

GSX Techedu Inc.
First Quarter 2020 Financial Results Conference Call
Wednesday, May 6, 2020 08:00 AM ET

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the GSX Techedu Inc. First Quarter 2020 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 Wednesday, May 6th of 2020.

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 IR 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 statement 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 first quarter 2020 earnings call.

First and foremost, on behalf of GSX Techedu, I would like to extend our sincere condolences to the students, parents and the families affected by the COVID-19 outbreak. I'd like to send our utmost gratitude and respect to the medical staff, teachers, public officials and people from all

industries who have united in the fight against the epidemic and kept our society running during the global health crisis.

For the first quarter of 2020, we have achieved another period of solid and rapid growth, including the 7th consecutive quarter of GAAP profitability and the 8th consecutive quarter of non-GAAP profitability.

During the pandemic, I'm proud to say that we have shouldered our social responsibility, and tried our best to contribute within the scope of our capabilities as a young company. Firstly, during the COVID-19 period, we have donated RMB20 million worth of courses to students in Wuhan. Those courses didn't contribute any revenues, but they share the same instructors, tutors, technologies, operations, course qualities and learning experiences with our regular winter semester courses.

Secondly, we took 49 of our best teachers and launched free courses covering all subjects and all grades. We invested in promoting and attracting traffic to those free courses. Our proprietary live broadcasting technology, which has been functioning well for over 5 years, strongly supported the smooth delivery of the free courses. Meanwhile, to host the massive number of the new students and ensure the high-quality delivery of the courses, we have deployed 3 independent live broadcasting support systems, upgraded our server settings by 3 times, boosted our server capability by 3 times, and increased our bandwidth capabilities by 4 times, etc.

Thirdly, our video live broadcasting services tool, Weishi, supported over 134,000 newly joined educational institutions and professionals to transfer offline courses to online. To better support those registrants, we invested significantly in our servers and cloud infrastructure. The total costs and expenses incurred by the above-mentioned services, including compensations for instructors and tutors, technology support and marketing expenses, were close to several tens of millions of RMB.

Despite the extra cash spending as previously mentioned, our net operating cash flow for the first quarter still reached RMB118 million, significantly higher than RMB65 million for the same period for 2019. Most inspiringly, both our revenues and gross billings are over 4.5 times of the same period last year.

As I have always stressed, cash is a vital fuel to propel the growth of a company, and operating cash flow is an essential indicator to measure the operating efficiency of a company. In the first quarter of 2020, despite all of our money-consuming charitable activities, we were still able to generate positive net operating cash flow, as we have consistently done over the past quarters. We believe all that is primarily due to our extremely high operating efficiency.

Our selling expenses for the first quarter of 2020 were RMB757 million, which was 7.6 times that of last year. Paid enrollments were 774,000 for the first quarter, which was 4.1 times of the same quarter last year.

As a pure online education service provider, our fiscal year matches the calendar year. As such, the most important retention seasons for our K12 business happen in the second quarter and the fourth quarters, so their number of paid enrollments tend to be much higher than the first and the third quarters.

However, in the first and third quarters, a majority of the enrollments are first-time paid enrollments. So if we take LTV into consideration, one new enrollment in the first quarter or third quarter will bring several extra paid enrollments in the following quarters. That is why we always underline organizational capability and operational efficiency, which are the key factors to bring us an outstanding ROI, and put us to meticulously plan out investments with a long-term perspective.

This quarter, we expanded our investments in customer acquisition and technology development, just as what we did in the prior quarter. In the first quarter, we observed that the gross billings from our primary school segment, which has a larger customer lifetime value, achieved the fastest growth among all segments. This gives us a healthier student structure and benefits our long-term development.

Some investors might ask, is GSX's high ROI sustainable? As I have mentioned on the prior earnings conference call and the investor conference call, our robust growth of revenues enable us to invest more money on our customer acquisition this year than in 2019. The cost to obtain external traffic tends to be the same for all companies eventually.

However, after the student traffic flocks in, the divergent quality of instructors, tutors, services, operations and technologies for different online education providers end up widening the gap between different players. If a company incrementally outperforms the industry average by 3% at every facet of the business, 2 years later, its ultimate retention rate will be significantly higher.

