

**Sunlands Online Education Group [STG]
Q4 and FY22 Earnings Conference Call
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Executives

Yuhua Ye, IR Representative
Tongbo Liu, CEO and Director
Selena Lu Lv, CFO and Director
Hangyu Li, Financial Controller

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Sunlands' Fourth Quarter and Full Year 2022 Earnings Conference Call. (Operator Instructions). Today's conference call is being recorded.

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

Yuhua Ye: Hello, everyone, and thank you for joining Sunlands' fourth quarter and full year 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; our CFO, Selena Lu Lv; and our Financial Controller, Hangyu Li. Selena will provide an update on our operational performance on behalf of our CEO, Mr. Liu, and then Hangyu will give you an overview of our financial performance on behalf of Selena. 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 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 CFO, Selena Lu Lv.

Selena Lu Lv: Thank you, Yuhua. Hello, everyone. Welcome to Sunlands' fourth quarter and full year 2022 earnings conference call. Thanks to [the] unwavering execution of our balanced growth and profitability strategy, we concluded 2022 with sustained growth in both new student enrollments and our bottom line in the fourth quarter.

We maintained our disciplined cost management practices and streamlined operations to boost our efficiency and profitability, driving our quarterly net income to RMB181 million in the fourth quarter and our full-year net income to RMB643 million, more than triple that of 2021.

During the quarter, we also sharpened our strategic focus on diversifying our course content, enhancing our course and service quality, and improving student acquisition efficiency, leading to a 48.2% year-over-year increase and a 19.5% quarter-over-quarter increase in the new student enrollments.

As we strove to expand our margins while keeping long-term, healthy growth in mind, we continuously optimized our product mix in 2022. Given the structural shift in industry, we focused largely on refining our master's degree-oriented and professional skills programs. Over the past several quarters, consumers have become more conservative with their discretionary spending due to the uncertain impact of the macro environment on their work and life. This consumer sentiment has created challenges in the market demand for costly continuing education programs.

However, despite the difficult market conditions, we also seized the new opportunities as they arose. In response to the national policy of building a lifelong learning society and enriching adults' lives through education, we gradually adjusted our course content offerings to reflect the market dynamics. Accordingly, we directed more of our resources to those trending programs. For example, we further pursued the opportunities fueling the ongoing market demand for skill and interest courses by expanding our professional certification and skills programs, which yielded encouraging results.

In addition to exam preparation courses for certifications, we added a diverse range of skill, interest and hobby courses that cater to a wider student age group. These targeted courses frequently attract students who belong to tightknit, highly-specific interest communities, making it easy to generate word-of-mouth publicity among them. This also creates more cross-selling opportunities and allows us to expand user lifetime value, thereby enhancing our user acquisition efficiency.

In the meantime, the job market remains competitive amid an uncertain macro environment, prompting working professionals to continue to adopt our convenient and efficient platform for the ongoing education and professional exam preparation they need to stay relevant.

Driven by sustained demand for our certification programs and the rising popularity of our skill and interest courses, new student enrollments for our professional certification preparation, professional skills and interest programs in the fourth quarter grew 82.7% year-over-year and 22.4% quarter-over-quarter. For the full year of 2022, new student enrollments for these programs increased by 59.8%.

Alongside our continued product mix optimization, we have been prudently exploring new monetization opportunities to drive our future growth. As we mentioned last quarter, we innovatively combined the sale of merchandise with courses to create additional value for our students. Going forward, we will continue to delve into the research of other potential revenue streams to diversify our product and service offerings, enhancing our resilience against various challenges.

Last but not least, in the fourth quarter, we remained focused on cost efficiency, and refined operations to help us navigate the persistent macro uncertainties despite the lifting of the pandemic restrictions. We continued to streamline our organization to boost efficiency and agility.

