

# 51Talk

## China Online Education Group Management Presentation

Third Quarter 2019



NYSE: COE

## Safe Harbor Statement

This presentation contains statements that may constitute “forward-looking” statements pursuant to the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as “will”, “expects”, “anticipates”, “aims”, “future”, “intends”, “plans”, “believes”, “estimates”, “likely to” and similar statements. Among other things, China Online Education’s business outlook and quotations from management in this announcement, as well as China Online Education’s strategic and operational plans, contain forward-looking statements. China Online Education may also make written or oral forward-looking statements in its periodic reports to the Securities and Exchange Commission (“SEC”), in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including statements about China Online Education’s beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: China Online Education’s goals and strategies; China Online Education’s expectations regarding demand for and market acceptance of its brand and platform; China Online Education’s ability to retain and increase its student enrollment; China Online Education’s ability to offer new courses; China Online Education’s ability to engage, train and retain new teachers; China Online Education’s future business development, results of operations and financial condition; China Online Education’s ability to maintain and improve infrastructure necessary to operate its education platform; competition in the online education industry in China; the expected growth of, and trends in, the markets for China Online Education’s course offerings in China; relevant government policies and regulations relating to China Online Education’s corporate structure, business and industry; general economic and business condition in China, the Philippines and elsewhere and assumptions underlying or related to any of the foregoing. Further information regarding these and other risks is included in China Online Education’s filings with the SEC. All information provided in this presentation is as of the date of this presentation, and China Online Education does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

## Use of Non-GAAP Financial Measures

In evaluating its business, China Online Education considers and uses the following measures defined as non-GAAP financial measures by the SEC as supplemental metrics to review and assess its operating performance: non-GAAP sales and marketing expenses, non-GAAP product development expenses, non-GAAP general and administrative expenses, non-GAAP operating expenses, non-GAAP loss from operations, non-GAAP net loss, non-GAAP net loss attributable to ordinary shareholders, and non-GAAP net loss attributable to ordinary shareholders per share and per ADS. To present each of these non-GAAP measures, the Company excludes share-based compensation expenses. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. For more information on these non-GAAP financial measures, please see the table captioned “Reconciliations of non-GAAP measures to the most comparable GAAP measures” set forth at the end of the quarterly results press releases.

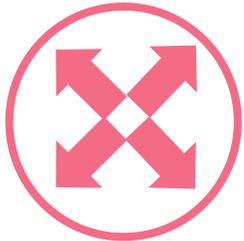
China Online Education believes that these non-GAAP financial measures provide meaningful supplemental information regarding its performance by excluding share-based expenses that may not be indicative of its operating performance from a cash perspective. China Online Education believes that both management and investors benefit from these non-GAAP financial measures in assessing its performance and when planning and forecasting future periods. These non-GAAP financial measures also facilitate management’s internal comparisons to China Online Education’s historical performance. China Online Education computes its non-GAAP financial measures using the same consistent method from quarter to quarter and from period to period. China Online Education believes these non-GAAP financial measures are useful to investors in allowing for greater transparency with respect to supplemental information used by management in its financial and operational decision-making. A limitation of using non-GAAP measures is that these non-GAAP measures exclude share-based compensation expenses that have been and will continue to be for the foreseeable future a significant recurring expense in the China Online Education’s business. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from each non-GAAP measure. The accompanying table at the end of the quarterly results press releases provides more details on the reconciliations between GAAP financial measures that are most directly comparable to non-GAAP financial measures.



Net revenues: RMB 409.2M, 35.0% y/y growth



Gross billings: RMB 547.3M, 28.9% y/y growth



Gross margin: 71.7%, compared with 63.8% for 3Q18



Non-GAAP net loss: RMB 1.8M, down 93.2% q/q

Operating cash flow: RMB 123.2M

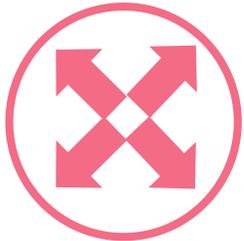
Cash, time deposits and short-term investments: RMB 906.4M



Launched 51Talk H5 Interactive Curriculum for level 0-2.



Improved our proprietary Magic Mirror System by incorporating advanced elements of big data analytics to generate deeper insights into students' learning behavior.



Two 51Talk students presented in English on the topic of environmental protection at the United Nations Climate Change Conference in Madrid, Spain, on December 5, 2019.

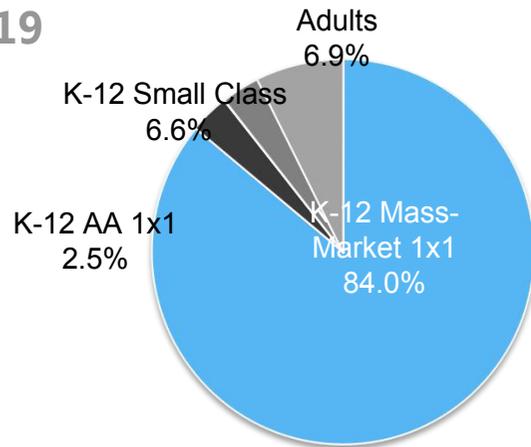


Over 100 million one-on-one online English lessons delivered from our inception in 2011 through the end of November this year.