Since we are growing at quite a fast speed, we spend money on marketing now, but it might take us longer to see the full benefit from lifetime value of the paid enrollments. The net profit margin might fluctuate between quarters due to seasonality, but we strongly believe that we can remain profitable for the full year of 2020 speaking to our profitable growth strategy.

Apart from strategically expanding marketing expenses to secure new customers, we remain committed to investing in talents, investing in technologies, investing in efficiencies, investing in culture and investing in brands. We are extremely proud that the highly efficient organizations we've built up today, is rooted in our belief, rooted in our faith, rooted in our mission, rooted in our vision, rooted in our values and rooted in our culture.

The external scrutiny, to some extent, pushes us to review everything ourselves, and we view those as positive feedback and advocates to our core value of integrity. Since the first day of our founding, we have regarded integrity as our core value. We are honest to not only our investors, but also our students and parents, and every employee of the Company. Throughout the Company, we value integrity a lot, and hold a zero-tolerance policy towards any behavior that go against our value.

We believe that only honest people deserve to work with honest people. Only by having complete trust with each other can we build a loving, enduring and devoting team, and that integrity is the key code in uniting the entire team. We treat integrity as our core value, so that we only choose those honest people to be our workmates, so that we deliver real high-quality education services to the students and parents as we promised; so that we are an absolutely honest, transparent, devoted and dedicated Company; so that we gain solid trust from investors

who believe in our value and culture, and deeply understand our exponential growth.

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

Shannon Shen

Thanks, Larry, and thank you, everyone, for joining the call. The first quarter of 2020 is unusual, during which period we witnessed a public health crisis, radical changes in all industries, and a profound evolution that the internet brought to our lives, and the unprecedented volatility across the capital market. Living through this period, we could review ourselves better to quickly adapt to external changes and firmly remain focused on our values.

Now, I will walk you through our operation and financial results, as well as provide guidelines for the next quarter. Please be reminded that all the financial data mentioned are in RMB terms unless otherwise noted.

Despite the severe challenges brought by the COVID-19, we have achieved a remarkable result in the first quarter. Net revenue increased by 382% year-over-year to RMB1.298 billion. This is our 6th consecutive quarter with revenue growth more than 350%. Our K12 revenue growth rose 448% year-over-year. In fact, our K12 revenue growth has exceeded 400% each quarter since we went public.

During the pandemic, we had offered free classes for nearly 3 weeks, which has intercepted our routine enrollment recruitment process for regular courses. Nevertheless, we still have achieved RMB1.374 billion in gross billings, a 358% growth year-over-year.

Our GAAP net income, RMB148 million, and non-GAAP net income, RMB191 million, are both over 4 times high as the same period last year, and approaches the historical high. This is our eighth consecutive quarter that we achieved non-GAAP profitability.

In the past first quarter, a majority of our enrollments were first-time students to our platform. We've recorded paid enrollments of 774,000. Paid enrollments rose by 307% year-over-year. Moreover, the paid enrollments contributed by the first-time students surged significantly compared with the fourth quarter of 2019 when recurring students contributed a larger proportion.

During the COVID-19 outbreak, the initiatives that we took to fulfill our social responsibility caused extra costs and expenses, and weighted down our operating profit margin. The negative impact on our operating profit margin was partially offset by the value-added tax exemption issued by the government that we recorded in other income. Excluding those impacts, the net income is still beyond expectation.

Now, let's break down our operating and revenue streams by business lines. Net revenues from our K12 courses, mainly offered through 2 brands, Gaotu Ketang and Genshuixue, increased by 448% year-over-year to RMB1.12 billion, and accounted for 86% of net revenues. Net revenues from K12 segment has continuously grown by over 400% year-over-year, and we expect the proportion of K12 revenue will continue to expand as our main source of revenue.

Gross billings contributed by K12 courses rose by 356% year-over-year to RMB1.09 billion. Paid course enrollments for K12 increased by 315% year-over-year to 647,000. For the past several quarters, the gross billings of foreign language, professional and interest courses kept increasing either on a year-over-year or quarter-over-quarter basis.

