GSX Techedu Inc.
Fourth Quarter and Fiscal Year 2019 Financial Results
Tuesday, February 18, 2020 08:00 AM ET

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the GSX Techedu Fourth Quarter and Fiscal Year 2019 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded on Tuesday, the 18th of February of 2020.

I would 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 earnings release was distributed earlier today, and is available on the Company's IR website.

On the call with me today are Mr. Larry Chen, GSX 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. Good evening and good morning to you all. Thank you all for joining us for our fourth quarter and fiscal year 2019 earnings call.

As I mentioned during our last earnings call, operating cash flow is an essential indicator to measure the summer performance of online education companies. Actually, it is also a key metric to measure the performance throughout the entire year. In the fourth quarter, our net operating cash flow reached RMB 739 million, which is almost 5 times compared to the same period last year. For the full year 2019, our net operating cash flow has reached RMB 1.29 billion, over 5 times compared to last year.

As of December 31, 2019, we have combined cash balances of RMB 2.74 billion, including cash, short-term investments and long-term wealth management products. In December, we repurchased around 627,000 ADS, equivalent to RMB 87 million Yuan. Excluding the impact of stock repurchases, our cash balances were RMB 2.83 billion. That marks a significant increase from RMB 236 million at the beginning of 2019.

With our business continuing to generate ample cash, our net operating cash flow continues to be positive. As such, despite that many investors have suggested we do another follow-on offering while market sentiment is bullish, we have no plans to do so. We firmly believe that by nature, education companies should not burn cash to grow to scale, but should spare no effort in serving every student and parent to their satisfaction.

Investors often ask us: what on earth are GSX's distinctive advantages? My answer is always focus. As you all know, what makes GSX stand out is our focus on online live large classes. In the past year, I consistently underlined the importance of focus, focus, focus to all our employees. Thanks to this focus strategy, we always think bigger and dig deeper on every step we take. When others think of version 1, we have already reached version 1.1; when others reach version 1.1, we have already thought out version 1.1.1.

As I have always emphasized, if at each loop of the value chain, we outperform the industry average by 3%, the exponential effect would be astonishing.

Many investors also ask for my opinion on business models that incorporate large classes, small classes and one-on-one classes. I believe this strategy is like, in a forest, chasing three rabbits in a forest simultaneously. Which one can catch up? Throughout GSX's history, we have gone through periods where we were chasing too many rabbits, where we have experienced a painful downturn. In this sense, we were the earliest among all the leading online education companies to focus on the one thing, focus on one core business, the online large live classes.

What's more, we began implementing this focus strategy while we were still very small in size. If GSX's organizational capability you are seeing now is impressive, that is because we began building out the underlying structure and systems very long ago. Just like my favorite example, if a girl begins stretching her legs at the age of 2, she will be very flexible by the time she turns 18; but if a girl has never stretched her legs before, it will be very painful to suddenly begin doing so at 18.

People keep asking what is GSX's moat? What happens if peers quickly copy GSX's business model? Let me tell you, the key question is, all the major players in the online education industry in China are already large in size, like somehow 18-year-old girl. If you ask them to suddenly stretch their legs, without years of practice, it's painful, it takes time.

If you say, look, GSX does a pretty good job today, I'd like to reiterate that GSX doesn't have a secret sauce; we are simply focused on the one thing, just focused on the one single dedicatedly, earnestly and steadfastly. And that makes us an amazingly collaboratively organization today.

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. First and foremost, I'd like to share some updates on the evolving situation with the coronavirus outbreak in China, and how we have been adapting our business to this new environment. Our hearts are with those who suffered. We appreciate the work many companies are doing to keep the country running.

With that in mind, as a significant player in the online education industry, we instantly rolled out initiatives to support students during this time. Our K-12 brands, Genshuixue and Gaotu Ketang, have donated RMB 20 million worth of regular priced courses with fully devoted tutors providing not just study services, but also emotional support.

Our Weishi team has opened its live broadcasting system to offline education institutions and public schools for free, assisting them moving courses from offline to online. Over 80,000 new accounts were open during the outbreak. Our Chengxi team is providing free training to help offline institutions transit to online courses, serving over 6,000 offline institutions.