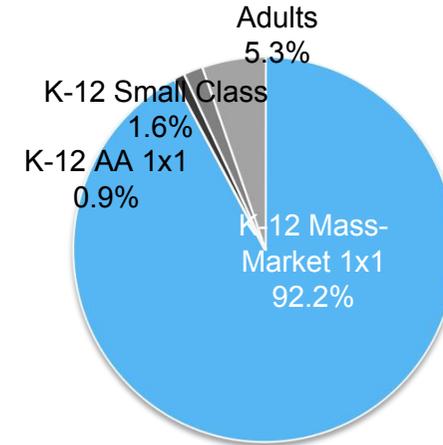
# Gross Billing Summary



2Q19

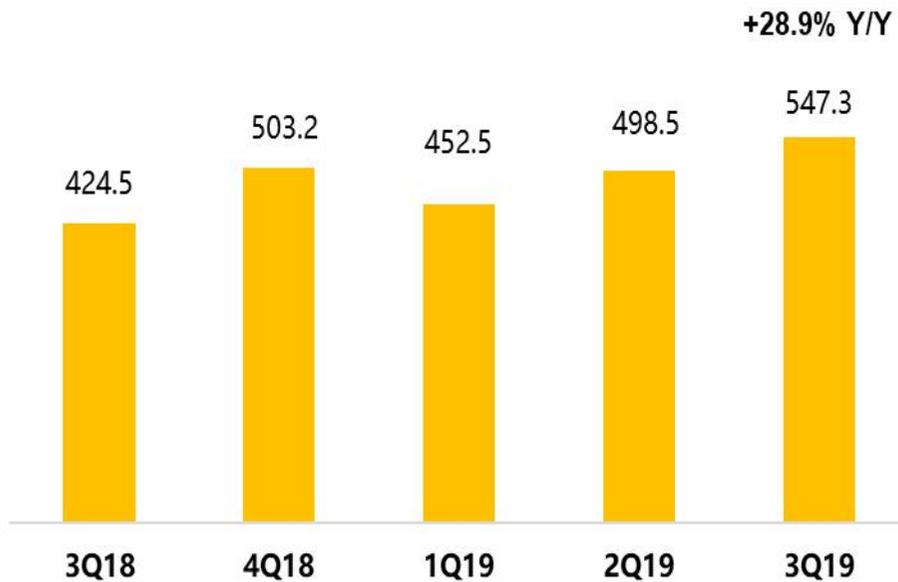


3Q19



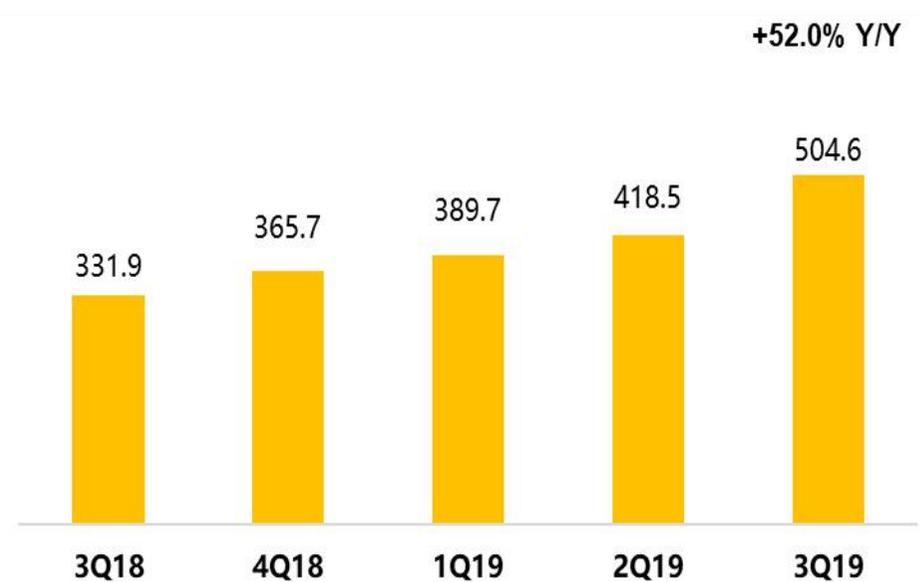
## Total Gross Billings

(RMB million)



## K-12 PH 1x1 Gross Billings

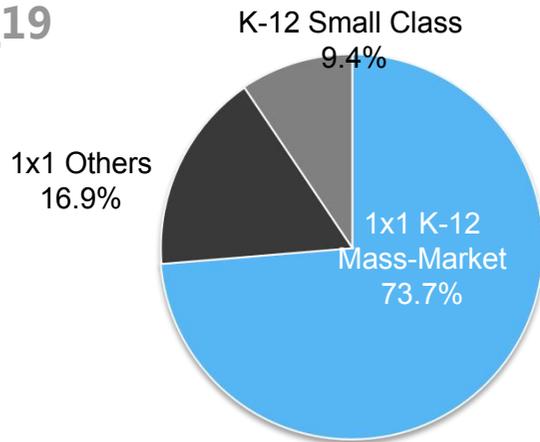
(RMB million)