However, gross billings for K-12 business show distinct seasonality. Typically, most retentions happen in the second and the fourth quarter, while most new student recruitments happen in the first and the third quarter. When we have a large student base right now, existing students will contribute more to gross billings, which indicates the importance of retention for an education company. The continued growth of gross billings from new paid enrollments also explains why our revenue is consistently able to increase both on a year-over-year and quarter-over-quarter level.

Within the K12 segment, I wanted to highlight our primary school business. As Larry mentioned earlier, the growth rate of our primary school segment has been leading all K12 segments, and its gross billings has exceeded all the other K12 segments in the first quarter of 2020. The achievement signals that we have obtained a considerable amount of new enrollments from primary school during the pandemic period, and also testifies our improvements in curriculums and interactive courseware.

Average enrollments per class further increased from 1,700 in the fourth quarter of 2019 to around 2,000 in the first quarter of 2020.

Net revenue from our foreign language, professional and interest courses were up by 188% year-over-year to RMB174 million, and accounted for 13% of net revenues.

Gross billings contributed by foreign language, professional and interest courses were up by 412% year-over-year to RMB279 million.

Paid course enrollments for our foreign language, professional and interest courses increased by 270% year-over-year to 127,000.

This segment achieved the fastest gross billings year-over-year growth ever since the second quarter of 2019. Adults have plenty of time to take more courses during the pandemic period, which brought a great opportunity for market growth.

GAAP gross profit margin increased by 8.7 % year-over-year to 78.2%. Non-GAAP gross profit margin, which excludes share-based compensation, increased by 9.5% year-over-year to 79.2%. This increase was mainly due to greater economies of scale, as our average enrollments per class has expanded from 980 in the first quarter of 2019 to around 2,000 in the first quarter of 2020.

Meanwhile, though the average class size expanded from the fourth quarter of 2019, the gross profit margin slipped slightly quarter-over-quarter because we raised the compensation for tutors to attract the best talents. We always believe that education is about building emotional connection between people. As such, we think of our raised compensation for tutors as an investment that will vastly drive up our talent competitiveness, our organizational capabilities, and the satisfaction of our students and parents.

Selling expenses increased to RMB757.2 million, up from RMB99.5 million in the first quarter of 2019. We recommend you to review our selling expenses and growing gross billings together from a ROI perspective. This quarter, impacted by extra selling expenses for free courses, our ROI, which is dividing gross billings by selling expenses, was below 2. We view the free courses enrollments as pure traffic because those have lower engagement, lower stickiness and lower conversion compared to our regular low-priced promotional courses. However, the free courses helped us to raise brand awareness, fulfill our social duties, and enhance the public's perception on online education.

As a majority of this quarter's paid enrollments are first-time students, we need to wait longer to see the lifetime value effect on improving ROI. The new enrollments we acquired this quarter will push up our gross billings in the second quarter. Despite the impact of the free courses, we believe that our ROI in the first quarter continued to lead the sector.

Research and development expenses increased by 227% year-over-year to RMB99.4 million. This increase was primarily due to an increase in the number of content professionals and technology development personnel, as well as an increase in compensation for such staff. Going forward we will continue to expand investments in R&D to further upgrade operating efficiency, which should bring additional leverage.

Interest income and realized gains from investments were RMB12.6 million in the first quarter of 2020, up by 1,046% year-over-year, representing the interest we received from matured cash and cash equivalents, short and long-term investments. To utilize our capital in an efficient way, we continued to invest in wealth management products with low risks and high liquidity.

In Q1 2020, except for interest income and realized gains from investments amounted to RMB12.6 million. Our short-term investment also brought accrued interest income, which was recognized in accumulated other comprehensive income on the balance sheet.

All the aforementioned combined indicates an annual return of approximately 4%. The yield level was in line with the market average, and shows our strong capability of treasury management.

In terms of our 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 monthly basis. The return related to the Citibank Notes has no impact on the income statements until it reaches maturity.

