

QuantaSing Group
Q3 2025 Earnings Conference Call
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Executives

Leah Guo, Associate Director of Investor Relations
Peng Li, Founder, Chairman and CEO
Tim Xie, CFO

Analysts

Michael Kim, Zacks
Alice Cai, Citibank

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to QuantaSing's earnings conference call. (Operator Instructions). We will be hosting a question-and-answer session after management's prepared remarks. Please note that today's event is being recorded.

I will now turn the conference over to Ms. Leah Guo, Investor Relations Associate Director of the company. Please go ahead, ma'am.

Leah Guo: Thank you. Hello, everyone, and welcome to QuantaSing's earnings call for the third quarter of fiscal year 2025. With us today are Mr. Peng Li, our founder, chairman, and CEO, and Mr. Tim Xie, our CFO. Mr. Li will provide a business overview for the quarter, and then Tim will discuss the financials in more detail. Following their prepared remarks, Mr. Li and Tim will be available for the Q&A session. I will translate for Mr. Li.

You can refer to our quarterly financial results on our IR website at ir.quantasing.com. You can also access a replay of this call on our IR website when it becomes available a few hours after its conclusion.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call, as we will be making forward-looking statements. Please note that all numbers stated in the following management prepared remarks are in RMB terms. And we will discuss non-GAAP measures today, which are more thoroughly explained and reconciled to the most comparable measures reported in our earnings release and filings with the SEC.

I will now turn the call over to the CEO and Founder of QuantaSing, Mr. Li.

Peng Li: Okay. Good morning, everyone. Thank you for joining us, Q3 2025 earnings call. I'm pleased to share an update on our performance and strategic direction as we continue our transformation journey. This quarter marked a significant milestone in our evolution. We achieved revenue of RMB 570.7 million. This reflects our ongoing strategic shift from traffic-driven to product-driven business models.

More importantly, we completed the consolidation of Letsvan on March 31st. This positions us at the forefront of the high-growth pop toy market. I should note that our Q3 results include only balance sheet consolidation from this acquisition. Profit consolidation began on April 1st and will be reflected in our Q4 results.

Before I discuss our exciting new venture, let me update you about our existing businesses. They continue to demonstrate the strength of our disciplined approach to growth. We maintain strict ROI assessment across all resource allocation decisions. This ensures we invest promptly in promising opportunities while maintaining financial discipline.

In our financial literacy program, our offerings remain well-received by users. We've expanded our community outreach with three major financial anti-fraud education initiatives this quarter. These programs not only fulfill our social responsibility commitments, but also strengthen our brand presence among the general public and broader society.

Our senior-focused recreation and leisure courses continue to excel with strong retention rates. Particularly noteworthy is our calligraphy program, which has achieved repeat purchase rates exceeding 65%. We also developed an innovative combination of online learning and offline graduation trips, successfully delivering our first trip to over 30 participants with a 100% satisfaction rate. Our second cohort of over 50 participants demonstrates the growing demand for this integrated approach. Building on this success, the sixth annual Qianchi Cup calligraphy competition attracted over 800 participants. Selected works were featured at national education events in Beijing's Chaoyang District.

Expanding beyond calligraphy, our study tour business now spans 13 cities across 4 course categories. We've delivered over 30 sessions. Early pre-sales for our 2025 tour packages generated a strong initial response. This validates strong market demand for our integrated approach. Meanwhile, our health and wellness product business through Zhiqutang continues to deliver stable performance, while serving senior consumers with an expanding portfolio of tailored products and services, enhancing our revenue diversification and deepening engagement with this key cohort.

Our existing businesses continue to generate positive cash flow, providing a solid foundation for our strategic expansion. The solid performance in our existing businesses stems from a fundamental philosophy. This philosophy has guided us throughout our history. We identify promising market opportunities through careful analysis and disciplined execution. Our proven formula combines thorough market evaluation, test-and-scale methodology, and data-driven decision-making.