We also have launched free courses staffed with our best instructors, on national wide platforms like Xuexiqiangguo, Xinhua News Agency, Xinhuanet, CCTV.com, people.cn and media apps including Jinri Toutiao, Bilibili, Tencent and Sina, etc., to ensure the seamless delivery of high-quality education.

Right after the coronavirus broke out, we reacted instantly with an action plan, and our team worked for days and nights to successfully secure the seamless delivery of our education services. The whole company was well organized.

We also operate an R&D center in Wuhan, together with a small tutor group, whose health and safety are what we care about the most now. Some of these tutors volunteered to serve the donated courses for Wuhan. What they and their students experienced through all these difficult times would bring their hearts together.

And to all of our employees in Wuhan and Hubei, we will do everything we can to support you. Please hold up and stay safe. We look forward to seeing you when spring comes.

Now, I will walk you through our operating and financial results, and conclude with how we build up the coming quarter. Please note all financial data I talk about will be presented in RMB terms.

First, I will briefly recap the financials for the fiscal year 2019. We reported net revenue of RMB 2.11 billion, representing a 432% increase from RMB 397 million in 2018.

Gross billings, the leading indicator for revenue, was RMB 3.36 billion, increasing by 413%

year-over-year from RMB 655 million last year.

Non-GAAP income increased to RMB 287 million in the year of 2019, up by 1021% from RMB 26 million in 2018. That takes our non-GAAP net income margin to a level of 14%, doubled than 6% last year.

We always believe that if a company cannot make profit on unit economics, then it's even more difficult to achieve profitability when the scale is larger without sacrificing the growing speed. Our style is always that firstly, we build up the optimized unit model, and then we scale up.

We have reported consecutively 5 quarters of top line growth of more than 400% year-over-year, 5 quarters of K-12 gross billing growth of more than 400% year-over-year, and 7 quarters of non-GAAP profitability by the end of 2019, which all attributed to our augmented organizational capabilities, effective execution of corporate strategy, and improving operational efficiency.

Next, let me go through the key financial points for the fourth quarter of 2019 in details. Revenue far beat the top end of our guidance, increasing 413 % year-over-year to RMB 935 million, thanks to solid accumulation in both education experience and technology resource in the past years.

Our gross billings increased by 396% year-over-year to RMB 1.58 billion, mainly due to increasing student enrollments from the summer and high-level retention in the fall. This lays solid foundation for our 2020 performance.

Total enrollments, which refer to enrollments to courses priced at or above RMB 9.9, hit a record high of 1.12 million, which was 3.9 times that of the same period of 2018. Paid enrollments, which refers to enrollments priced at or above RMB 99, increased to 1.1 million, or 4.4 times that of the same period of 2018.

In addition, we also provide promotional classes priced at RMB 9 or for free, which contributed a large amount of enrollments.

Let's break down our revenue streams by business lines. Net revenue from our K-12 courses increased by 468% year-over-year to RMB 773 million, and accounted for 83% of net revenues. The proportion of K-12 net revenue has increased for 6 consecutive quarters, and will continue to be our main source of revenue going forward.

Among K-12, I want to highlight our primary school business, whose revenue grew by 894% year-over-year in the fourth quarter. The revenue generated by primary school sector is not only increasing in absolute amount, but also accelerating in growth rate. We were able to achieve this because we've prioritized our primary school business as a strategic focus, and invested considerable time and resources in upgrading the course content and learning experience. We have seen stronger trust and brand recognition from students and parents.

Gross billings contributed by K-12 courses rose by 442% year-over-year to RMB 1.39 billion.

Paid course enrollments for K-12 increased by 410% year-over-year to 1 million, growing at a higher speed compared to other business lines.

Average enrollments per class further increased from 1,400 in the third quarter in 2019 to around 1,700 in the fourth quarter.

Net revenue from our foreign language, professional and interest was up by 310% year-over-year to RMB 150 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.

Gross billings contributed by foreign language, professional and interest course were up by 223% year-over-year to RMB 174 million.

Paid course enrollments for foreign language, professional and interest courses increased by 191% year-over-year to 91,000.

Leveraging our know-how with online live large class education, we will further expand into this large industry segment.

Our cost of revenues increased by 239% year-over-year to RMB 196 million. The year-over-year growth rate was less than that of revenue, primarily attributed to the economics of scale of large class business model.

Non-GAAP gross profit margin, which excludes share-based compensation, increased to 80%, up from 68% in the same period of 2018.