As of March 31, affected by the extended volatility in the capital market, the mark-to-market loss on the structured note was USD6.6 million. By the end of April, according to the valuation reports we've received, the mark-to-market loss for the structured note has squeezed to USD3.3 million. The structured note is redeemable 3 months after purchase. Since we have held the investments for over 3 months, we could redeem the product any time. We have redeemed part of the abovementioned product at par in April, and will continue to redeem the rest when yield hits a suitable level, to support our stock repurchase fund.

Other income increased to RMB61.9 million from RMB533,000 in the first quarter of 2019. This increase was primarily due to the value-added tax exemption issued by the government, partially

deducted by related costs during the COVID-19 outbreak, which amounted to RMB53.2 million, as well as government grant of RMB8.2 million received in the first quarter of 2020.

GAAP net income was RMB148 million. Non-GAAP net income increased by 406% year-over-year to RMB190.7 million in the first quarter from RMB37.7 million 1 year ago. The addition costs and expenses from the pandemic dragged down the operating profit margin, but was partially offset by the government tax exemption benefits, led to our still decent level of net profit margin.

As of March 31, 2020, we had RMB565.2 million cash and cash equivalents, RMB1.003 billion short-term investments and RMB1.169 billion long-term investments. Part of our short-term investments matured during the first quarter, and to prevent the interest rate risk in the uncertain market, we held this part of assets in cash, and did not invest in new wealth management product as of the quarter-end. In the future, we will invest in the suitable products that matches our liquidity and yield needs.

As of March 31, 2020, our prepaid expenses and other current assets include prepayment for traffic acquisition, textbook materials, rental costs, and tuition fee we stored in platforms including WeChat and Alipay that have not been transferred to our bank account. As we scale up, the balance of prepaid expenses and other current assets will increase accordingly.

As of March 31, 2020, our deferred revenue balance was RMB1.34 billion. Deferred revenue primarily consists of the tuition collected in advance. The balance of deferred tax liability was RMB73 million by the end of first quarter. The same amounts increased the balance of PPE and land use right in the noncurrent assets as well.

The deferred tax liability is caused by the temporary difference between accounting basis and the tax basis for purchasing Zhengzhou property. The remaining useful life for Zhengzhou property was 37 years and the balance of PPE, land use right and deferred tax liability will gradually decrease at the same time at the same amount in the following 37 years, and basically, has no impact on P&L.

As of March 31, 2020, our non-current other payables totaled RMB221 million, which are payables to purchase the Zhengzhou properties.

In this quarter, we incurred additional cash outflow for free courses and expansion of operation centers in 11 cities out of Beijing. Under such circumstances, we still achieved net operating cash inflow of RMB118 million, up by 82% from RMB65 million in the first quarter of 2019. We also paid for CapEx expansion, total amount RMB106 million.

Going forward, we will discuss around the most frequently-asked topics as well to enhance the efficiency and transparency. Please note, the topics we discussed might change along with the market conditions.

First, about our cash balance, our RMB-denominated cash and cash equivalents, and short-term and long-term investments are jointly held by 9 onshore entities, while the USD-denominated are mainly held by our offshore entity in the Cayman Islands.

Our cash and cash equivalents are mainly held at the following branch banks: (Speaking Chinese). Our cash savings total RMB20.9 million at China Merchant Bank; RMB6,101 thousand at China Construction Bank; RMB494,000 at Bank of Beijing; RMB195.7 million at Industrial Bank; and USD48.2 million at Citibank.

Our short-term and long-term wealth management investments consist of USD150 million from Citibank; RMB 507 million from China Merchant Bank; RMB633 million from Industrial Bank.

Secondly, related-party transactions: The first quarter of 2020, we did not have any transactions with either Baijiashilian or Baijiayuntu. As for Youlianhuanqiu, which is our related party, we paid RMB327,000 in the first quarter 2020 for its service, and the payment amount for 0.025% of our first quarter net revenues.

Thirdly, app download numbers: We would like to reiterate that the new app download number for Gaotu Ketang and Genshuixue apps combined has been among the top after-school tutoring sectors in China since the second half of 2019 according to Quest Mobile. In the first quarter of 2020, many apps attracted more traffic for free courses, but we believe download for free courses doesn't represent the performance of regular-priced courses. Please do not compare us with Xuexiqiangguang, Dingding, platform apps, picture-taking apps and other irrelevant apps, which is extremely unprofessional.