What sets us apart is our commitment to sustainable growth. We build on brand strength and product excellence, rather than traffic-driven models. We believe true long-term value creation

comes from developing core competencies. These are in-product development and brand building. This approach ensures more stable, sustainable growth compared to businesses reliant primarily on marketing expenditures.

This disciplined approach has preserved our robust cash position. It enables us to capitalize on strategic opportunities like the Letsvan acquisition while maintaining financial resilience. We continually evaluate all our business lines based on ROI performance and strategic fit. This ensures optimal resource allocation. This brings me to our most significant strategic move this year.

Our entry into the pop toy market represents the natural evolution of our strategic philosophy. Let me share why this market captured our attention. According to Frost & Sullivan, the global toy market is massive and is expected to experience steady growth in the future.

In terms of GMV, the global toy market grew at a CAGR of 5.2% from RMB 631.2 billion in 2019 to RMB 773.1 billion in 2023, and is expected to further grow at a CAGR of 5.1% to reach RMB993.7 billion in 2028.

The pop toy business exemplifies our product-driven growth strategy, with success factors such as premium IP quality, innovative product design, and sustained investment in IP cultivation and operations. When amplified through precision marketing and operational strategies, the fundamentals collectively forge enduring brand loyalty and long-term IP vitality.

After careful market evaluation, we identified Letsvan as the ideal platform to enter this high-growth market. What made this partnership so compelling was how Letsvan's product development expertise perfectly complements our strengths in market operations. This creates powerful synergies.

Letsvan has demonstrated excellence in IP development and avant-garde design intelligence. This perfectly complements our established competencies in marketing and operation ecosystems, private traffic monetization, and omni-channel commercialization. Together, we are creating a complete value chain from IP creation to monetization. I'm pleased to report that we're already seeing promising results since our management team began executing Letsvan's growth strategy in December 2024.

Let me walk you through our two-pillar approach to building this business starting with product excellence and brand development, Letsvan has built a strong IP matrix. This features popular characters such as WAKUKU, ZIYULI, FUNII, FIILA and PIDOL, among other distinctive IPs. Since our investment in December 2024, we've focused on operating IP WAKUKU. This was incubated in 2024 and achieved excellent market performance in Q1 2025.

The market validation has been remarkable. Our WAKUKU Pandada release on March 29th achieved the second-highest single-day sales record in our key distribution partner's Beijing flagship store history. This exceptional performance demonstrated both our market strategy and innovation capabilities. Building on this momentum, the launch of second-generation WAKUKU fuzzy series, the Fox & Bunny Trick or Treat collection on May [17th] at key distribution partner locations in Shanghai and Nanjing achieved record-breaking single-day sales at our flagship partner store in Shanghai.

This performance highlights our products' strong consumer appeal in China's premium urban markets, including major economic hubs and their rapidly-developing counterparts. The subsequent online release on May 20th on leading Chinese consumer platforms generated immediate purchase momentum, with impressive sales figures and sustained growth in user engagement and organic content creation.

WAKUKU has built breakout cultural momentum through its distinctive design and aesthetic appeal. The brand has earned unsolicited endorsements from A-list celebrities. Today, prominent artists, actors, and athletes are showcasing WAKUKU products. This approach is driving deep engagement and user-generated content across social media platforms. What makes this even more impressive is the WAKUKU theme song, which has now surpassed 1 billion organic impressions across digital platforms.

ZIYULI, another significant IP in our portfolio, has made significant strides in establishing itself as a culturally-relevant IP through a variety of initiatives, such as partnering with a contemporary luxury women's wear brand to create limited-edition resin art dolls. These were launched through exclusive pop-up events at prestigious locations, TaiKoo Li Sanlitun in Beijing and SKP in Xi'an. This collaboration significantly elevated the IP's artistic credentials.

