

QuantaSing Group
Q4 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

Steve Silver, Argus 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 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 fourth quarter of 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 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.liangzizhige.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. Good morning, everyone. Thank you for joining us today. I'm excited to share our progress and the strategic development for the fourth quarter of the fiscal year 2024. This quarter, we achieved a revenue of RMB1,000.1 million and our adjusted net income reached a

historical high, improved to RMB193.6 million from RMB90.4 million in the same period last year. While these numbers are encouraging, they represent just one step in our ongoing journey.

Today, I'm pleased to announce a significant strategic shift for our company. We are pivoting towards the silver economy, aligning with our new mission of live better, live longer. This transition reflects our commitment to serving the holistic needs of our adult users, particularly the silver demographic. Our vision is to become a long-term partner, loved and trusted by adult users.

Let me explain the rationale behind this strategic transformation. The silver economy in China surpassed RMB14.4 trillion in terms of final consumption value in 2023. By 2028, China's silver population is projected to reach 650 million, constituting 46.3% of the total population. This represents a significant market opportunity that aligns well with our strengths and experience.

However, the silver economy isn't just about numbers; it's about understanding and addressing the unique needs of the demographic. Through our interaction with our users, we've identified growing demand for services and the products that cater to their spiritual and social needs. The concept of self-pleasure is becoming increasingly important, as this generation seeks ways to enjoy life and pursue personal interests in their later years.

There is also a strong focus on health, reflecting a desire to maintain well-being and quality of life. Additionally, we will observe the significant needs for social connection and community engagement among this demographic. Our power to the silver economy is not a departure from our core strategy, but rather, a natural evolution of our business.

Since launching our operations in July 2019, we have been focusing on adult learning, accumulating valuable experience and insights into the needs of mature learners. Building upon these foundations and our deep understanding of user needs, we took a significant step towards addressing the unique requirements of the silver population in June 2022 with the launch of QianChi, our brand dedicated to middle aged and elderly users. This was our first --

[Technical Difficulty]

Operator: Ladies and gentlemen, please remain online. You may go ahead. Thank you, sir.

Peng Li: Yes, okay. Sorry. Our pivoting to the silver economy is not a departure from our core strengths, but rather a natural evolution of our business. Since launching our operations in July 2019, we have been focusing on adult learning, accumulating valuable experience and insights into the needs of major learners. Building upon this foundation and our deep understanding of user needs, we took significant steps towards addressing the unique requirements of the silver population in June 2022 with the launch of QianChi, our brand dedicated to middle aged and elderly users. This was our first step in recognizing and addressing the unique needs of the silver population, including their desires of self-improvement, health maintenance and social interaction.

This evolution reflects our aspiration to be a trusted long-term partner for our users. As their needs change over time, we are leveraging our substantial user base of 127.6 million, and our experience in serving middle-aged and elderly users to realize our mission and vision more fully.

Our focus in the silver economy has three key areas, each designed to meet the diverse needs of our silver demographic users.

First, in online learning, we are leveraging our expertise to create tailored courses that go beyond traditional subjects. We will introduce the health and wellness subject like Ba Duan Jin (Speaking foreign language), a traditional Chinese exercise, as well as many lectures on traditional Chinese medicine theory.

We are also offering courses in areas like calligraphy and piano, catering to the cultural and artistic interests of our users. These courses not only provide learning opportunities, but also foster a sense of community.

Secondly, we are developing offline consumption and service scenarios. We are recognizing the importance of real world experiences for our users. Our study tour, our projects have expanded to multiple routes, including Beijing, Wudang Mountain and Shanghai. Combining high-quality travel with learning opportunities, we are exploring offline centers as hubs for in-person classes and social gatherings, and developing hybrid online-offline classes to provide the best of both worlds. We're also partnered with local communities to offer free offline courses, receiving positive feedback.

Lastly, we are expanding into sales of our branded consumer products through live e-commerce and offline channels. Our e-commerce livestreaming business launched in June 2023, are showing rapid growth, offering products like Chinese liquor and wellness products. We are launching private label products based on our user insights.

With our wellness products showing particularly strong performance, we are not just focusing on our physical product, but also growing services that contribute to overall well-being. While e-commerce is our primary sales channel, we are considering how offline centers could serve as a physical retail points. By focusing on these three interconnected areas, we are creating a comprehensive ecosystem that serves the educational, social and consumer needs of the silver population. This approach allows us to leverage our existing strengths while expanding into new high-potential areas of the silver economy.

Now let me update you on our current business performance. We continue to innovate in our core offerings. For example, we introduced traditional health courses like Ba Duan Jin(Speaking foreign language) and study tools that combine culture and learning tailored for the silver demographic.

Our offline activities have been particularly successful. In August, we held the 2024 Qianchi Cup Calligraphy Competition, bringing together nearly 100 students for enriching artistic gathering. This event combined an exhibition of outstanding work, on-site creative competition and cross-experiential session, creating a diverse and engaging offline art gathering. Students have the opportunity to interact closely with lecturers and the expert judge fostering vibrant learning community.