Selling expenses increased to RMB 442 million, up from RMB 58 million in the fourth quarter of 2018. The increase was primarily a result of more marketing expenses to attract new students, expand market share, and enhance brand awareness.

We did see the seasonality of marketing spending leading the percentage of selling expenses to total net revenues to significantly slip down to 47% from 59% in the previous quarter. We do not recommend comparing the year-over-year growth rate of sales and marketing expense in an isolated way. It should be linked to the growth of gross billings.

For this quarter, our ROI, which is gross billings divided by sales and marketing expenses, was as high as nearly 3.6, which provide a larger leverage to expand our business.

Research and development expenses increased by 215% year-over-year to RMB 84 million. We constantly work on ways to apply the latest technology to improve the learning experience. We will consistently invest in research and development, hire the most talented professionals, and enhance the operational efficiencies, leveraging technologies.

G&A expenses increased by 191% to RMB 46 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 by 572% year-over-year to RMB 191 million from RMB 28 million in the same period of 2018.

Interest income and realized gains from investments were RMB 10 million in the fourth quarter of 2019, up by 488% year-over-year, representing the interest we received from matured short-term investments.

To deploy our capital in an efficient way, we continued investing in wealth management products with low risks and high liquidity.

According to the Accounting Standards Codification Rule 320, 90% of short-term investment we held should be measured subsequently at fair value through other comprehensive income in balance sheets, other than interest income in P&L until they're realized. Once the investment is mature, the amount previously recorded in accumulated other comprehensive income in the “shareholders' deficit equity” section on balance sheets should be transferred to P&L and recognized as realized gains from investment.

In Q4 2019, except for the RMB 1.9 million interest income and RMB 8 million realized gains from investments, we still hold accrued interest related to short-term investment in accumulated other comprehensive income, indicating an annual return of approximately 4% from all our short-term investments combined.

The yield level was in line with the market average, and shows our strong capability of treasury management.

In terms of the long-term investment with Citibank, it is offshore, and 100% principal protected if held to maturity. Following the accounting standard, we record the fair value change based on an independent third-party report on a monthly basis. The return related to the Citibank note has no impact on profitability until it reaches maturity.

An offshore wealth management product's return is usually lower than onshore ones. According to Citibank, the note's price shown as a much lower return rate at the beginning of the holding period, and will gradually increase when near to the maturity.

Details will be displayed on our 20-F annual filing.

Non-GAAP net income increased by 617% year-over-year to RMB 198 million in the fourth quarter from RMB 28 million 1 year ago.

As of December 31, 2019, we had RMB 74 million of cash and cash equivalents, RMB 1.47 billion of short-term investments and RMB 1.19 billion of long-term wealth management investment.

As of December 31, 2019, our deferred revenue balance was RMB 1.34 billion. Deferred revenue primarily consists of the tuition collected in advance.

Net operating cash flow for the fourth quarter of 2019 was RMB 739 million, up 395% year-over-year from the net operating cash flow of RMB 149 million for the same quarter of 2018. This demonstrates our strong organizational capability in balancing investment and returns.

With that, I will now provide our business outlook. Based on our current estimate, net revenues for the first quarter of 2020 are expected to be between RMB 1,086 million and RMB 1,106 million, representing an increase of 304% to 311% on a year-over-year basis. These estimates reflect the Company's current expectations, which are subject to change.

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

Questions and Answers

Operator

Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). And the first question comes from Mark Li with Citi.

Mark Li

Hi Larry, Shannon and Sandy, Congratulations on the very strong results. I have two questions. One is you mentioned some of our measures for the unfortunate coronavirus incident. May I know a bit more, say, any color on online traffic that recently we see? And how is our system and R&D to take the peak traffic from the users? And how about our strategy for the future retention rate etc.?

And also, I want to know you mentioned our focus on cash flow, not cash burning. So how is our strategy for the upcoming spring semester online competition, any color on this?

Larry Chen

Thanks, Mark. This outbreak will significantly affect the Chinese economy. We are very concerned and closely monitoring the evolving situation. There is a saying that important events will change people's behavior, and the behavior change will further reshape people's habits.

Now we are seeing a lot of teaching and learning activities happening online. This will incredibly forge the people's habits of taking online courses. There were around 200 million primary and secondary school students in China. Let's assume the cost to transit one student from offline to online learning is around 1,000 yuan. We multiply that and get a total cost of 200 billion yuan.