Additionally, our groundbreaking Blue & White Porcelain ZIYULI series has successfully bridged the gap between heritage and modernity. We've fused intangible cultural heritage with contemporary design, creating collectibles and lifestyle products that bring traditional craftsmanship to modern consumers.

Moving to our second pillar, distribution and market expansion. We're implementing a comprehensive omni-channel strategy. We're exploring innovative direct-to-consumer retail formats through experiential pop-ups and I'm excited to share some progress. Our first pop-up store debuted on May 24th at Beijing Chaoyang Joy City, consistently ranked among the capital's most visited shopping destinations.

This isn't just a retail place, it's an immersive space that brings together four key elements: curated IP exhibitions, interactive art installations, exclusive product drops, and social-sharing environments. At the same time, we've activated a themed IP showcase at Beijing Solana Lifestyle Shopping Park.

As of our earnings disclosure date, Letsvan has established themed sections in key distribution partner stores across multiple core commercial districts nationwide. We've completed product coverage and standardized display pilots in key cities and major commercial areas. We've initially formed a nationwide network of offline consumer touch points and brand display presence.

Simultaneously, we're enhancing our online capabilities to empower Letsvan. Our multi-platform approach now includes self-operated channels on social media platforms, which are driving a strong initial response and encouraging user-generated content engagement.

Looking beyond China, we are expanding internationally with new subsidiaries in Indonesia, Thailand, and Malaysia. Our collaboration on June 2nd with key distribution partners at their

Bangkok flagship store marks a significant step in our global partnership strategy and our first international offline pop-up.

In Southeast Asia, we are partnering with top-tier local influencers, generating buzz and sales through social platforms, which is boosting brand awareness in the region. Moving forward, we will focus on advancing our IP-driven products international expansion plan to strengthen our presence in global markets and enhance our content and product reach. Our first international collaboration demonstrates both the global appeal of our IP portfolio and our systematic approach to international expansion.

I know many of you have questions about the potential risks to this long-term viability of the pop toy industry. Let me address the key concerns we're hearing from investors. The reason we're confident in the long-term viability of this industry comes down to fundamental consumer behavior shifts. Pop toys have become powerful vehicles for self-expression, particularly among millennials and Gen Z.

The sector has proven resilient, with key players sustaining strong growth even in economic downturns. This stems from the industry's collector-driven model and accessible pricing, which foster lasting engagement. Today's consumers increasingly prioritize emotional value over pure functionality. They are seeking comfort, identity affirmation, and connection through their purchases, and pop toys deliver exactly that.

As we look to the future, Q4 will reflect full consolidation of Letsvan's operations, giving a clearer visibility into our combined performance potential. While maintaining steady operations in existing businesses, we're accelerating pop toy business growth through dedicated teams and strategic resource allocation. All of this is guided by consistent ROI tracking to ensure that we maximize returns on every investment. Our proven test-and-scale approach remains key. We expect positive cash flow, though we anticipate some near-term profit volatility as we continue to optimize and scale our operations.

Beyond all operational strategies and market tactics, what truly matters for long-term success are two key elements: product excellence and brand power. These are essential for fueling sustainable growth and delivering long-term value to shareholders. Thank you for supporting our transformation journey. We're excited about the road ahead and will keep you updated on our progress.

I'll now turn it over to Tim for a detailed review of our financial results. Thank you, everyone.

Tim Xie: Thank you. Before I go into the details of our financial results, please note that all amounts are in RMB terms, that the reporting period is the third quarter of fiscal year 2025 ending on June 30, 2025, and that in addition to GAAP measures, we will also be discussing non-GAAP measures to provide greater clarity on the trends in our actual operations.

In March, we completed the acquisition of a 61% equity stake in Shenzhen Yiqi Culture, also known as Letsvan, for total cash consideration of 235 million RMB through a multi-step transaction. We began consolidating Letsvan's results into our financials starting April 1st, and their assets and liabilities have been included at fair value in our consolidated balance sheet as of

March 31st. Please note that the income statement discussion that follows does not include Letsvan's operating results for the quarter.

