GSX Techedu Inc.
Third Quarter 2019 Financial Results
Tuesday, November 5, 2019 08:00 AM ET

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the GSX Techedu Third Quarter 2019 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded on Tuesday, the 5th of November of 2019.

I would now like to hand the conference over to your first speaker today, Ms. Sandy Qin, IR Senior Manager of GSX. Thank you. Please go ahead.

Sandy Qin

Thank you, operator. Hello, everyone, and thank you for joining us today. GSX's earnings release was distributed earlier today, and is available on the Company's Investor Relations website.

On the call with me today are Mr. Larry Chen, GSX's Founder, Chairman and Chief Executive Officer, and Ms. Shannon Shen, Chief Financial Officer. Larry will give a general overview, and then Shannon will discuss the financials.

Following the prepared remarks, Larry and Shannon will be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict, and many of which are beyond the Company's control, and may cause the Company's actual results, performance or achievements to differ materially.

Further information regarding these and other risks, uncertainties or factors is included in the Company's filings with the SEC. The Company does not undertake any obligation to update any forward-looking statements except as required under applicable law.

It is now my pleasure to introduce Larry. Larry, please go ahead.

Larry Chen

Thank you, Sandy, and thank you all for joining us for our third quarter earnings call. GSX had another great quarter with exponential growth, demonstrating our superior teaching quality and excellent learning results. We leveraged speed, efficiency and effectiveness in insurmountable competitive advantage.

We are fully committed to productivity improvements and take sustained massive action immediately. We make, unrelenting efforts to invest in all areas of content development and technology. We will continue to invest strategically and smartly in our customer acquisition and R&D in 2019 and 2020. We are determined to achieve a speed for the shorter learning curve. All that we have been doing contributes to even greater engagement with our students and parents.

We are proud to see our net operating cash flow for the third quarter to reach approximately 287.8 million RMB; our cash and cash equivalents and short-term investments and long-term investments to reach more than 2.1 billion RMB; our non-GAAP net income reached 20.1 million RMB. And we will continue to have our -- and we remain focused on our strategy to reap financial rewards.

This quarter, I have several thoughts to share with you guys. The first point I want to say is that GSX only does the one thing; GSX is laser-focused on the online live large class education. To perfectly fulfill this sole task, we have smoothly integrated all functions, including traffic acquisition, sales and marketing, instructors and tutors, live broadcasting, content development, and data analysis etc.

For any outperforming company, there are always several key factors, or mostly 6 key factors, to determine its effectiveness and efficiency, and build up its competitive advantage and economic moat. The outperforming company has always been in pursuit of the better performance in each factor.

If each loop of this value chain outperforms the industry average by 3%, the exponential effect will drive our overall performance to beat the industry average by 19%. Then you guys might ask, what if others follow? Let's say a newcomer just copies each loop, but they can only do each loop 90% as well as the leader. Then the 6 loops combined together can drive its performance to be only 53% as good as the leader's. GSX is just like a 5-year-old child; we stay humble, we stay focused, we stay foolish, we stay hungry, we stay dedicated to our commitment as just on Day One.

The second point I want to reiterate is the importance of operating cash flow. If you want to measure the operating efficiency of an online live large-class education company, especially for the summer quarter, we believe that operating cash flow is one of the key indicators.

Many investors keep a close eye on the summer's promotional war. They monitor the customer acquisition costs, conversion rates and ROI. And they ask about the enrollments for entrance courses, regular courses, and retention rates. But please keep in mind, not every company discloses comprehensive datasets, nor are their calculation methods comparable.

As such, we believe operating cash flow really reveals the true performance of each company for the summer quarter. Over the past 3 years, we prioritized effective growth. We featured profitable growth. We gauged each dollar of investment to make sure it first makes sense in terms of unit economics. And that is why, even amid a fierce competition over the summer, we were still able to achieve a quarterly net operating cash flow of 287.8 million RMB.