At the same time, there are nearly 20 million teachers from primary and secondary schools, as well as afterschool tutoring institutions. Let's assume the cost to train and transit one tutor online is RMB 2,000 yuan. We multiply that and get RMB 40 billion yuan.

In short, the situation today, we'll save nearly RMB 240 billion in promotional expenses for the sector, and significantly accelerate the popularity of online courses.

Right after the coronavirus broke out, we instantly took actions, and thanks to our strong organizational capabilities, we have launched free live courses on multiple platform, and we have attracted nearly 15 million enrollments. However, in our view, the number of users doesn't equal to the number of customers. It can be fast to attract the users, but it takes much longer time to accumulate loyal customers.

The typical conversion process of free live courses is a user enrolls in the free live courses; then he chooses whether or not to enroll in the low-priced promotional courses. And next, he decides whether or not to enroll in the regular-priced courses. Since this process has one more step than converting from 9-yuan live courses directly, we think the conversion rate is definitely much, much lower.

And also, many will ask what about the competitive landscape? We always believe in our focus strategy. Our focus is always on the one thing, always on the customers, instead of competitors. We all firmly believe that as long as we serve our students and parents to their satisfaction as long as within the organization, we collaborate effectively and efficiently, tomorrow will always be better than today.

Shannon Shen

Right. And also adding to Larry's point, the registrations with us are variably spread on multiple channels such as H5 pages, Android, desktop, tablet, WeChat and iOS, and actually, iOS terminals accounted for the least of all those channels, only about a middle-single-digit or near a low-single-digit, especially for our paid course enrollments, we calculated the data based on our data on February the 10th.

So parents are less willing to pay for courses through iOS largely because the in-app purchase policy that the parents need to pay additional charges around 30%. So the parents don't want to take the burden. And also like Larry always says, we believe that users do not equal to customers. Customer has a higher loyalty and users may leave us quickly. So very likely, we are in the education industry and retention is the only thing that matters. Thanks, Mark.

Mark Li

Thank you, Larry and Shannon. And congratulations again.

Operator

Thank you. And the next question comes from Christine Cho with Goldman Sachs.

Christine Cho

Congratulations, Larry, Shannon and Sandy for excellent, good quarter. I have two quick questions. One, you mentioned that you kind of see a more competitive backdrop. Can you just elaborate a little bit more on your customer acquisition strategy going forward?

And secondly, I think we saw pretty good progress on the non-K-12 side as well, and I know, Shannon, you shared some details during the remarks. Can you just share with us some comments on how we should look at the going-forward outlook for this business as well? Thank you.

Shannon Shen

Thanks, Christine. Yes, as we mentioned during our last call, for the first 3 quarters of 2019, basically the weighted average customer acquisition cost per paid course enrollments was around

RMB 545. And we also mentioned that Q4 was usually the largest retention season, and we expect the number to be further declined in Q4.

So for Q4 alone, our CAC for each paid enrollments was around RMB 400, and it drives down the weighted average customer acquisition cost for the entire year to be around 470 yuan, which shows how a higher retention can lead to a lower customer acquisition cost. And we don't really differ from our peers in customer acquisition channels. We all rely on sales and marketing, also private platforms, that may distribute all those traffics.

In 2019, we acquired students from 4 types of courses. We have free courses, promotional courses, priced at around 9 yuan, and we also provided entry-level courses priced at 49 yuan, and regular cost is priced above 99 yuan, which we usually refer to Zheng Jia Ke.

In the past year, we have been disclosing the paid enrollments for courses priced at 49 yuan and above 99 yuan. But now we disclosed enrollments for 9 yuan and for free. We do this because the market is still in a very early stage, which makes it difficult to get which professional courses are the most effective ones. We don't want the information we deliver to be inconsistent.

So if counting all the enrollments together, our sales and marketing efficiency is actually really high. And please keep in mind that our sales and marketing spending is driving a top line increase of over 400%, especially for K-12 business, our gross billing was increased over 400% for 5 consecutive quarters in terms of the gross billing.

