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GSX Techedu Inc.

GSX Techedu Inc.
Fourth Quarter and Fiscal Year 2020
Financial Results Conference Call
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Operator

Ladies and gentlemen, thank you for standing by. And welcome to the GSX Techedu Inc. Fourth Quarter and Fiscal Year 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 March 5 of 2021.

I would now like to turn 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, Sarah. Hello, everyone, and thank you for joining us today. GSX's earnings release was distributed earlier, 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.

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.

As a reminder, this conference is being recorded. In addition, a live and archived webcast of the conference call will be available on GSX Investor Relations website at gsx.investorroom.com. You are also welcome to subscribe to our quarterly investor newsletters through the same website.

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 for joining us today on our fourth quarter and full year 2020 earnings call.

As you know, net operating cash flow is an essential indicator to measure the operating efficiency of an online education company. In the fourth quarter, we achieved net operating cash inflow of RMB 636 million and for the full year 2020, our net operating cash flow remained positive at RMB 603 million. In December 2020, we successfully completed a private placement raising USD 870 million. As of December 31st, our cash and cash equivalents, short-term investments and long-term investments totaled RMB 8.22 billion, a significant increase from RMB 2.74 billion at the end of 2019.

In the fourth quarter, our selling expenses totaled RMB 1798 million, a 307% year-over-year increase. Deducting 472 million in employee compensation and miscellaneous expenses and 59 million in branding activities takes us to traffic acquisition expenses of 1267 million. Since our gross billings for the fourth quarter were RMB 3.15 billion, the corresponding ROI kept us in a superior position in the industry. Further, our selling expenses in the fourth quarter decreased by RMB 257 million, or 12.5% decrease from the third quarter. We moderately controlled our traffic acquisition expenses, because we firmly believe that good education takes time, and should be full of care and love. Premium, respectable and sustainable education is never about shortsighted race to expand, but should embrace great teachers, high-quality courses, caring services, effective learning results, and excellent reputation.

I have always been reminding my team that, when we saw the gigantic capital injections into our industry, the massive marketing campaigns that followed, and the irrational race by some players to scale their businesses at any cost, we should always keep calm and stay true to our original mission, which is to focus on recruiting and training the best instructors, focus on providing the best and most caring education, focus on offering the most satisfying services to each student and parent, and focus on pursuing the right goals regardless of hardship, with a long-term and sustainable view. In 2021, we will continue to expand our recruiting and training of star instructors, expand our efforts on content, product and technology developments, maintain an effective growth strategy on a life time value basis, optimize our operational efficiency and effectiveness, and further improve our organizational capabilities and efficiency. We are confident that we will continue to excel in terms of operating efficiency in 2021.

Now, I will pass the call over to our CFO, Shannon to walk you through our financial and operational details.

Shannon Shen

Thanks, Larry, and thank you, everyone, for joining the call.

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 is in RMB terms.

In 2020, we comprehensively upgraded our products, in terms of our instructor and tutor teams, content development and technology, as we remained firmly committed to improving the learning experience and effectiveness of our students.

Firstly, over the past year, more than 100 top-notch instructors joined us, many of whom have considerable years of experience. For the junior and senior high school segments, we have established a strong moat and decent reputation by building up a team of industry-leading instructors. Meanwhile, in 2020, we further invested in cultivating our own instructors, candidates who are young and have high potential. Many of them graduated from renowned universities, including Peking University, Tsinghua University, Harvard University, Columbia University and Oxford University etc. We have also established a roadmap to train new instructors: many of our new instructors who graduated in July 2020, after over a half year of training, have grown into instructors favored by students and parents a lot, some of whom have attracted over 10,000 regularly priced course enrollments.

Secondly, we constantly invest to develop and upgrade our educational content and products. Compared with the end 2019, our course content development team expanded over 4 times, bringing rich and localized content specialty. We have achieved progress in standardizing our curriculum in 2020, and have established curricula of different difficulty levels across our primary school and high school courses. In 2021, we will continue to work on refining our curricula. We develop our course content and our lecture training jointly to streamline our course delivery process. This practice ensures the scientific nature of our course syllabus, the specialization of our instructors and the standardization of our quality control.