The third thing I want to point out that offline K-12 providers usually see the highest gross billings and operating profit during school breaks, and that is between June and August, as well as between December and February.

But online education providers are totally different. For online K-12 courses providers, they usually report low or even negative operating margin for the periods that overlap with the school breaks, especially Q2 and Q3 lasting from April to September.

But the flip side is they tend to report higher operating margins during the Q4 and Q1, since those periods overlap with more of the school year. The reason is that they generally incur heavy sales and marketing investments from late May to August, as by that time, they need to attract enrollments for their summer entrance and promotional courses.

For GSX, the summer sales and marketing expenses then pay off in the upcoming quarters, as we see a spike in gross billings in Q3, and then higher revenue in Q4. I also want to add that, because the fall enrollments carry over, in Q4, we usually see a big quarter for retention, and that will turn into higher gross billings in Q4 and higher revenue in Q1 in 2020.

We will continue to invest heavily in the best instructors. We will constantly invest heavily in content development and differentiated course offerings. We will keep investing heavily in proprietary technologies. Thanks to our 5 years' accumulation in technologies, we have stood out in live broadcasting, big data analysis, artificial intelligence and internal operating system.

As for instructor cultivating system and content development, we have been endeavoring to recruit the best talent. We have been dedicated to choose the most trustworthy partners. We have been swearing to deliver the most effective learning experience to students and parents. That is our culture and value. Our success has always been all about customer success.

Now, I will hand the call over to Shannon, our CFO, to walk you guys through the details of our financial and operating results.

Shannon Shen

Thanks, Larry, and thank you, everyone, for joining the call. I will now walk you through our operating and financial results, and end with how we build up the coming quarters. Please note that all financial data I talk about will be presented in RMB terms.

I am pleased to report that we saw continued momentum across all of our key operating metrics, which drove the strong financial performance during the third quarter. The top line far beat our guidance. Moreover, we managed to deliver our 6th consecutive quarter of non-GAAP profitability in a highly competitive market, thanks to our successful summer campaign, and effective growth strategy focus.

The third quarter net revenue increased 462% from the same period of 2018.

Since 2018 Q4, we have maintained over 4 times growth for 4 consecutive quarters, thanks to solid accumulation in both education experience and technology resource in the past years.

Our gross billings, a non-GAAP metric that drives revenues, increased by 420% year-over-year to RMB 880 million, mainly due to increasing student enrollments that were driven by our outstanding summer promotion efforts.

Total enrollments, which refers to enrollments to courses priced above RMB 9.9 yuan, hit a record high of 820,000, which was 3.4 times that of the same period of 2018. Paid enrollments, which refers to enrollments priced above RMB 99 yuan, increased to 538,000, or 3.7 times that of the same period of 2018.

Please note that during the summer, we provided 3 different types of promotion classes. First is RMB 49 yuan entrance level classes. The second is RMB 9 yuan promotion classes, and the third is courses totally for free, within which only 49-yuan classes were counted as part of total enrollments.

This year, we have achieved a significant number of enrollments into our summer promotional courses. We set our sights on becoming the market leader, given the current high speed and healthy growth.

Now let's break down our revenue streams by business lines.

Net revenue from our K-12 courses increased by 526% year-over-year to RMB 459 million, and accounted for 82% of net revenues. The net revenue contribution from K-12 courses has increased for 5 consecutive quarters, and will continue to be our main source of revenue going forward. The revenue increase was primarily driven by increase in paid course enrollments and K-12 students' tuition fees.

Gross billings contributed by K-12 courses rose by 470% year-over-year to RMB 745 million.

Paid course enrollments for K-12 after-school tutoring business increased by 368% year-over-year to 477,000, growing at a much higher speed compared to the other segments. This demonstrates our superior teaching quality is being recognized by both parents and students.

Average enrollments per class further increased from 1,200 in the second quarter in 2019, to around 1,400 in the third quarter. ASP also increased year-over-year, partially contributed by new types of courses development, such as critical thinking.