Fourthly, in 2019, Gaotu Ketang contributed 69.34% of our K12 revenue, nearly 70%.

Since the start of last year, we have accumulated RMB4.733 billion in gross billings, maintained positive net operating cash flow and consistently realized profitability. We has no complex investment, no significant related-party transactions, maintains a constant high-ROI level, and have no loans, no mortgages and no pledges at the end of the first quarter of 2020.

We have a diversified management team with clean professional background. Furthermore, Larry has never sold his shares in the Company, but only focused on the one core business. Our revenue and net income are all attributed to each employee's full dedication in serving students and parents to their satisfaction.

Today, we also announced a 2-year stock buyback program, amounting up to USD150 million, which reflects the board and management team's firm confidence in our long-term development.

With that, I will now provide our business outlook. Our revenue guidelines for the first quarter is between RMB1.526 billion and RMB1.556 billion, representing an increase of 331% to 340% 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

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

Alex Xie

Hi management, thank you for taking my questions and congratulations on very strong set of results. My first question is about our sales and marketing spending. I think since the start of this year, we have observed much more branding campaign by online education companies. So I'd like to know what the percentage of brand spending in GSX sales and marketing expenses, and what's the plan for the future? This is my first question.

Secondly, I'd like to ask about the referral of existing customers for new customers. Is there any related motivation mechanism or data to share with us, such as the referral rates?

And then thirdly, I think management had mentioned tutors are one of the most important segments of our services and you have increased the compensation for the tutors. I have read the news that you plan to hire more than 10,000 tutors for this year. Would you please comment on that plan, and what's your expected retention of your existing tutors? Thank you.

Larry Chen (Speaking Chinese).

(Translated). Thanks for your question. So the sales and marketing expense is related to our gross billings, and the gross billings will be recognized as revenue in the next 3 to 6 months. Sales and marketing, as I just mentioned, is over 7 times as the same period last year, but we also observed the gross billings have increased a lot year-over-year too. In the first quarter, our gross billings has achieved 1.37 billion, and as we heard from the capital market, actually, this is among the highest of all the online live large-class education courses providers. Especially for K12 students, they will bring us more gross billings and revenue in Q2 and Q3.

So our belief has always been that as long as we serve every student to their satisfaction, we serve every parent to their satisfaction that is the essence to build a great branding, brand awareness. And we believe then it's just because we stick to this belief and strategy, and that is how we're able to achieve the numbers you see today.

Even though, in this quarter, we provided free courses and we donated some regular courses. Those efforts actually weighted down our gross billings and increased more costs and expenses, but we're still seeing our net profits growing very fast. And after the Covid-19 broke out, many parents and students, they stay at home. This provides a great opportunity for us.

And we are very glad to see that in the first quarter, our sales and marketing brought us really remarkable performance. In the first quarter, when you check the paid enrollment, actually, a majority of them are first-time users. And we believe this value will brought us security for the revenues of Q2 and Q3, and help us achieve an ideal performance in following quarters.

As we are accumulating more and more students at GSX, and as we are raising our brand awareness more and more, we do notice a lot of the new enrollments come from word-of-mouth referrals. But as of now, we cannot publish this data because -- or we cannot disclose this data because in the market there is not a unified method of calculating it. And as for the thing you mentioned that we plan to recruit 10,000 tutors, we make this plan based on our current fast-growing scene.

In Q1, as you can see, actually, our revenue and gross billings are still growing near to 400% year-over-year. And we believe only the best service and the best results, if we want to provide them, it's necessary for us to attract the most suitable and the best-performing tutors. So that's why we are executing these plans as we can.

And I like your way of mentioning the retention of tutors because when we are doing education industry, it's about the growth of humans. And there are two types of people we care: One is the growth of students and the other is the growth of our tutors. And the key metric we are valuing for the growth of students is their retention rate. For tutors, that's the same, also the retention rate, and we are proud to say that our retention rate of tutors is actually leading the sector.

Shannon Shen: (Speaking Chinese).