Lastly, technology plays a vital role in improving our in-class experience. Our XStream streaming media system and our AirSound echo detection system leverage artificial intelligence to automatically adjust system settings to adapt to different network environments and hardware situations, achieving an optimal effect for the in-class multiplayer voicing interaction scenario. Moreover, we have developed a virtual 3D science laboratory set, which simulates the environment for physics and chemistry experiments for junior and senior high school students and teachers. The constant upgrades of our educational products has effectively translated into our improved retention rate and provided a solid driver for our long-term, healthy and sustainable development.

Despite a challenging environment, we closed our fiscal year 2020 with exceptional business and financial performance during the fourth quarter, as we set all-time records for revenues, gross billings, and paid enrollments. We are pleased to see that the pandemic situation improving and we are thrilled with the way our teams continue to focus and execute throughout this period of elevated uncertainty.

Moving on, I will briefly recap the financials for the fiscal year 2020.

Our net revenues continued to grow reaching 7.1 billion, representing a 237% increase from 2.1 billion in 2019. This revenue grew to be more than 3 times of the prior year's figure for the past three consecutive years.

Gross billings, the leading indicator for net revenues, was 9.0 billion, increasing by 168% year-over-year from 3.4 billion last year.

Paid enrollments increased to 5871 thousand for the fiscal year 2020, or 2.68 times that of the fiscal year 2019.

For 2020, we achieved net operating cash inflow of 603 million compared to 1285 million in 2019. Removing the effect caused by the extra cash we paid over 105 million for independent investigations, our net operating cash inflow would be higher. That demonstrates our exceptional operating efficiency amid the intense competition. Furthermore, in the second quarter 2020, we had repurchased approximately 1.1 million ADSs for approximately 283 million RMB. Despite such cash outlay, we have ample cash reserves as our cash, short-term investments and long-term investments reaching approximately 8.2 billion RMB as of December 31, 2020.

Next, let me go through the key financials for the fourth quarter of 2020 in details.

Revenue increased 137 % year-over-year to 2.2 billion, driven by continuously expanding student numbers thanks to our enhanced teaching quality and brand recognition.

Our gross billings increased by 99% year-over-year to 3.1 billion, mainly due to increasing paid enrollments from the summer and high-level retention in the fall.

Paid enrollments, which refer to enrollments priced at or above ninety-nine yuan, increased to a record-high of 2.28 million for the quarter, or 2 times that of the same period in 2019.

Let's break down our revenue streams by business line.

Net revenue from our K-12 courses increased by 156% year-over-year to 1.98 billion, and accounted for 89% of net revenues, and will continue to be our main source of revenue going forward.

Gross billings contributed by K-12 courses rose by 110% year-over-year to 2.92 billion.

Paid course enrollments for K-12 grew by 113% year-over-year to 2.14 million.

Average enrollments per class was 2600 in the fourth quarter in 2020 compared to 2800 in the third quarter. Quarter over quarter, the number slipped slightly because we offered shorter term courses with smaller class sizes to cater to various students' needs. Average enrollments per class this quarter increased significantly from around 1700 in the same quarter of 2019.

Net revenues from our foreign language, professional and interest courses grew to 236 million, and accounted for 11% of net revenues.

Gross billings contributed by foreign language, professional, interest courses and other services reached 224 million.

Paid course enrollments for foreign language, professional and interest courses hit 136 thousand.

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

Moving over to selected financial metrics summary.

Our cost of revenues increased by 215% year-over-year to 616 million. The year-over-year growth rate was mainly due to increases in compensation for instructors and tutors, learning materials, rental expenses, as well as server and bandwidth costs.

GAAP gross profit margin decreased to 72%, down from 79% in the same period of 2019. Non-GAAP gross profit margin, which excludes share-based compensation, decreased to 73%, down from 80% in the same period of 2019. The decrease was primarily due to an increase in the number of instructors and tutors to enhance our service level and the personalized experience that our students receive, as well as an increase in compensation for such staff.

