

Sunlands Technology Group

Fourth Quarter and Full Year 2024 Earnings Conference Call Script

March 21, 2024, 6:30 PM BJT

Operator: *Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Fourth Quarter and Full Year 2024 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 2024 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 Finance Director, 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 2024 Earnings Conference Call. Prior to commencing, I would like to kindly remind all attendees that the financial information referenced in this release are presented on a continuing operations basis, and all figures are denominated in RMB, unless explicitly specified otherwise.

We wrapped up the fourth quarter with net revenue of 483.5 million and net income of 57.8 million, marking our 15th consecutive quarter of profitability. For the full fiscal year, we recorded an annual revenue of 1.99 billion, with a net income of 342.1 million—extending our streak to four straight profitable years. This consistent performance underscores the strength of our business model and operational resilience to effectively navigate both industry dynamics and macroeconomic challenges.

Despite a 7.8% decline in full-year net revenue, we also saw encouraging signs of growth, including a steady rise in enrollments, which reached a record-high of about 675,000 new student enrollments in 2024. The adult education market is inherently cyclical, with broader economic conditions influencing learners' willingness to invest in themselves. Recognizing these shifts early, we have strategically refined our product mix over the past few years, transitioning from high-priced, long-duration courses to more accessible, short-term programs. This adjustment not only improves conversion rates but also ensures we stay aligned with evolving consumer preferences—enhancing both customer acquisition efficiency and overall operational resilience.

Our operating cash flow remained strong, marking the third consecutive year of positive net inflow. This achievement reflects not only steady growth in student enrollments but also our disciplined approach to financial management. More importantly, it gives us the

flexibility to reinvest in key initiatives while maintaining resilience amid market fluctuations. Prudent cash management isn't just a safeguard against uncertainty—it's a strategic advantage that enables us to invest with confidence, adapt swiftly, and seize opportunities that drive long-term value.

As China's economy recovers and consumer confidence rebounds, we see growing momentum in our sector. As an early mover in online education, we've gained valuable insights into the evolving needs of our demographic, uncovering new growth opportunities. With a maturing market and strong policy support, we are well-positioned to leverage these trends and drive innovation. We are confident that the foundation we've built, coupled with new models we're exploring, will lead to positive results and sustainable growth in the coming year.

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

In 2024, degree- or diploma-oriented post-secondary programs accounted for 10% of our revenue. This has long been an important part of our business, but as we've carefully evaluated the changing demographic trends and the evolving education landscape, we've decided to reduce our investment in this segment and redirect our focus toward more promising opportunities with greater potential for long-term growth. While the demand for this sector remains stable, we will continue to monitor consumer needs and adapt as necessary, to stay aligned with the evolving market dynamics.

The sector comprising interest, professional skills and professional certification preparation programs collectively accounted for 75.3 % of our total revenues in 2024, with interest-based programs emerging as a core pillar of our business. Over the past few years, we have strategically prioritized this sector, directing more resources and attention toward developing a comprehensive portfolio of interest-driven courses. This focus aligns with a broader societal trend—a shift towards personal fulfillment and growth that extends beyond traditional work-related education. As more individuals seek opportunities to enrich their lives and pursue passions outside of their careers, we are

uniquely positioned to meet this demand. Our goal is not only to respond to current trends but also to anticipate future needs, fostering long-term value by enhancing engagement, strengthening loyalty, and delivering exceptional learning experiences.

Our emphasis on lifelong learning is particularly relevant given broader demographic shifts, especially the rapid growth of the senior population. The 2025 Government Work Report reaffirmed the state's commitment to addressing population aging and promoting the growth of the silver economy. China's demographic shifts present significant opportunities, particularly within the senior education—a sector that is poised to become a key driver of our future growth.

To capture this potential, we are deepening our commitment to senior education by expanding our course offerings to better serve the evolving needs of senior learners. According to Frost & Sullivan's 2024 China Silver Economy Development Report, China's senior interest education sector continues to expand rapidly, with 72.8 million users in 2023 and a penetration rate of 24.5%. Between 2019 and 2023, the market grew at a robust compound annual growth rate (CAGR) of 14.7%, underscoring the rising demand for lifelong learning among the elderly. Recognizing this trend early, we have focused on enriching the lives of older adults through engaging educational and social experiences. By incorporating practical subjects such as arts, health, and wellness—areas that strongly appeal to this demographic—we have fostered greater enthusiasm and participation.

Beyond education, we are also exploring diversified business opportunities by leveraging our substantial senior user base, including e-commerce and study tours. Notably, our study tour programs have gained strong traction, combining interest-based learning with travel to create a unique value proposition. In 2024, we launched dozens of themed study tour routes, including music-focused tours in the United States, oil painting trips in Europe, and cultural heritage tours within China. These programs served tens of thousands of senior customers and received overwhelmingly positive feedback. The integration of specialized courses into these programs has enhanced their value

proposition, resulting in higher gross margins and contributing to overall revenue growth. According to Frost & Sullivan, China's silver tourism market is projected to reach RMB 2.8 trillion by 2028, presenting substantial growth opportunities. With a growing customer base and an expanding portfolio, we are well-positioned to capitalize on this rising demand and further strengthen our market presence.

