Gaotu Techedu Inc.

Gaotu Techedu Inc.
Third Quarter 2025 Earnings Conference Call
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Company Participants
Catherine Chen, Head of Investor Relations
Larry Chen, Founder, Chairman, Chief Executive Officer
Shannon Shen, Chief Financial Officer

Analysts
Crystal Li, CMS

Operator

Hello, ladies and gentlemen, thank you for standing by. And welcome to the Gaotu Techedu Third Quarter 2025 Earnings Conference Call. (Operator Instructions). After management's remarks, there will be a question-and-answer session. Today's conference call is being recorded.

I would now like to turn the conference over to your first speaker today, Ms. Catherine Chen, Head of Investor Relations. Please go ahead, Catherine.

Catherine Chen

Thank you, operator. Good evening, everyone. Thank you for joining Gaotu's third quarter 2025 earnings conference call. My name is Catherine, and I will help host the earnings call today. Gaotu's earnings release for the quarter was distributed earlier, and is available on the company's IR website at ir.gaotu.cn, as well as through PR newswire services.

Joining the call with me tonight from Gaotu's senior management is Mr. Larry Chen, Gaotu's Founder, Chairman and Chief Executive Officer, and Ms. Shannon Shen, Gaotu's Chief Financial Officer. Larry will first provide the business highlights for the quarter, and then afterwards, Shannon will discuss our financial performance in more detail. Following their prepared remarks, we will open the floor to questions from analysts.

Before we begin, I'd like to remind you that this conference call will contain forward-looking statements made under the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based upon management's current beliefs and expectations, as well as the current market and operating conditions.

And they involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict, and many of which are beyond the company's control, and may cause the company's actual results, performance or achievements to differ materially from those contained in any forward-looking statements.

Further information regarding these and other risks is included in the company's public filings with the U.S. SEC. The company does not undertake any obligation to update any forward-looking statement except as required under applicable law.

During today's call, management will also discuss certain non-GAAP measures for comparison purpose only. For a definition of non-GAAP financial measures and reconciliations of GAAP to non-GAAP financial results, please refer to our third quarter earnings release published earlier today.

As a reminder, this conference is being recorded. In addition, a live and archived webcast of this conference call will be available on Gaotu's IR website.

It is now my pleasure to introduce our Founder, Chairman and Chief Executive Officer, Larry. Larry, please.

Larry Chen

Good evening and good morning, everyone. Thank you for joining us on Gaotu's third quarter of fiscal year 2025 earnings conference call. I would like to take this opportunity to express my gratitude to each of you for your interest in and support for Gaotu.

Before I start, I would like to remind everyone that all financial figures discussed today are in RMB, unless stated otherwise. Our user-centric approach continues to drive progress in our high-quality growth strategy. As we continually enrich the product portfolio to support learners of all ages across diverse study scenarios, we are deepening user insights, strengthening the “high-quality teacher” pipeline, and comprehensively enhancing product quality, delivery prowess and operational excellence. At the same time, the full-stack integration of AI across our teaching, services, and operations is driving measurable efficiency gains and smarter resource allocation.

As our core capabilities expand, our differentiated value proposition is becoming increasingly evident, and our trajectory toward profitability is becoming more defined, creating a robust foundation for scalable, long-term growth. In the third quarter, we delivered another solid set of financial results.

Revenue grew by 30.7% year over year to nearly 1.6 billion, while on a non-GAAP basis, both loss from operations and net loss narrowed significantly by 64.6% and 69.9%, respectively, reflecting sustained improvement in growth quality and profitability.

Excluding the impact of share repurchases, our cash position increased year over year, strengthening the balance sheet and highlighting our disciplined financial management. We remain committed to creating long-term shareholder value. As of this quarter, we have completed the full amount of the initial share repurchase program approved in November 2022, and expanded to US$80 million in 2023. Meanwhile, the new US$100 million program approved by our Board in May has already commenced.

We will continue to execute the share repurchase program in a prudent and disciplined manner while safeguarding operational and financial health, further reinforcing our commitment to enhancing shareholder value.