Selling expenses increased to about 1.798 billion, up from 442 million in the fourth quarter of 2019. Within that, expenses for traffic acquisition were approximately 1.267 billion, expenses for branding activities were approximately 59 million, and the remaining expenses cover labor, servers, bandwidth, etc. The selling expenses dropped by 13% from the third quarter, which is our first sequential decline in sales expenses.

First of all, that attributes to the integration of our K12 operations into the Gaotu brand, which continues to bring synergies and extra efficiency. Going forward, we will focus our K12 branding practices around the Gaotu brand, which will save unnecessary cost in branding activities. Secondly, we have been exploring and expanding new and low-cost customer acquisition channels including offline channels, short videos, live streaming etc. By balancing our investment across different channels, we managed to control our customer acquisition costs in an acceptable range and achieved an effective growth on a life time value basis. We have always focused on our effective growth strategy and we will never pursue meaningless scale expansion at the expense of losses. We have made a number of technology innovations around customer acquisition, including progresses on intelligent traffic acquisition, sales leads grouping, traffic control and students stratification. We've taken the lead to closely cooperate with major media providers of traffic channels, on the premise of ensuring data security, leveraging the strong algorithm capabilities of both parties to effectively control our customer acquisition cost and recruit better quality sales leads. In the meantime, we've embedded the multi-task learning, transfer learning, reinforcement learning technologies into our internal service flow to effectively improve the traffic quality and efficiency in matching tutors and students. Gradually we've created a set of refined customer acquisition, sales lead quality control and digital operation strategy on our marketing flow.

Research and development expenses increased by 229% year-over-year to 275 million. The increase was primarily due to an increase in the number of course professionals and technology development personnel, as well as an increase in compensation for such staff.

G&A expenses increased by 373% to 218 million, mainly due to an increase in G&A headcount and related compensation as well as an increase in fees for investigation purpose.

Non-GAAP net loss was 554 million, compared the net income of 198 million in the fourth quarter of 2019. GAAP net loss margin was -28%.

As of December 31, 2020, we had 355 million of cash and cash equivalents, 7.3 billion of short-term investments and 531 million of long-term investments, combining to be 8.2 billion. That compared with a total of 2.7 billion of cash and cash equivalents, short-term investments and long-term investments as of December 31, 2019.

As of December 31, 2020, our deferred revenue balance was 2.73 billion. Deferred revenue primarily consists of the tuition collected in advance.

Net operating cash flow for the fourth quarter of 2020 was 636 million. This demonstrates our strong organizational capability in balancing investment and returns.

With that, I will now provide our business outlook.

But before I start, I’d like to highlight two factors influencing how we view the upcoming quarter’s performance. Firstly, the Spring Festival of 2021 started more than two weeks later than in 2020, causing fewer weekends to deliver courses this quarter, and so is the corresponding revenue. Therefore, for an apple-to-apple comparison, we should add at least a 22% growth rate to the guidance we are providing. Secondly, this year's winter break is short, parents and student don't have enough time to take both short term promotional courses and winter semester regular courses. Instead, we focus our offerings on the sole spring semester sessions, and expect Q2's growth to be higher. Thirdly, we had a higher base of the gross billings and revenues in the first quarter of 2020, affected by a sudden outbreak of COVID-19.

As such, based on our current estimate, net revenues for the first quarter of 2021 are expected to be between 1.816 billion and 1.856 billion, representing an increase of 40% to 43% on a year-over-year basis.

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

Question and Answers

Operator

(Operator Instructions) The first question today comes from Mark Li with Citi. Please go ahead.

Mark Li

I want to ask for the year of 2021, would we have any full year guidance in terms of revenue, gross margins and loss margin, and anymore color?