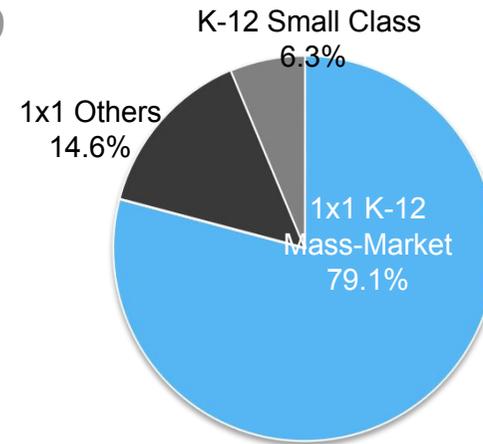
# Net Revenues Summary



2Q19

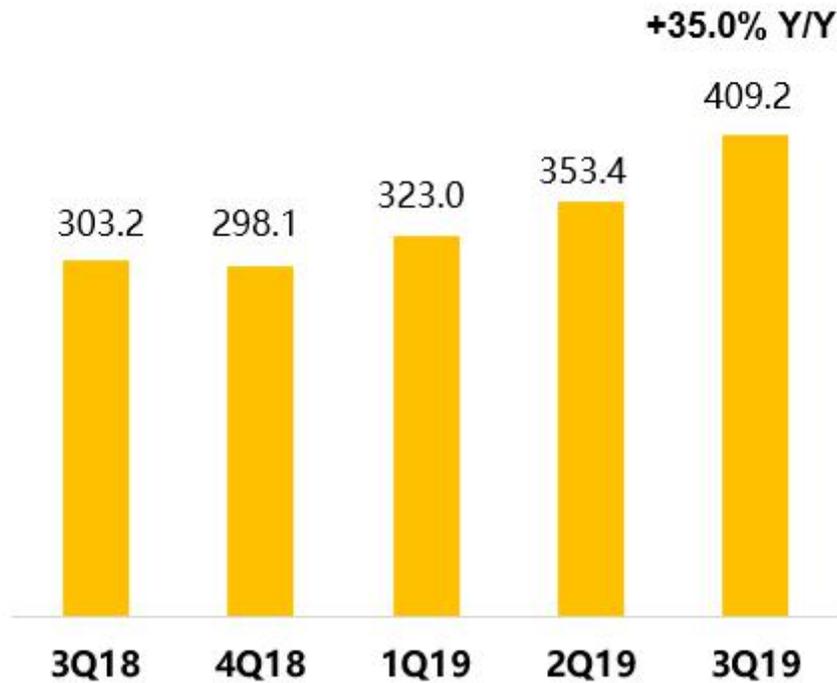


3Q19



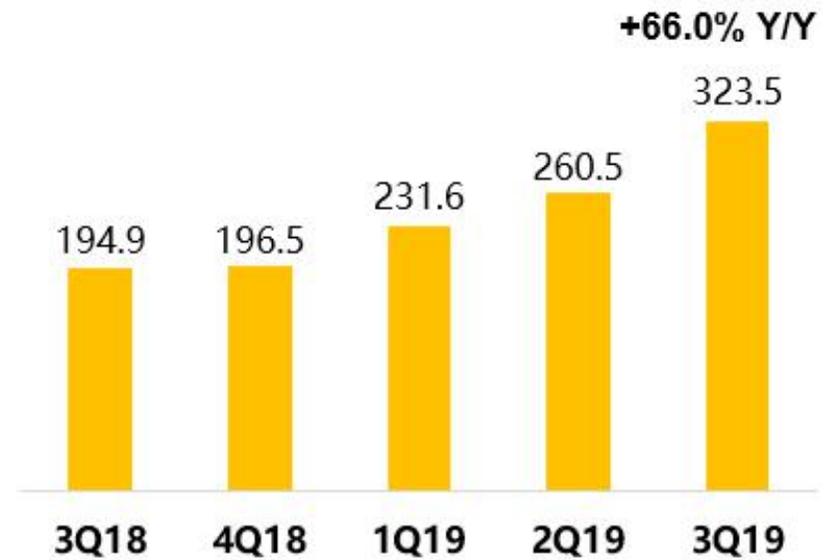
## Net Revenues Overall

(RMB million)



## K-12 PH 1x1 Net Revenues

(RMB million)

