

Sunlands Technology Group
First Quarter 2025 Earnings Conference Call Script
May 22, 2025, 6:00 PM BJT

***Operator:** Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' First Quarter 2025 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 2025 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' First Quarter 2025 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.

In the first quarter of 2025, we reported net revenue of RMB 487.6 million and net income of RMB 75.2 million, marking our sixteenth consecutive profitable quarter—an encouraging start to the year that reinforces our confidence in delivering sustained growth throughout 2025. While net revenue remained relatively stable, our continued profitability and disciplined execution reflect the underlying resilience of our business model. Net income margin reached 15.4%, supported by effective cost optimization and ongoing operational efficiency improvements.

Meanwhile, our financial fundamentals remain robust. This quarter marked our seventh consecutive period of positive operating cash flow, underpinned by sound execution and prudent capital management. Looking ahead, we will continue to refine our business mix, concentrating on high-margin, high-potential areas to reinforce structural flexibility and long-term resilience.

On the product front, we continued to deepen and diversify our course portfolio. We refined our core subject areas while extending into adjacent domains such as wellness and lifestyle, aligning with the increasingly diverse needs of lifelong learners. Driven by our course diversification strategy, this quarter's total enrollments reached 169,083, also supported by measurable improvements in learner engagement and retention.

Technology also remains central to our strategy. This quarter, we further advanced the digital transformation of core operations by embedding AI tools that enhance curriculum precision and boost learner engagement.

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

In Q1 2025, degree- and diploma-focused post-secondary programs contributed 9.7% of total revenue. This sector has experienced a moderated trajectory, and our calibrated scale-back in investments has allowed us to reallocate resources toward higher-growth opportunities more effectively. Going forward, we will continue to monitor macro education trends and demographic shifts closely, ensuring our approach remains agile and responsive to evolving conditions.

The sector encompassing interest-based programs, professional skills development, and professional certification preparation accounted for a substantial 78.2% of our total revenue, with interest-driven courses emerging as a foundational pillar. Unlocking the full potential of interest-led learning among middle-aged and senior learners remains a central strategic priority. In this area, we have remained steadfast in pursuing a clear, future-oriented strategy — rooted in openness, integration, and innovation — while deepening our initiatives across multiple fronts.

First, we have embraced a partnership-driven approach to amplify value creation. As China's aging population expands, the senior consumer market is drawing increased participation from diverse industries, including consumer brands, eldercare service providers, and traditional media. This convergence presents significant opportunities for cross-sector collaboration. Following last year's successful partnership with Beijing TV, we established a new collaboration with Hunan TV's Happy Shopping platform this quarter, leveraging its broad consumer reach and brand influence

Second, we have further strengthened our hybrid delivery model to meet the evolving needs of older learners. For this demographic, education is not only about acquiring

knowledge—it is equally about social participation and emotional fulfillment. To address this need, we have adopted a primarily online, supplemented-by-offline hybrid model that offers both flexibility and depth. This model has proven especially effective in boosting learner retention and satisfaction. Notably, our curated study tours—which integrate educational content with cultural travel—have been particularly well-received for their immersive and differentiated value. At the same time, we are deepening cross-sector collaboration by partnering with galleries and museums to co-develop culturally resonant experiences, further strengthening engagement within the senior segment.

Third, we've refined our curriculum design with the self-developed ACSS framework (Answer, Comment, Supervisor, Study) to fuel ongoing growth and ensure learner success. This dual-teacher model, which pairs academic mentors with learning facilitators, makes our courses more accessible, engaging, and outcome-driven. Leveraging this collaborative learning system, we have attained a 98% course completion rate among new students and a 40% increase in knowledge retention, underscoring its effectiveness in delivering substantial educational outcomes.

Beyond academic innovation, social mission remains integral to our strategy. Each year, we organize nearly 100 free public-interest activities, ensuring elderly individuals with cultural or intellectual aspirations can access meaningful learning experiences. We view this not only as an expression of corporate responsibility, but as a long-term investment in brand trust and mission alignment.