Larry Chen (Speaking Chinese)

(Translated) Thank you, Mark. We moderately reduced the traffic acquisition expenses for information flow channels in the fourth quarter of 2020 and the first quarter of 2021. So that might affect the growth for the first quarter. As you know that this traffic acquisition through the information flow channels, if we fully rely on that to bring the scale expansion of revenues, it's easy to just purely pursue the scale. However, if we are pursuing effective growth, that needs real organizational capabilities.

Secondly, the spring semester for the first quarter of 2021 opens about 2 weeks later than the same period of 2020. That also negatively affects the first quarter's revenue recognition, as Shannon mentioned.

Thirdly, we are actively exploring innovative acquisition channels, including offline options, and we believe that will bring positive impact to our Q2 and Q3 growth.

Fourth, we continuously to raise the compensation for our tutors. We believe this will benefit the retention of our tutors and also our students.

Fifth, for our adult business segment, we have almost established a team, so we believe this segment will see a relatively high growth in the second half of 2021. Undoubtedly, for just the information flow traffic acquisition channel in 2020, we do have seen the customer acquisition cost has been going up. If you compare the end of the year versus the beginning of the year, this rate of increase is big.

So in some perspective, if we just purely rely on the money spending in traffic acquisition channels of information flow channel to bring up the scale, it does not work, it's not working. Maybe some players are sacrificing their net profit margins to have a relatively high growth, but our strategy is to pursue a relatively healthy, effective growth.

In summary, we are pretty confident about our growth rate of full year 2021. So we hope for 2021, the full year growth rate is going to be in the range of 70% to 80%.

Shannon Shen

Hello, Mark. And adding to Larry's point, I also want to provide more colors on our revenue guidance. As I mentioned in my prepared remarks, there are 3 factors that need to be taken into consideration when looking at our first quarter revenue guidance. The first is the class scheduling. Back to the first quarter in 2020, the spring semester courses actually started in

February the 2nd for middle school and high school students. And for primary school students, the spring semester started during the last week of February.

But for this year in 2021, the Chinese New Year was relatively late, and the school actually started in the first week in March. So basically, we lost 2 whole weeks of revenue in the first quarter in 2021. And consider the high school and middle school revenue still contributes a considerable amount to our revenue. The impact on our Q1 revenue recognition should be higher than other companies, for which primary school may take a lead position in the revenue recognition. So that's one thing I want to add to our revenue guidance.

So consider this seasonal factor, if we make an apple-to-apple comparison, the actual net revenue growth guidance for the first quarter should be higher than at least 62% to 65% on our perspective.

And second is in the first quarter, we changed the way we recruit our students because this winter vacation was too short to take both of the short-term promotional classes and the long-term and formal winter semester courses for students and parents. Actually, the winter vacation started by the end of the second week in January. And based on our class scheduling, there were only 2 weeks left for us to recruit winter semester regular class students. And so that's how we changed our strategy.

We basically replaced the winter semester regular classes into the short-term promotional classes. Then we directly recruit students and have them sign up for our spring semester. That basically means the gross billings we collected in the first quarter, a majority of them will add to our second quarter's revenue. And that's why we do expect our second quarter revenue growth rate to be higher than the first quarter. This is all due to the seasonality.

And the third reason is that because last year, the outbreak of the COVID-19 epidemic, we have a fairly larger base for both the first quarter and second quarter. So these 3 factors should be taken into consideration when look at our guidance.

And as Larry just mentioned, the full year guidance for 2021, especially for top line, we expect a 70% to 80% revenue increase. Then how do we come up with that number? So that's because like even though Larry mentioned we reduced some of the investment in the traffic acquisition or media social platforms, we did deploy or explored new innovative ways to acquire more low-cost traffic, for instance, offline traffic or live streaming or short video. So that will give us the potential orders, or the sales leads that can support our future growth this year with a lower customer acquisition cost.

And also as our absolute net revenue continues to increase compared to before, our net revenues growth rate will also show seasonality. And the industry just changed very quickly and, in many cases, the change happens within 1 month or even 1 or 2 weeks. So while we need to adapt quickly to these changes, we will also be more cautious by providing more short-term expectations which are more foreseeable. Hope that addressed your questions. Thanks, Mark.