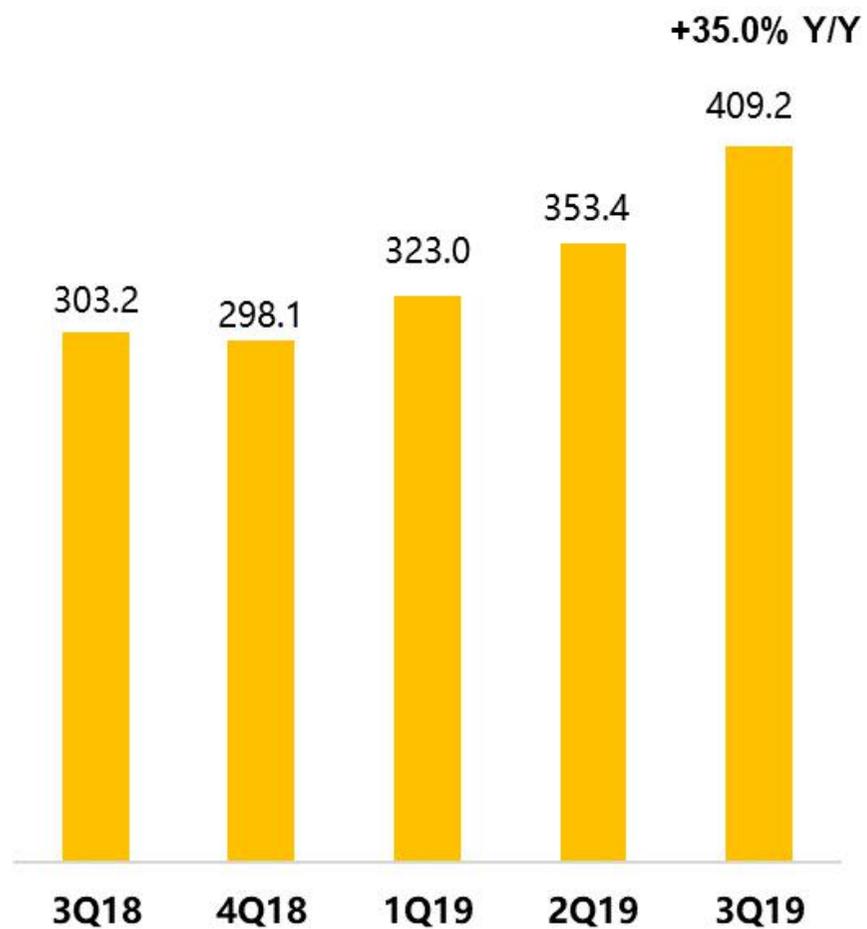


# Net Revenues



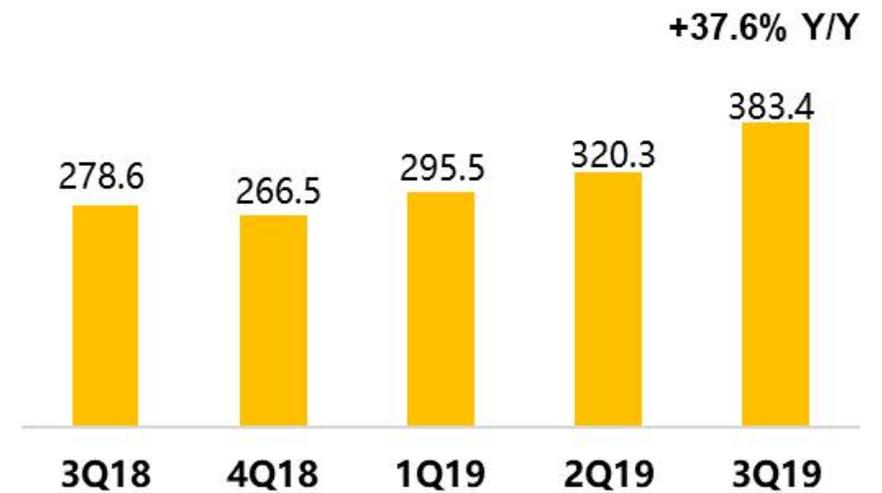
## Net Revenues Overall

(RMB million)



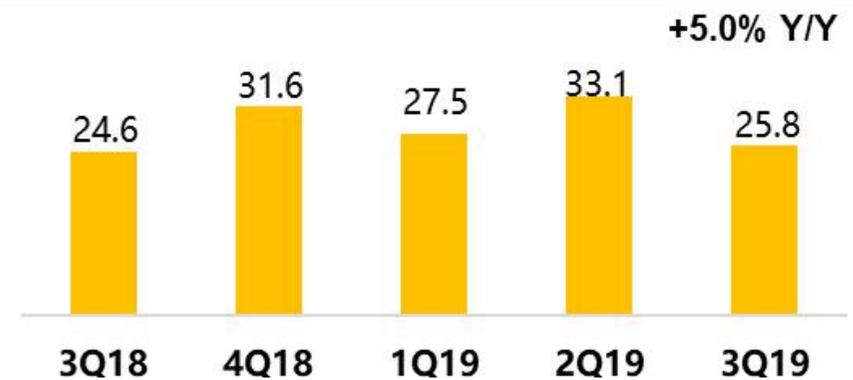
## 1x1 Net Revenues

(RMB million)



## 1xN Net Revenues

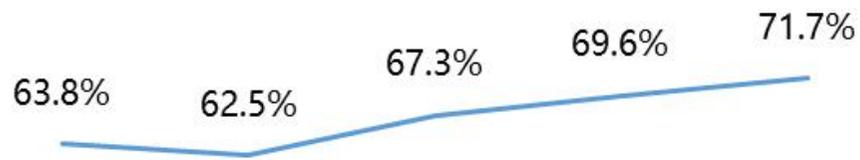
(RMB million)