For the third quarter of fiscal year 2025, our total revenues were 570.7 million, representing a 39.6% decrease year-over-year. This reflects our deliberate approach to business development as we transition from traffic-driven growth to high-quality growth.

Among our revenues, individual online learning services generated revenues of 467.2 million, accounting for 81.9% of total revenues. This business line continues to operate effectively, generating steady cash flow that supports our strategic initiatives.

Our gross billings from individual online learning services were 515.6 million, representing a decline of 47.5% year-over-year. We view this as a natural progression during this strategic transformation of our product mix.

Revenues from enterprise services were 48.1 million, a decline of 26.1% from a year ago, and representing 8.4% of total revenues. The decline was mainly due to fewer marketing services for enterprise customers.

Revenues from our consumer business were 48.7 million, down slightly from 49.4 million a year ago. The slight change was primarily attributable to the decline in baijiu revenue, partially offset by a modest increase in wellness products revenue.

And finally, revenues from others were 6.7 million, up significantly from 3 million in the same period last year, primarily due to revenue from the Company's newly initiated business.

Gross profit for the quarter was 474.2 million, with a gross margin of 83.1% compared to 84.6% in the same period last year. This margin change reflects our strategic shift towards more product-focused offerings, which naturally carry a different cost structure.

On the operational front, we continued to prioritize effective cost management while investing in our strategic initiatives. Total operating expenses were 441.1 million, a decrease of 45.2% from 804.9 million in the same period last year.

To break this down, sales and marketing expenses decreased by 45.8% to 395.2 million, primarily due to reductions in marketing and promotion expenses, labor outsourcing costs, and staff costs. As a percentage of total revenue, non-GAAP sales and marketing expenses, which exclude share-based compensation, decreased to 69.1% from 76.9% a year ago.

Research and development expenses declined by 46.2% to 20.9 million, reflecting our focused approach to product development and decreased staff costs. As a percentage of total revenue, non-GAAP R&D expenses, which exclude share-based compensation, decreased to 3.6% from 3.7% a year ago.

General and administrative expenses decreased by 31.2% to 25 million, mainly due to lower staff costs and a subsequent decline in share-based compensation expenses. As a percentage of total revenue, non-GAAP G&A expenses, which exclude share-based compensation, are 3.9% compared to 3% a year ago.

We achieved a net income of 41.1 million, representing a net margin of 7.2%, despite the decline in revenues. Our adjusted net income, which excludes share-based compensation, was 37.8 million, representing an adjusted net margin of 6.6%.

Basic and diluted net income per share were both 0.25 during the quarter. Adjusted basic and diluted net income per share were both 0.23 during the quarter.

Regarding our balance sheet position, as of March 31, 2025, we held 1,134.9 million in cash and cash equivalents, restricted cash, and short-term investments, representing an increase of 108.6 million from 1,026.3 million as of June 30, 2024. This enhanced liquidity position demonstrates our ability to generate cash in this period of transition, and our financial foundation remains robust as we forge ahead with our strategic evolution.

Looking ahead, our disciplined capital allocation, strong cash generation capabilities, and ROI-focused assessment methodology provide us with a solid foundation during this transformative phase in our business. As we move into the next quarter, our financials will provide greater visibility into the results of our strategic transformation, as we'll be consolidating Letsvan's operating results for a full quarter period.

Our strategic resource reallocation away from traffic-driven businesses and improved operational focus give us confidence in our ability to execute. We remain committed to maintaining our robust financial position and transparent communication with our shareholders as we progress in our strategic evolution.

That concludes my prepared remarks. Operator, let's open up the call for questions. Thank you.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Michael Kim with Zacks.

Michael Kim: First, just curious if you could speak a bit more to the strategic vision for Letsvan, and just how you plan to leverage the company's marketing expertise to enhance growth going forward?