(Translated). So since the capital market and many investors, they care -- ask a lot of questions about customer acquisitions and the competitive landscape this year. So I want to add something. We noticed -- we can observe that a lot of the big names that also entered online education sector this year. And when we review these market conditions, we believe, a commonly agreed opinion is it's a little late to enter at this time.

So when we compare this first quarter with last year, why we are so confident to expand our investment in customer acquisition? That decision is based on two reasons. Number one, because of the Covid-19 outbreak, we precisely figured out that a lot of students and parents, they are staying at home during Q1. And we observed that a lot of our operational metrics are reaching a historical high, such as the students' attendance class rate and their rate of completing the courses and their homework submission rate and their feedback rate and net promoting scores, all of those metrics have reached a historical high.

And we grabbed this historic opportunities to increase our customer acquisition. And based on this, we noticed that for Q1, after the new students, the first-time users, they joined our platform to study. This April is actually the most important month, the first important month, for us to do the retention for this year. And because we monitored a lot of the operational metrics have been performing well, we are very confident back then in April that we will achieve a great retention rate. And that's why we increased our sales and marketing spend.

The second reason that we have confidence in expanding our sales and marketing is because ever since last year, we have been continually upgrading our organizational capabilities and trying to recruit and train our talent and professionals. We have trained and stored a lot of really great tutors and those actually brought us back rewards in the first quarter.

If we look at the first quarter last year, 2019, we have a limited size of tutors, and that supports a very large scale of sales and marketing investment because that will bring a waste of money. But

this year, because we have a really strong supply chain and the talent, professionals, ready there to support this large scale of sales and marketing. That's why we made the decision.

And right now, the sell-side consensus about our full year revenue is around 6 billion. And based on our revenue of Q1 and our guidance of Q2, actually, in the first half of this year, we have already reached around 2.8 billion or more. So for the first quarter, the first-time users that have come to our courses, actually, lay a solid foundation for our revenue growth, not only in the first half of the year, but also in the second half of the year. Thank you.

Operator, please go ahead.

Operator

The next question comes from Maggie Zheng from Haitong International. Please go ahead.

Maggie Zheng

Thank you management for taking my questions. I have two questions. The first question is regarding the rescheduling courses in second quarter and third quarter, actually, Gaokao has been postponed by 1 month, so which allowed for more time in the second quarter, but also has shortened summer holiday. So will we have additional courses, say, in June? And also how will we reschedule the courses for the summer?

And the second question is regarding the student breakdown, we know now that your primary student is now contributing the largest portion of our enrollments. And could you share with us the enrollment and revenue breakdown for primary, secondary and high school as well as the margin difference between the 3 segments?

Shannon Shen

Thanks, Maggie. For your first question, we are glad to see that basically, all provinces have announced a schedule for kids to go back to school. And everything is getting back to normal in China right now. And as of now, we can see that Gaokao has been delayed to July and it's most likely Zhongkao will follow the schedule accordingly. So as such, we have been adjusting our course schedule in the first half.

For instance, courses for high school, in the past, we scheduled 2 times of classes for high school students, especially for the 12th grade. And now we can adjust it to one classes each week to better adjust the pace they're having at high school. And also we can add some more short-term courses to kind of elevating their knowledge level before they take the test. And also we will take other actions to cater to the students, to their preference.

And also we have noticed that the summer break is squeezed to around 6 weeks based on all the schedules we saw. It started in the middle of July and ended by the end of August. And so which means but the good thing is all the uncertainty has been removed and the clarity is very high. And it's always like for online education company, we have more flexibility and we will adjust our course offering according to the specific market condition.

For instance, most likely, probably we will be hosting more students at the same time. Then it's also a challenge for online education company because that's a big test for us about our organizational capability and our supply chain, our capability to provide a really good service during such a short time. But still, with all the flexibility we have, we still think we can grab this opportunity and keep attracting the students and help them migrating from offline to online. Thanks.

And your second question is about our primary, middle, high school segments. So as I just mentioned in the prepared remarks, in the first quarter, our revenue growth for primary school was still far above the overall growth rate for other segment, because we always believe our primary school is a key segment. And it has the largest student base, lower penetration rate, longer customer life and broader market potential. So the parents for this generation are more open to online education as well. This is why we always see primary school segment has more strategic significance for our branding.

