Gaotu Techedu Inc.

Gaotu Techedu Inc.
First Quarter 2026 Earnings Conference Call
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Company Participants
Catherine Chen, Head of Investor Relations
Larry Chen, Founder, Chairman, Chief Executive Officer
Robin Luo, Chief Operating Officer
Willa Yao, Senior Finance Director
Mike Xu, Head of Strategy

Analysts
Elsie Sheng, CLSA Limited
Yikun Zheng, CITIC

Operator

Hello, ladies and gentlemen. Thank you for standing by, and welcome to the Gaotu Techedu Inc. First Quarter 2026 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 first quarter 2026 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, GOTU's Founder, Chairman and Chief Executive Officer; Mr. Robin Luo, Gaotu's Chief Operating Officer; Mr. Mike Xu, Gaotu's Head of Strategy; and Ms. Willa Yao, Gaotu's Senior Finance Director. Larry will first begin with the quarter's business highlights and strategy, followed by Robin's overview of our operational performance. And we will finish with a detailed discussion of our financial performance by Willa. Following their prepared remarks, we'll open the floor to questions from analysts. Robin and Mike will address analyst questions during the Q&A session.

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. 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 this 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 first quarter 2026 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 first quarter 2026 earnings conference call. I would like to take this opportunity to thank each of you for your interest in and support for Gaotu. Before I start, please be reminded that all financial figures discussed today are in RMB, unless stated otherwise.

The first quarter of 2026 marked another important step in strengthening Gaotu's operational quality and long-term capabilities under our profitable growth strategy. Revenue grew by 13.2% year-over-year to approximately 1.7 billion, with non-GAAP operating profit and net profit reaching 13.8 million and 41.4 million, respectively.

After excluding the impact of share repurchases, our cash position increased by 69.7 million year-over-year, providing strong support for our ongoing investments in products, technology, and talent to drive sustainable long-term growth.

The value of education is not limited to short-term outcomes, but rather compounds over time through sustained engagement, consistent effort, and incremental progress. The same is true in business. What drives long-term resilience through cycles is not scale alone, but the organizational capabilities, product strengths, and user trust built over time. With this in mind, while we remain focused on delivering near-term results, we are equally committed to advancing user value, organizational efficiency, and operational resilience across our business fundamentals.

Next, I would like to walk you through our strategic priorities and key developments this quarter across five areas. First, profitable growth is moving beyond periodic results toward a more stable, sustainable operational capability. In recent quarters, we have continued to optimize our operating structure, focusing on balancing business health, operating efficiency, and long-term returns. Our mature online business has built robust, scalable capabilities across course offerings, teaching services, user engagement, and organizational collaboration, and continued to demonstrate resilient profitability this quarter.

As we navigate a dynamic market environment in 2026, we will maintain our disciplined operating approach, improving resource allocation efficiency and execution precision, so that growth is built on an increasingly healthy and sustainable foundation. Based on our current business momentum and operating performance, we remain confident in delivering continued improvement in operational quality throughout the year.

Second, AI is evolving from a mere productivity tool into a key foundational capability, powering Gaotu's scalable growth and organizational transformation. In recent periods, we have progressively integrated AI across curriculum development, content creation, operational collaboration, and learning services. Within our curriculum development system, for example, AI is enhancing our question banks and knowledge graphs, supporting teaching and formative assessment, and assisting teachers and curriculum teams with repetitive, standardized tasks. Beyond that, we're weaving AI into our business workflows, operational processes, and organizational systems to serve as core infrastructure for operational decision-making and cross-functional collaboration.

On the user side, we continue to explore a spectrum of AI-powered product formats tailored to diverse learning needs, including learning tools, AI-enhanced one-on-one tutoring scenarios, and AI-integrated online large-class courses. As AI becomes more deeply embedded in our core business, we are establishing a "Scale with AI" framework that allows our best teachers, curriculum expertise, and proven service models to scale with greater efficiency, enhancing user experience while unlocking organizational and operational leverage.

Third, user needs and learning experience remain the fundamental drivers behind our continuous product and service iteration, and guide our efforts to strengthen talent development initiatives. On the teaching services front, we continue to optimize our feedback mechanisms and service framework. Take our online large classes as an example. By deepening collaboration across instructors, tutors and curriculum teams, we have formed a weekly feedback loop that captures student pain points, progress variations, and classroom feedback in real time. These learning insights flow directly back into course iteration and service support, keeping content closely aligned with students' actual learning pace.