Now I'd like to elaborate on our progress this quarter by reviewing our strategic priorities and key developments across five fronts.

First, we are solidifying our strategic edge by extending the coverage across the full learner journey and diversifying our service scenarios. Through sustained investment and refinement, we have built a cohesive product and service ecosystem spanning primary school through adult learning. This brings us a deep understanding of users' learning trajectories, enabling us to deliver increasingly differentiated and personalized services at every stage and establish a unique user value proposition and brand equity.

Building on this foundation, we continually iterate our service models in lockstep with user demand. We began with online delivery, gradually expanded our offerings to include Online-Merge-Offline models and offline boot camps to meet the user demand for enhanced interactivity and immersive experiences, and have ultimately established offline learning centers. Our online model provides broad reach and leverages high-caliber teaching resources and flexible learning formats to deliver efficient and highly accessible services.

Meanwhile, our offline learning centers enhance localized support and personalized instruction, naturally complementing our core online framework. Notably, for the first time this quarter, the revenue contribution of offline learning services exceeded 10% of our total revenues. We believe our deeply integrated online-offline model not only aligns with users' lifelong development, but also forms a resilient, flexible and scalable service network. By harnessing the efficient scalability of online learning while incorporating the interactive and immersive value of offline education, Gaotu is poised to become a premium lifelong learning platform.

Second, we are building a robust pipeline of high-quality educators to strengthen our talent strategy. Exceptional educators are at the heart of our competitiveness. To attract talent, we have forged long-term strategic partnerships with dozens of leading domestic universities and continuously broaden our talent pool through career mentoring programs and other initiatives. Applications from our key target universities increased notably during this year's campus recruitment season.

In terms of talent development, we have further enhanced our professional training system and integrated an "assessment, competition and evaluation" framework, augmented by AI tools, to systematically elevate employees' professional skills and foster their long-term growth. We have also fine-tuned our incentive systems and organizational culture to enhance teachers' sense of belonging and job satisfaction. Together, these efforts are cultivating a sustainable, high-quality talent ecosystem, and lay a solid foundation for our long-term development.

Third, both internally and externally, we are leveraging the power of AI to drive innovation and enhance efficiency. As a digital-native education company, we are committed to integrating AI technology throughout our business operations. Internally, initiatives like 'AI Hackathons' encourage business units to identify efficiency improvement opportunities, and develop AI-driven solutions and agents, creating a closed-loop process from exploration to implementation.

These efforts have improved operational efficiency and embedded AI into daily workflows, boosting employee satisfaction and fostering creativity. Externally, we are partnering with local governments and leading universities to co-establish educational AI R&D centers and labs, advancing the research, development, and application of AI models in the education sector. These collaborations strengthen industry-academia integration and help make learning more intelligent, personalized and effective.

Fourth, we remain focused on strengthening execution, improving organizational efficiency, and driving profitable growth. This year, we continued to build our results-driven culture and made profitable growth a core objective. In the budgeting process, we implemented an operational metric tracking system for each business line, using measurable quality and efficiency indicators to ensure that teams are reaching their goals.

At the management level, we are leveraging data-driven decision-making and disciplined execution to fuel growth. We believe that future competition will be about more than products and services – organizational efficiency will also be key. Underpinned by an agile organizational framework and technology-powered decision-making systems, we will boost our execution capabilities and drive high-quality growth.

Fifth, we remain committed to fulfilling our social responsibilities and creating long-term value for all stakeholders. We firmly believe that the value of an educational company lies not only in its commercial success but also in its contributions to society.

In the third quarter, Gaotu Foundation partnered with several leading universities to launch the Rural Teacher Empowerment Program. This initiative provides comprehensive training and practical courses to teachers in central and western China, improving their teaching skills and promoting educational equity.

In addition, we collaborated with Jingxin Medical, a mental healthcare company, to explore a 'Healthcare + Education' service model. Together, we launched an AI-powered training lab that trains counselors in adolescent mental health through practical exercises and helps students on leave due to mental health challenges reintegrate into school life.