Net revenue from our foreign language, professional and interest courses was up by 390% to RMB 91 million, and accounted for 16% of net revenues. This significant year-over-year increase was primarily because we constantly optimized our course catalog and promoted highly qualified teachers, all of which helped to increase paid course enrollments, as well as the ASP.

Gross billings contributed by foreign language, professional and interest courses were up by 304% year-over-year to RMB 124 million.

Paid course enrollments for our foreign language, professional and interest courses increased by 191% year-over-year to 61,000. Leveraging our know-how with online live large class education, we will further expand into this large industry segment.

We did an impressive job in this summer campaign, and saw our conversion rate and word-of-mouth referrals keep improving. As a result, our core business has grown rapidly.

We've also benefited from the strong and rising demand for online education. At the same time, we've managed to achieve and retain profitable growth by improving our ability to control costs and operating expenses.

Our cost of revenues increased by 317% year-over-year to RMB 157 million, up from RMB 38 million in the third quarter of 2018. The rise was primarily due to our increased recruitment of teaching staff, including both instructors and tutors, as we expand our business operations to support the rapid growth.

We expect our cost of revenues to increase in absolute amounts in the foreseeable future, as we serve more students and offer more courses. But the proportion of instructors' compensation will decrease due to economics of scale. Therefore, we do see an upside for our gross margin going forward.

Non-GAAP gross margin, which includes share-based compensation, increased to 73%, up from 62% in the same period of 2018.

We are able to pay our teachers incremental compensation, while still enjoying greater operating leverage. The competitive compensation that we provide, a byproduct of our scalable business model, ensures that we can effectively execute when teaching larger class. And it also improves instructors' retention, which then of course also benefits our students in the end.

Before we turn to the sales and marketing expenses, I want to reiterate the seasonality of online K-12 business. We had always followed our own pace and that helps us outperform. As I highlighted last quarter, summer marketing campaign requires heavily investments in sales and marketing expenses. Also the actual revenue benefits will not surface until the next quarter. As a result, this quarter's operating margin was lower compared to the full fiscal year's margins.

Yet, due to the jumping enrollments we saw from the summer promotion, we are very positive that the fourth quarter will be quite strong in both top and bottom lines. So the entire year will reward us with a continued high-speed growth, compared to last year.

Selling expenses increased to RMB 330 million, up from RMB 31 million in the third quarter of 2018. The increase was primarily a result of more marketing expenses, especially for the summer campaign, to attract new students and expand market share, and for brand enhancement.

Research and development expenses increased by 186% year-over-year to RMB 57 million. We constantly work on ways to apply the latest technology to improve the learning experience. For example, we added animations and interactive designs into our live stream courses to increase the engagement of students. We've also updated our course materials to stay abreast of the latest educational trends in their respective subjects.

As mentioned last quarter, given that our revenue growth rate still outpaces our R&D spending, we believe we can still expand our operating leverage despite the incremental investment in research and development.

G&A expenses increased by 123% to RMB 24 million, mainly due to an increase in G&A headcount, and an increase in related compensation.

Non-GAAP income from operations, which excludes share-based compensation, increased to RMB 7 million from RMB 0.4 million in the same period of 2018. Non-GAAP net income increased to RMB 20 million in the third quarter.

Thanks to our strong organizational capabilities and operational efficiency, we have been profitable for consecutive 6 quarters since the second quarter of 2018 from a non-GAAP perspective. We are one of the few, if not the only, leading players in the market that have achieved sustained profitability. In the future, we will continue to execute our pricing strategy, well-proven market strategy, and provide students with a best-in-class learning experience.

Net operating cash flow for the third quarter of 2019 was approximately RMB 288 million, up 380% year-over-year from net operating cash flow of RMB 60 million for the same quarter of last year. This demonstrates our strong organizational capability in balancing investment and returns this summer.

Now, let's take a look at our key financials on the balance sheet.