Our study tour projects have expanded to multiple routes, including Beijing, Wudang Mountain and Shanghai. These tours drove beyond traditional high-quality travel experience by incorporating learning and the experiential element. Participants can compete relevant student

studies, broaden their horizon and enrich their spiritual and cultural lives while traveling. This approach of learning while traveling, truly embodies our philosophy of edutainment.

We also collaborated with local pharmacies to host health and wellness lectures. For instance, we participated in the 10th annual anniversary celebration of our partner pharmacies, where we opened up the health and wellness lecture series. The events we see an enthusiastic response, demonstrating the strong demand for health-related knowledge among our target demographic.

Since offline initiatives combined with our online offerings, contributed significantly to our user growth, I'm pleased to report that our registered users have reached 127.6 million with 0.4 million paying users this quarter, forming a solid foundation for our business development. This robust user base not only validates our approach, but also provides a strong platform for our future growth initiatives.

Building on this foundation, our new initiative, particularly, in wellness products e-commerce has shown rapid growth. The GMV of our wellness products grew by 83.3% quarter-over-quarter from RMB18.3 million in Q3 to RMB33.6 million in Q4. This impressive growth not only validates our livestreaming capabilities, but also demonstrates strong user demand for high-quality products tailored to the silver population. It's a clear indication that our strategy pivot towards silver economy is resonating with our target audience and yielding tangible results. This success is evident not only in our product offerings and the user growth, but also has built up solid financial position.

As of June 30, 2024, we have cash and cash equivalents, restricted cash and short-term investments of RMB1,026.3 million. This robust financial condition provides us with flexibility to invest in our strategic transition while maintaining operational stability. Such a strong financial position is crucial as we navigate the challenges and opportunities presented by our pivot to the silver economy. While we are focusing on the silver economy in mainland China, we are not losing sight of broader opportunity.

Regarding Kelly's Education, it will continue to serve as our window to grow international markets, not limited to the silver population, while our primary focus remains on the silver economy in mainland China. Kelly's Education allows us to maintain our presence in the broader education markets and provide a valuable insights into international trends and opportunities. This dual approach ensures that we are well positioned to capitalize on both domestic and international opportunities in the evolving education landscape.

Looking to the future, we are taking measured steps on how to expand our presence in the silver economy. We are expanding our product range to include more health and wellness consumer goods tailored to middle aged and elderly preference. This includes not only physical products, but also services and experiences that contribute to overall well-being.

We are also exploring offline centers as a way to acquire and serve more silver customers. These centers will serve as physical touch points for our brands, allowing customers to experience our products and services firsthand. They will also provide spaces for community building and in-person activities, which are particularly valued by our target demographic.

Our dedicated business team for the silver economy continues to optimize product strategy to meet the evolving needs of this demographic. We are investing in market research and customer feedback loops to ensure that our offering remains relevant and available to our users.

In conclusion, our strategic shift represents a natural evolution of our business, positioning us for sustainable long-term growth and value creation. Our healthy transition to focusing on the silver economy is a natural progression in our journey to help people live better, live longer and become their trusted long-term partner. This shift is not resulting in challenges. We are entering new markets and developing new competition space, which carries inherent risk.

However, we believe that our strong foundation in adult education, our technology will have the capability and our deep understanding of our user base position us well for success in this new endeavor. Given the nature of this transformation, we have decided to discontinue providing specific guidance. This decision allows us to focus on long-term value creation, rather than short-term metrics. We believe this approach aligns better with our strategic goals and the nature of the market we are into.

We are committed to creating a long-term value in the silver economy, and we look forward to sharing our progress with you in the quarter to come. We believe that by focusing on the silver economy, we are not just pursuing business opportunity, but also addressing significant societal needs. As China's population ages, there is a growing demand for products and services that cater to the needs and preference of older adults. We are proud to be at the forefront of meeting these needs.

Now I would like to hand over to Tim, our CFO, who will provide more details on our financial performance. Tim, please go ahead.

Tim Xie: Thank you. Before I go into details of our financial results, please note that all amounts are in RMB terms, that the reporting period in the fourth quarter of fiscal year 2024 ended on June 30, 2024. And in addition to GAAP measures, we'll also be discussing non-GAAP measures to provide greater clarity on the trends in our actual operations.

For the fourth quarter of fiscal year 2024, we achieved total revenues of 1,000.1 million, a year-over-year growth of 20.7%, mainly driven by the growth in revenues from skills upgrading courses. Among our revenues, revenues from individual online learning services grew by 25.7% year-over-year to RMB906.7 million or 90.7% of total revenues, mainly due to continued demand from skills upgrading courses.

Our gross billings of individual online learning services increased by 3.4% year-over-year to 774.4 million. Revenues from enterprise services were 56.6 million, a change of 45.5% from a year ago and representing 5.7% of total revenues, primarily due to a decrease in revenues from related party transactions.

Gross profit was 858.8 million, representing a gross margin of 85.9%, compared to 86% in the same period last year.