Through years of direct engagement, we have gained invaluable insights into the genuine needs of this demographic—insights that go beyond surface-level assumptions. This deeper understanding has guided us in refining our offerings, embedding social elements into course interactions, and designing educational experiences that are both engaging and accessible.

Looking ahead, we remain committed to strengthening our leadership in senior-focused education and silver economy services. We will continue to expand our course offerings, introduce new product categories, and explore innovative business models that align with evolving demographic and market trends. Through this strategic approach, we are not only positioned to capture future growth opportunities but also to create lasting value for our stakeholders and contribute to the broader development of the silver economy.

To further enhance our educational offerings, we are also leveraging cutting-edge technology to drive innovation. A key milestone was the integration of DeepSeek in February 2025, which enhances our ability to deliver personalized learning experiences, optimize course content, and improve operational efficiency. DeepSeek's advanced reasoning and autonomous learning capabilities enable us to address the diverse needs of adult learners with greater precision—tailoring to their varying backgrounds, goals, and learning styles. As AI continues to reshape education, we remain focused on staying at the forefront of this transformation.

As we move into 2025, we remain steadfast in our commitment to harnessing the power of technology, understanding the ever-changing needs of our customers, and continually improving the products and services we offer. Our focus will continue to be on delivering

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value through insightful market observations and careful refinement of our approach. By doing so, we position ourselves to not only adapt to the future but also to drive sustained, long-term growth. Our work is never done, but we are confident that our thoughtful strategies will lead us to continued success.

That concludes Tongbo's prepared remarks. With that, I will turn the call over to our Finance Director, Hangyu, to run through our financials.

Hangyu Li

Thank you, Tongbo. Hello everyone.

I am pleased to share our fourth quarter and full year results, which reflect our resilience and discipline in executing our strategy.

Over the past year, we have remained focused on sustainable growth, improving efficiency and strictly controlling costs. Our full year gross profit margin and net profit margin remained at 84.0% and 17.2% respectively, and we maintained positive operating cash flow for the third consecutive year, which fully demonstrates the success of our business model.

Although revenue is under pressure in the short term, our new student enrollments in the full year of 2024 increased by 9.5% year-over-year. This is mainly due to the expansion of the product portfolio, the addition of high-value-added products such as study tours, and the positive feedback from the market.

The growing student base provides us with a guarantee to expand our product portfolio and enhance the lifetime value of students. This is the foundation for us to achieve sustainable development and maintain financial health. A healthy financial situation provides us with confidence to cope with market fluctuations and is also the cornerstone for us to manage risks and make strategic adjustments.

With each successful hurdle, our team will become stronger, which gives us the confidence and ability to seize future opportunities. We believe that through resolute execution of our strategic initiatives, we will further consolidate our competitive advantages, maintain our good development momentum and deliver lasting value to our stakeholders.

Now let me walk you through some of our key financial results for the fourth quarter of 2024. All comparisons are year-over-year and all figures are in RMB unless otherwise noted.

In the fourth quarter of 2024, net revenues decreased by 10.8% to 483.5 million from 541.7 million in the fourth quarter of 2023. The decrease was primarily driven by the decline in gross billings from post-secondary courses over the recent quarters, partially offset by the year-over-year growth in revenues from sales of goods such as books and learning materials.

Cost of revenues increased by 10.8% to 81.7 million in the fourth quarter of 2024 from 73.8 million in the fourth quarter of 2023. The increase was primarily due to an increase in the cost of revenues from sales of goods such as books and learning materials.

Gross profit decreased by 14.1% to 401.8 million in the fourth quarter of 2024 from 468.0 million in the fourth quarter of 2023.

In the fourth quarter of 2024, operating expenses were 351.3 million, representing a 0.7% increase from 348.9 million in the fourth quarter of 2023.

Sales and marketing expenses increased by 3.0% to 314.8 million in the fourth quarter of 2024 from 305.8 million in the fourth quarter of 2023.

General and administrative expenses decreased by 9.9% to 32.0 million in the fourth quarter of 2024 from 35.5 million in the fourth quarter of 2023. The decrease was mainly due to declined compensation expenses of our general and administrative personnel.

Product development expenses decreased by 41.2% to 4.5 million in the fourth quarter of 2024 from 7.6 million in the fourth quarter of 2023. The decrease was mainly due to declined compensation expenses related to headcount reduction of our product development personnel.

Net income for the fourth quarter of 2024 was 57.8 million, as compared to 155.2 million in the fourth quarter of 2023.

Basic and diluted net income per share was 8.55 in the fourth quarter of 2024.

As of December 31, 2024, the Company had 507.2 million of cash, cash equivalents and 276.0 million of short-term investments.

As of December 31, 2024, the Company had a deferred revenue balance of 916.5 million (US\$125.6 million), as compared to 1,113.9 million as of December 31, 2023.

Now for our outlook. For the first quarter of 2025, Sunlands currently expects net revenues to be between 470 million to 490 million, which would represent a decrease of 6.4% to 10.2% 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.