From focusing on operational efficiency to expanding our business boundaries, and from single-point breakthroughs to systematic growth, we are steadily shaping a distinctive development path. Today, Gaotu has evolved into a technology-driven and AI-powered EdTech company centered on users' needs, providing end-to-end solutions across the full learning lifecycle.

Thank you very much, everyone. This concludes my prepared remarks. I will now pass the call over to our CFO, Shannon, to walk you through the quarter's financial and operational details.

Shannon Shen

Thank you, Larry, and thank you, everyone, for joining our call today. I will now walk you through our operating and financial performance for the third quarter of fiscal year 2025. Please note that all financial data are in RMB terms unless otherwise stated.

In the third quarter, net revenues continued to grow and operating efficiency maintained a healthy trajectory, demonstrating that our investments in resource allocation optimization, cost-structure refinement, and AI-driven process transformation are steadily translating into structural improvements in profitability.

We reduced operating expenses by 3.7% year over year by broadening our adoption of digital tools to enhance our traffic monetization effectiveness, workforce synergy, and operational decision-making. From dynamic management of user acquisition efficiency to elevating efficient channels and promoting team collaboration through systematic tools, we remain deeply focused on boosting operational quality and return efficiency.

While fully addressing user demand, we achieved a 1.4% year-over-year decrease in marketing expenses, improving customer acquisition efficiency by 12.8%. R&D and G&A expenses, as a percentage of net revenues, declined 9.6 percentage points year over year, reflecting a steady improvement in operating leverage.

Enhanced operational performance also led to a substantial year-over-year decrease in operating net cash outflow of approximately 54.2 million. Our deferred revenue sustained healthy growth, up 23.2% year over year to nearly 1.8 billion, providing strong visibility into revenue recognition in future quarters.

In shaping our growth strategy, we consistently prioritize healthy unit economics, setting specific operational goals for each business segment based on its stage of development. For our mature businesses with clear and well-defined commercial models, we focus on sustainable, steady growth while expanding margins through scaled service delivery, enabling incremental growth to flow through to the bottom line.

For businesses still in the early growth stage, we emphasize refining educational products, strengthening our instructor and tutor development system, and cultivating brand mindshare to deliver user experiences that drive long-term enhancement in retention, referrals, and willingness to pay. Ultimately, this strategy ensures every investment yields measurable returns, whether in the form of profitability, business resilience, or long-term user value.

We remain committed to building organizational capabilities through disciplined quality improvements, positioning operating efficiency, rather than a focus on speed alone, to guide the pace and scale of our growth.

Next, an overview of this quarter's progress by business segment. Learning services contributed over 95% of net revenues. Traditional learning services and non-academic learning services, as our core segments, contributed more than 80% of our total revenues, and recorded over 35% year-over-year growth.

Revenue from our new initiatives, focused on non-academic tutoring services in both online and offline settings, increased by around 60% year over year this quarter. The online segment for traditional learning services and non-academic learning services is on track to achieve a double-digit profit margin for the full year of 2025, supported by increased user enrollment and enhanced operational capabilities.

On the curriculum side, we constantly explore genuine user needs through high-quality educational products. One standout example is our programming courses, which delivered impressive results in the National Youth Innovation Competition, further solidifying our product reputation and user trust.

Our traditional learning services maintained a healthy growth trajectory with revenue increasing by 15% year over year in the third quarter.

On the product front, we continued to advance our localized course development and service systems to enhance teaching delivery flexibility and adaptability.

Regarding user acquisition, we focused on optimizing operational processes and addressing real user needs, achieving steady improvements in gross billings performance. At the same time, a more mature and stronger team and AI-powered traffic operations boosted our customer acquisition efficiency by nearly 20% year over year, providing stronger support for healthy business growth.

Another key component of our learning services is educational services for college students and adults, which contributed more than 15% of total revenue in the third quarter. This segment has returned to a positive growth trajectory following our strategic adjustments, achieving double-digit year-over-year growth in both revenues and gross billings alongside quarterly profitability.

Within this segment, our educational services for college students leveraged intelligent student learning profile management to enable clearer and more precise learning path planning. We also accelerated the development of a high-caliber teaching team. These efforts further expanded our service capabilities, boosted user satisfaction and promoted brand awareness.

