

**Sunlands Online Education Group [STG]
Q2 2021 Earnings Conference Call
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Executives

Yuhua Ye, IR Representative

Tongbo Liu, CEO and Director

Selena Lu Lv, CFO and Director

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Second Quarter 2021 Earnings Conference Call. (Operator Instructions). After prepared remarks by the management team, there will be a question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the call over to your host today, Yuhua Ye, Sunlands' IR representative. Please go ahead.

Yuhua Ye: Hello, everyone, and thank you for joining Sunlands' second quarter 2021 earnings conference call. The Company's financial and operating results were issued in our press release via newswire services earlier today and are posted online. You can download the earnings press release and sign up for our distribution list by visiting our IR website.

Participants on today's call will be our CEO Tongbo Liu and our CFO Selena Lu Lv. Management will begin with prepared remarks, and the call will conclude with a Q&A session.

Before I hand it over to the management, I'd like to remind you of Sunlands' Safe Harbor statement in relation to today's call. Except for the historical information contained herein, certain of the matters discussed in this conference call are forward-looking statements. These statements are based on current trends, estimates and projections, and therefore, you should not place undue reliance on them.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. For more information about the potential risks and uncertainties, please refer to the Company's filings with the Securities and Exchange Commission.

With that, I would now like to turn the call over to our CEO Tongbo Liu.

Tongbo Liu: Thank you, Yuhua. Hello, everyone, and thank you for joining Sunlands' second quarter 2021 earnings conference call.

We are pleased with our second quarter performance. Our net revenue grew 22.8% year-over-year to RMB629.5 million, with master's degree-oriented programs and professional certification and skills programs achieving a year-over-year increase of 91.7% and 584.6% respectively.

New enrollments remained relatively stable at over 86,000, representing a 4.8% year-over-year increase, which was primarily driven by our 168.7% year-over-year increase from professional certification and skills programs.

Following a strategic adjustment to optimize our product mix while seeking growth and balancing costs and profitability, our gross billings were RMB430.2 million, compared with RMB531.5 [million] for the same period of 2020. Our strategic adjustment and ongoing cost reduction efforts delivered a record net profit of RMB22.1 million, compared with net loss of RMB126.1 million in the second quarter of 2020.

We experienced increased demand for higher education and professional certification and skills programs during the second quarter of 2021. The employment market is becoming increasingly competitive due to industrial restructuring in the wake of the COVID-19 pandemic, motivating workers to enhance their career competitiveness through occupational education. While working professionals often pursue higher education through our STE or master's degree programs, many adults also seek to improve their skills and enrich their lives with our professional skills and general interest courses.

With such steady tailwinds, we increased our efforts to enrich our course offerings and improve the quality of our programs, which helped sustain the growth momentum in master's degree-oriented programs and professional certification and skills programs.

Gross billings for master's degree-oriented programs increased by 23.7% year-over-year. This exceptional performance was driven by our successful degree-oriented programs within China, as well as our growing cooperation with higher education institutions in other global regions. We continued to provide high-quality, tailored courses to prepare working professionals in China for MBA entrance examinations. Most of these students are middle-or senior-level managers who are financially stable and willing to pay for further education.

We simultaneously enlarged our footprint by promoting overseas higher education, supported by our expanding cooperation with foreign institutions. We also diversified our overseas post-graduate degree offerings including MBA, Education, Psychology and Human Resources Management.

Meanwhile, our professional certification and skills programs also grew vigorously, evidenced by a 168.7% year-over-year increase in new enrollments and a 196.2% year-over-year increase in gross billings for the quarter. This growth was primarily driven by our extensive course offerings, which allow us to meet demand across a wide range of subjects, coupled with increasing demand for courses to enhance career competitiveness or cultivate soft skills and hobbies.

While we strengthened our competitiveness in master's degree-oriented programs and professional certification and skills programs, we also continued to provide high-quality courses in STE programs to our students. Over our 18 years' experience in adults' occupational

education, we have cultivated high brand awareness and developed exceptional course teaching frameworks, effective teaching methods, and a wide variety of premium courses catering to students' differing needs.

Sunlands is committed to developing more premium courses and delivering a better learning experience to fit most adults' learning target. To complement our course improvement efforts, we are also working to upgrade our online learning platform to make courses more easily accessible to our students, many of whom work full-time or have other time constraints.

Additionally, we have expanded our user base by providing staff training services to companies across a wide variety of industries. We believe this will further increase our market penetration rate and reduce our customer acquisition cost.

We believe that the depth and quality of our learning resources, our efficient learning platform and course framework, and our highly effective, professional teaching staff set us apart from our competitors. We are excited to see that our brand is regarded highly by our students, as reflected by their satisfaction rate of 98.73% in the second quarter. We will continue to strengthen our leading position in the industry by developing more refined courses in a broader array of subjects while enhancing our service quality with additional first-class teachers.