At the same time, we continue to reinforce our talent pipeline. This spring, we expanded our campus recruitment and early-career talent development efforts, with campus engagement across prestigious domestic and international universities, including Oxford, Cambridge, Tsinghua, and Peking University. By attracting individuals who are genuinely passionate about education, and demonstrate the motivation and potential to grow with us, we are building a strong talent foundation to support our long-term capabilities in product innovation, teaching excellence, and organizational development.

Fourth, our offline service offerings are progressing in line with expectations, and are increasingly demonstrating their value in enhancing user engagement, building brand equity, and driving long-term value creation. For example, our offline educational services for college students now span seven cities, where we have developed durable service and engagement capabilities centered around college students' evolving needs.

Our Zhengzhou Dream Center has spent the past year validating an integrated service model that brings together learning, daily life services, and personal development, achieving notably high utilization rates in the process. These enriched service touchpoints have also driven meaningful improvements in user satisfaction and brand awareness. We plan to extend this model to Wuhan in 2026.

Additionally, we will further expand our offline presence across all business segments, sharpening our service delivery capabilities to better align with these cohorts' diverse learning stages, growth objectives and service needs. This will comprehensively elevate the learning experience, deepen user trust, and enhance brand value throughout users' lifelong learning journey.

Fifth, we believe long-term value goes beyond financial results. It's equally reflected in our ability to create lasting social impact for all our shareholders and the society. Through efficient, disciplined capital allocation, we remain committed to sharing the benefits of the Company's long-term development with our shareholders. As of June 1, 2026, we had repurchased a total of 33.1 million ADSs, for approximately 704 million RMB.

In addition, we continued to invest in initiatives that broaden access to quality education. For example, Gaotu Foundation's "My AI Science Class" project has reached 33 rural schools across 7 provinces and empowered more than 23,000 teachers. We plan to expand its coverage, hold regular onsite classes in Baise, and improve the accessibility of educational resources in underserved regions. We believe technology should not only improve efficiency, but also help bridge regional gaps in high-quality educational resources and create broader social value.

Enduring success comes from unwavering commitment, and future momentum begins with the steps we take today. Looking ahead, we will continue to advance with focus and resolve, leveraging technology and innovation to expand the boundaries of education, and further strengthening our business foundations through disciplined execution. We are fully confident in our capability to accompany and support students throughout their growth journey, creating sustainable long-term value for our users and our shareholders.

Thank you very much, everyone. This concludes my prepared remarks. I will now pass the call over to our COO, Robin, to walk you through the quarter's operational performance.

Robin Luo

Thank you, Larry, and thank you, everyone, for joining our call today. I'm Robin. I will now walk you through our operating performance and business update for the first quarter of 2026. Please note that all financial data are in RMB terms unless otherwise stated.

Building on the progress we made over the past year in enhancing operational quality and organizational efficiency, we continued to advance our profitable growth strategy as we entered 2026. Notably, we achieved first-quarter profitability for the second consecutive year, reflecting both the stability and resilience of our mature business's operating model, as well as our continued improvements in organizational execution and resource allocation.

R&D and G&A expenses, as a percentage of revenue, declined by 0.7 percentage points year-over-year, demonstrating ongoing gains in management efficiency and organizational collaboration.

Deferred revenue totaled nearly 1.8 billion, up 24.1% year-over-year, providing clear visibility into revenue recognition in the coming quarters, and laying a solid foundation for the steady execution of our full-year business plan.

The education industry is subject to seasonal patterns closely aligned with students' learning cycles and course schedules. This year, the later timing of Chinese New Year shifted the delivery mix of winter-session and spring classes across quarters. Our resource deployment is also calibrated to these enrollment windows and business cycles. Therefore, we believe that evaluating the Company's performance over the first half of the year as a more complete operating cycle, offers a clearer picture of our underlying trends.

Looking at our current execution progress, our profitability and operational efficiency continue to improve steadily. As we further optimize our product mix, organizational collaboration, and resource allocation efficiency, we remain optimistic about our full-year operating performance.

Next, let me turn to our business progress by segment. Learning services contributed over 95% of net revenues. Non-academic tutoring services and traditional learning services, as our core segments, generated over 85% of our total revenues.

