

Sunlands Technology Group
First Quarter 2024 Earnings Conference Call Script
May 24, 2024, 7:00 PM BJT

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' First Quarter 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' First Quarter 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' First Quarter 2024 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.

Reflecting on the first quarter of 2024, we've maintained stability amidst challenging conditions. Despite a year-over-year decrease, our net revenue and net income for the quarter stood at 523.2 million and 112.7 million respectively. This marks our twelfth consecutive quarter of profitability, underscoring our operational efficiency and commitment to shareholder value.

With a strong focus on robust and enduring expansion, we bolstered our endeavors in cost control while enhancing student acquisition effectiveness. Despite a 6.4% year-over-year increase in total operating expenses, we successfully attained a 17.9% reduction in general and administrative costs. Additionally, our enrollment surged by 22.8% to a historical high of 175,758, clearly demonstrating the enhanced proficiency in acquiring students.. This improvement reflects our dedicated initiatives to attract new users and enhance user retention and engagement by refining our course offerings to meet diverse learning needs.

Looking ahead, we remain optimistic about our long-term profitability. We endeavor to closely monitor and enhance student experience across all phases of teaching, learning, assessment, and practice. Moving forward, we're dedicated to delivering exceptional services and products while exploring avenues for further business growth and operational efficiency improvements.

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

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Our post-secondary programs now account for 14.3% of our total revenue, a testament to our strategic structural optimizations and alignment with our latest investment return goals. Given the structural makeup of educational attainment within the Chinese population, the universal access to compulsory education, and the prevailing demands of the job market, we are still convinced these programs are in demand and we remain dedicated to providing premium courses to our in-progress students.

In addition, we continued to pursue B2B strategy decisively, leveraging our deep-rooted expertise in this area. Through our SaaS platform “Lexueyun”, we provide small and medium-sized organizations with comprehensive solutions—including extensive course content, authentic examination questions, and advanced teaching management tools, to help them improve their teaching and content distribution abilities. Our aim is to provide our partners with advanced, intuitive tools that can significantly improve the learning experience for their users and ultimately enhance the quality and efficiency across the industry.

The sector including professional certifications, professional skills, and interest programs continues to be our primary growth engine, contributing 74.4% to the total revenue. Interest programs, in particular, has exhibited a 22.2% year-over year growth. In this sector, our strategy remains unwavering: to continuously expand our course offerings, attract a broader audience through varied curriculum, enhance customer retention rates, and ultimately, optimize the lifetime value of our users. This approach has proven successful, as evidenced by a 32.4% increase in new enrollments in our interest-based education programs this quarter, underscoring the effectiveness of our strategic initiatives.

Through ongoing practice, we have gained fresh insights into different age groups, shaping our approach to course design and service provision. For example, unlike younger individuals, whose educational pursuits are often career-oriented or driven by external expectations, more mature learners seek learning experiences that enrich their lives, bring joy, and foster meaningful connections. This fundamental difference necessitates a substantial departure from traditional education paradigms in both curriculum development

and service delivery models. Simply migrating existing courses online does not suffice; instead, we must intricately align with the unique needs of this demographic to enhance and customize our offerings accordingly. Moreover, the service delivery model should be adaptable and considerate of their physical and cognitive abilities, emphasizing the creation of a supportive and inclusive learning environment that encourages active participation and continuous engagement.

We've consistently pushed the boundaries of our innovative curriculum and achieved notable milestones through industry integration. A prime example is our educational travel adventure projects, launched in March 2023, which are well-suited for the elderly. As of the end of the first quarter of 2024, we had already crafted over 40 study tour routes.

According to McKinsey's 2024 China Consumer Trends report, senior citizens in first-tier cities have spending expectations for travel that notably exceed those of the general population, marking this as a burgeoning market segment. These consumers are not primarily driven by price when deciding which travel products to purchase; instead, they seek diverse, high-quality, and unique travel experiences, making premium travel products particularly well-received. Setting ourselves apart from traditional tourist offerings, we seamlessly integrate components from our courses, such as the art of traditional Chinese painting, into the very fabric of the journey, enriching the experience with cultural depth and immersive learning opportunities. In the first three months of 2024 alone, revenue from educational travel adventure projects has already surpassed 65% of the earnings for the entire year of 2023. In the future, we will expand our efforts into other areas to offer our elderly users a wider array of products, aiming to extend their customer lifecycle.