Mark Li

Thank you, Larry and Shannon, very helpful.

Operator

The next question comes from Christine Cho with Goldman Sachs. Please go ahead.

Christine Cho

I just wanted to get some update on the regulatory landscape. So it seems like the traffic competition is stepping down, but also hearing some news about, for example, Beijing tightening some requirements on the teachers' requirement, etc. How do you see this evolving and how is this reflected in your guidance?

Shannon Shen

Thanks, Christine, happy to address that. So in the past quarter, our sales and marketing expenses declined around 13% quarter-over-quarter. We took this as a positive signal. In 2021, we expect to spend less of our customer acquisition budget on traffic acquisition from those social media platforms, and expand our investment more on some new and more innovative channels such as live streaming platforms or what we called Zhibo Daihuo and MCN or short video channels and even offline channels.

When we are reviewing what we have been doing in the past year in 2020, we spend -- or all the leading companies in this industry spend quite a lot of money on the social media platforms and we acquired traffics. But our observation was the overlap ratio of parents signing up for multiple educational platforms is increasing. And we foresee the conversion may face some difficulties in the near future, and that's why in the second half of 2020, we started to explore new channels.

And for the traffic acquisition from all those social media platforms, it's still like the whole industry highly relies on the algorithm provided by the agencies or the social media platform. The high cost reliance cannot translate into core capabilities or competitive advantage. And that's why we want to explore new channels. So we did make some breakthroughs like, for instance, our private traffic pool metrics on some leading short-video platforms have been at a top level of the industry. And that has always been our core competitiveness.

And the sales orders we achieved per live streaming session is also leading in the industry, and this is what we are good at. We're more prepared on both operational side and on the technology side. Actually, when we observe the online business, no matter if e-commerce or other business, we do see the trend of that at some level, at some point, the traffic will turn from the public traffic into a private traffic metric. And this is really what we are good at, and it actually came back to our comfort zone.

And as you mentioned, since January, the government has taken a closer look at the marketing campaign of the online education industry. And actually, we highly welcome and proactively embrace this change. And we firmly support the government's current and following regulatory measures. We believe the policy will benefit the whole industry in the long run. For instance, firstly, the potential customer acquisition cost is likely to decline and this is consistent with our observation in January and February.

So in the past 2 months, the unit sales lead price we acquired from social media platforms were much lower compared to November and December in 2020. And basically, we are the last company to join the campaign to sponsor TV programs or other shows or do like bus station advertisement. From the bottom of our hearts, we really wanted to have an effective growth other than just burning money. So if something just came out, we will be delighted.

And I think it's good to our company because we are an operation-oriented company and we are not a traffic-oriented company.

And the second is the management will increase the trust of the students and their parents toward online education campaigns. We really wanted the engagement between the parents and us and the students and us, are peaceful without creating any anxiety. And talking about studying itself, education also should not only help students to improve their academic performance, but more importantly, should foster their academic capabilities, develop good learning habits.

And if we really have the capital, we really want to invest in upgrading our products other than spend them in sales and marketing. So we regard these initiatives as positive factors. Thanks. I hope that addressed your questions.

Christine Cho

Thank you.

Operator

The next question comes from DS Kim with J.P. Morgan. Please go ahead.

DS Kim

I actually have a few follow-ups from the previous points you've made. And firstly, on guidance first quarter, when you say 2Q revenue growth could be higher than the first quarter, are we comparing 2Q with like-for-like, 65% growth, or reported guidance of 45%? And I have a couple of follow-ups.

Shannon Shen

Sure. When I was talking about, I was talking about the revenue growth rate in the second quarter should be accelerated compared with the first quarter revenue growth rate.

DS Kim

Okay. Okay. So comparing with the 45% guidance, the actual number, which should be similar to the guidance. Okay. And then can I check -- thank you. May I check roughly how much gross billings and enrollment growth would you expect for the first quarter? I think this may reflect underlying demands better than the revenue guidance. I think this is very helpful.