Meanwhile, we kept a close eye on our operating expenses to ensure every penny is well spent. The disciplined expense control led to a year-over-year decrease of 10.5 percentage points in sales and marketing expenses as a percentage of net revenues in the fourth quarter. However, such decrease did not result in a decline in new student enrollments, which speaks to the effectiveness of our student acquisition and expense management strategies. Given this, we believe our keen focus on cost control and efficiency enhancement will prepare us to emerge stronger when new opportunities arrive.

As we progress into 2023, we remain committed to refining our products and services to fulfill a wider age group's learning needs while amplifying our operational efficiency improvement efforts to support our long-term, sustainable growth.

That concludes Tongbo's prepared remarks. With that, I will turn the call over to our Financial Controller, Hangyu, to run through our financials on behalf of me.

Hangyu Li: Thank you, Selena. Hello, everyone. Amid a persistently challenging macro environment, our net revenues came in at RMB578.6 million in the fourth quarter, representing a 1.7% year-over-year decrease, but beating the high end of our guidance range by 7.1%.

As we continued to execute cost reduction and efficiency optimization measures, we successfully brought our fourth quarter operating expenses down by 16.1% year-over-year, which contributed to enhanced profitability as reflected in our 20% year-over-year increase in net income.

Our net income margin also expanded further to 31.3% in the fourth quarter from 25.6% in the same period of 2021 and 29.2% in the prior quarter.

In 2023, we will continue to deepen our strategy balancing business growth and profitability as we strive to create incremental value for our stakeholders.

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

In the fourth quarter of 2022, net revenues were 578.6 million, a decrease of 1.7% year-over-year. Cost of revenues decreased by 15.8% to 75.3 million in the fourth quarter of 2022 from 89.4 million in the fourth quarter of 2021. The decrease was primarily due to declined

compensation expenses related to reduction in the headcount of our cost of revenues personnel, including teachers and mentors.

Gross profit increased by 0.8% to 503.3 million from 499.5 million in the fourth quarter of 2021.

In the fourth quarter of 2022, operating expenses were 336 million, representing a 16.1% decrease from 400.5 million in the fourth quarter of 2021.

Sales and marketing expenses decreased by 19.7% to 272.5 million in the fourth quarter of 2022 from 339.4 million in the fourth quarter of 2021. The decrease was mainly due to lower spending on branding and marketing activities and declined compensation expenses related to reduction in the headcount of our sales and marketing personnel. Also contributing were declined rental expenses contributed to the early termination of certain lease contracts.

General and administrative expenses increased by 11.1% to 56.1 million in the fourth quarter of 2022 from 50.5 million in the fourth quarter of 2021. The increase was mainly due to the increase in professional service fees.

Product development expenses decreased by 30.8% to 7.4 million in the fourth quarter of 2022 from 10.7 million in the fourth quarter of 2021. The decrease was mainly due to declined compensation expenses related to reduction in the headcount of our product development personnel.

Other income in the fourth quarter of 2022 was 4.9 million, compared with other expense of 3.1 million in the fourth quarter of 2021.

Net income for the fourth quarter of 2022 was 181 million, compared with 150.8 million in the fourth quarter of 2021.

Basic and diluted net income per share was 26.03 in the fourth quarter of 2022.

As of December 31, 2022, the company had 757.4 million of cash, cash equivalents and restricted cash and 70.5 million of short-term investments.

As of December 31, 2022, the company had a deferred revenue balance of 1,690.9 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 0.7 million in the fourth quarter compared with 5.2 million in the fourth quarter of 2021.

For more of our 2022 full year financial results, please refer to our earnings press release for further details.

And now for our outlook. For the first quarter of 2023, Sunlands currently expects net revenues to be between 530 million and 550 million, which would represent a decrease of 10.3% to 13.6% year-over-year. This outlook is based on the current market conditions and reflects the

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

That concludes Selena's prepared remarks. 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).

At this time, we are showing no further questions, so this will conclude our question-and-answer session. Now, I would like to turn the conference back over to Yuhua 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: Thank you. This concludes this conference call. You may now disconnect your lines. Have a wonderful day. Thank you.