And this quarter, this is the first time that gross billings from primary school segment actually ranked the top across all of our K12 sectors. And also the concurrent students who are studying with us, the number has far exceeding other segment as well. So going forward, we will continue to improve our course development, instructor recruitment and training for primary school segment. Thanks.

Operator

The next question comes from Felix Liu from UBS. Please go ahead.

Felix Liu

Good evening. Congratulations on the very strong quarter and big guidance. My question is mainly on the teacher and teaching assistant side. I understand that you are a lot more prepared at this time to capture the increased traffic from Covid-19 and your marketing activities. So could you just share with us the updated teacher and teaching assistant headcount?

And secondly, on, I think, the teacher regulation side, could you give an update about the license requirement for teachers and teaching assistants?

Thirdly, I think I noticed that the ASP of your courses increased quite a lot in this quarter, which is impressive. Could you help us understand the ASP trend going forward?

Shannon Shen

Thanks, Felix. I may not have enough time to address all your questions, so probably I will take the first one. So the teachers' and tutors' headcount, so as of now, we have already -- our employee number exceeds 10,000. And actually, during the period of Covid-19, that actually provide us a lot of opportunity to recruit talent that we cannot imagine in the past.

One is because our Company has become larger and more attractive; the other is because the good opportunity -- working positions opportunities in the market is very limited. So that's why, we kind of grabbed the golden period to recruit a lot more talent that we really like and we really

feel proud of.

And for teachers and tutors, as we just mentioned, we actually raised the compensation for tutors. Investors may have concerns about the gross profit margin, and if we raise the compensation level for tutors, whether that will lower the GP margin. But actually, for the long run, invest in people is always the best strategy, and from our observation, after we raised the compensation to our tutors, we basically we can get all the top tutors.

And even though for teachers, they used to teach one-on-one, or they used to teach small classes, they're all joining us as tutors. And that's why that's provided our students with a better learning experience. And in the long run, they will help with a higher retention rate. So that's the strategy we have always to attract the best talent.

And sorry that our prepared remarks today took a longer time because we want to share everything we think you may have questions or interest in the future, even though you just saw our earnings and haven't noticed some questions in such a short notice.

We also would like to take this opportunity to quickly talk about the disagreement we have with the recent short-seller report that we saw a recorded phone interview transcript. Actually, in China, brushing is illegal; it's hard to imagine that a criminal can take an extra call to take the risk and with no apparent benefit. And the content of the interview was completely different from our actual operations. For example, the recording said that the brushing has stopped because the epidemic, but you can tell that our growth in the first quarter and in the second quarter will still be very fast. And our ROI in 2019 was 3.2 in general. We definitely couldn't figure out how brushing can improve ROI and making it more than one, since we already divided big classes into several smaller classes that are hosted by tutors, and to improve the learning experience like other companies are doing in the industry. Basically, you do not see other students, except for the small class.

So many things mentioned in the conversation make zero sense. We highly suspect the content of the phone interview recording is fake, and if so, in the future, if the fake recording can be used as evidence, there will be no order in the capital market. And we hope that they can provide any piece of evidence, like name from our management, that involving brushing or any contract signature, bank receipts, or which ID they used to brush. Upon receiving this evidence, we will show our official stance, official seal, and the full set of bank statements as proof.

We have already provided all the banks we use; please just pick one. And based on the fact that Citron missed Gaotu's revenue, as well as they kept comparing us with companies run completely different business model. We strongly feel that they know very little about our operation. Therefore, we are also waiting to invite Citron to our office to take a tour that we can introduce to him about our business. We offer to reimburse all the travel costs.

And just in one word, I hope that our communication is transparent and smooth. I also hope that your criticism can help us continuously make processes that can help us to become a better Company. So that's all. Thank you.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Ms. Sandy Qin for any closing remarks.

Sandy Qin

Thank you, operator. 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 newsletters on the Company's IR website at gsx.investorroom.com. Thank you very much.

Operator

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