

QuantaSing Group
Q3 2023 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

Liping Zhao, CICC

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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 2023. With us today are Mr. Peng Li, our founder, chairman and CEO, and Mr. Tim Xie, our CFO. Mr. Li will give a general business overview for the quarter, and then Tim will discuss the financials in more details. 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 third fiscal quarter 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's 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. Thank you, everyone, for attending this meeting. I'm Peng Li, the founder and CEO of the company. Our commitment to our mission of improving people's quality of life through interest-based learning led to positive results in the third fiscal quarter of 2023. With strong pipeline visibility, diversified revenue streams, and an expansive addressable market, we were able to maintain our revenue growth and profitability path.

During the quarter, we recorded 16.8% year-over-year revenue growth and an adjusted net income of RMB21.7 million. This marks our second profitable quarter in a row.

Our strong pipeline visibility is shown by our registered user growth. As of March 31, 2023, we had around 86.3 million registered users. This is a 76.5% increase from the previous year. The number of paying learners grew by 45.4% year-over-year to approximately 0.4 million. Our focus on agile, scalable business models has allowed us to rapidly expand our course offerings and attract a large and growing user base. Since August 2021, we have ventured into offering training courses tailored to personal interests, a strategic move that has garnered consistent repeat purchases.

We are especially delighted by the results of this quarter, as our diverse and engaging courses have generated an impressive 11% repeat purchase rate. This figure has been steadily growing since the launch of our personal interest brands. We have developed various ways to ensure customer loyalty and encourage repeat purchases. We do this by providing a high-quality and engaging experience for our learners.

Our dual-instructor model of livestreaming and community building combines practical exercises, one-on-one coaching, pre-recorded lectures, and supplemental Q&A live courses. These features enhance the joy and effectiveness of learning by fostering interaction and communication between instructors and learners. We follow the principle of service-driven excellence to ensure that learners receive the best possible value from our courses. Our courses are customized to our learners' specific needs, with a focus on developing their skills and abilities.

We also provide other courses that offer professional value-added services. These allow our learners to apply what they have learned in practical settings. Our user-centered courses and service provision are subject to a stringent review process. This process involves careful selection of our tutors and instructors, training, and service standards. Our repeat purchase rate provides us with excellent visibility into our sales pipeline. As such, we are able to forecast revenue and manage our budget with greater accuracy.

Our commitment to diversified revenue streams has been a critical factor in our growth trajectory. By offering a wide range of services to both individuals and enterprises, we have been able to meet the needs of learners from diverse backgrounds and tap into various markets and revenue streams. We remain dedicated to addressing the dynamic demands of the business landscape, and we have been developing our enterprise-oriented services accordingly. This is exemplified by our Train the Trainer Training Camp, or TTT Camp. Led by experienced internal training specialists, this comprehensive course empowers novice trainers with essential skills across a wide range of modules. Covered topics include course development, activity design, presentation skills, and mastery of training knowledge. Participants gain hands-on experience in

creating materials, designing activities, delivering impactful presentations, building expertise, and enhancing the overall training experience.

In addition to our TTT Camp, our expanding suite of enterprise-oriented services is equipping businesses with the necessary tools and training to optimize talent management and development. By extending our service offerings to enterprises, we position ourselves as a two-sided service provider. Our solutions address the needs of both individuals and enterprises. This strategy reaffirms our commitment to delivering unmatched value and fostering enduring success within the corporate sector.

Moreover, our targeted approach to course offerings provides exceptional value to our learners while maximizing our revenues. During the third fiscal quarter, revenue from other personal interest courses grew to RMB238 million, contributing 29.5% of our total revenues.

We continuously introduce high-quality, appealing, and accessible content that resonates with our users. Our courses help people expand their horizons, enrich their lives, and achieve self-fulfillment. Through strategic course development, we address in-demand topics, and capitalize on higher profit margins, expanding our reach and seizing new opportunities for revenue growth. These efforts reflect our unwavering commitment to empowering learners and helping them thrive in an ever-changing world.

Take the example of a retired man in Harbin who found joy in learning calligraphy through our platform. He finally had the time and opportunity to pursue his passion. Calligraphy not only brought him happiness and satisfaction, but also improved his hand-eye coordination. We are thrilled that our interest-based learning courses gave him the opportunity to reach his goals and better his life.

Another example is a 54-year-old homemaker who discovered our memory training course and improved her memory through regular practice. Our instructor's unique and engaging lecture style, combined with regular reviews, made the learning experience both enjoyable and informative. The homemaker expressed her gratitude for the useful course, which has improved her self-confidence. She also praised the online learning atmosphere, which helped make the experience positive and impactful.