As of September 30, 2019, we had RMB 32 million of cash and cash equivalents and around RMB 1 billion of short-term investments. The decrease of the balance from June 30, 2019 was primarily due to the purchase of a medium term note from Citibank, classified as long-term investment of RMB 1 billion during the 3 months ended September 30, 2019. We are highly confident that in our operating cash flow, therefore investing in assets that have a higher return and with low risks.

As of September 30, 2019, our deferred revenue balance was RMB 778 million. Deferred revenue primarily consists of the tuition collected in advance.

With that, I will now provide our business outlook. Based on our current estimate, net revenues from the fourth quarter of 2019 are expected to be between RMB 806 million and RMB 826 million, representing a projected increase of 343% to 354% on a year-over-year basis. These estimates reflect the Company's current expectations, which are subject to change.

Going forward, we will continue to increase our investments in teacher training, technology development and our ongoing marketing efforts. We believe our continued investment in marketing and steadily improving organizational efficiency will help us achieve far higher-than-industry average growth this year and next year.

That concludes my prepared remarks. Operator, we are now ready to take questions. Thanks.

Questions and Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions). The first question is from the line of Alex Xie from Credit Suisse. Please go ahead.

Alex Xie

Hi Larry and Shannon, Congratulations on very strong results. I have 3 questions. Firstly, what is your view on the outlook of customer acquisition costs in 2020, amid intensified competition in this industry? And secondly, what is the trend of the contribution of top 10 teachers in your platform? And how is your progress in terms of introducing new teachers to your platform?

Thirdly, in the primary school segments, I believe you're investing more after IPO. What's the progress in the primary school segments in terms of enrollment and revenue contribution?

Shannon Shen

Thanks, Alex. Your first question is about customer acquisition costs. So customer acquisition costs will increase steadily, but for us, for GSX, we believe we can have a relatively lower customer acquisition cost, thanks to our strong operating efficiency and organizational capability. So in the past, especially after the IPO, we saw quite a few articles started talking about our marketing costs, and tried to figure out why we can maintain our customer acquisition costs at such a low level.

But actually, the truth is, there's no secret ingredient. So although we are an online education company, and technology is the foundation, but in essence, it's still education. And education itself is all about connections; it's all about intimacy; it's all about love.

So holding that philosophy, we always believe that as long as we can provide a very good service to every parent and student, we can treat them well, then we can provide each class with a higher quality. And we can address to their concerns on a timely basis and give them answers to their questions, so they're satisfactory, then they will stay with us as long as possible. Then that can be a considerably amount of time, and the value contributed by them will far exceed the customer acquisition costs.

So looking back to the past 9 months, from the non-GAAP perspective, our total sales and marketing expenses was around RMB 595 million. If the number is divided by the 1.09 million paid course enrollments, that basically gives us a number of around 545 RMB yuan. That's the weighted average customer acquisition cost, and we can see the number is fairly low, especially considering like the coming Q4 will be the largest retention season, then we do see the weighted average customer acquisition cost to further decline.

So this low customer acquisition cost is contributed by a combination of high sales conversion rate, a high retention rate, a high cross-selling rate, as well as a high word-of-mouth referral rate.

So for us to maintain the cost to such a low level, require us to not only be efficient on the overall operations, but also we need to put emphasis -- and always put emphasis on improve our teaching quality, and to provide -- to elevate the service quality. So but thanks to our other past experience, we have been practicing all these kind of activities and motions, since we started in this business in 2016.

So we are quite confident that even in the future, and when the competition is intensifying, we can still keep our customer acquisition costs at the low end of the spectrum across the whole industry.

And your second question is about the top 10 instructors' concentration. So in Q3, the top 10 teacher contributed about 34.6% of our total revenue. This number is -- decreased 1,200 basis points from 2018. So on our prospectus, we disclosed in 2018 and the first quarter in 2019, top 10 teacher basically contributed around 46% to 47% of our total revenue. So basically, there's a story behind this number.