Shannon Shen

Right, right. Thanks. Because we still have around 1/3 of the quarter left and like I just mentioned, the environment, I think, just change quickly. And so it's best we provide our top line guidance as we always do. And for other operating metrics, we will be more cautious about that guidance. Maybe we can provide more details after the quarter-end. Thanks.

DS Kim

Thank you. Thank you. Final question is then can I ask if you have seen any meaningful slowdown in the last month of the quarter, like say, in the past 2, 3 weeks, or compared to the first couple of first quarter? The reason why I'm asking this is comparing with some of our peers like TAL, their xrs.com guidance, it doesn't seem like slowing down as much as what we guide. So I was just wondering whether this is a different -- this is because of the difference between the fiscal year and, i.e., TAL cuts of their guidance for February; we include March. So just wanted to double-check whether this has an impact around guidance. That will be all for me.

Shannon Shen

Thanks a lot. So compared to TAL, I'm really not in the position to do the comparison because I personally am not very sure about the guidance behind of their business because even though we are all large-class business, but the class scheduling can be different. And the revenue attributed to different segments can be different. And so that's why it's really hard to say without knowing all the details behind the guidance.

But for us, just compared to our business, can we have a higher revenue growth rate? I think the answer is yes, but the price will be -- maybe in exchange for a larger scale of loss. But our operating philosophy is always we insist on effective growth. And we need to make sure the unit economics or the business model works in LTV side, at least the LTV side. So we really pay close attention to our data, especially on our customer acquisition costs. We need to make sure we are providing the best products to our students at the same time and our business actually works. So that may have different reasons behind the top line growth.

And also, when you compare the top line growth, I also suggest you to take into consideration of the bottom line. See like the operating efficiency, or maybe the operating margin level just to see how much was invested and how much was gained. I think that's a more comprehensive picture.

DS Kim

Thank you. I agree and that's very, very helpful. Thank you. But may I follow up on your point? Are you seeing a little faster drop-off or the slowdown in the latter half of the quarter versus first half, or you don't see much difference in terms of the gross billings, enrollment growth, and etc., in the first quarter?

Shannon Shen

Yes, yes, that's actually a really good question, and I think that refers to a bigger picture of the whole industry. From our observation, we do see the overlap ratio between, let's say, the parents sign up for multiple online learning platforms, like the ratio keeps rising. So that makes the parents need longer time to make the decision, but I think at least at this time, it's a really good thing.

After rapid growth for all the top players in the industry, it really comes to the area like we need to be really focused on our learning product. And we care -- or they need to really care about the students, whether they learn, whether the courses we provided really help them, and they can stay with us for a longer time. And as fierce as the competition, I think the highest requirement was made to the management team that to handle such a large organization. At the same time, we need to keep taking initiative to upgrade our products. In the long run, I think it's a good thing. And only the good companies, and companies with higher operating efficiency can survive.

DS Kim

Thank you, very helpful.

Operator

The next question comes from Alex Xie with Credit Suisse. Please go ahead.

Alex Xie

So I would like to ask my questions in Chinese first and then translate them myself. (Speaking Chinese). So my first question will be about how do you set your revenue growth target? How do you balance the ROI and efficiency versus the growth rate and market share? And do you worry that the gap between your numbers of enrollments would widen a little bit versus peers?

Second question is about your TA team. If you can share with us about the size of your TA team and how will you plan in 2021? And also, I'm glad to see the upgrades of your TA to the secondary instructor program. So if you can just share a bit more about how do you help them upgrade in terms of quality, and how do you measure whether that succeeds?

Larry Chen (Speaking Chinese)

(Translated). So when we decide how big the growth rate target should be, there is a tolerate rate indicator, should always be effective growth; aka, the probable growth based on lifetime value. And on these channels if, after quite a period, after calculations, if we cannot reach this goal, we might moderately reduce the spending on these channels to lead to a more scientific growth. We are also calculating between ROI efficiency and the scale, the balance between them. And right now, we are pretty satisfied with our status.