So our Company is actually very unique. If you look at -- it's not likely that a company grows as fast as us, they will be in a deficit position. We can be profitable only because we are very lucky that we are in the education industry. So as long as we can serve our customers, our students and parents to their satisfaction, they will stay with us for a quite a long time, and it's a perfect recurring business model. So that's why, going forward, we will still maintain our commitments to enhance our course quality and student services.

And as for the investment plans, we will make strategies based on our service capability. We won't be too conservative to lose market opportunity or too aggressive to burn the money.

And your second question is about our non-K-12 business. So yes, we do expect our non-K-12 business to continue to grow in the future. The reason is that our K-12 and non-K-12 business, they all share the same strong central system, which provide solid support on multiple dimensions; for instance, instructors' recruitment training, tutor recruitment training, research and technology support, live broadcasting technology. And they share the same data for our sales and marketing, etc.

So we are confident because as you can see, the non-K-12 business also grows really fast, which including language training required for college students, for adults to improve their language capabilities, as well as some courses we provide to our parents, that they can get along with their children very well. So in the long run, we always want to be their lifelong learning partners. Thanks, Christine.

Operator

Thank you. And the next question comes from Gregory Zhao with Barclays.

Gregory Zhao

Hi Chen Laoshi, Shannon, Sandy. Congratulations on the strong quarter. Thanks for taking my question and best wishes during the special period. I have two questions. The first one, we see very healthy margin expansion in both gross margin and operating margin. So can you help us understand the reasons behind? And how shall we think about the leverage from teachers' compensation and sales and marketing expenses? So based on this, how shall we think about the Q1 and the 2020 profit outlook? Were there any changes in the current competitive environment?

The second question is about your lock-up. So considering upcoming to lock up expiration, does management team or the pre-IPO investors think about selling the shares? And does the Company have any plan to restructure the shareholder structure? Thank you.

Shannon Shen

Thanks, Greg. So for your first question about the margin guidance, so yes, we can see our GP margin increased on a quarter-over-quarter basis. That all contributes to, because we're in a large class business model that our -- the fixed compensation of our instructors and tutors can be fully diluted when the class just grow bigger. And we do see our gross margin is increasing in 5 consecutive quarters in the past year.

So going forward, we always provide the most competitive compensation to both our instructors and our tutors, that they can be really happy when they work with us. And if they're happy, the students will be satisfied. So that's our philosophy, always provide the most competitive compensation across the whole space.

And in terms of the OP margins, so there's an apparent seasonality if you look at our margins. Let's recap the trend in 2019. So for the 4 quarters last year, our non-GAAP OP margin were respectively 17.3%, 8.8%, 1.3% and 24.4%. So the margin in Q2 and Q3 will be lower due to massive -- due the investment in the summer promotions. So the margin of Q4 will be the highest amount year as we saw our Q4 results.

So in 2020, we won't be giving guidance on margins. Instead, we prefer to give an absolute value range for the profit forecast, just like what we did in 2019. When we projected the full year revenue of 1.8 billion yuan, in fact, at the IPO, the actual results surpassed the guidance by 17% and reached 2.11 billion actually. And the same with the gross billings, for which we projected in a range between 2.5 billion yuan and 2.6 billion yuan. But actually, we reached 3.3 billion, exceeding the guidance by around 700 million.

So as for margin, what we have now may not be as high as what we estimated back then. But the market position we have gained, and the growth capability we have obtained, are all the way past our early expectations; not to mention that our ROI is much higher than the industry average.

So we believe an absolute value guidance will be more objective at the moment when the market is quickly expanding, and which will also provide us with a large leverage that we can gain more market share.

And your second question, so yes, so our business is still growing in exponential speed, evidenced by our Q4 results. So our GAAP and non-GAAP net income all increased over 10 times compared to the same period of last year. So we are one of the very few companies in the secondary market that we can grow all the way both on gross billings, net revenues, our profitability, as well as improvement in margins.

And also, look at the guidance we provided, the topline guidance we provided for next quarter. We will still be growing at full time or increasing 300% at least. We have been in a close discussion with all of our pre-IPO shareholders, and they have continued to express their long-term confidence in our Company's future.

And also, we believe that our shareholder base and trading liquidity following our last follow-on offering was largely expanded. So in the past quarter, we've received multi-times of investor requests, like they want to do more serious homework with us. And the investors across all continents like Europe, Canada, and our neighbors, Japan, Korea, they all reached to us because I think investors know that China's education market has a huge opportunity here and they are all looking for the best performer. So we believe that like the shareholder space we have now can further support the liquidity.