Finally, we have the inspiring story of a man who leads a fulfilling life, owning a Taobao bookstore and beauty store. Recently, he decided to try making short videos. To learn about video editing, he turned to our JiangZhen platform and quickly acquired the skills needed for his new interest. He then created videos inspired by the characters from the TV series, Dream of the Red Chamber. The content is original and innovative, and reflects his personality and interests, which helps him to expand his follower base, and he is now able to share his creations with a wider audience. We are proud that our accessible and diversified learning resources can empower individuals to pursue their passions and achieve their dreams.

At QuantaSing, we are committed to creating a vibrant community that fosters collaboration and interaction among our learners. Our courses offer top-quality content and encourage engagement and participation. As well as our online offerings, we host a range of offline activities such as workshops, meet-ups, and networking events. One such event that we recently hosted was the

Memory Challenge on March 25. The event was followed by thousands of people, and around 1,000 registering to take part. From these applications, 30 people were selected to participate in the offline finals. The finalists had the opportunity to engage with an International Master of Memory, our memory instructors, and memory experts. It was an exciting and engaging event that showcased our commitment to building a strong community and promoting lifelong learning.

In February 2023, we launched a sales training program for paying users of our advanced short video courses. The program is the industry's first-of-its-kind, closed-loop learning model based on the knowledge-practice application cycle. It provides learners with product selection assistance and further facilitates the practical application of knowledge by our learners.

In an aging society like China, there is a significant market demand for the senior citizen learning. According to the WHO, the percentage of people in China aged 60 or above is expected to rise from 18.7% in 2020 to 28% in 2040. This will create a huge opportunity for us to help seniors embrace lifelong learning. Our QianChi and JiangZhen platforms provide user-friendly interest-based learning resources that benefit senior learners. Our courses provide opportunities for learners to build self-confidence and self-esteem through social connections. As a result, our senior learners can develop a greater sense of belonging and fulfillment.

In addition, our diversified course content allows users to access learning materials in different fields and expand their horizons. This can help people develop self-sufficiency skills, which they can apply to other areas of their lives. As we continue to serve this growing market, we are confident that we can create value for both our learners and shareholders. This will position us for continued success in this market.

To summarize, we have sustained our revenue growth while efficiently controlling costs to boost our path to profitability and improve our cash flow. Our continuous efforts in optimizing our cost structure have begun to bear fruit. This is evident from our 2 consecutive quarters of positive adjusted net income. With our innovative course offerings and focus on user engagement, along with our steadfast dedication to financial prudence, we are confident in our ability to thrive. We are excited about the huge opportunities ahead, and look forward to delivering value to our shareholders in the long run.

With that, I will turn the call over to Tim to discuss the details of our financials.

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 2023 that ended on March 31, 2023; 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.

For the third quarter of fiscal year 2023, we grew our total revenues by 16.8% year-over-year and 2.6% quarter-over-quarter to 807.2 million, mainly driven by growth within our individual online learning services.

Among our revenues, revenues from individual online learning services grew by 21.2% year-over-year to 724.7 million, or 89.8% of total revenues, mainly due to continued demand for other personal interest courses, consistent with our strategy to diversify course offerings. Our gross

billings of individual online learning services increased by 30.8% year-over-year to 803.6 million.

Revenues from enterprise services increased by 90.6% year-over-year to 81.1 million, or 10.0% of total revenues, primarily driven by continued robust demand from enterprise customers for marketing and talent management services.

Gross profit was 706.2 million, representing a gross margin of 87.5%, compared to 83.5% in the same period last year.

Total operating expenses increased to 729.3 million from 575.1 million last year. To break this down, sales and marketing expenses were 631.4 million, representing a change of 28.2% year-over-year, as we increased spending on marketing and promotional activities for other personal interest courses. As a percentage of total revenue, non-GAAP sales and marketing expenses, which excluded share-based compensation, increased to 76.7% from 70.1% a year ago.

Research and development expenses were 49.6 million, representing a change of 4.9% year-over-year, as a result of our strategy of investing in technology and data analytics. As a percentage of total revenue, non-GAAP R&D expenses, which excluded share-based compensation, decreased to 5.1% from 5.8% a year ago.

General and administrative expenses were 48.3 million, representing a change of 37.4% year-over-year, as we continued to operate efficiently. As a percentage of total revenue, non-GAAP G&A expenses, which excluded share-based compensation, decreased to 4% from 4.1% a year ago.

Net loss was 22.7 million. Excluding share-based compensation, adjusted net income was 21.7 million, representing an adjusted net margin of 2.7% during the quarter.