If we look at 2020, the revenues is over RMB 7.1 billion, but our net loss is less than RMB 1.4 billion. So if we compare our performance with some other private players, according to some investors' feedbacks, some other peers are spending $2 to get $1 revenue back. In 2020, in terms of balancing between the ROI and the scale, we are doing a really great job. And in 2021, we are confident to do also a great job. I always believe-- when we are doing the business, the core is not about competition; it's more about serve each of your customers, your students, your parents to their satisfaction, being well, help your employees to grow.

So as for the scale of 2021 for our tutors, as of now, we plan to further recruit over 10,000 tutors. And the core of how we are valuing our tutors, or we call them second instructors, there are two parts. Firstly, how we can redefine the recruiting model of the talent. Secondly, we will expand the training for our secondary instructors. Thank you.

Alex Xie

Thank you very much.

Operator

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

Felix Liu

You mentioned about the FY21 growth will be healthier. So may I just dig a little bit into the details? I notice that the GP margin in the fourth quarter declined Q-on-Q. And you mentioned that teacher salary compensation increase was the reason. I think definitely, that is the right thing to do. But how should we think about the GP margin trend going forward in the next few quarters?

You mentioned about the increase in teaching assistant headcount and noted that, it should be relatively less than your revenue growth. So does that mean we could potentially see higher teaching assistant utilization and better GP margin?

And also, on the sales and marketing side, definitely happy to hear that you're spending less on social media. So how should we think about the sales and marketing spending trends going forward in the next fiscal, in FY20, 2021?

Shannon Shen

Thanks, Felix. In this quarter, 3 main factors collectively led to our lower level of gross profit margin. First, for the autumn semester courses, we offered our students a second round of short-term courses. We call it Qiuxia Kecheng, that started in November. And that course has a lower ASP and a shorter term, and also has a smaller class size, which led to a lower level of gross profit margin.

And the second reason is that as we communicated before, we position our tutors actually as secondary instructors for their extraordinary services to our students. So to better improve our students and employees' satisfaction, and to further retain and develop our teaching talents, we do believe that a good teacher needs time to grow, so we need to be really patient. And we continue to increase our compensation to our tutors in the fourth quarter. So we believe our commitment to our secondary instructors will translate into stronger organizational capability and future business growth. And like you just mentioned, we definitely think this is the right thing to do.

And the last reason was, we have taken initiatives to further decrease our students-to-tutor ratio with the aim to provide more personalized services to better serve our students. For instance, in the primary school sector, we started to provide 1 versus 6, pre-course, small-class tutoring sessions that the tutor can actually see the faces of all the children. And they can have a lot of interactions before the formal session starts and we received positive feedback from primary school students and parents.

And also, for our middle school and high school, we provide one versus certain student a Q&A session after the class is over. And that's how we can group people in different locations that provide more localized and different stratification level, of Q&A session to our students. All of these need more time and more commitment from our tutors and that's why we lowered the students and tutor ratio.

So moving forward to 2021, we think our gross profit margin should be stable at around 70% from a whole year perspective after all the adjustments have been made. And still compared to offline business model, this gross margin will still be higher if we just exclude the rental costs and give us the room to be profitable. And also, the ideal structure for our P&L should be like we have a lower level of GP margin, and at the same time, we have a lower level of sales and marketing, because really, for an education company, people should be the most valuable asset.

And regarding our sales and marketing expenses, so for us, because we foresee that in 2021, the difficulty level might be elevated to acquire traffic in some public or open social media platforms. And that's why we started to explore new innovative ways to acquire new customers. And that really significantly -- that will lower our customer acquisition cost structurally so -- but as this is just too early, and like I just said, things just change quickly in the industry.

We may have a better position on talking about the whole year's sales and marketing budget maybe when we have with a more clarified plan for our summer campaign. And probably, we can talk about that topic by that time. Thanks, Felix.

Felix Liu

Okay. Got it, very helpful. Thank you very much.

Operator

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

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 the company or contact us via email at genshuixue.com directory. Please feel free to subscribe to our news alert on our company IR website. Thank you very much.

Operator

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