By the end of 2018, although on the prospectus, we disclosed we have 163 instructors, but you know when we grow very fast, we recruit quite a few teachers in the second half in 2018. And all those teachers are still under the training process because we stick to the bottom line that all the teachers need to be trained sufficiently before they can deliver a sophisticated class. So actually in 2018, there are only around like 50 of K-12 teachers are under full capacity, which means by the time nearly 20% of the teachers contributed over 40% of the net revenue. So we still see that structure is fairly healthy.

Then coming to this year, and as we always communicated with the market since our IPO, then we have trained enough good teachers and they become more sophisticated to handle a larger class. And with the new -- with the start of this new academical year, they started to teach a class with a larger size. So that's why we see this number fell a lot and we do see, in the future, this can be further lower.

And what's more, when they look at the details of these top-10 teachers, only 7 of them were related -- were teaching K-12 classes. And for this 7 teachers, they are evenly distributed on subjects and grades, so which means we are not rely heavily on one teacher on one subject. So we don't see that is a huge operational risk. And also with our sophisticated teacher training system, and with more qualified teachers getting on board, we do see that in the future, the ladder of the teaching faculty will be more healthy and sustainable.

So your third question is about the development of our primary school sector. So in general, all the sectors grew quickly in the past quarter, and especially for primary school, they grow the fastest. In the past Q3, the revenue growth rate for primary school was over 800%, which means it's basically as 9 times as the same time of last year. So right now, the revenue contributed by primary school is catching up very quickly and getting close to the high school segment.

So in the future, we do see primary school is our future focus. It's not only because there are 6 grades, and it has a larger population and a larger student base. But also we want to plant the brand image at an early stage; even though at this time, quite a few of the students, even though they were part of the promotion classes and they haven't signed up with us, because they may have some offline classes they need to finish. But we believe as long as our class is entertaining enough and informative enough, and the class, the quality, is very good, they will come back eventually.

And in the past summer, we have upgraded our curriculum and courses for primary school. We embedded all the interactive or designs in the course delivery. So we do receive very positive feedback from parents and students, and several parents -- some parents even told us that their kids, that they like their class so much, that they don't even want to go to the restroom until the class is over.

So we do see the satisfaction from this sector continue to rise, continue rising. So we are quite confident that in the future, across all the segments, that our revenue growth will be more healthy and sustainable.

I hope that addressed your question. Thanks.

Alex Xie

Thank you, very helpful.

Operator

The next question comes from the line of Gregory Zhao from Barclays. Please go ahead.

Gregory Zhao

Congratulations to the strong quarter. I also have 3 questions. The first one is about online/offline competition. So just want to understand how you're thinking about the online/offline K12 tutoring market’s current competition. And considering your fast growth, how many of the students, or what percentage of the new enrollments, do you think were taken from offline?

So my second question is about your margin. So you reported strong gross billing and deferred revenue in this quarter. So assuming most of the gross billing and deferred revenue would be booked in the next couple of quarters, how shall we think about the contribution to your operating margins in Q4 and Q1 next year, especially considering the marketing campaign is slowing down?

And the last one, also I want to understand a little bit more about your teacher recruitment and teachers' compensation structure. So we know this space is quite competitive, so especially in the past summer. So given the high quality of your content and the teacher quality, so we won't be surprised if the competitors want to undermine some of your top-ranking teachers. So want to understand your strategy to cope with the competition, and how do you compensate your teachers to satisfy their demand? Thank you.

Larry Chen

Thanks, Greg. As for online versus offline competition for K12, what I want to share is just as follows. Number one, online education market grows much faster than offline education market.

As you know, in the past 9 months, GSX net revenue increased 448.7% year-over-year, which is unimaginable for the offline peers. Number two is you know, many online education companies had finished their successful IPO; many private online education companies had finished the financing from VCs. And also policies from the government come to encourage the online education development. All this just forms a good habit for the students, and the students and parents are waiting to take online courses more and more. And all those help to lever to the online market to grow much faster.