Peng Li: Yes, sure. Thank you for your question. I will answer in Chinese. (Speaking foreign language).

(Translated). Since its launch in 2020, Letsvan has built its presence across global artist discovery, IP incubation and management, copyright commercialization, promising pop toy culture and related industry investment. Our goal is to become a global leader in IP and cultural innovation as well as a top player in the pop toy industry.

Leveraging Letsvan's established IP portfolio and proven operational expertise in pop toys, QuantaSing will drive Letsvan's omni-channel expansion. We will share our fundamental capabilities, particularly in our founding team's expertise in corporate leadership, business operations, digital infrastructure development, and user growth, to bridge online and offline retail channels. Our collaboration will establish a complete ecosystem spanning IP development through immersive consumer experiences.

This collaboration represents modern resource consolidation. It's powered by the QuantaSing's two core competencies honed in adult online learning, that translate perfectly into pop toys. First, our data-driven marketing approach lets us precisely target consumers using our proven brand management system, creating comprehensive brand impact.

Second, with our extensive community management expertise, we will enhance user experience to drive community engagement and loyalty. Through fully integrating product development, operations and marketing capabilities, we're confident that we will successfully upgrade its brand, while expanding its business in the pop toy market.

To be specific, we will cultivate world-class operational competencies across the following dimensions to ensure flawless execution and tangible business outcomes. The first is our original IP incubation. We've developed a systematic IP cultivation framework and methodology that identifies emerging cultural trends, executes targeted creation development and implements rapid market validation. This data-informed approach has already yielded 10 distinctive IP assets as of March 2025.

Second is holistic product innovation strategy. We merge cutting-edge trend sensibilities with artistic integrity, translating nuance to consumer insights into market-defining IP products, fortifying the cornerstone of our enduring IP ecosystem.

Third is our IP influence expansion initiative. We'll run a smart social network, connect online-offline channels smoothly, and launch creative campaigns creating a complete promotion loop that keeps our IPs hot and trending.

Fourth is end-to-end supply chain optimization. We team up with the best factories in the business, building strong partnerships to build top-quality products. We're always finding ways to speed up production and improve quality, so we can keep up with what consumers want.

Fifth and finally is our omni-channel growth strategy. We are deeply tied with trusted distributors, while rolling out our own direct sales channel, both online stores and physical retail stores, to build a complete flexible sales network.

Our IP pop toys business runs as one complete system. We always put products first, constantly improving how we work to quickly boost Letsvan's performance and bring fresh energy into the industry.

Peng Li: Okay. That's all for the question. Thank you.

Michael Kim: Great, that's very helpful. And then just maybe to follow-up, any sense of what the current sales mix for Letsvan looks like just in terms of products, IP, channels or maybe geographies?

Tim Xie: Michael, I'll take your question. Yes, that's a good question. I think just as mentioned by Matt, our Chairman and CEO, just now, as of end of this quarter, Letsvan has already created 10 original IPs. Since our investment in Letsvan in December last year, we are focusing this year on building two to three standout IP-based pop toy products to establish our brand in the market.

We are growing our IP portfolios through continuous in-house development and licensing, third-party IPs constantly upgrading both our product quality and business scale. Letsvan has strong IP development capabilities and well-established partnerships with major pop toy retailers. This year, we are doubling down on these relationships, working closely with key partners to launch hit IP products through co-marketing and joint operations. This approach should boost both brand recognition and sales performance this year.

And also, we are rapidly expanding our pop toy IP lineup, while building our own retail network both online and offline. Our successful pop-up store at Beijing Chaoyang Joy City that's launched in May – last month – proved the model. And based on its strong performance metrics, we are now accelerating the rollout of more branded stores. We expect our direct retail sales to grow significantly through late-2025 and into 2026.

Concurrently, we are optimizing our omni channel online operations by integrating social media traffic, e-commerce platform resources and proprietary online channels to create a seamless integrated online to offline marketing ecosystem.

