

QuantaSing Group
Q2 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 Small Cap Research

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 the 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 second 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; 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 quarterly financial results on our IR website at ir.quantasing.com. You can also access a replay of today's 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. Good morning, everyone. Thank you for joining us today to discuss QuantaSing's second quarter results for fiscal year 2025. Let me begin with our financial performance for this quarter. Our revenues were RMB726.6 million.

As we have mentioned in previous quarters, we are taking a careful approach to business development. We are moderating growth in our traditional business lines while also testing new initiatives. This shift from focusing on traffic-driven growth to high-quality growth is delivering results, as shown by our financial results. The changes in revenue, both sequentially and year-over-year, reflect our planned reallocation of resources.

At the same time, our disciplined planned execution has increased our net income to RMB126.8 million. This strong bottom-line performance highlights our ability to optimize operations while selectively investing in promising opportunities.

Our established online learning business is doing well and generating steady cash flow to support our strategy. We've built a user base of 139.6 million registered users and are committed to maintain high service quality. This quarter, we have made great process in course development. For example, in our financial literacy program, we've added 22 new lectures. We've completed major updates to our financial report training camp. Our programs for business partnerships and user acquisition are keeping up with market trends and meeting the public's demand for financial knowledge.

We're also seeing remarkable results in our calligraphy project for senior learners. This is real enthusiasm for traditional cultural learning among middle-aged and elderly individuals, and our QianChi calligraphy program tailored to their needs. We've created a variety of courses to help seniors enhance their enjoyment of life and find spiritual fulfillment through learning calligraphy.

Our curriculum starts from basic writing techniques and moves on to studying ancient masters, and finally, allow for free creative expression. We tailor our program to fit the physical and mental needs of elderly students, respecting their learning pace. At each stage, our professional instructors provide homework feedback and offer technical guidance, helping students develop impressive calligraphy skills. Thanks to our thoughtful planning and diverse learning experiences, the conversion rate for advanced courses has increased from over 40% last quarter to over 60% this quarter.

On top of our online learning, our consumer business is also growing. Revenues have reached RMB64.5 million, which is a 39% increase compared to same period of last year. This growth is largely due to our expansion into wellness products aimed at the silver economy where we're already seeing strong results. Our ZhiQiuTang brand of Food as Medicine products has gained significant market traction, with several flagship products performing exceptionally well. The combined cash flow from our established business lines gives us a solid base for making strategic investments in growth areas and exploring new opportunities.

Our strong balance sheet and cash position stand out. With RMB1,213.2 million cash and cash equivalents, and restricted cash, and short-term investments, we have the flexibility to invest in promising areas while staying financial disciplined. Our ability to fund ourselves is crucial, allowing us to make smart investments without relying on external funding.

This strong financial foundation sets the stage for our strategic expansion into diverse business opportunities. In a rapidly evolving market environment, we continue to identify and explore

new possibilities. Throughout our history, we have adapted to market changes by staying agile and responsive. We began as pioneers in online learning, building a strong foundation in that area. As new opportunities arose, we expanded our offerings across multiple categories.

Now, we're looking at opportunities both within our established areas and beyond, including growing our consumer business in the silver economy and testing new products and services. By diversifying our revenue streams across different business lines, we're positioning ourselves to navigate market uncertainties and cyclical challenges. This diversification strategy helps us reduce risks in any single business area and builds a more resilient business in today's fast-changing environment.

Let me share some of our early exploration initiatives and showcase this diversification strategy. One area we are exploring is the silver economy, which connects our established consumer business with new exploration initiatives, and we're seeing encouraging results, particularly in our health and wellness product line. In this line, our Food as Medicine products have gained strong market acceptance. Our ZhiQiuTang brand combines traditional Chinese wisdom with modern health solutions, using time-tested natural ingredients and advanced extraction technologies. This approach leads to effective, science-backed health solutions.

Let me share why our products are resonating with customers. Many consumers, including a 70-year-old Shanghai resident, are adding our herbal extract products into their daily wellness routines. They find that these natural supplements fit well with their health habits and lifestyle choices. The positive feedback from customers shows that our products meet real market needs and supports our strategy in this area.

We are also focused on product innovation. We have a robust pipeline of additional health and wellness products aimed at the silver economy market. This shows our commitment to carefully testing and expanding successful offerings.

Additionally, we're in the early stages of testing our offline service strategy. We're working with Beijing Nursing Home to explore integrated service models. This initiative is just beginning, and we are following our test and scale approach. We are evaluating the results before deciding on the next steps.

Let me also update you on our travel study program. We've recently launched a new membership offering, the 2025 VIP Member Card, priced at 365 yuan. This card comes from a company that with several benefits, including discounts on travel study products, companion ticket options, station pickup services, travel planning assistance and quality gifts. We are keeping a close eye on how this program performs as we explore its potential for growth.

Our approach remains consistent, following our disciplined test and scale methodology. We carefully explore new initiatives, making sure they fit the market before we invest heavily. When we consider new initiatives, we look at many factors, such as initial costs, expected returns, how we align with our strengths, and impact on our overall cash flow. This balanced method, along with our strong financial position, allows us to purchase various opportunities.

Looking ahead, we stay focused on our balanced approach to business development. Our journey from being an online learning leader to exploring many growth paths shows our ability to adapt

and evolve successfully. With the right strategy, the right team, and our strong financial strength, we are confident in finding and seizing significant opportunities across different sectors.

In today's rapidly-changing environment, we are well prepared to remain agile, responsive, and disciplined as we approach new market opportunities. We look forward to updating you on our progress in the coming quarters.

Thank you for your attention. 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 second 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.