Number three is the essence of the education is about love. The best teachers know how to love the students and how to engage students to know what is love and how to love. And there's a reason why we need the best instructors, or the best teachers. But for offline education companies, one teacher just teaches 20 students in one class, and he or she may teach 5 different classes in one same time. So let's say he or she can teach 100 students in a certain period.

But for online education companies, an instructor can teach 2,000 or 3,000 students at the same time, and this will say just 100 times efficiency than the offline model. And our mission is that technology makes education better, and by leveraging technology, we can just increase the efficiency and effectiveness of our service.

Number four is with our successful IPO, more and more top teachers from the offline institutions joined us, and we believe that in the next few years, more and more outstanding teachers will come to compete for the top instructors of the online larger class after-school tutoring institution.

Number five is what is the eternal unchanged. We believe that the eternal unchanged for education is to have the best instructors, the most qualified tutors, the best learning results, the best learning experience, and the best engagement. And you know, just as an online education company, we deliver speed, efficiency and effectiveness, and we leverage technology. And we can duplicate the best practice much faster. All those guarantee the results.

Shannon Shen

Right. Adding to Larry's point, so the reason we do a large class, the profound thinking behind that is all about the highest teaching quality. We believe that leveraging the technology online can leverage all the best teaching quality that has the exposure to more parents and students. Then that will also help with the fairness of education because online is more flexible; the online learning is more flexible, more affordable, to a lot of parents and students.

And actually, things around us move quickly because we are facing all the parents and students on a daily basis. We get -- we can feel that how much they impress the online education because actually, the class itself is very entertaining, and frankly speaking, the product is still at the early stage. We believe with the development of technology, the online learning experience can be very close to the -- even for offline like small classes. And that's why we do see online education has a promising future.

And your second question is about our guidance on Q4's OP margin and 2020. So for Q4, we expect the OP margin to be around 20%, and that is the highest among the year. So as we have been communicating in last quarter, and as Larry just mentioned, so the seasonality of OP margin for online education company is completely different from offline. So for offline, usually, the summer season and the winter season will -- the OP margin will be the highest, because during that time, the utilization rate of the classroom will be higher.

But for online, especially for large class, in Q3 and Q2, these are the seasons we invest in heavily in sales and marketing expenses. When it comes to Q4, all the classes will be regular-priced classes and leveraging the very solid foundation student base in Q2, or in Q3, we do see a boost in the concurrent enrollment in Q4. And usually, in the fourth quarter, the marketing activity will be less intense.

So we do have the confidence that in the Q4, the OP margin will be around 20%. And going forward to fiscal year 2020, we expect the OP margin to be largely in line with 2019. Although we'll still make improvements, let me quote Larry’s notion, this year's best performance should be next year's lowest standard, and that's our operating philosophy.

So the key factor to impact the OP margin will be our investment in our sales and marketing expenses. So look at our financial structure, the GP margin in Q3 from the non-GAAP perspective, it was up to 72.8%. And going to Q4, we still see there is room to increase that number because we still see the economics of scale in our large-class format. And we still enjoy the operating leverage of R&D expenses and the G&A expenses as well because our revenue grow at like 400%. So that means we have larger room to invest in our sales and marketing.

Take a step back and look at the Q3 numbers, our gross billings in Q3 was around 880 million, and the non-GAAP sales and marketing expenses was around 330 million. So let's do a quick math. We basically gave back an ROI at around 2.68; that's a fairly large number. That gave us the confidence that we should invest in sales and marketing today than tomorrow. So that -- still we have confidence in Q4's margin and even going forward in 2020.

So your next question is about teachers' recruitment and the compensation structure. So the compensation structure for our instructors consists of 3 parts: the base salary, the performance-based salary, and also we provide a share-based compensation to our instructors. And we -- our operating philosophy is to provide the highest compensation to our staff, especially for those employees that face our customers on a daily basis.

It's not only about our instructors; it's also about our tutors, our salespeople. We want to provide the highest compensation to them. That's all based on our high operating efficiency. And so we still see like the compensation we provided to our instructor is very competitive and attractive compared to other players in the space.

