

QuantaSing Group Limited (QSG)
Q1 2024 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

Hunter Diamond, Diamond Equity Research
Steve Silver, Argus Research
Pat McCann, Noble Capital Markets
Howard Halpern, Taglich Brothers

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 would now like to 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 first quarter of fiscal year 2024. 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; 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'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. Hello, everyone, I'm Matt, the founder of the company, and thank you all for joining us today. We started the new fiscal year with a solid quarter. We've focused on the growth of our core business, which revolves around adult learning services.

During this quarter, our revenue increased by 31.8% year-over-year, showing the success of our strategy to diversify our course offerings. Notably, our other personal interest courses have grown strongly, with a 36.1% increase in revenue quarter-over-quarter. These courses now make up around 47% of our total revenue, a large jump from the 18% they contributed just a year ago.

Let me share some updates on what we're doing and have a quick look at our recent successes and overall performance. As of September 30, 2023, we had around 103.3 million registered users, representing a significant increase of 51.9% from 68.1 million as of September 30, 2022. Our paying learners rose as well, increasing by 18.2% compared to the same period last year.

Over the past few months, we have successfully grown our user base and our enriched content is drawing more learners to our courses. We have further enriched our course offerings by providing more tools to help our learners build knowledge and skills.

For example, we introduced learning tools with more detailed contents to facilitate the understanding of concepts, such as REITs and ETFs to QiNiu, our financial literacy learning platform. This gives users more knowledge and improves their overall experience when learning about fund concepts. With this update, QiNiu has achieved a closed-loop learning tool system, offering learners a more practical and comprehensive learning journey.

We have also been improving our courses' structure. In the past, some of our courses each had multiple instructors. Because of this, courses lasted longer due to the transition between instructors. We found that our learners prefer to have a single instructor who can follow their full learning cycle. So we have streamlined our process by assigning one instructor and one assistant for our financial literacy courses. These results are good. We improved our operational efficiency, we've lowered our personnel costs, fewer people dropped out of courses, and completion rates remain steady.

Notably, our customer satisfaction rate for the courses with refined structures remains stable at an impressive 98.5%.

As a crucial part of our growth strategy, we regularly refine our course offerings to align with changing demands. For short video courses on our JiangZhen platform, we designed a Weekly Insights section to help our learners stay on top of the trending topics on short video platforms and recent changes in platform rules. This not only enhances the quality and visibility of their work, but also caters to their extracurricular content needs.

Let's turn to QianChi, our silver learners-focused platform. We made an important change by moving from using external courses when we first launched, and during its early stages to creating our own content. We have designed a unique, 3-D approach that combines course with AI tools and practical exercises that is tailored to senior demographics. We have improved various elements of the courses, including content volume, difficulty level, and the tools and logic used in the course interface. This shift also gives us more control over our content and

makes us better at adapting to changes in learner behavior. Our goal is to make sure our content is always interesting, informative, and useful.

QianChi has become an industry leader in offering courses that truly meet the needs of the senior population. We remain committed to delivering high-quality, tailored learning experiences, and we are excited about the positive direction of our platforms.

Meanwhile, we are continuing to organize offline events to enhance our brand awareness. For example, on July 18, we hosted an offline anniversary event for QiNiu. We invited various stakeholders, including industry leaders, business partners, employee representatives, and many more.

During the event, we announced our non-profit collaborations and unveiled our latest White Paper on financial literacy. We encouraged conversations about expanding financial understanding and recognized outstanding contributions through awards. This event played an important role in enhancing our corporate culture and further boosted our brand awareness.

Our offline events also offer users an integrated online-offline learning experience. These events allow users to apply what they learn to real-life situations, and have enhanced user engagement within our learner community.

During the quarter, we organized memory and short video competitions, attracting a dynamic group of motivated learners. These competitions gave those completing our courses a final challenge, reinforced what they have learned, and gave them an opportunity for self-expression. Our senior learners showed resilience, competitiveness, and a love of learning, setting a great example for younger generations. We have received lots of positive responses from learners, which are widely circulated within our learning groups, boosting learners' motivation.

Our offline activities go beyond competitions. For example, we've organized various events under QianChi, where senior learners can connect through calligraphy, piano, and standing meditation. Shared appreciation of these events among senior learners has built a strong emotional bond within our community. Our 'learn online and present offline' approach has greatly increased learner satisfaction.

Internally, to ensure overall learner satisfaction and our operational efficiency, we integrated customer feedbacks into our service evaluation system this quarter. This allows us to do a systematic analysis of the feedback, sorting it based on aspects like timeliness, quality, and overall sentiments. The findings gave us a more complete picture of our services and helped us to better manage our service quality.