# Gross Margins



## Gross Margins Overall

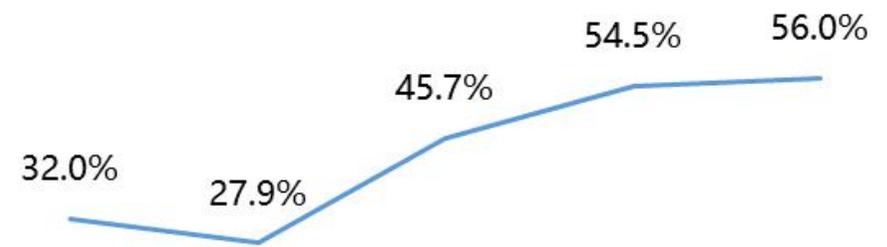


3Q18 4Q18 1Q19 2Q19 3Q19

## 1x1 Gross Margins



3Q18 4Q18 1Q19 2Q19 3Q19  
1xN Gross Margins



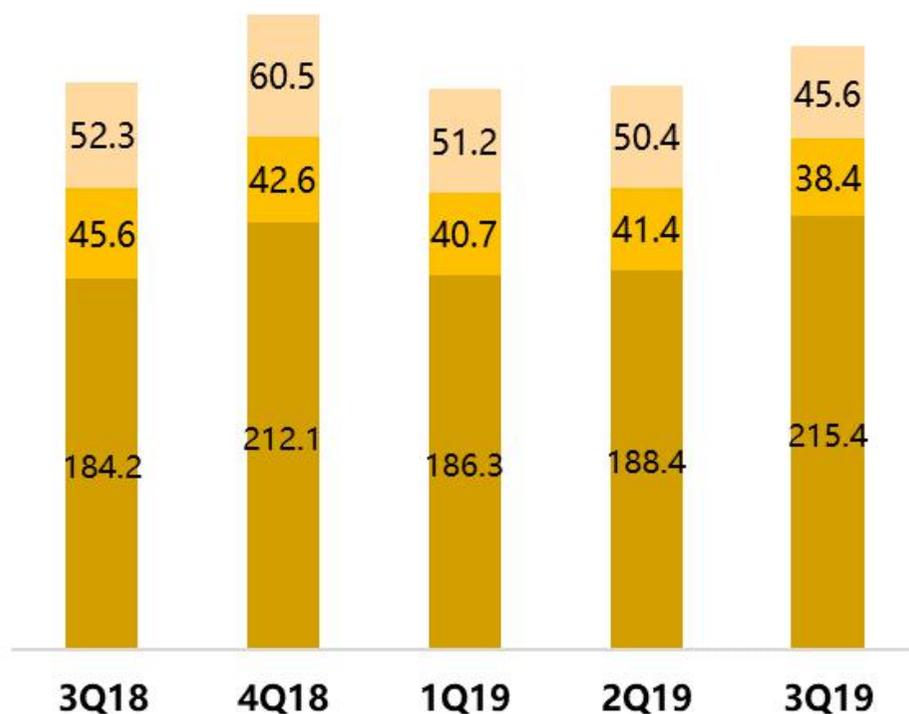
3Q18 4Q18 1Q19 2Q19 3Q19

# Operating Expenses



## GAAP

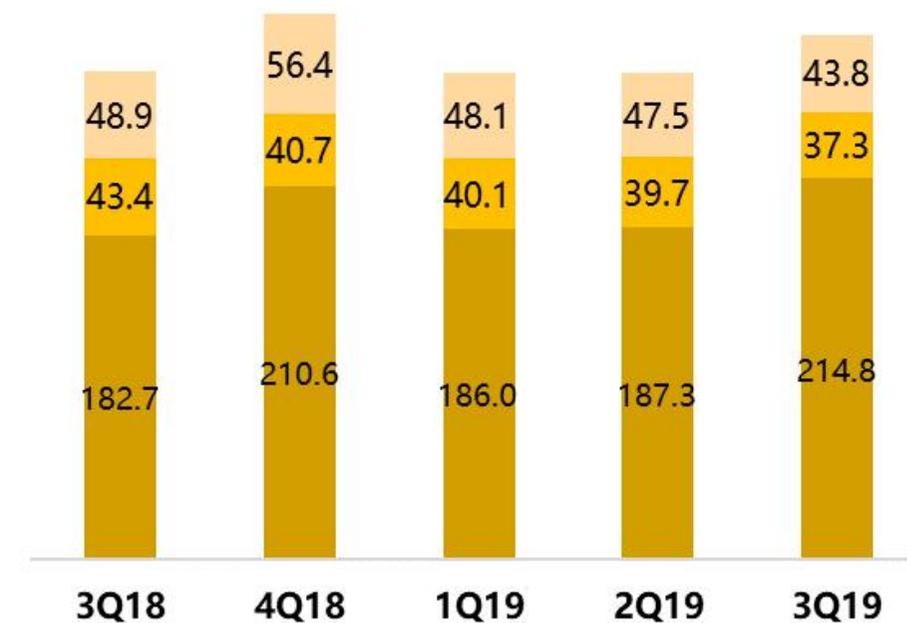
(RMB million)



- General and administrative
- Product development
- Sales and marketing

## Non-GAAP

(RMB million)



- General and administrative
- Product development
- Sales and marketing

# Operating Income (Loss)



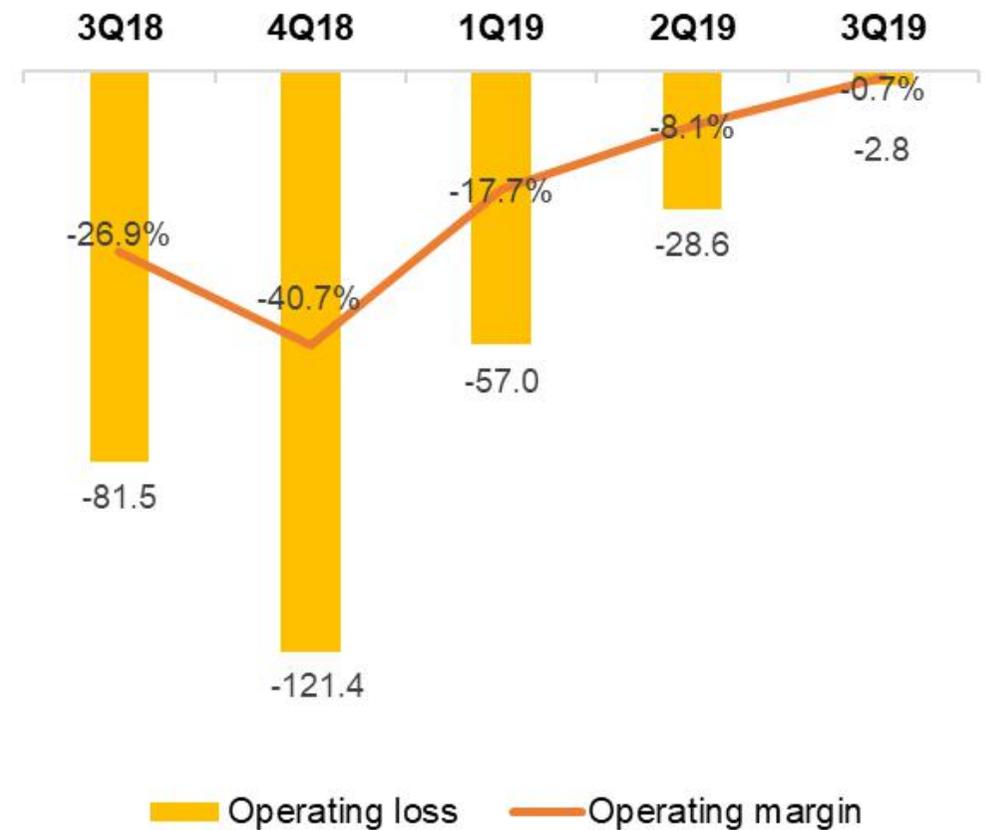
## GAAP

(RMB million)



