

**Sunlands Technology Group**  
**Second Quarter 2023 Earnings Conference Call Script**  
**August 18, 2023, 7:30 PM BJT**

**Operator:** *Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Second Quarter 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' Second Quarter 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 representative, Mr. Hangyu Li. I will first read the prepared remarks on behalf of Tongbo. And then Hangyu will discuss the financials in more detail. Following the prepared remarks, Tongbo and Hangyu will be available for the Q&A session.

Before we begin, 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 read Tongbo's prepared remarks on his behalf.***

Hello, everyone. Welcome to Sunlands' Second Quarter 2023 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 Q2, our business showcased remarkable resilience and steady performance. Our second quarter net revenue has experienced a slight decrease compared to the previous quarter but exceeded the high end of our guidance range, reaching 526.4 million. Net income experienced year-over-year increase, reaching 173.9 million in Q2, marking the ninth consecutive quarter of sustained profitability for our company. We still maintain a positive outlook for the upcoming second half of the year.

Through proactive reassessment of our long-term strategic focus and implementation of a series of endeavors, our pursuit of developing valuable interest courses has continued to yield notable results. Specifically, our revenue in the professional certification preparation, professional skills and interest courses has surged by 32.7% year-over-year, and we have witnessed a 36.8% increase in new student enrollments in this sector. The robust market demands have instilled us with confidence and we remain committed to seizing emerging opportunities actively, promoting innovation and improvement to meet the diverse needs of adult learners, and achieving sustained growth and development.

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

We persistently focus on optimizing the gross billing structure, resulting in revenue generated from our post-secondary programs now contributing to less than 30% of our total revenue. We are content with the results of this structural change and remain committed to ongoing optimization in alignment with our strategic objectives.

The sector that includes professional certification preparation, professional skills and interest courses stands as our primary focus, and it's been performing remarkably well with

a year-over-year revenue growth of over 32.7%. We are pleased to observe that the revenue contribution from this sector is increasing, and it currently constitutes 64.6% of our total revenue. Our interest-based programs, in particular, have consistently delivered positive results, driving the year-over-year revenue growth in this sector to an impressive 70.0%. This success can be attributed to our sharp market sense, readiness to take well-calculated risks, and proactive strategic adjustments.

In today's societal context, many adults find themselves under both objective pressures and subjective anxieties. They strive to achieve a flexible work pace and engage in activities they enjoy. Enhancing professional skills or pursuing personal interests through learning has become one of the ways to alleviate stress and pursue their ideals. Notably, as indicated by the 2023 Baidu Adult Education Industry White Paper, data released by Baidu underscores a substantial surge in demand for adult interest-driven courses. This is evident through a notable 38% increase in search volume. Our first-hand industry insights at the operational level are in alignment with this trend. Adult education is no longer confined to rigid workplace needs; instead, it arises from interest-oriented incentives.

By offering a series of carefully-chosen interest-oriented courses among various segments, we have also reached a broader clientele, laying a strong foundation for our future business endeavors. Our approach to course development follows a well-defined Standard Operating Procedure, or SOP. We begin by carefully selecting relevant topics through firsthand market and learner analysis. Subsequently, we craft high-quality content tailored to specific audience learning needs. Preceding full-scale launch, small-scale trials assess content and delivery effectiveness.

For instance, our Chinese traditional painting course is a direct result of following this SOP. Its growth and progress have been impressive, with a substantial 86% year-over-year increase in revenue. Launched in 2021, this initiative has achieved noteworthy success, benefiting from our insightful grasp of the post-COVID market dynamics. This course is a representation of classical Chinese art education that has deeply captured people's interest. With a solid foundation of enthusiastic participants, this course appeals to many who have

a genuine liking for Chinese traditional painting and a willingness to refine their aesthetic sensibilities. We continuously extend such efforts in interest-based education. These courses boast a high repeat purchase rate, enhancing operational efficiency and yielding positive long-term effects on the company's financial performance. We will continue to utilize insights from learner preferences and strategically promote related courses, enabling learners to explore a broader range of subjects.

In conclusion, with our extensive experience and industry recognition in this field over the past decade, we are well-positioned to capture a larger market share more swiftly and effectively. As we move forward, we remain committed to adapting our educational offerings to meet the evolving demands of learners, solidifying our leadership position in the field of adult education.

We extend our gratitude for your presence today and the continued support you provide. Thank you, and we look forward to your valuable engagement.

***This concludes Tongbo's prepared remarks. With that, I will turn the call over to our Financial Controller, Hangyu, to run through our financials.***

**Hangyu Li**

Thank you, Yuhua. Hello everyone.

I would like to present our second-quarter results, which have aligned with our projections and demonstrated our resolute dedication to achieving sustainable growth.

In Q2, we have not slackened in our efforts to control costs and have maintained a healthy margin trajectory. Our Q2 gross profit margin hit 88.7%, an increase of 5.1 percentage points in gross profit margin compared with the same period last year. In addition, we reduced our operating expenses by 11.4% year-over-year and our net income margin has increased by 12.4 percentage points compared to the same period last year. Looking forward, we will remain steadfast in our commitment to delivering value to our stakeholders and maintaining a competitive edge in the industry.

Moving forward, we hold an optimistic view on our prospects for long-term growth. Our steadfast dedication involves broadening our array of online courses, refining our cost efficiency, and providing outstanding services to our valued students. These strategic actions will position us well to seize emerging opportunities and strengthen our prominent stance within the industry.

Now let me walk you through some of our key financial results for the second quarter of 2023. All comparisons are year-over-year, and all numbers are in RMB, unless otherwise noted.

In the second quarter of 2023, net revenues were 526.4 million, a decrease of 5.2% year-over-year. Cost of revenue decreased by 34.8% to 59.5 million in the second quarter of 2023 from 91.2 million in the second quarter of 2022. The decrease was primarily due to declined compensation expenses related to our cost of revenues personnel.

Gross profit increased by 0.7% to 466.9 million from 463.8 million in the second quarter of 2022.

In the second quarter of 2023, operating expenses were 311.0 million, representing an 11.4% decrease from 351.2 million in the second quarter of 2022.

Sales and marketing expenses decreased by 7.9% to 270.0 million in the second quarter of 2023 from 293.0 million in the second quarter of 2022. The decrease was mainly due to declined compensation expenses related to headcount reduction of our sales and marketing personnel.

General and administrative expenses decreased by 29.1% to 33.1 million in the second quarter of 2023 from 46.6 million in the second quarter of 2022.

Product development expenses decreased by 31.0% to 8.0 million in the second quarter of 2023 from 11.6 million in the second quarter 2022. Product development expenses were mainly comprised of compensation expenses.

Net income for the second quarter of 2023 was 173.9 million compared with net income of 114.6 million in the second quarter of 2022.

Basic and diluted net income per share was 25.12 in the second quarter of 2023.

As of June 30, 2023, the Company had 749.5 million of cash, cash equivalents and restricted cash, and 63.2 million of short-term investments.

As of June 30, 2023, the Company had a deferred revenue balance of 1,379.1 million compared with 1,690.9 million as of December 31, 2022.

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 1.0 million in the second quarter compared with 0.3 million in the second quarter of 2022.

And now for our outlook. For the third quarter of 2023, Sunlands currently expects net revenues to be between RMB470 million to RMB490 million, which would represent a decrease of 15.0% to 18.4% year-over-year. This outlook is based on the current market conditions and reflects the 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.