Enterprise service remains a business upsell channel, and currently represents 8% of our total revenue. Our main focus is still on to-C online learning service. Our strategy is centered on our adult learning service, with the aim of improving peoples' lives and well-being, while using our existing resources to maximize shareholder return.

Turning to our new business initiatives. Live ecommerce continues to benefit from our existing user reach and has generated a solid GMV, reaching RMB[41.9] million during the first quarter of fiscal year 2024. We are adopting a prudent growth approach and our current focus remains

on sales of Chinese liquor. As part of our commitment to expand globally, we recently acquired Kelly's Education. We will share more updates on this when they are available.

In summary, our strong first fiscal quarter performance was driven by our commitment to adult learning services and the significant growth of personal interest courses. Our focus on refining course structures and offerings has expanded our learner base. Hosting offline events has bolstered brand awareness and sustained high satisfaction rates. AI-driven operational efficiency improvements through systematic feedback monitoring have been vital.

Our ongoing mission is to enhance individuals' quality of life through lifelong learning opportunities. We appreciate our shareholders' unwavering trust and support as we strive for continuous progress. We will continue to provide regular updates on our journey ahead.

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 first quarter of fiscal year 2024, which is the fiscal year ending on June 30, 2024, 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 first quarter of fiscal year 2024, we grew our total revenues by 31.8% year-over-year and 4.9% quarter-over-quarter to 869.1 million, mainly driven by growth from other personal interest courses.

Among our revenues, revenues from individual online learning services grew by 29.2% year-over-year to 755.9 million, or 87.0% 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 14.6% year-over-year to 762.1 million.

Revenues from enterprise services were 68.4 million, a change of 7.1% from a year ago, and representing 7.9% of total revenues, primarily due to a decline in revenues from related party transactions.

Gross profit was 750.9 million, representing a gross margin of 86.4%, compared to 88.6% in the same period last year.

Total operating expenses were 706.7 million, compared to 677.8 million in the same period last year.

To break this down, sales and marketing expenses were 620.2 million, representing a change of 6.7% 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, decreased to 70.8% from 86.2% a year ago.

Research and development expenses were 43.8 million, representing a decrease of 16.3% year-over-year, primarily driven by a decrease in share-based compensation. As a percentage of total revenue, non-GAAP R&D expenses, which exclude share-based compensation, decreased to 4.4% from 6.1% a year ago.

General and administrative expenses were 42.8 million, representing a decrease of 3.7% year-over-year, primarily due to decreases in share-based compensation and office expenses, partially offset by an increase in professional service fees. As a percentage of total revenue, non-GAAP G&A expenses, which excluded share-based compensation, decreased to 3.4% from 4.1% a year ago.

Net income was 66.7 million. Excluding share-based compensation, adjusted net income was 94 million, representing an adjusted net margin of 10.8% during the quarter.

Basic and diluted net income per share were RMB0.39 and RMB0.38 respectively during the quarter. Adjusted basic and diluted net income per share were RMB0.56 and RMB0.54 respectively during the quarter.

Turning to our balance sheet, as of September 30, 2023, our company held 879.9 million in cash and cash equivalents and short-term investments, compared to 930.6 million as of June 30, 2023.

Lastly, I want to provide some color on our outlook. For the second quarter of fiscal year 2024, which is the fiscal year ending on June 30, 2024, we expect revenues to be between 920 million and 950 million, representing a year-over-year increase of between 17.0% to 20.8%. These projections take into consideration the current market conditions prevailing in the industry.

Throughout the quarter, we've been leveraging AI to boost our operational efficiency. Our focus on delivering high-quality, personalized online learning services and a diverse range of courses remain unchanged. With a solid performance in the first quarter of fiscal year 2024, and a strong financial position with diversified revenue streams, we're well-poised to tackle challenges and capitalize on growth opportunities. We're dedicated to creating value for both our customers and shareholders.

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). Our first question comes from the line of Hunter Diamond with Diamond Equity Research. Please go ahead.

Hunter Diamond: Congratulations on the results. So one of my questions will be to discuss AI. Where are you seeing the most impact, and where are you looking? More excited about AI

within your businesses is the ability to lower cost, increase user engagement. Maybe you can provide more color on where you're most excited about AI's impact for QuantaSing.

Peng Li: Okay. Thank you for your question. I will answer in Chinese and Leah will translate for me. Okay. (Speaking foreign language).

(Translated). For our business, AI has made a significant impact in the number of areas by enhancing efficiency and improving user engagement. One notable use of AI is quality inspection. AI is used to supervise and monitor communication records, including text and voice interactions in the sales process. The automated quality inspection allows us to effectively identify and handle any errors on our side, ultimately, reducing customer complaints and elevating the overall quality of user services. This has greatly enhanced our operational efficiency. By using AI for quality inspection, we have significantly reduced the cost, cutting down on labor costs significantly as well, when compared to the manual inspection processes.