## Non-GAAP

(RMB million)

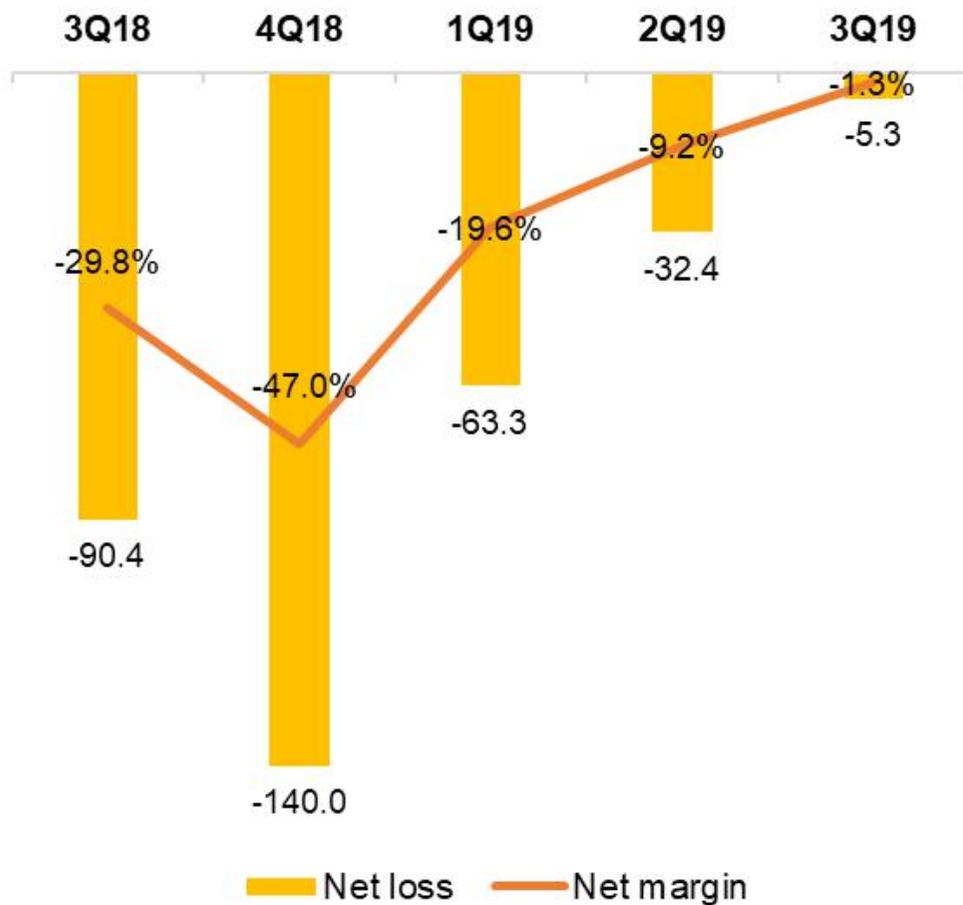


# Net Income (Loss)



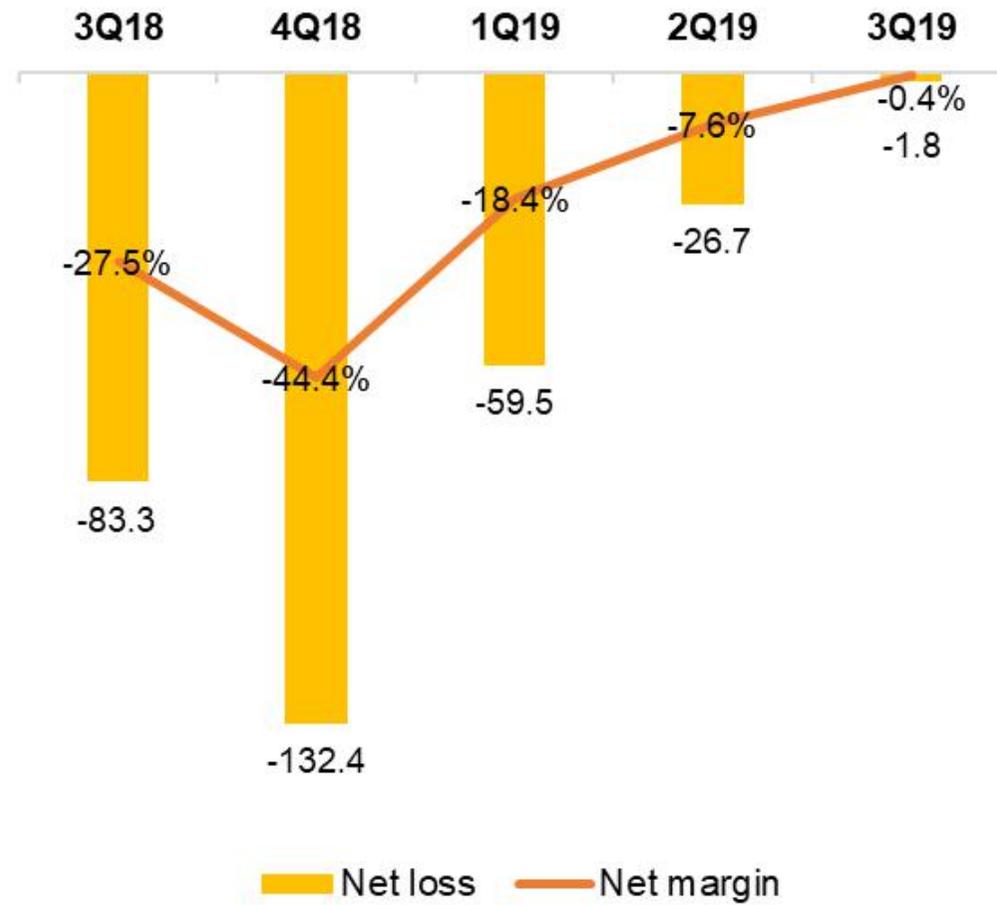
## GAAP

(RMB million)



