81.1% year-over-year and 46.7% quarter-over-quarter.

Our net profit margin for the quarter remained solid at 29.2%, expanding 13.6 percentage points year-over-year and 8.6 percentage points quarter-over-quarter. Moving forward, we will continue to prudently manage costs and expenses, enrich our course offerings and further optimize our operations, aiming for continued success and additional shareholder value.

Now let me walk you through some of our key financial results for the third quarter of 2022. All comparisons are year-over-year, and all numbers are in RMB unless otherwise noted.

In the third quarter of 2022, net revenues were 576.2 million, a decrease of 3.2% year-over-year. Cost of revenue increased by 2.2% to 84.9 million in the third quarter of 2022 from 83.1 million in the third quarter of 2021. The increase was primarily due to increased service fees paid to educational institutions and increased cooperation costs.

Gross profit decreased by 4% to 491.3 million from 512 million in the third quarter of 2021.

In the third quarter of 2022, operating expenses were 325 million, representing a 24.5% decrease from 430.6 million in the third quarter of 2021.

Sales and marketing expenses decreased by 23.9% to 269.1 million in the third quarter of 2022 from 353.5 million in the third quarter of 2021. The decrease was mainly due to the lower spending on branding and marketing activities, and the declined compensation expenses related to our sales and marketing personnel.

General and administrative expenses decreased by 29.6% to 44.4 million in the third quarter of 2022 from 63.2 million in the third quarter of 2021. The decrease was mainly due to a decline in rental expenses.

Product development expenses decreased by 17.5% to 11.5 million in the third quarter of 2022 from 14 million in the third quarter of 2021. The decrease was mainly due to a decline in compensation expenses.

Other income decreased by 58.6% to 5.3 million in the third quarter of 2022 from 12.9 million in the third quarter of 2021.

Net income for the third quarter of 2022 was 168.1 million, compared with 92.8 million in the third quarter of 2021.

Basic and diluted net income per share was 24.08 in the third quarter of 2022.

As of September 30, 2022, the Company had 678.8 million of cash and cash equivalents and 170.1 million of short-term investments.

As of September 30, 2022, the Company had a deferred revenue balance of 1,798.6 million compared with 2,348.2 million as of December 31, 2021.

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 1.3 million in the third quarter compared with 1.8 million in the third quarter of 2021.

And now for our outlook. For the fourth quarter of 2022, Sunlands currently expects net revenues to be between RMB520 million and RMB540 million, which would represent a decrease of 8.3% to 11.7% year-over-year. This outlook is based on the current market conditions and reflects the Company's management's current and preliminary estimate of the market, operating conditions and customer demand, which are all subject to change.

That concludes Selena's prepared remarks. With that, I'd like to open up the call to the questions. Operator?

## **Questions and Answers**

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

Showing no further questions, this will conclude our question-and-answer session. Now, 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: This concludes the earnings conference call. You may now disconnect your line. Thank you.