In our new initiatives, focused on online and offline non-academic tutoring services, gross billings increased by over 20% year-over-year in the first quarter, contributing more than 35% of total gross billings, while revenue grew by over 15% year-over-year, accounting for nearly 40% of total revenues.

As enrollments expanded and organizational capabilities matured, the online business within this segment maintained first-quarter profitability for the second consecutive year, underscoring strong product-market fit and operational resilience.

On the business front, we continued to advance our learning service systems, and strengthen educational product innovation, leveraging AI capabilities to build diverse learning scenarios that spark student interest, sharpen critical thinking, and develop practical skills. We are also deepening our focus on localized curriculum development to make our teaching content more relevant and our services more tailored. By meeting user needs with greater precision, these efforts collectively lay a solid foundation for enhanced learning outcomes and higher user retention.

Our traditional business accounted for over 45% of total revenues, and maintained a healthy growth trajectory during the first quarter. Our consistent investments in strengthening our teaching talent pipeline and upgrading our service system are gradually translating into tangible operating results. In particular, our one-on-one tutoring business recorded year-over-year growth of more than 20% in both revenue and gross billings, supported by improvements in teachers' professional capabilities, service engagement, and supply stability.

For our online large classes, AI is playing an important role in improving the efficiency and precision of personalized learning services. We continued to strengthen our end-to-end, tailored service model across key stages of the learning process, including learning assessment, study planning, progress tracking, and performance feedback.

Our AI-powered learning analytics and diagnostic systems enable tutors to more efficiently consolidate and analyze users' learning data, identify individual knowledge gaps and learning needs, and develop more personalized plans. This not only makes our service delivery more effective, but also provides students and parents with clearer visibility into learning challenges, progress milestones, and next-step planning, further enhancing overall user experience and service satisfaction.

On the channel front, we continued to optimize our channel mix by allocating more resources toward higher-quality acquisition channels, while increasing the contribution from private traffic and word-of-mouth referrals. The resulting improvements in user quality, conversion efficiency, and retention rates continue to strengthen the operating fundamentals of our traditional business.

Another key component of our learning services is educational services for college students and adults, which sustained its solid growth momentum this quarter. Gross billings grew over 15% year-over-year, and contributed over 25% of total gross billings, with revenue accounting for 10% of total revenues. This performance reflects our continued focus on users' evolving needs, as well as ongoing optimization of product offerings, service management, and operational efficiency.

Taking our educational services for college students as an example, building high-quality engagement throughout users' learning journey has always been our key priority. We have established a more structured framework to evaluate teacher-student engagement across interaction frequency, emotional connection, and professional academic support, improving the quality of tutors' services and optimizing user experience.

At the same time, we are embedding AI capabilities more deeply in our daily operations to streamline standardized workflows and enhance operational efficiency, enabling teachers to dedicate more time to higher-value activities, such as personalized learning planning and regular mentorship.

This quarter, gross billings and revenues for our educational services for college students grew by more than 20% year-over-year, with operating cash flow also improving year-over-year.

Our civil service exam preparation business also delivered double-digit year-over-year growth in both revenue and gross billings during the quarter, with per-capita productivity continuing to improve, reflecting ongoing enhancements in user value and operational efficiency.

Across all of our business lines, we are advancing toward the same goal: driving gains in both business scale and operational quality through sharper understanding of user needs, stronger product and service relevance, and more efficient organizational collaboration and resource allocation. As we move forward, this direction will continue to shape our operational decisions and resource deployment, enabling each business to chart a healthier and more sustainable growth path at its respective stage of development.

With that, I will now turn the call over to our Senior Finance Director, Willa, who will walk you through our financial data.

Willa Yao

Thank you, Robin. I will now walk you through our financial data. Please note that all financial data are in RMB terms unless otherwise stated.

Our cost of revenue this quarter was 514.8 million.

Gross profit increased 12.9% year-over-year to nearly 1.2 billion, with a gross margin of 69.5%.

Total operating expenses during the quarter increased 16.1% year-over-year to nearly 1.2 billion.

Breaking it down, selling expenses increased 19.0% year-over-year this quarter to 844.1 million, accounting for 50.0% of net revenues.

Research and development expenses increased 5.7% year-over-year to 159.0 million, accounting for 9.4% of net revenues.