## Non-GAAP

(RMB million)

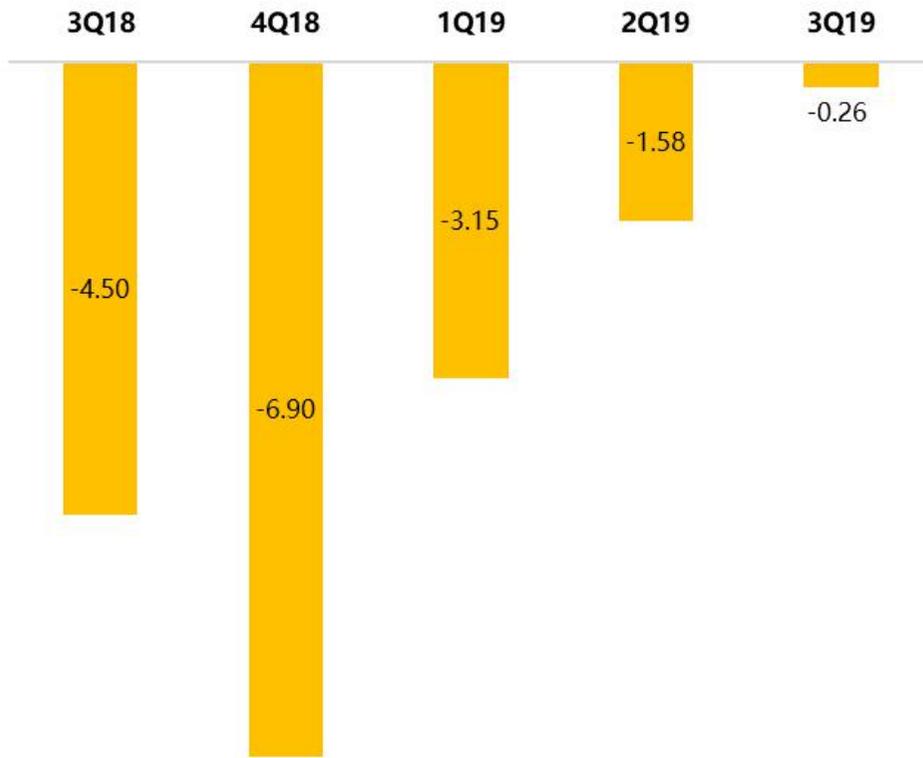


# Net Income (Loss) per ADS



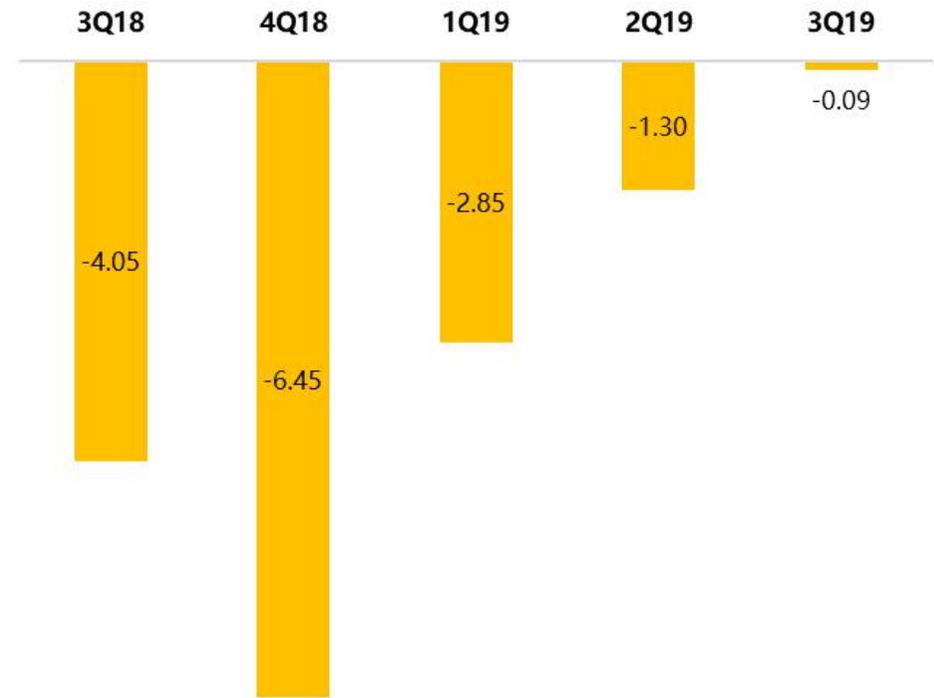
## GAAP

(RMB)



## Non-GAAP

(RMB)