Another area where AI proves highly beneficial is in the creation of user profiles. This involves two main aspects. First, profiles provide a detailed summary of individual user's information, fostering more informed and effective communication. Second, AI plays a role in the development of the group profiles that identify users with similar characteristics. This group's profiles can be leveraged across various business systems. This personalized approach, based on the user profiling, greatly enhances user engagement and interaction, helping us to optimize our business processes. That's the end of my answer, thank you.

Hunter Diamond: Great, thank you for the additional color. My second question was around ecommerce. I know you mentioned that as a new potential revenue opportunity. Can you provide an update on that segment, or any other revenue growth areas that you're seeing, or potentially seeing, outside the core offerings of your business?

Tim Xie: Yes, thank you. I will take the question. So in terms of the live ecommerce, leveraging the company's solid infrastructure in terms of the technology and database, and also the system developed by ourselves, we are excited to share that our entry into the Chinese liquor market has been met with positive responses from our user base. We only started our live ecommerce business in June this year, and we have already achieved a sizeable GMV of -- the latest quarter is -- around RMB42 million during the quarter. So our business model has proven to be effective. The livestreaming ecommerce platform has provided an engaging avenue for our customers to explore and purchase a diverse range of high-quality Chinese liquors.

Also in line with our commitment to innovation and customer satisfaction, we are actively engaged in developing new products and services to enhance the overall user experience. This includes collaborations with renowned liquor brands, introducing exclusive offerings and integrating cutting-edge technologies to make the shopping process more interactive and enjoyable for our users. But as we continue to invest in this new revenue stream and this business, we remain optimistic about the opportunities it presents.

The combination of online learning and livestreaming ecommerce has proven to be a synergistic approach, creating a new, unique ecosystem for our users, including the learners, to expand our business scope and also, to make our platform more attractive. Thank you.

Hunter Diamond: Great, thank you for the additional information, and appreciate taking my questions.

Operator: Steve Silver with Argus Research.

Steve Silver: I was hoping you could provide your current thinking around the economic backdrop in China as it relates to QuantaSing's prospects to continue to grow the enterprise services vertical. And with that, just given the growth of the upselling and the new market opportunities, combined with the company's strong balance sheet, are there any other new paths being explored to expand the user base, or is the strategy more about executing on the current programs that are currently in place?

Tim Xie: Okay. Thank you. I will answer your question. In terms of your first question, the economic conditions in China are dynamic, and also, though many changes, but the high-quality growth is still on the way and with a good trend and, we are keeping a close eye on the landscape, so that we can adapt our strategies accordingly. Despite potential challenges, we see many opportunities for continued development of the new enterprise service products to upsell within our target markets.

China's robust and rapidly-evolving digital ecosystem, combined with the government's emphasis on technology and innovation, creates an environment conducive to the growth of online services. This includes enterprise solutions that cater to the evolving needs of businesses in China. And also, I think because there are so many small and medium-sized companies in China, and also, they are owned by persons, the small businesses also need the enterprise courses and maybe some systems and techniques, to help them to upgrade their business operating skills and to enhance their knowledge, and to strengthen their own business growth. So both of the technology side and the market demand side creates a very great market with great potential for our business development.

So our commitment to staying at the forefront of the technological advances position us favorably to leverage the opportunities, as I just mentioned, presented by the dynamic Chinese market, to actively invest in research and development, and to create innovative enterprise service products and services, which we address the specific demand of our target market.

Furthermore, our strategic partnerships and collaborations with the Chinese business community enhance our understanding of the market needs and preferences. This insight allows us to tailor our enterprise services to align with the evolving requirements of our customers, enhancing our ability to upsell and provide additional value.

And also, for your second question, I think in terms of the new market opportunities and also the user base, we recognize the dynamic nature of the online learning and livestream ecommerce landscape. While our current initiatives have laid a solid foundation, we're actively exploring and developing new channels to both upsell to existing users and tap into new markets. And currently, we have very diversified online channels to acquire users, and also, as we just released, we have a large user base, which positions us a good infrastructure to grow the users' business opportunities with the platform.

We take a two-pronged strategic approach. First, we are committed to executing and optimizing our current initiatives to ensure they deliver maximum value to our existing user base. These efforts include refining our online learning content, enhancing the livestreaming ecommerce experience, and continuously analyzing user feedback to make data-driven improvements.

At the same time, we are strategically expanding our horizons by identifying new markets and opportunities. The evolving landscape of online education and live ecommerce, presents us with numerous avenues for growth. We are exploring partnerships, diversifying our content offerings, and leveraging emerging technologies to reach untapped audiences.

