

**Sunlands Online Education Group [STG]
Q1 2022 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' First Quarter 2022 Earnings Conference Call. At this time, all participants are in listen-only mode. Today's conference call is being recorded.

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

Yuhua Ye: Hello, everyone, and thank you for joining Sunlands' first quarter 2022 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 Mr. 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 will now turn the call over to our CEO Tongbo Liu.

Tongbo Liu: Thank you, Yuhua. Hello, everyone. Welcome to Sunlands' First Quarter 2022 Conference Call. In a world shaken by the ongoing Covid-19 pandemic and the geopolitical conflicts, we are all facing huge macroeconomic uncertainties. In tough times like this, we believe the key to future success is to remain focused on cost-efficient spending and profitability,

which will help us navigate through this difficult period. To that end, we continued to execute our balanced growth and profitability strategy during the first quarter.

Thanks to our strategic efforts, we are pleased to have carried our momentum into 2022, with our first quarter net profit hitting a new high of RMB179.4 million, a significant improvement compared to a net loss of RMB53.3 million in the prior year period and 19% higher quarter-over-quarter.

As we focused on healthy and sustainable growth, we stepped up our cost management measures and emphasized student acquisition efficiency. As such, we reduced our general and administrative expenses by 9.1% year-over-year. We also strategically scaled back on our marketing activities, as evidenced by a 51.4% year-over-year decrease in sales and marketing expenses. This led to 19.5% and 34.2% year-over-year decreases in new student enrollments and gross billings, respectively.

We should note, however, that the percentage decreases in our new student enrollments and gross billings are much smaller than our percentage savings in marketing spending, which is due to our improved student acquisition efficiency, as we made efforts to captivate new students and increase their lifetime value and stickiness by honing our course offerings to cater to our students' differentiated learning needs.

Our balanced growth was also driven by our extensive, premium course resources, which continue to effectively fulfill our students' learning demands. During the first quarter, we forged ahead amid the challenging macro environment, optimizing our product mix and expanding our course catalogs for our master's degree-oriented and professional skills programs, while striving to provide our students with an optimal and efficient learning experience.

In light of the increasingly tough job market in the first quarter, we concentrated more on designing and developing new courses to provide a diverse range of skills training for our students to enhance their overall competitiveness and thereby, increase their employment opportunities.

Moving on to each of our major course programs, as our work and social lives are reshaped by the persistent pandemic and accelerated digital transformation, the job market is rapidly evolving amid the shifting macroeconomic landscape and people's way of living life is also changing. Working professionals turn to Sunlands to stay relevant and competitive in their careers by upgrading their skills and obtaining qualifications.

Meanwhile, people from all walks of life adopt our platform to enrich their lives with our online skill or hobby courses, especially during pandemic resurgences when the number of safe social activities is limited. As we move forward, these courses are attracting students from an increasingly wider age range.

Thanks to our convenient, flexible, and responsive online learning platform, as well as our broad course content covering work credentials to general interests, Sunlands has become learners' preferred choice. As a result, new student enrollments for our professional certification and skills programs in the first quarter grew by 1% year-over-year and 20.9% quarter-over-quarter, despite the intentional reduction of marketing activities as I just mentioned.

Gross billings for this sector also increased by 6.7% year-over-year. We believe the growth momentum in our professional certification and skills programs will persist, given our diverse course offerings and learners' enduring enthusiasm for new challenges. We will continue to add new course content and provide customized courses specific to varied learner groups' unique preferences.

With respect to our master's degree-oriented programs, we have seen increasingly intense competition as more industry players join this segment, especially after China's implementation of new regulations banning after-school tutoring for students in compulsory education. As a result of competition and fewer marketing promotions as part of our balanced growth and profitability strategy, new student enrollments and gross billings for our master's degree-oriented programs declined.

Despite the short-term impact, we are confident that our well-proven profitability strategy, highly capable teaching staff, and optimized teaching and services will position us for long-term growth in this segment, as there is still enormous potential. According to Intelligence Research, market size for master's entrance exam preparation courses has reached RMB6.1 billion in 2021, representing a 28.1% year-over-year increase, and is expected to continue to grow.

