

QuantaSing Group
Q1 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

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 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 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.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 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: Good morning, everyone. Thank you for joining us today for our first quarter fiscal year 2025 earnings call. Our journey over this past year has been purposeful and strategic. We're

actively reshaping our company to serve China's rapidly growing silver economy. The numbers tell a compelling story. In Beijing alone, we now have nearly 5 million people over 60, with that number growing by 0.3 million just last year.

This is why our work is significant. We're shifting our focus from broad market reach to building lasting relationships with our silver economy customers. You can see this in our new Food as Medicine products, which we're successfully promoting to our existing online learning users by leveraging our interactions with them. We're also in the early stages of exploring offline service center opportunities to further enhance our user experience.

Now, let's take a look at this quarter. Our revenue this quarter reflects our planned strategic transition, which includes an anticipated decline as we pivot towards opportunities in the silver economy. Importantly, we maintained healthy profitability during this period, showing our ability to navigate this transition while safeguarding shareholders' value.

We are uniquely positioned to serve China's silver economy. It has expanded beyond basic elderly care to include a wide array of lifestyle, wellness, and enrichment services. Our strength lies in our established user base. These are individuals who are either in this demographic or approaching it. These users trust us as their learning service provider, and we are attuned to their evolving needs and preferences.

Let me elaborate on the three key aspects of our business transformation. First, we are evolving our revenue model by expanding how we serve our users. Our deep understanding of our users' needs has revealed opportunities beyond online learning service courses. They are seeking integrated solutions for health, wellness, and personal enrichment. In response, we're developing products and services that create more lasting value for them, including our Food as Medicine product line. This product line is uniquely integrated with our online learning service platform.

Our traditional Chinese medicine courses teach users about the principles behind these wellness products, while our nutrition experts provide practical guidance on incorporating them into daily health routines. This knowhow foundation helps our users understand not just what products to use, but why and how to use them effectively for their personal wellness goals.

Let me share a concrete example that illustrates how we're serving our users more comprehensively. One of our 70-year-old users began her journey with us through our online courses. Today, she engages with our platform in multiple ways, following our traditional Chinese wellness courses, including Ba Duan Jin, a series of gentle exercises rooted in traditional Chinese medicine, and using our health products daily. Through our courses, she has gained practical knowledge about the Twenty-Four Solar Terms, the traditional Chinese calendar that guides seasonal living patterns, and applies this wisdom to her daily health routines.

Now she follows a consistent schedule, practicing our signature exercises at 7:00 AM each morning, and has learned to adjust her wellness practices according to her body's needs. Her experience demonstrates how our educational foundation naturally extends into broader lifestyle and wellness solutions.

Second, we are strategically transforming our business mix to focus on the silver economy while building a comprehensive ecosystem. We are gradually reducing our non-silver economy related

businesses while expanding services that resonate with our core demographic. Our approach combines the convenience of online engagements with meaningful offline experiences.

Our recent initiatives in Beijing showcase this strategy in action. In October, we helped to organize the Beijing Community Elderly Home Care: Autumn Family Carnival in Beijing's Fengtai District. This event brought together over 50 service providers across five essential aspects of senior living: medical care, food, housing, transportation, and entertainment. The event featured interactive demonstrations of traditional wellness practices, calligraphy sessions, and consultations about our study tours to culturally significant locations such as Qingcheng Mountain, a historic Taoist site, and Jingdezhen, China's porcelain capital.

These community engagements have strengthened our customer relationships significantly. Users who participate in our offline activities show higher engagement with our online courses. We see increased retention rates and stronger brand loyalty from these users. They also tend to explore more of our products and services, validating our integrated approach to serving the silver economy market.

Third, we maintain a clear focus on sustainable profitability throughout this transition. In our initial approach to offline expansion, we aim to start with a pilot program in Beijing's six urban districts. We're collaborating with existing community centers to test and refine our operational model. Once we validate this approach, we plan to expand our coverage across the city, and we'll evaluate various expansion models based on the learnings from our pilot program. This measured approach allows us to optimize our operational model, while maintaining profitability during the transition period.

As we transition from a traffic-driven business model to one that is more product-oriented, we expect to see a gradual improvement in our sales and marketing costs. This shift allows us to better allocate our resources. We are concentrating our efforts on initiatives that directly support the silver economy. At the same time, we are gradually scaling back investments in areas that are not central to our mission. This disciplined approach to cost management, combined with our focus on building partnerships, enables us to maintain healthy profit margins. It also positions us well to invest in growth initiatives that align with our long-term vision.

This focus on efficiency and profitability is reflected in our strong financial position. As of September 30, 2024, we have cash and cash equivalents, restricted cash, and short-term investments totaling RMB1,193.7 million, up from RMB1,026.3 million at the end of June.

Our business continues to generate positive cash flow from operations during this transition period. This solid cash position has allowed us to share our success with shareholders through a special dividend announced in October. It demonstrates not only our robust financial health, but also our commitment to investing in our silver economy strategy while rewarding our shareholders.