In this quarter, revenues from educational services for college students increased by nearly 50%, and net profit delivered high double-digit growth year over year.

Lastly, I will walk you through our financial data. Our cost of revenue this quarter was 535.5 million. Gross profit increased 34% year over year to over 1.0 billion with a gross margin of 66.1%. Total operating expenses during the quarter decreased 3.7% year over year to approximately 1.2 billion.

Breaking it down, selling expenses decreased 1.4% year over year this quarter to 873.4 million, accounting for 55.3% of net revenues. Research and development expenses decreased 13.9% year over year to 162.9 million, accounting for 10.3% of net revenues. General and administrative expenses decreased 4.3% year over year to 185.2 million, accounting for 11.7% of net revenues.

Loss from operations was 178 million and operating loss margin was 11.3%. Non-GAAP loss from operations was 168.6 million, and non-GAAP operating loss margin was 10.7%. Net loss was 147.1 million, and net loss margin was 9.3%. Non-GAAP net loss was 137.7 million, and non-GAAP net loss margin was 8.7%.

Our net operating cash outflow was 660.2 million, narrowed by 7.6% year over year.

Now turning to our balance sheet. As of September the 30th, 2025, we held 444 million in cash, cash equivalents and restricted cash, along with nearly 2.1 billion in short-term investments and 500.4 million in long-term investments. This comes to a total of over 3.0 billion.

As of September the 30th, 2025, our deferred revenue balance was around 1.8 billion, primarily consisting of tuition received in advance. As of November 25th, 2025, we had repurchased an aggregate of around 27.5 million ADSs on the open market for nearly 619 million.

Before I provide our business outlook for the next quarter, please allow me to remind everyone that this contains forward-looking statements, which include risks and uncertainties that are beyond our control and could cause the actual results to differ materially from our predictions.

Based on our current estimates, total net revenues for the fourth quarter of 2025 are expected to be between 1,628 million and 1,648 million, representing an increase of 17.2% to 18.7% on a year-over-year basis.

This concludes my prepared remarks. Operator, we are now ready for the Q&A section. Thank you, everyone, for listening.

Questions and Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions). The first question today comes from Crystal Li with CMS.

Crystal Li

Congratulations on the strong results. And could you give us some color on your 2026 top line growth, and your expectations on each business line? And in terms of the bottom line, how's your plan? Maybe could you share more about your plan to balance your growth and loss reduction?

Shannon Shen

Thanks, Crystal, for your question. So looking back at 2024 and 2025, our revenue grew 53.8% year over year in 2024; and based on our latest guidance, we expect close to 35% year-over-year growth of our top line in 2025. So over the past 2 years, our revenue actually more than doubled. We achieved relatively strong top line expansion in the past 2 years.

So behind this growth is the steady increase in the number of students and parents we serve, the continued strengthening of our product portfolio and also the growing influence of our brand. As of today, our offerings cover the key needs of users with strong learning demand and learning motivation.

And also from a product perspective, the integration of our online and offline solutions, along with the use of AI to enhance the user experience in our courses is progressing steadily and continuously improving. As our scale expands, we are seeing sustained operating leverage, which adds a solid foundation for achieving full profitability at our target scale.

So in 2026, we expect our growth trajectory to become more balanced, with profitability as the major focus, driving the execution of our overall strategy, which means in 2026, profitability will play the most important role.

So based on our expected gross billings in Q4 2025, together with our operating plans and upcoming initiatives, we anticipate approximately 15% year-over-year revenue growth in 2026.

We also expect to see further improvements in our operating cash flows, with ongoing efforts aimed at moving the company toward sustainable net profitability in 2026. I hope that addressed your question. Thanks.

Crystal Li

Thanks, Shannon.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over for any closing remarks.

Catherine Chen

Thank you, operator, and thank you, everyone, for joining the call today. If you have any further questions, please don't hesitate to contact our Investor Relations Department or our management via e-mail at ir@gaotu.cn directly. You are also welcome to subscribe to our news alert on the company's IR website. Thank you very much again for your time. Have a great night.

Operator

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