Steve Silver: Thank you for the color, appreciate it.

Operator: Pat McCann with Noble Capital Markets.

Pat McCann: Congrats on the strong growth in the quarter. My first question has to do with the growth. I guess I'm wondering if you could give any more color on which particular courses in the other personal interest category were driving the growth?

Tim Xie: Okay. Anymore?

Pat McCann: Sorry, yes. My second question would be if you could just also comment on the development of your recent acquisition in Hong Kong, the Kelly's Education, and if you could just give any commentary on how that acquisition has gone, and how that business is growing? And maybe how that leads into how you view further expansion going forward.

Tim Xie: Okay, great. Well, okay, for your first question, I think first, we always take a holistic approach in terms of the revenue growth because I think our core capability is to see the market trend and tailor-made the interest contents, and easy-to-understand contents, to our online learners, especially for the mass public learners to make them enjoyable in the learning process. So in the latest quarter, because the second is that our strategy is always to diversify our course offerings in terms of the new contents and new trends, and also considering the net results, the ROI, the net -- the bottom line performance in terms of the sizeable SKU of the courses.

In the latest quarter, I think for example, our other interest-based courses grew significantly. The major of that kind of courses caters to the senior and middle-aged people's interest learning. One of the key courses -- for example, the short video production, we started such kind of course under JiangZhen brand since August of 2021 from zero to a very sizeable amount in terms of the revenue for the latest quarter. That proved that our strategy is correct, and also, we have the ability to see the market trend and also, to tailor-made content to cater to the customers' demand. Also to mention that we started the repeat purchase under the short video production cost, so the repeat purchase rate is also growing very, very good. So this is my answer to the first question.

I think because our new platform, such as QianChi, catering for the senior people's learning, just launched June last year. This platform, the SKU, the content on this platform are still on a very high-growth trajectory.

So for your second question, in terms of the acquisition of Kelly's Education, that is our new initiative in terms of the overseas market. We are adopting a prudent approach, as always, to our

expansion into overseas market. Our current priority is to consolidate and strengthen our operations at the existing scale. We only to expand after we prove this overseas business model is good, both in terms of the revenue growth and the bottom line.

For Kelly's Education, our primary focus is on its successful operations within its local market in Hong Kong. Currently, our strategy is to build a strong foundation and gain a full understanding of the local markets' dynamics before we consider scaling up. Our Hong Kong business currently operates on a smaller scale. Our intention is to prove the effectiveness of our business operations on this smaller scale before considering further expansion beyond China.

This careful step-by-step approach is designed to lay the groundwork for strategic and sustainable international expansion that will help to drive our long-term growth, and also, will result in a healthy bottom line for our whole group platform. This is my answer. Thank you.

Pat McCann: Thank you very much for the answers, appreciate it.

Operator: Howard Halpern with Taglich Brothers.

Howard Halpern: Great start to the new year. A lot of the questions have been asked and answered, but in terms of operating expense trends, what are you seeing in terms of being able to continue to streamline operations? And what are the factors that will go into being able to streamline operations as time goes on?

Tim Xie: Okay. Thank you. Yes, any other questions, or only this one?

Howard Halpern: Only that question, that question.

Tim Xie: Okay. Thank you. So in terms of the operating expenses and the business flow, because starting from our launch of the business in July 2019, we adopted an online approach, and we highly believe that the technology will change the efficiency. So currently, we are the largest online adult learning platform in China. And also, we had achieved a sizeable amount in terms of the revenue, that caused the operating expenses, as a percentage of total revenues, are declining as we realize greater economies of scale.

This efficiency improvement is a result of our ongoing efforts to enhance operational processes and leverage technology. For instance, our use of AI-powered tools has played a significant role in streamlining our business operation, and also, reducing costs. We have applied AI and other online technology tools for quality inspection purposes as just mentioned. And also, when we're communicating with our learners, we use a lot of data-driven and AI-driven technologies to smooth the whole process of the learning cycle, and learning interactive with our users. And we also use AI to analyze user profiles, which has improved our marketing efficiency.

So in each step of our business operation, we always try to use the technological tools to streamline the process and also, to make it more efficient. We remain committed to a strategy of continuous operational and technological improvement. This will ensure sustained efficiency gains and also, our overall financial health, so that you can see our results, all of the expenses as a percentage of the total revenue ratio is declining, so that making our bottom line healthy.

Howard Halpern: Okay. Okay. Thanks, and keep up the great work, guys.

Operator: As there are no further questions, I'd like to hand the conference back over to management for 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.

Peng Li: Thank you, everyone.

Tim Xie: Thank you.

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