Recent policy developments further reinforce our confidence. The government's focus on stimulating domestic consumption and expanding service-oriented sectors—including culture, tourism, and education—align closely with our strategic direction. Targeted initiatives and fiscal incentives for innovation in community-based and lifelong learning programs affirm that we are operating in the right space at the right time, with ample room to scale, lead, and grow.

Taken together, these efforts reflect our holistic and forward-looking approach to lifelong learning. Today's adult learners are increasingly value-conscious, seeking premium, immersive, and socially engaging experiences. This shift affirms our early positioning and highlights the long-term potential of the adult learning economy. Moving forward, we will continue enhancing our offerings, strengthening ecosystem integration, and deepening engagement—ensuring we remain well-positioned to lead this evolving sector.

While macroeconomic and geopolitical uncertainties persist, the impact on our business has been limited given our domestic focus. Nonetheless, we remain vigilant, proactively managing risks while staying alert to new opportunities. Looking ahead, we will continue strengthening our core capabilities, expanding our course offerings, embracing intelligent technology, and maintaining a disciplined focus on value creation. We are confident this approach will deliver sustainable long-term returns for shareholders and meaningful learning outcomes for our students.

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'm pleased to report our results for the first quarter of 2025.

During the quarter, we successfully responded to the volatile market environment and achieved solid results. We had gross profit margin of 85.2% and net income margin of 15.4%, with net income of 75.2 million. This solid start is a testament to our prudent financial management and the sustainability of our business.

Our core interest and professional certification programs continue to be engines of growth. The series of successful strategic initiatives supported average order value growth of 7.5% and resulted in 169,083 new student enrollments.

Financially, we maintained positive operating cash flow for the seventh consecutive quarter, with cash, cash equivalents and short-term investments totaling 796.9 million. Our healthy financial position further strengthens our ability to cope with market uncertainties while making strategic investments.

Looking ahead, we will maintain efficient operations, enhance artificial intelligence-driven course personalization, and capitalize on policy benefits in the lifelong learning space. Despite the recent decline in revenues, we believe our healthy financial position and flexible business model will allow us to capitalize on the long-term opportunities in China's aging-driven education market.

Let me now walk you through some of the key financial highlights for the first quarter of 2025. Unless otherwise noted, all figures are in RMB and all comparisons are made year-over-year.

In the first quarter of 2025, net revenues decreased by 6.8% to 487.6 million from 523.2 million in the first quarter of 2024. The decrease was primarily driven by the decline in

gross billings from post-secondary courses over the recent quarters, resulting in a year-over-year decrease in net revenues from post-secondary courses.

Cost of revenues decreased by 6.3% to 72.3 million in the first quarter of 2025 from 77.2 million in the first quarter of 2024. The decrease was mainly due to the declined compensation expenses related to headcount deduction, including teachers and mentors.

Gross profit decreased by 6.9% to 415.3 million in the first quarter of 2025 from 446.1 million in the first quarter of 2024.

In the first quarter of 2025, operating expenses were 341.1 million, which were the same as the first quarter of 2024.

Sales and marketing expenses were 300.4 million in the first quarter of 2025, which remained relatively stable as compared to 301.6 million in the first quarter of 2024.

General and administrative expenses increased by 5.9% to 34.5 million in the first quarter of 2025 from 32.6 million in the first quarter of 2024.

Product development expenses decreased by 11.0% to 6.2 million in the first quarter of 2025 from 7.0 million in the first quarter of 2024. The decrease was mainly due to declined compensation expenses related to headcount reduction of our product development personnel.

Net income for the first quarter of 2025 was 75.2 million, as compared to 112.7 million in the first quarter of 2024.

Basic and diluted net income per share was 11.12 in the first quarter of 2025.

As of March 31, 2025, the Company had 596.2 million of cash and cash equivalents and 200.7 million of short-term investments, as compared to 507.2 million of cash, cash equivalents and 276.0 million of short-term investments as of December 31, 2024.

As of March 31, 2025, the Company had a deferred revenue balance of 891.6 million, as compared to 916.5 million as of December 31, 2024.

And now for our outlook. For the second quarter of 2025, Sunlands currently expects net revenues to be between 500 million to 520 million, which would represent an increase of 1.6% to 5.6% 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?

[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.