For the second quarter of fiscal year 2025, our total revenues were 726.6 million, representing a 25.9% 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 601.3 million, accounting for 82.7% 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 546.2 million, showing a decline of 42.2% year-over-year, which we view as a natural progression during this strategic transformation of our product mix. Revenues from enterprise services were 55.7 million, a change of 3.4% from a year ago, and representing 7.7% of total revenues. This shift reflects a change in existing customers' demands.

Revenues from our consumer business increased to RMB64.5 million in the second quarter of fiscal year 2025, representing a 39.0% increase from RMB46.4 million in the second quarter of fiscal year 2024. This growth aligns with our expansion into wellness products with a focus on the silver economy market.

Gross profit for the quarter was 604.1 million, with a gross margin of 83.1% compared to 85.2% 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 maintained disciplined cost management while investing in our strategic initiatives. Total operating expenses were 465.9 million, a decrease of 36.5% from 733.2 million in the same period last year. To break this down, sales and marketing expenses decreased by 38.1% to 407.0 million, primary due to optimized marketing spend and improved operational efficiency. As a percentage of total revenue, non-GAAP sales and marketing expenses, which exclude share-based compensation, decreased to 55.9% from 68.6% a year ago.

Research and development expenses declined by 30.9% to 28.4 million, reflecting our focused approach to product development. As a percentage of total revenue, non-GAAP R&D expenses, which exclude share-based compensation, decreased to 3.8% from 4% a year ago.

General and administrative expenses decreased by 12.9% to 30.5 million, mainly due to a decline in share-based compensation expenses. As a percentage of total revenue, non-GAAP G&A expenses, which exclude share-based compensation, is 3.9% compared to 2.8% a year ago.

We achieved a net income of 126.8 million, representing a net margin of 17.4%. This strong bottom line performance demonstrates our ability to optimize operations, while selectively investing in promising opportunities. Our adjusted net income, which excludes share-based compensation, was 132.0 million, representing a healthy adjusted net margin of 18.2%. Basic and diluted net income per share were 0.78 and 0.77, respectively, during the quarter. Adjusted basic and diluted net income per share were 0.81 and 0.80, respectively, during the quarter.

Regarding our balance sheet position, as of December 31, 2024, we strengthened our cash position to 1,213.2 million in cash and cash equivalents, restricted cash, and short-term investments, representing an increase of 186.9 million from 1,026.3 million as of June 30, 2024. This enhanced liquidity provides us with significant flexibility to invest in promising areas while maintaining financial discipline.

Looking ahead, our strengthened cash position and solid operational base give us confidence in our execution capability. By diversifying our revenue streams across multiple business lines, we are strategically positioning ourselves to navigate market uncertainties and cyclical challenges.

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 from Zacks Small Cap Research.

Michael Kim: Just first, as you look across the online education platform, any sense of how much the silver demographic currently accounts for in terms of the existing user base? And then just looking beyond, continuing to realign the course catalog, obviously with a focus on seniors, just wondering if you could flesh out some specific plans to leverage those clients to really drive accelerating sales of related products and services?

Peng Li: Okay, Michael. Thank you for your question. I will answer in Chinese and Leah will translate for me.

(Speaking foreign language). Leah?

(Translated). First of all, the silver demographic, people aged 60 and above, is an important and growing user group on our platform. To better serve them, we have updated our course catalog to include health and lifestyle courses, specifically for seniors. We are also offering health and wellness products tailored to their needs. To drive the sales of silver economy products and services, our strategy includes launching consumer products related to our courses and offering

specialized study tour services. This will enhance user engagement and create new revenue opportunities.

Additionally, we will also focus on cross-selling and private traffic domain operations to promote higher-value products. Furthermore, we plan to encourage in-person community engagement, set up and implement membership programs and establish strategic partnerships with silver economy brands. This will improve user interaction and encourage words-of-mouth marketing, leading to further sales growth. Through these efforts, we are confident that we can achieve lasting success in the silver economy sector.

Okay. That's all, thank you.

Michael Kim: Okay. Great, thanks. That's super-helpful. And then just as the revenue profile continues to evolve through the transition, any perspectives on maintaining profitability, specifically as it relates to the adjusted net margin looking out over the next 12 months or so?

Tim Xie: Okay, I'll take this one. Thank you, Michael, for your question. We are evolving and expanding our revenue streams, and particularly by moving beyond adult Online Learning Services into new areas while keeping a strong focus on the bottom line. I think in the coming 12 months, we expect maybe some short-term investments and restructuring costs as part of our growth strategy. However, we are confident that our diverse approach will support long-term profitability. Introducing new business segments and innovative offerings may require significant resources efforts, but it will still help us leverage economies of scale, reduce operational risk and enhance margin sustainability.

Furthermore, we are taking a disciplined approach to managing costs and expenses. We are prioritizing investments that have the potential to deliver high returns, while also optimizing our existing resources for operational efficiency. We are also closely monitoring each business unit's performance to balance growth with maintaining our margins.

Regarding adjusting net margins, we expect some volatility during the transition phase, but we will continue to stay aligned with our profitability targets. Our focus is on stabilizing margins as new segments mature. We aim to balance strategic investments in growth with operational excellence, ensuring that profitability remains strong as our revenue profit evolves.

We remain confident in our ability to adapt to the changing landscape and the rapidly-changing environment, and to maintain strong financial performance, even during times of transformation. I think this will cost us some time, but I think in the future, we still have -- based on our solid business model, we still have a very bright future in the near term. Thank you.

Michael Kim: Got it. Thanks for taking my questions.

Operator: Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to the 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.

Peng Li: Okay. Thank you.

Tim Xie: Thank you.

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