And also, we are quite different from other technology companies. We just raised one round of capital before our IPO. And our private equity and venture capital investors only own around 10% of our total shares. And Larry owns around 46% of the shares and at the moment, he has no intention to sell. So really we don't see the liquidity is the issue at all. Thanks.

Gregory Zhao

Thank you.

Operator

Thank you. And the next question comes from Felix Liu with UBS.

Felix Liu

Hi Larry, Shannon and Sandy. First of all, congratulations on the strong results. So some questions on the margin side. One, I think the GP margin certainly is very impressive. And you mentioned that, it mainly comes from better economies of scale. So could you maybe break down into what part of the operating leverage are we having? Is it on the instructors' compensation, or is it on other cost items?

And secondly, on the sales and marketing side, just a follow-up question on -- from the previous attendees. I think, winter quarter, to my understanding, is probably a relatively low season in terms of selling and marketing compared with Q3. But we still see an increase in absolute amount. So could you sort of elaborate and see if any changes in selling and marketing spending, and how we should think about it in the next year?

Shannon Shen

Right. So for the GP margin side, so majority of the cost of goods belongs to compensations we provide to our instructors and tutors. And we do see the proportion of the instructors keep declining in the past 4 quarters, and actually, the compensation we pay to tutors is in the increasing trend. So that's why we really see that the leverage we have, and thanks to the business model.

And going forward in the future, because we always want to provide the best service to our students, which means tutors also takes the important role that because they are doing the daily communications, they are doing emotional support. And they are the person who talks to the students on daily basis. So we really like -- we take tutors, we want them to be respectful. So right now, the tutors' compensation is slightly higher than the compensation we pay to instructors right now. Then going forward with you, we want to pay incremental compensation to them as well.

And also, the second question is about the market spending. So as I just mentioned, to support a top line growth like in 400%, we really see the market spending right now, it's not an expense; it is an investment actually, because the way -- the financial model is always -- we always record the expense in advance because that's the time we've actually spend the money, we acquire the traffic. Then but the revenue is actually recognized in the following 3 months or 4 months. So that's why there is mismatch. When we are supporting a 400% increase that the investment right now is very essential.

And the other way to look at the spending strategy on sales and marketing is always to look at ROI. As we mentioned during our last call, so the way we see whether it's worth spending, is whether we can find the best unit economics, whether we can still be profitable on the cash side on the first order.

So if we are confident now to do so, we will keep investing in sales and marketing. But at the same time, we also need to consider our supply capabilities because our philosophy is always effective growth, that we don't burn money. We always take the traffic we can, that we have a confidence that we can serve them to their best satisfaction, so that's our strategy.

Felix Liu

Thank you, very clear. And also on the supply side, I just want to follow up. I'm not sure if we have the latest tutor and instructor headcount that's available to share.

Shannon Shen

Yes, we believe that number will also be disclosed in our 20-F annual filing later on.

Felix Liu

Okay, sure, thank you. Thank you very much.

Operator

Thank you and the next question comes from Maggie Zheng with Haitong International.

Maggie Zheng

Congratulations on the results. This is Maggie from Haitong International. My first question will be the contribution of high school segment by enrollment and revenue in the fourth quarter. And is there is any difference in gross profit margin and OP margin between high school segment and other segments? The reason I ask this question is because there is likely to be a delay of a postponing of high school entrance examinations and university entrance examinations this year. So there might be a shorter term, shorter semester for the Gaokao student base to prepare for Gaoku. So are you doing anything to capture that demand?

And my second question will be for your first quarter guidance, that's very encouraging. And how much of the guidance comes from the joint registration for both the winter season and spring season?

Shannon Shen

Thanks, Maggie. For your first question, as I just mentioned on my prepared remarks, our primary school revenue increased significantly. The increase in rate was 893% and our total revenue increasing rate was 413%. So that basically can give you a picture. Our primary sector revenue is chasing high school really hard and we always see primary school is the key sector, that the primary school segment has a larger student base, low penetration rate, longer lifetime, and broader market potentials. And their parents are in a younger generation and are more open to online education. So that's why we do see like private school has a higher strategic significance for our branding. We always prioritize our primary school as a strategic focus.