Looking ahead, we remain focused on realizing the significant opportunity in China's silver economy. More importantly, we are building sustainable competitive advantages by creating comprehensive solutions for the silver economy market.

According to our 2024 Senior Interest-Based Learning Industry Development Report, over 80% of the silver population is already engaged in interest-based learning, with an additional 66% expressing interest in joining such activities. This validates our strategy of building upon our educational foundation to provide broader lifestyle and wellness solutions.

The silver economy in China represents more than a business opportunity. It's a chance to create meaningful impact as China's population ages. Our existing relationships with users, combined with our understanding of their needs, position us uniquely to serve this growing market.

In closing, while this strategic transition may impact near-term revenue, we are confident that our focus on the silver economy, supported by our user relationships and operational capabilities, positions us well for long-term value creation. We're building not just a business, but a comprehensive ecosystem that enriches the lives of China's silver population.

Now, I'll 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 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 2025 ending on September 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 2025, our total revenues were 810.4 million, representing a 6.8% decrease year-over-year. This decline primarily reflects our strategic repositioning towards the silver economy market, a transition we believe will create sustainable long-term value for our shareholders.

Among our revenues, individual online learning services generated revenues of 709 million, accounting for 87.5% of total revenues. Going forward, we will continue to invest in developing our courses for the silver population. As we expand and refine our elderly-focused course offerings across both categories, we expect this business to become an increasingly important revenue contributor. This realignment of our course offerings demonstrates our commitment to meeting the specific needs and preferences of the silver economy market.

Our gross billings from individual online learning services were 713.7 million, showing a modest decline of 6.3% year-over-year, which we view as a natural progression during this strategic transformation of our product mix.

Revenues from enterprise services were 47.8 million, a change of 30.2% from a year ago, and representing 5.9% of total revenues. This shift reflects our evolving business mix between related party and external entity transactions.

Gross profit for the quarter was 676 million, with a gross margin of 83.4% compared to 86.4% in the same period last year. This margin change reflects our strategic shift towards more product-focused offerings within the silver economy market, which naturally carry a different cost structure compared to our traditional learning services. We believe this shift in our business mix, while impacting our margin profile, better positions us to capture the diverse needs of our target demographic.

On the operational front, we maintained disciplined cost management while investing in our strategic initiatives. Total operating expenses were 573.7 million, a decrease of 18.8% from 706.7 million in the same period last year.

To break this down, sales and marketing expenses decreased by 17% to 515 million, primarily 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 63.5% from 70.8% a year ago.

Research and development expenses declined by 35.9% to 28.1 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 3.2% from 4.4% a year ago.

General and administrative expenses decreased by 28.4% to 30.6 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, remained stable at 3.4% from a year ago.

We achieved a net income of 80.7 million, representing a net margin of 10%, despite the decline in revenues. Our adjusted net income, which excludes share-based compensation, was 88 million, representing a healthy adjusted net margin of 10.9%.

Basic and diluted net income per share were 0.52 and 0.50, respectively, during the quarter. Adjusted basic and diluted net income per share were 0.56 and 0.55, respectively, during the quarter.

Regarding our balance sheet position, as of September 30, 2024, we strengthened our cash position to 1,193.7 million in cash, cash equivalents, restricted cash, and short-term investments, representing an increase of 167.4 million from 1,026.3 million as of June 30, 2024. This enhanced liquidity position demonstrates our ability to generate cash while executing our strategic transition, providing us with sustainable flexibility to invest in growth opportunities within the silver economy market.

Looking ahead, our strengthened cash position of 1,193.7 million, enhanced operational efficiency, and healthy adjusted net margin of 10.9% provide us with a solid foundation during this transition period. Our disciplined cost management and improved operational metrics give us confidence in our execution capability. While we have discontinued providing specific guidance during this transition period, we remain committed to transparent communication with our shareholders as we progress in our strategic journey.

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). Michael Kim with Zacks Small-Cap Research.

Michael Kim: First, just curious to maybe get your perspectives on how the macroeconomic backdrop in China, as well as the various more recent government stimulus initiatives, may impact your businesses, or would you expect more limited impacts, just given sort of stronger balance sheets for senior citizens on average?

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

(Translated). Thank you for your question. We recognize that these factors present both challenges and opportunities, and we are strategically positioned to have the capability to navigate them effectively. We see evolving changes in consumer behaviors, which are influencing spending patterns and demand. Despite these challenges, our diversified portfolio and focus on essential value-driven products allow us to adapt to these shifts and continue to effectively meet consumer needs.

We also have seen measures to booster the domestic consumption. ~~With in-house, which enhanced~~ consumer confidence and spending power, this will support demand for our products and services. We are closely monitoring these developments and aligning our strategies to capitalize on emerging opportunities. Importantly, we anticipate more positive impacts from the governments increase the focus on the silver economy and welfare for the senior citizens.

Policies targeting this demographic aim to boost their purchasing power and improve their quality of life, opening up significant opportunities for businesses catering to their needs. As senior citizens typically have more stable consumption patterns and stronger balance sheets, our tailored offerings for the senior consumers position us well to benefit from this focus. Okay.