Now, turning to a recent circular published by the Ministry of Education pertaining to the adult education and training industry on 19th July, which stated social organizations and private entities in adult education business have played a positive role in promoting life-long learning society, followed by some guidelines for industry standardization. Sunlands has always been committed to complying with applicable laws and regulations, and we believe these guidelines will give industry leaders such as Sunlands, an advantage, given our existing strict standards and comprehensive internal review process.

Going forward, we will remain committed to designing high-quality courses and creating innovative, effective internet-and platform-based learning tools in collaboration with our outstanding academic research team and teaching staff. Given Sunlands' secure foothold in the adult education business, we are confident we can continue to offer premium courses in STE programs and solidify our market share in the master's degree-oriented and professional skills programs space. With that, we will be well-positioned to continue to deliver strong results in future quarters.

That concludes my prepared remarks. Thank you. And I will turn the call over to our CFO, Selena, for further review of our financials. Selena, please?

Selena Lu Lv: Thank you, Tongbo. Hello, everyone, and thank you for attending Sunlands' second quarter conference call.

We are excited to report solid second quarter results, with profit coming in at RMB22.1 million compared with net loss of RMB126.1 million for the same period last year, and with our master's degree and professional skills programs consistently performing well.

During the quarter, we took multiple measures to reasonably lower costs and improve operating efficiency, with G&A and sales expenses decreasing 8% and 7.9% year-over-year, respectively.

We also continued our efforts to expand course categories as we strive to deliver better learning experiences to our users. Looking ahead, we will persist in cost-efficient marketing and operation optimization. With our existing advantage in the business of occupational education for adults, better cultivated courses and highly efficient management, we believe we are on track to grow further and incrementally increase profitability.

Now, I would like to share our financial results for the second quarter of 2021 in detail.

In the second quarter of 2021, net revenues increased by 22.8% to RMB629.5 million from RMB512.5 million in the second quarter of 2020. The increase was mainly driven by year-over-year growth in gross billings since the second half of 2020 through the first quarter of 2021.

Cost of revenues decreased by 2.3% to RMB97.3 million in the second quarter of 2021 from RMB99.6 million in the second quarter of 2020. The decrease was primarily due to reduced insurance-related costs incurred for our integrated online education service package purchased by students.

Gross profit increased by 28.9% to RMB532.2 million in the second quarter of 2021 from RMB412.9 million in the second quarter of 2020.

In the second quarter of 2021, operating expenses were RMB519.6 million, representing a 7.2% decrease from RMB560 million in the second quarter of 2020.

Sales and marketing expenses decreased by 7.9% to RMB449.1 million in the second quarter of 2021 from RMB487.9 million in the second quarter of 2020. The decrease was mainly due to lower spending on branding and marketing activities, and declined compensation expenses related to our sales and marketing personnel.

General and administrative expenses decreased by 8% to RMB51.6 million in the second quarter of 2021 from RMB56.1 million in the second quarter of 2020. The decrease was mainly due to a decrease in compensation expenses.

Product development expenses increased by 17.6% to RMB18.8 million in the second quarter of 2021 from RMB16 million in the second quarter of 2020. The increase was primarily because the social security expenses exemption offered by the relevant authorities during the COVID-19 outbreak came to an end in 2021.

Other income was RMB8.2 million in the second quarter of 2021, compared RMB17.5 million in the second quarter of 2020. The decrease was primarily because value-added tax exemption offered by the relevant authorities as part of the national COVID-19 relief effort came to an end in April 2021.

Net income for the second quarter of 2021 was RMB22.1 million, compared with net loss of RMB126.1 million in the second quarter of 2020.

As of June 30, 2021, the Company had RMB835.4 million of cash and cash equivalents and RMB49.9 million of short-term investments.

As of June 30, 2021, the Company had a deferred revenue balance of RMB2,690.2 million.

Capital expenditures were incurred primarily in connection with IT infrastructure equipment and leasehold improvements necessary to support the Company's operations. Capital expenditures were RMB7.8 million in the second quarter of 2021, compared with RMB1 million in the second quarter of 2020.

For more of our 2021 first half financial results, please refer to our earnings press release for further details.

And now for our outlook: For the third quarter of 2021, Sunlands currently expects net revenue to be between RMB570 million and RMB590 million, which would represent an increase of 5.2% to 8.9% year-over-year. This outlook is based on current market conditions and reflects the company's management's current and preliminary estimates of the market, operating conditions and customer demand, all of which are subject to change.

With that, I'd like to open the call to questions. Operator?

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English. (Operator Instructions).

Showing no further questions, this will conclude our question-and-answer session. At this time, I would like to turn the conference back over to Yuhua Ye, IR representative, for any closing remarks.

Yuhua Ye: Once again, thank you, everyone, for joining today's call. We look forward to speaking with you again soon. Good day and good night.

Operator: This concludes the earnings conference call. You may now disconnect your lines. Thank you very much, and have a great day.