Basic and diluted net loss per share were both RMB0.19. Adjusted basic and diluted net income per share were RMB0.14 and RMB0.13 respectively during the quarter.

Turning to our balance sheet. As of March 31, 2023, our company held 850.4 million in cash and cash equivalents and short-term investments, compared to 399.1 million as of June 30, 2022.

Lastly, I want to provide some color for our outlook. For the fourth quarter of fiscal year 2023 that ends on June 30, 2023, we expect revenues to be between 760 million and 790 million, representing a year-over-year increase of between 20.8% and 25.6%. These projections take into consideration the current market conditions prevailing in the industry.

Our strategic focus on personalized online learning services and diversified course offerings drove robust results in the third quarter of fiscal year 2023, even against the uncertain macro backdrop. Looking ahead, we will continue our near-term strategy of prudently optimizing our cost structure and expenses and operating more efficiently and effectively.

With our healthy balance sheet and diversified revenue channels, we are well-positioned to navigate any challenges ahead and capitalize on growth opportunities while delivering further value to our customers and shareholders.

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

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Liping Zhao with CICC.

Liping Zhao: (Speaking foreign language). I have two questions here. First, how should we expect the 4Q and next year growth of QiNiu given the recent relatively soft capital market? And second, could you please elaborate QianChi and JiangZhen's growth strategy, such as new course pipeline, etc.?

Tim Xie: Thank you for your questions. Actually, I will answer these questions because there are mostly related to financial side. So I'll answer in English. Okay. So thank you. For the first question in terms of capital market performance especially this year for our financial literacy courses, we offer -- I think we offer both introductory and premium courses currently. This allows us to cater to the needs of learners with diverse educational backgrounds and learning objectives.

And I think since our beginning of the launch of the courses, our both introductory and advanced courses, such kind of courses target novice learners who wish to acquire basic financial and investment knowledge, but they lack readily available access to easily understandable resources. Our course content extends beyond equity markets and covers a wide range of subjects, mainly covering the basic knowledge and framework of the financial area.

So these subjects range, I think, such as basic knowledge in bonds, insurance, and wealth management products. And also, at this stage, we don't see a correlation between the equity market and our registered users' growth because most of them -- most of our growing learners among the public, they aim to better manage their personal and family wealth by improving their financial literacy. But many of them even do not have a stock account to trade in the equity market.

But I think so in this time, I think the conclusion is that there's no direct relationship between our learners' interest, or maybe their purchase behavior and the capital market. But actually, since the macro environment, the situation make impact on one's feeling of their desire to purchase some courses. And I think maybe since the macro environment, we have some slight impact on some of our purchaser learner's behavior. So I think in -- for the current stage, really talking about our financial literacy courses, we will integrate all of our courses, including the financial and non-financial related courses.

So that's view -- also answer your second question because as we continue to expand our course offerings and diversify our revenue streams, we expect to see some -- maybe some shifts in the proportions of our revenue makeup. Specifically, since our launching of JiangZhen and QianChi respectively in August of 2021 and June of 2022, we anticipate that revenue from the non-

financial literacy personal interest courses will continue to contribute a greater portion of our overall revenue in the future. We have seen strong demand for these courses, and we are actively working to scale up our offerings in these areas.

So as a whole, I think we will seize the opportunity to reserve as much as more pipelines, or our course SKUs and to promote and launch the new SKUs when we see it is profitable. So I think in the future as a whole, even there's some challenge in the macro situation, maybe for every aspect, we think as a whole of the revenue growth, we are very confident for the SKUs growth, both for the financial literacy and also the non-financial literacy. I think as a whole, we will balance the proportion and contribution of each of the courses, considering the return on investment, ROI, and also the lifetime value of our learners.

Hope that answers your question.

Liping Zhao: Got it, very clear. Thanks.

Operator: Danny Jen with CLSA.

Danny Jen: This is Danny Jen from CLSA. So I have two questions today. The first one is how's your progress on deepening cash flow in your personal interest portions segment? And my second question is what sort of progress are you making so far in the enterprise services? So that's it.

Tim Xie: Thank you. So I will answer the question. Thank you for your question. So as for the answer, I think we aim to increase the repeat rate, repeat purchase rate, for our other personal interest courses by providing exceptional service and meeting the evolving needs of our learners. Of course, the formal launch of the repeat purchase promotion operation of our -- for example, the JiangZhen brand started from late last year. So building on the principle of service-driven, we have implemented several strategies to enhance our repeat purchase rate.