And in Q4, we do see the revenue from primary school is increasing a lot. And actually, our concurrent students, who are actually taking lessons, the number from primary school, has already past the high school. So we do see that provides a huge potential for our future business to grow.

And for your second question about our Q1 guidance, so we feel really sorry for what's happening right now, and the virus breakout really has a huge impact on the afterschool tutoring business. So right now, we don't really have a conclusion that why -- whether the Gaoku will be delayed. But we are closely following all the guidance provided by the MOE and other local education related governments.

And actually, our Q1 guidance is made on our best estimates as of now, that they have taken a comprehensive consideration of the potential delays in the primary and secondary school openings. And we always -- we fully respect and support the government's move to protect students. And we will take all the actions we can to make sure our courses arrangement are in compliance with regulations and be supportive because a lot of parents now desperately in house now in studying with their students. So they are calling our tutors to on-call and help them to solve study problem they are facing right now.

So in terms of the joint registration for our Q1 guidance, actually, we are following the guidelines provided by our MOE closely. So actually, partially because for online education companies, we can either choose the rest -- the course is no longer than 3 months, or no longer than 60 classes. So currently, we do have a few classes that is less than 60 classes that students can take, but longer than 3 months.

So but we don't really have a clear number on the top of my head that I can provide you the details about what's the proportion of the joint registration. But basically, when the students sign up for the sequential semester, we encourage them to -- either they choose just sign up before the winter, or they choose a joint lesson. That's all their accounts, and we're much happy to take their choices. Thanks.

Maggie Zheng

Thank you.

Operator

Thank you and the next question comes from Alex Xie with Credit Suisse.

Alex Xie

Hi management, thank you for taking my question and congratulations on very strong results. My first question is about our retention of teachers. I think one of the key advantages of our business model is to have the best-in-class instructors and tutors. And as I do have some confidence in our strategy to keep our top teachers, I will ask what will be the component of their compensation in terms of share-based compensation or long-term incentives to keep them?

And secondly, I think in this industry, the loss of tutors, particularly for the newly graduates who just received trainings, has become an issue. What is our expected retention rates for our tutors? And how is our tutors' compensation higher? Say, how much is our compensation higher than peers?

Shannon Shen

Thanks, Alex. In terms of the retention of our instructors, we do have really high retention rate in terms of our instructors. So instructors who is taking a class larger than 1,000 enrollments, since 2017, none of kind of instructors has left us, so can say voluntarily. So we can say that our instructor retention rate was 100% by that means.

The key is, first, we always provide the most competitive compensation to them. And the good thing we see, instructors usually, they are a very conservative group. So at the beginning of their career with us, they are less willing to take share incentives, but right now, a lot of instructors, they just came to us and voluntarily started to see whether they can have a longer term of -- they can be part of the share incentive plan and have a long-term incentive. So that's a really good sign.

And secondly, as we always mentioned, doing an online business, so tutor, instructors, they are very good, but they are also just part of the team. So they are good enough, but their team needs to be equally good to support the teacher because their compensation is also highly rely on the sales force, can recruit how many students to them. And like the tutors can provide the best quality of service to their students, so they can have a higher retention rate.

So the whole team just work together to a better performance. And the structure of our instructors' compensation is fixed part of the compensation plus performance-based compensation, usually linked to number of enrollments in their class, as well as the share-based compensation. So these are the 3 important elements to their compensation package; and also, the training and recruiting to new tutors.

So as a technology company, we did -- had a really solid technology foundation. As we mentioned during our IPO, actually, we kind of formed a live broadcasting team the second month after our incorporation. Right now, we've provided the online training to our tutors through our Weishi tool, as well as our live broadcasting system.

And also, we have close conversations with all of our staff during the coronavirus outbreak. And actually, there's one thing maybe beneficial to online education industry, especially for top players as us is there was around 8.7 million new graduates this year. But a lot of the industries are much affected by the thing we are experiencing now. So we actually have more opportunities to choose those are really good, have really good professional background candidates with us. So that's -- we see one of the biggest benefits we have right now. Thanks.

Alex Xie

Thank you.

Operator

Thank you. And this concludes our question-and-answer session. I would like to turn the conference back to Ms. Sandy Qin for any closing comments.

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. Please feel free to subscribe to our newsletter on the Company IR website at gsx.investorroom.com. Thank you very much.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.