Total operating expenses were 622.9 million, compared to 664.7 million in the same period last year. To break this down, sales and marketing expenses were 580.1 million, representing a

change of 1.2% year-over-year, mainly due to our increased marketing efforts. As a percentage of total revenue, non-GAAP sales and marketing expenses, which exclude share-based compensation, decreased to 57.4% from 67.8% a year ago.

Research and development expenses were 21.2 million, representing a decrease of 60.4% year-over-year, primarily driven by our more selective decisions regarding our R&D initiatives. As a percentage of total revenue, non-GAAP R&D expenses, which exclude share-based compensation, decreased to 3% from 5.5% a year ago.

General and administrative expenses were 11.6 million, representing a decrease of 69.6% year-over-year, primarily due to decreases in share-based compensation and office expenses. As a percentage of total revenue, non-GAAP G&A expenses, which excluded share-based compensation, decreased to 2.5% from 3.2% a year ago.

Net income was 196.6 million, excluding share-based compensation and impairment loss on long-lived assets and goodwill, adjusted net income was 193.6 million, representing adjusted net margin of 19.4% during the quarter. Basic and diluted net income per share were RMB1.22 and RMB1.18 during the quarter. Adjusted basic and diluted net income per share were RMB1.2 and RMB1.16 during the quarter.

Turning to our balance sheet. As of June 30, 2024, our company held 1,026.3 million in cash and cash equivalents, restricted cash and short-term investments compared to 930.6 million as of June 30, 2023.

In conclusion, our financial results for the fourth quarter reflect a strong and stable financial position. This solid foundation is crucial as we embark on our strategic transition towards the silver economy. Our robust balance sheet and improved profitability provide us with the flexibility and resources needed to invest in our new initiatives, while remaining operational stability.

As we move forward, we are focusing on long-term value creation rather than short term metrics, which aligns with our strategic goals and the evolving nature of our target market. While we have discontinued providing specific guidance, we remain committed to prudent financial management and transparent communication with our shareholders. We are confident that our strong financial footing combined with our strategic focus on the silver economy, positions us well for the sustainable success in this promising market.

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). Steve Silver of Argus Research.

Steve Silver: Congratulations on a productive fiscal 2024. First question, can you provide any update on the competitive landscape for e-commerce livestreaming in China? It seems that more companies are announcing efforts to participate in similar markets.

Tim Xie: Thank you. I think I will let our Chairman and CEO Matt to answer this question. Hi, Matt?

Peng Li: Yes, okay, I'll take the questions. I'll answer in Chinese and Leah will translate for me. (Speaking foreign language). Leah?

(Translated).

Thank you very much for your question. China's e-commerce livestreaming market has huge potential, and is rapidly evolving and increasingly competitive. According to the data that we have gathered, we believe that around 2023, the total market will reach around RMB5 trillion. And we would project a 20% CAGR between 2024 to 2026. This would be a big opportunity, even as more of the companies enter the market.

We believe that our capability is uniquely positioned to succeed. First of all, we've taken a targeted approach, focused on specific needs of our core middle-aged and elderly user base. Secondly, we're building on the strong foundation of our existing user base and technology for infrastructure. Thirdly, we are developing our own private label products, which will bring good profits and margins to us, particularly in areas like in Chinese liquor and the wellness products that resonate with our target users.

Focusing on meeting the long-term needs of our established user base, we believe that we can create long-term sustainable value in this space. Our goal is to provide a comprehensive ecosystem that serves our target users' learning, social and consumer needs. While the market is immense and competitive, its size and strong growth provide opportunities for well-positioned players. We are confident that our targeted strategy, existing user relationships and technology capability and our operation capability give us a strong position for the growth in this market.

Okay. That's all. Thank you for your question.

Steve Silver: Great. And then as a quick follow-up, on the e-commerce platform, is there any targeted number of products that QuantaSing will be selling, or plans to sell, either through private label or on third-party products?

Tim Xie: Thank you for your question. I will take this one. I think it's more detail. I think we follow our systematic user-centric approach in our product selection and development process, focusing on meeting the long-term needs of our core population, our core customer profile. We start by deeply understanding our users' needs and our large base of middle-aged and elderly users provides us with valuable insights into their preferences. We also carefully select and test product categories that align with our users' interests and their demands, allowing us to focus resources on the most promising areas.

And also for product sourcing, we are on a journey from third-party products to developing our own private label offerings. This approach allows us to better control quality, build brand loyalty

and satisfy our users' long-term needs. And also, we are taking a focused approach to product development, aiming to maintain a core set of approximately within 10 flagship products primarily in wellness. This strategy ensures high quality across our offerings and builds strong brand recognition among our users. This is one of our focus strategy.

By focusing on select products that truly resonate with our audience, we aim to build lasting relationships and drive sustainable growth in our live e-commerce business. And also, this aligns with our overall philosophy of providing comprehensive high-quality solutions to our users' needs. Yes, I think this is my answer. Thank you.

Steve Silver: Thank you.

Operator: Steve, do you have any other follow-up questions?

Steve Silver: No, that was all for me. Thank you so much.

Operator: Thank you. As there are no further questions, I'd like to hand the conference back 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.

Operator: Ladies and gentleman, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.