From a regional perspective, currently, mainland China remains our primary revenue source. We have begun expanding internationally this year, especially since the acquisition and consolidation of the business, launching in Southeast Asia and laying the groundwork for North America. We are committed to growing globally. And while 2025 marks our first step overseas, we expect our geographic mix, sales mix, to become more diverse in the coming years. Thank you.

Michael Kim: Great. Thanks for taking my questions.

Operator: Alice Cai with Citibank.

Alice Cai: I have two questions. Specifically, first, what revenue contribution do you expect from Letsvan in Q4? And second, given the decline in education revenues, how will you balance the traffic allocation between the lines of business and new initiatives? And will you continue reducing education marketing spend lending to the online bank expansion? And finally, when do you expect overall revenue to return to growth in the fiscal year 2026?

Tim Xie: Thank you, Alice. I will take your questions. Yes, it's very, very important. So as we have just disclosed, the profit and loss statement of Letsvan business will be merged and consolidating to QSG Group's consolidated financial statements starting from April 1. And also WAKUKU, our key IP and also other IPs, all of the financial statements will be merged in the future, starting from April 1. And we will disclose the specific information in a timely manner.

Since investing in Letsvan, based on its excellent product strength, we'll continue to focus on operating WAKUKU and one to two other core IPs, as I just mentioned in the last question. Currently, the overall sales process of Letsvan is very good with a significant year-on-year improvement since our acquisition. And also currently, we are cooperating with key channel partners and the shipping price has a certain discount on the terminal price because of this sales model. At the same time, this year, we will increase the proportion of our own self-operated channels and the overall income level, and also the price level will gradually improve.

And in terms of the Q4 estimate and forecast I think with the deepening of our strategic adjustment of the business model and also the improvement of our integrated operations with Letsvan, it is expected that the pop toy business will account for a very significant level of overall revenue at the consolidated level in the next quarter, starting from the next quarter, in fiscal year 2025 Q4. We will continue to optimize the operating system of the pop toy business, and we will also disclose revenue guidance as soon as possible at the proper time.

In terms of the traditional education-related business, we continue to search for and explore high-quality growth business models. And we view and we are independently evaluating their performance based on specific business types from a fundamental perspective. I think the current decline in revenue from the education-related businesses is also our deliberate result of the strategic transformation from traffic-driven to product-driven business model. As you can see, although our revenue has declined, we still maintained stable profit performance and a solid balance sheet.

Next, we will continue to evaluate the ROI -- UE -- or such kind of KPIs and especially the long-term user value of this type of business in order to optimize the overall business foundation. For Letsvan's pop toy business, it has a great growth potential and business model. And it seems that the fund operating resources and foundation we have accumulated are sufficient to support the development of this business. Maybe we will disclose as a separate business segment in the next quarter and this business, we see very independently. We see that it has a very bright future in terms of both the revenue and the mid-term and long-term bottom line.

We will -- for the revenue recovery or maybe in the next two quarters, or next year, we will still independently evaluate the optimization of business models and the revenue growth arrangements for different types of businesses. For the overall revenue growth of the group, we expect the revenue of the pop toy business to continue to show a strong growth trend, which we'll be seeing in the relevant figures in the subsequent quarterly disclosures.

We will evaluate the revenue growth of other business segments specifically, and only attempt to start growth again on the basis of meeting conditions such as product quality-driven, good UE performance, and good user feedback, the kind of product-driven based KPIs. Yes, so that's my answer, yes. I hope that helps. Thank you.

Alice Cai: Thank you, team, for your updates, very helpful.

Operator: Since there are no further questions, I'd like to hand the conference back to management for any closing remarks.

Leah Guo: Thank you again for joining our call today. If you have any further questions, please feel free to contact us, also [needs] a request through our IR website. We look forward to speaking with everyone in our next call. Have a good day.

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