To conclude, we believe that the breadth and quality of our courses, our effective teaching system and our experienced team are advantages that will serve as catalysts for our future growth. Going forward, we will remain dedicated to empowering each of our students' individual success by constantly evolving and enriching our product offerings to satisfy their needs, which we believe will benefit our long-term growth and contribute to China's economic development against the macro headwinds.

With that, I will turn the call over to our CFO, Selena, to run through our financials.

Selena Lu Lv: Thank you, Tongbo. Hello, everyone. We are excited to start the year with encouraging first quarter results. Our net revenues reached RMB613.3 million during the quarter, above the top end of our guidance range despite an 11.7% year-over-year decrease, as we remain unwavering regarding meaningful and sustainable growth instead of blind pursuit of scale expansion amid the existing complex macroeconomic environment.

Meanwhile, we continued to manage our costs responsibly, thanks to which our operating expenses in the first quarter declined by 48.1% year-over-year. As a result, we sustained our profitability in this quarter, with net profit margin reaching 29.3%, representing a substantial 37-percentage point increase year-over-year.

Notably, we also maintained positive operating cash flow in the first quarter at RMB10.1 million.

We are confident that our improved operational efficiency and profitability, combined with our unremitting efforts to diversify course offerings and enhance service quality, will drive our future growth while creating additional value for our students, employees and shareholders.

Now let me walk you through some of our key financial results for the first quarter of 2022. All comparisons are year-over-year, and all numbers are in RMB, unless otherwise noted.

In the first quarter of 2022, net revenues were 613.3 million, a decrease of 11.7% year-over-year. Cost of revenue decreased by 9.1% to 96.7 million in the first quarter of 2022 from 106.4 million in the first quarter of 2021. The decrease was primarily due to declined compensation expenses related to our cost of revenues personnel; and reduced insurance-related costs incurred for our integrated online education service package purchased by students.

Gross profit decreased by 12.1% to 516.6 million from 587.9 million in the first quarter of 2021.

In the first quarter of 2022, operating expenses were 345.8 million, representing a 48.1% decrease from 666.6 million in the first quarter of 2021.

Sales and marketing expenses decreased by 51.4% to 295 million in the first quarter of 2022 from 606.4 million in the first quarter of 2021. 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 9.1% to 38.5 million in the first quarter of 2022 from 42.3 million in the first quarter of 2021. The decrease was mainly due to a decrease in rental expenses and declined compensation expenses related to general and administrative personnel.

Product development expenses decreased by 31% to 12.4 million in the first quarter of 2022 from 17.9 million in the first quarter 2021. Product development expenses were mainly comprised of compensation expenses.

Other income decreased by 54.9% to 9.6 million in the first quarter of 2022 from 21.3 million in the first quarter of 2021. 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 first quarter of 2022 was 179.4 million compared with net loss of 53.3 million in the first quarter of 2021.

Basic and diluted net income per share was 27.16 in the first quarter of 2022.

As of March 31, 2022, the Company had 637.7 million of cash and cash equivalents, and 219.9 million of short-term investments.

As of March 31, 2022, the Company had a deferred revenue balance of 2,170.9 million compared with 2,348.2 million as of December 31, 2021.

Capital expenditures were incurred primarily in connection with IT infrastructure equipment and a leasehold improvement necessary to support the Company's operations. Capital expenditures were 0.9 million in the first quarter compared with 1.7 million in the first quarter of 2021.

And now for our outlook. For the second quarter of 2022, Sunlands currently expects net revenues to be between RMB520 million to RMB540 million, which would represent a decrease of 14.2% to 17.4% year-over-year. This outlook is based on the current market conditions and

reflects the company's management's current and preliminary estimate of market, operating conditions and customer demand, which are all subject to change.

With that, I'd like to open up the call to the 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, and have a wonderful day.