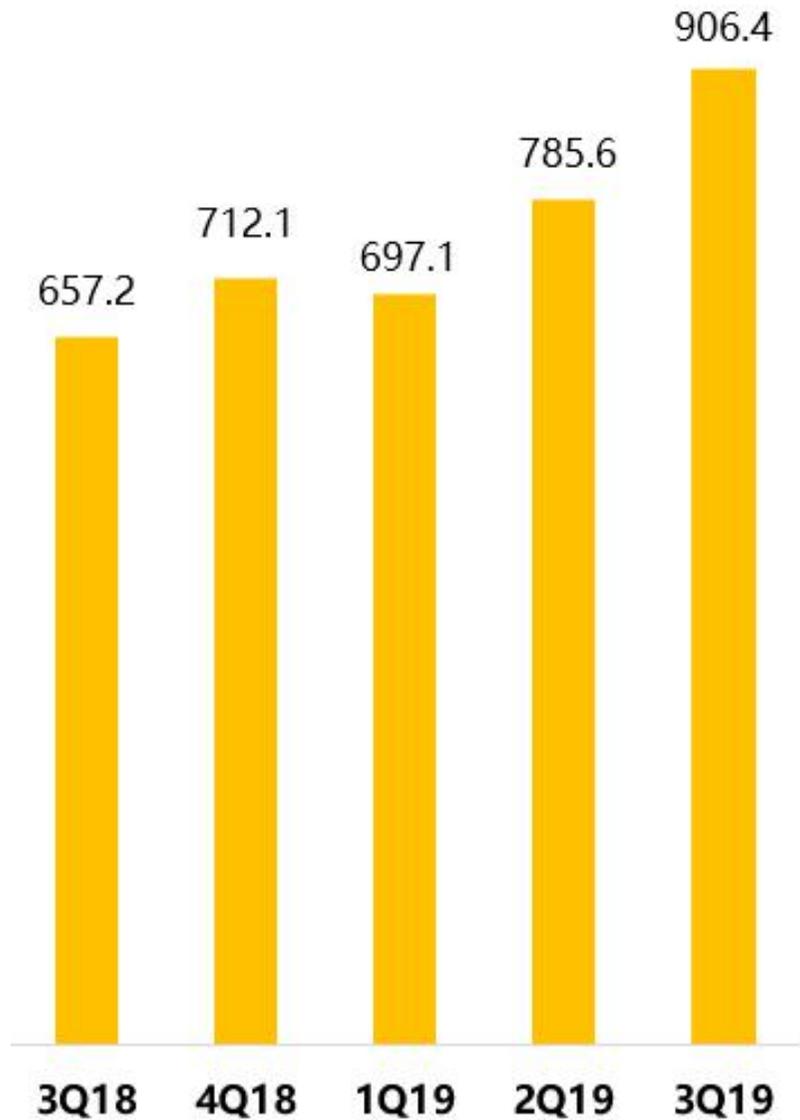


# Cash Balance and Operating Cash Flow



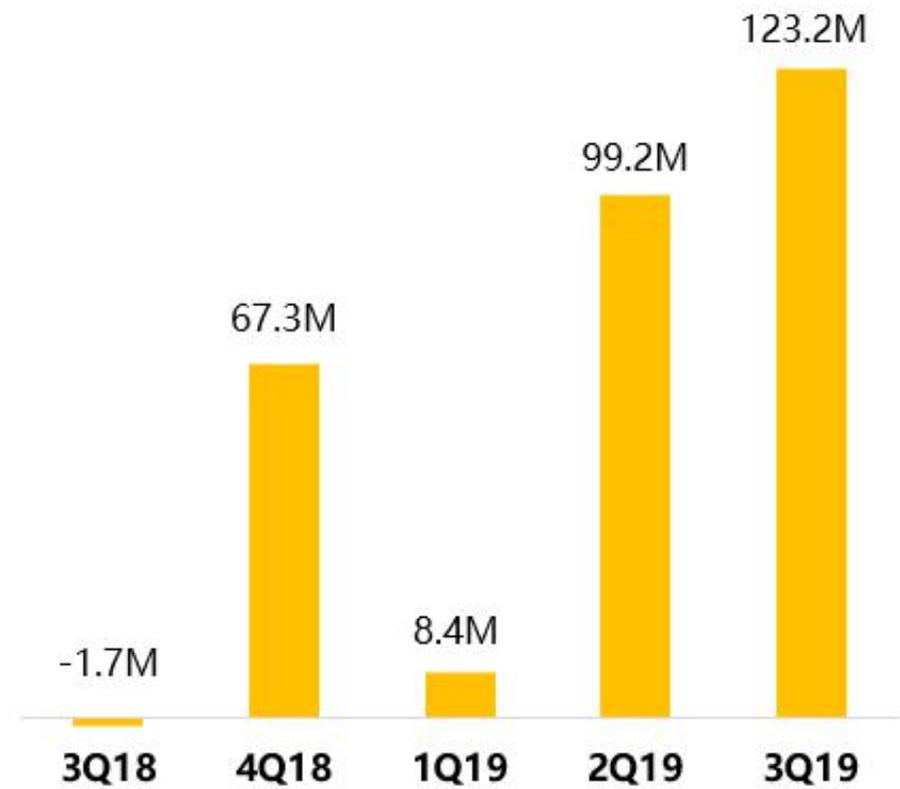
## Cash and cash equivalents, Time Deposit and Short-term Investments

(RMB million)



## Operating Cash Flow

(RMB million)



(RMB million)

	<b>4Q 2018</b>	<b>3Q 2019</b>	<b>4Q 2019 Outlook</b>	<b>Y/Y Growth</b>
<b>Net Revenues</b>	<b>298.1</b>	<b>409.2</b>	<b>385-390</b>	<b>29.2%~30.8%</b>