Furthermore, as a company embracing cutting-edge artificial intelligence technology, we have steadily enhanced our integration of AI into our business operations. For example, we streamlined content creation processes focused on increasing page views and refined multiple models to deliver personalized teaching. This led to a reduction in production time and significantly boosted the efficiency of our operational teams. We will continue to

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monitor updates in large models and apply to our business, ultimately enhancing our users' learning experience.

While we have achieved significant milestones, it's essential to acknowledge that we also face challenges. Moving forward, we are dedicated to adjusting our strategies to navigate market uncertainties. Our focus will remain on delivering high-quality education, expanding our market presence, and prioritizing shareholder value. Thank you for your presence today.

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 would like to introduce our first-quarter results. All numbers are denominated in RMB, unless explicitly specified otherwise.

For the quarter, we achieved net income of 112.7 million with net income margin of 21.5%, our 10th consecutive quarterly net income margin above 20%. The stable margins in recent quarters are due to our continued efforts to improve operational efficiencies and optimize our cost structures. Although our revenue declined year-over-year due to changes in our product mix, the successful strategy of balanced, sustainable growth and profitability brought us cash operating inflows of 76.4 million in the quarter. At the end of the first quarter, the total balance of cash, cash equivalents, restricted cash and short-term investments totaled 983.2 million, an increase of 8.2% from the end of the previous year. Our healthy financial position gives us the confidence to face the challenge ahead. This will enable us to capitalize on emerging opportunities, strengthen our leadership position in the industry and continue to create value for our shareholders.

Now let me walk you through some of our key financial results for the first quarter of 2024. All comparisons are year-over-year, unless otherwise noted.

In the first quarter of 2024, net revenues decreased by 7.7% to 523.2 million from 566.9 million in the first 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 growth in revenue from sales of goods such as books and learning materials.

Cost of revenues increased by 13.2% to 77.2 million in the first quarter of 2024 from 68.2 million in the first quarter of 2023. The increase was primarily due to the growth in the cost of revenues from sales of goods.

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Gross profit decreased by 10.6% to 446.1 million in the first quarter of 2024 from 498.7 million in the first quarter of 2023.

In the first quarter of 2024, operating expenses were 341.1 million, representing a 6.4% increase from 320.7 million in the first quarter of 2023.

Sales and marketing expenses increased by 11.1% to 301.6 million in the first quarter of 2024 from 271.4 million in the first quarter of 2023. The increase was mainly due to the growth in spending on sales activities, including enhanced compensation for sales personnel as well as increased spending on branding and marketing activities focusing on interest courses offerings.

General and administrative expenses decreased by 17.9% to 32.6 million in the first quarter of 2024 from 39.6 million in the first quarter of 2023. The decrease was mainly due to the decline in rental expenses as certain leases for office space were partially terminated in 2023 before the expiration of the lease term for cost saving.

Product development expenses decreased by 27.6% to 7.0 million in the first quarter of 2024 from 9.7 million in the first 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 first quarter of 2024 was 112.7 million, as compared to 180.1 million in the first quarter of 2023.

Basic and diluted net income per share was 16.44 in the first quarter of 2024.

As of March 31, 2024, the Company had 803.5 million of cash, cash equivalents and restricted cash and 179.7 million of short-term investments, as compared to 766.4 million of cash, cash equivalents and restricted cash and 142.1 million of short-term investments as of December 31, 2023.

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As of March 31, 2024, the Company had a deferred revenue balance of 1,044.9 million , as compared to 1,113.9 million as of December 31, 2023.

Regarding the outlook for the second quarter, we expect net revenue to be between 480 million and 500 million, a year-over-year decrease of 5.0% to 8.8%. 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.