Frankly speaking, after our IPO, basically, not only the top 10, probably the top 30% of our instructors have been approached by other players. But none of our sophisticated teachers have left -- even when we were -- even since 2018, the key reason is not only because the compensation we provide to them, but also their passion in education. And they fit in the culture we provide and created.

So for the instructors, it's very important for them to feel that they -- even though they are very good, but talking about the online education, the service chain is quite long. It's from the traffic distribution and it also needs to have a sales conversion process and like the tutoring process and the retention process. So the instructor and the whole team work together to make a team. Then within our Company, the instructors, they all feel very comfortable and they enjoy working with their current team. That's another key reason they don't want to leave.

And also, as a public company, all of our data are very transparent. All the instructors, they compare our data to maybe other companies' and we are the only -- probably not only, but very few companies that can be profitable at this scale. And they do see we're in a fast-growing path, that they do have confidence in our company. So that's the reason they don't leave. So even though in the future, when the competition is intensifying, we still -- we are quite confident with the retention of our instructors.

Also, we do have the ability, and which is also the biggest breakthrough for us this year, is we improved our teachers' training system. Now we provided sophisticated and systematic training to our teachers, that we can make sure the recruitment and training to our teachers that can match the expansion of our business.

I hope that addressed your question. Thanks.

Gregory Zhao

Thank you very much, very helpful.

Operator

The next question comes from Jeffrey Chen with CLSA. Please go ahead.

Jeffrey Chen

Hello management, thank you for taking my question and congratulations on the very strong results in Q3. I have 2 questions to ask. The first one is we see that the interest income in Quarter 3 is around 3.3 million. And how do you see about the full year of the interest income?

And my second question is what is the city exposure now? How many percent of enrollment in each tier of cities and any change in coming quarters? Do you see any high penetration rates in the coming few quarters?

Shannon Shen

Thanks, Jeffrey. The first question is about interest income, yes, this quarter, the interest income is around 3.3 million in RMB terms. Compared to the cash related assets, it's already 2.1 billion. That number is fairly low, but it's all about accounting treatment. So we purchased, some of the short-term investment, as well as the long-term investment, all wealth management assets. Before they expires, all the unrealized gains and losses are recorded in OCI other than P&L. So they will be recognized as interest income when they expires. So that's why we see the interest income in this quarter is low. But in the future, they will all be realized in the P&L.

And the second question is about the enrollment distribution in geography, right? So our K12 enrollments contributed by first-tier cities, new first-tier cities, and second-tier cities, were around 48%, and the lower-tier cities contributed around 52%. So compared to previous quarter, the lower-tier cities' contribution increased 1%. So we do see our penetration rate in the third-tier and the fourth-tier cities grow quickly. That means we have a better compensation advantage in these tier cities. But one thing I want to put a little color on is in the past quarter, Beijing actually became the largest enrollment contribution city, and so that means we are generally accepted, or well accepted, by key opinion leaders even in the higher-tier cities.

We've talked to a few of the parents in Beijing and Shanghai. Actually, they were very sophisticated and very familiar with the curriculum. They take a lot of notes and make comparisons between us and some offline institutions, and even some compare us with other online institutions. And from their very detailed notes, they kind of like iterate a lot of the advantages we have; for instance, the high teaching quality, the experience, the teachers. Then that's the reason they choose us. So in the future, we are very confident that these geography-wide enrollments can grow healthily and very in a sustainable way.

Jeffrey Chen

Thank you.

Operator

In the interest of time, we will now conclude our question-and-answers. I would now like to turn the conference back over to Ms. Sandy Qin for any closing comments. Thank you.

Sandy Qin

Okay. Thank you, operator, and thank you, everyone, for joining the call today. If you have any further questions, please don't hesitate to contact us or the company directly. Thank you very much.

Unknown Speaker

This concludes the call.

Operator

The conference has now concluded. Thank you for attending today's presentation.