Michael Kim: Great, thanks, super-helpful. Maybe just one other question if I may. Just curious how you're thinking about customer acquisition cost to lifetime value. As you continue to transition the business, it would seem like ~~cash trends~~ CAC trends would benefit as you increasingly leverage the existing user base and focus on e-commerce channels. And then LTVs seem like they're set to rise, just given sort of the repeat purchase nature of consumer products more broadly.

Tim Xie: Thank you for your question. I'll take this one. I think these metrics are indeed essential to our strategy planning, and we are actively optimizing them to ensure sustained growth and profitability. As we transition our business, and focus more heavily on our private label products and services, including the existing online courses, wellness products and so on, we anticipate favorable trends in CAC. This improvement is driven by our ability to more effectively leverage our existing user base, which reduces our reliance on more expensive customer acquisition methods.

I think additionally, as we deepen engagement with our current users through targeted marketing and personalized experiences, especially with our strategy of combining online with offline operation, which we are now, is cooperating with the local community, we expect to improve the efficiency of our acquisition strategies, and lower the cost per new customer to extend the lifetime value of our users.

On the lifetime value side, we see significant potential for growth. Our shift and expansion of the private label offerings create strong opportunities to drive repeat purchases, and we expect to see rising LTVs across our customer segments. The interplay between these trends position, I think they will both position us well to achieve a favorable LTV to CAC ratio over time. By leveraging the scale of our existing user base, increasing repeat purchases and optimizing marketing efficiency, we aim to maximize the return on our customer acquisition investments.

Furthermore, as we refine our product mix and develop offerings that resonate deeply with consumer needs, we expect to unlock further upside in the customer lifetime value. And also, because we in the past quarters, we always making, we have made profits. So that means we have proved ~~only the many courses,~~ the online courses, can generate the positive activity-LTV to CAC.

So what we are doing now is just to expand and to enlarge the LTV to CAC ratio over time. So that is a silver economy-focused strategy will benefit us in the future. Thank you.

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

Operator: Steve Silver with Argus Research.

Steve Silver: This morning, the prepared remarks spoke to the strengthening balance sheet and scaling back of some of the non-core investments. I was hoping you could provide an update on the strategy to balance the healthy balance sheet between growth investments, as well as share repurchases, and just how the company continues to view the balance sheet in terms of really driving shareholder value.

Tim Xie: Okay. Thank you, Steve. I think our capital allocation strategy is just built on a disciplined approach that aims to drive sustainable growth and deliver long-term shareholder value. We remain committed to strategic growth investments with a focus to exploring high-potential markets, and these initiatives are vital for reinforcing our competitive edge and ensuring future scalability.

At the same time, we recognize the importance of returning capital to shareholders through share repurchase, especially during the periods when our stock is undervalued, or our cash flow is very strong. It's important to highlight that we have consistently generated positive operating cash flows in the past years. This funds our growth investments and share repurchase programs, while also safeguarding our balance sheet.

And our robust financial position provides us with the flexibility to adapt to market conditions, seize strategic opportunities and manage risks effectively. So in summary, our ability to generate strong operating cash flows enables us to balance investing for growth, returning capital to

shareholders and maintaining a healthy balance sheet. This approach positions us for sustainable long-term value creation.

So we will both consider the new opportunities, that is our focus on the strategic transition, focus on the silver people's business model. And also, we will also consider and we executed the strategy to reward the shareholders, for example, the recent dividend announcement and deliver. Thank you.

Steve Silver: That's helpful. And so the e-commerce business remains in the early stages, and growth so far has been steady. Do you expect this pace of growth to continue in a steady fashion, or do you envision a period of more rapid expansion of the private label strategy moving forward?

Peng Li: Yes, thank you. I think first, I will clarify that. I think the livestreaming e-commerce is just the start of our private label value products business that is one of our planned channels for this kind of products. That's just because this business is started and based on our large customer base, so that we can test and we can scale. And while we see steady growth, growth potentially in e-commerce as a whole, we view our private label based on online and offline operations strategy as a more significant opportunity for long-term expansion and value creation.

We recognize that any business faces challenges in attempting to extend the lifetime value of the customers. As a result, we anticipate that the growth rate of our private label business may not be as rapid as it was in the early stages. However, I think we have built a solid foundation, including 134 million registered users, over 30 courses SKUs, and 98.5% customer satisfaction rate, which all provide strong support for further expansion.

And depending our private label business, this quarter we have already achieved RMB15 million GMV milestone in the private label strategy. And moving forward, we will focus on enhancing product quality and market alignment through improved operational capabilities across both the online and the offline through all proprietary channels. We are committed to continuing to offer high-quality private label products that meet the customer demands, ensuring the long-term and sustainable growth in the future. Thank you.

Steve Silver: Thanks very much.

Operator: As there are no further questions, I'd like to hand the conference back over to management for any closing remarks. Please go ahead.

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