I think first, we have been actively customizing courses based on learners' specific needs and preferences. By getting feedback through continuous engagement and understanding what our learners want, and based on our understanding of the learners' behavior, we aim to deliver content that resonates with them. This increases their motivation to repurchase.

And secondly, we place great emphasis on serving our learners beyond course delivery. We design our courses to provide relevant skills and abilities that learners need, complemented by supplementary resources and value-added services. By offering ongoing support and opportunities for further skill development, we aim to enhance the overall learning experience and encourage learners to continue their journey with us. And a successful example of the repeat purchase for our financial literacy courses, we are very confident that by leveraging this kind of experience and operational efficiency, we can also enhance our repeat purchase operation with the learners for our other interest-based courses.

Looking ahead, we expect these efforts to yield positive results in terms of the increased repeat purchase rates. While we do not have specific projections, maybe it is not probable to forecast a very accurate number to share at this time. We remain optimistic about the potential for growth in this area, according to our track record. With our focus on continuous improvement and

personalized learning experiences, we are well-positioned to attract and retain a loyal customer base. I think this will help foster stronger customer relationships and drive repeat purchases in the future. Thank you.

Danny Jen: Thank you. That's very helpful. Thank you.

Leah Guo: Our CFO -- our CEO will take the second question concerning enterprise services.

Peng Li: (Speaking foreign language).

(Translated). We are making great progress in our enterprise services as we focus on meeting the evolving needs of the businesses. We offer many enterprise-oriented services similar to the TTT camp that I have just talked about earlier. One example is our flagship Gold Interviewer Training Camp. This is a comprehensive program designed to equip interviewers with the essential skills needed for making effective hiring decisions. We have very experienced trainers. This camp covers strategy, question formulation, candidate evaluation, and many other relevant topics. This has been well-received by our clients, empowering them to build strong interviewing teams and make confident hiring choices.

Our progress in enterprise services, exemplified by TTT camp and the Gold Interviewer Training Camp, demonstrates our commitment to catering to diverse business needs. At the same time, we maintain a strong focus on quality and relevance. We're constantly innovating and expanding. We have witnessed the customers' growth and customers' success. We are excited about the opportunities ahead, as we drive growth and success for our clients. Okay. Thank you for your question.

Operator: Thank you. (Operator Instructions). Michelle Fang with Citi.

Michelle Fang: I now have two small questions. One is that you just mentioned that the macro environment has some impact on the purchasers' behavior. Could you please explain a bit more on the behavior changes in demand if caused by unfavorable economy environment? And secondly, what's our outlook for the next 3 years on your margin and revenue?

Tim Xie: Yes, hi, Michelle. Let me clarify your question. Your first question is to ask the macro impact on the purchase behavior of our learners.

Michelle Feng: Yes, do we see changes in the demand?

Tim Xie: Okay. So the second one?

Michelle Feng: What's our outlook for the next 3 years revenue margin?

Tim Xie: Yes, okay, understand. Thank you. Thank you for your questions. I think for the first one, maybe everyone, I think, has very easy way to access internet, the news, the media. So I think because most of our learners are mass public Chinese people, so maybe some of them may have their own opinion and a channel to access some macroeconomic and capital market, and even our company information. So I think some of them may have some -- their own attitude and

their own opinion in terms of their own desire to acquire knowledge, and desire to acquire knowledge. And maybe they have some --

For example, if you are not -- if you have no knowledge in terms of the capital market, you may have -- if you have no outside information, you may have your -- you may have the desire to learn something, to advance your skills. But I think if someone -- or if some people have some negative or maybe have pessimistic attitude, I think this may impact a little about their purchase behavior. So I think but in -- but I think in terms of our actual financial performance, I think there's no significant impact, adverse impact, on our financial performance because I think this kind of challenge, or macro environment challenge, may also induce the people's desire to upgrade and to upgrade themselves, and to enrich themselves, but there, I think, will be strengthened.

So that will also support our user growth or our popularity of our courses to -- for our learners to learn to purchase. I think overall, overall speaking, I think in the future, especially in an aging population era for China, the learning and the improvement of their own skills of the people's personal enrichment, I think this is maybe a must for everybody to do. So as a learning platform for the lifelong learning for our learners, I think with our launch of the new courses and the current courses, I think that will build a solid base for our users' purchase and engagement with our platform.

So currently, we also anticipate very optimistic revenue growth in terms of the -- even the short-term fluctuation or short-term negative attitude in terms of -- after Covid macroeconomic recovery. So I think that may answer your questions.

Michelle Feng: Thank you so much.

Operator: Thank you. And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over 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 or submit a request through our IR website. We look forward to speaking with everyone in our next call. Have a good day.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.