General and administrative expenses increased 12.9% year-over-year to 164.7 million, accounting for 9.7% of net revenues.

Income from operations was 6.9 million, and operating income margin was 0.4%.

Non-GAAP income from operations was 13.8 million, and non-GAAP operating income margin was 0.8%.

Net income was 34.5 million, and net income margin was 2.0%. Non-GAAP net income was 41.4 million, and non-GAAP net income margin was 2.5%.

Our net operating cash outflow increased 73.6% year-over-year to 828.4 million.

Now turning to our balance sheet. As of March 31, 2026, we held 691.2 million in cash, cash equivalents, and restricted cash, along with 2.1 billion in short-term investments and 501.4 million in long-term investments. This comes to a total of nearly 3.3 billion.

As of March 31, 2026, our deferred revenue balance was around 1.8 billion, primarily consisting of tuition received in advance.

As of June 1, 2026, we had repurchased an aggregate of around 33.1 million ADSs on the open market for nearly 704 million RMB.

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 second quarter of 2026 are expected to be between 1,578 million and 1,598 million, representing an increase of 13.6% to 15.0% on a year-over-year basis.

This concludes my prepared remarks. Operator, we are now ready for the Q&A session. 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 comes from Elsie Sheng with CLSA.

Elsie Sheng

Congratulations on the steady results. My question is about the offline business. So we mentioned in our opening remarks that the offline business progress right now is in line with our expectation. Could you share more details on the latest update in terms of operation, and also our plan for this year? I will translate to Chinese. (Speaking Foreign Language).

Mike Xu

Thank you, Elsie. This is Mike, I will take this question. So let me first start with how we think about our offline business. For Gaotu, offline is an important part of our long-term learning service strategy. It is not just another revenue stream. It can help us build deeper local trust, provide more direct service to student and parents, and create a meaningful second growth curve over time.

Since we launched offline business, we have been building capabilities needed to run it well. That includes a localized curriculum, local teams, experienced operating talents and better data systems. The goal is straightforward, and we want each city to have products that fit the local demand. And we want our delivery quality to be consistent.

As we enter 2026, we are starting to see the earlier investments translate into clearer operating results. At the operating level, retention has been improving steadily, and some cities and products are already showing stronger competitiveness. Classroom utilization is also moving in the right direction. In cities where we have operated for a longer period of time, brand recognition and word-of-mouth are helping us scale more efficiently. In some markets, we are also seeing the brand equity from our online business to support our offline services.

We also see user demand becoming more clear. Families with specific learning goals and high expectations for service quality look for strong teachers, localized products and more attractive learning support. This aligns with Gaotu's long-term commitment to our star-teacher strategy and service excellence.

So let's move to the summer enrollment. The offline business is progressing broadly in line with our expectation. As the enrollment is still going on, we will provide further updates accordingly. But based on the first 5 months, both gross billings and revenue have been tracking within our expected range, and we are seeing user demand and channel conversion gradually pick up. Based on the current progress, we expect offline billings and revenue to maintain relatively strong growth in the first half of the year. Going forward, we will continue to expand with discipline. We'll closely look at each city, including user demand, classroom utilization, retention, teacher supply and operating efficiency before we scale further.

More importantly, we want offline growth to be built on a solid product quality, consistent service experience and steady accumulation of local trust and reputation. So that concludes my answer. I hope that can address your question, Elsie.

Elsie Sheng

Yes, thank you. It's very clear.

Operator:

Yikun Zheng with CITIC.

Yikun Zheng

My question is about the cost control. We noticed that the company has achieved great R&D expense control this quarter. So do we have an outlook on the cost control and efficiency over the coming quarters? And I will translate myself. (Speaking Foreign Language).

Catherine Chen

I will answer the question. We are enjoying operating leverage for almost 6 consecutive quarters. And we are having this really disciplined approach regarding resource allocation, our customer acquisition efficiency, as well as the whole organizational operation. And one thing is that AI is playing a more and more important role in our daily operations, not just in the operation front, but also in the customer-facing side, including content creation, improving our teaching services, etc. And by empowering our teachers and tutoring with these technologies, we are really increasing their productivity per capita, which you could see in our online business margin.

For our non-academic tutoring services, it's our second consecutive year of gaining profit in the first quarter. And our high school tutoring sectors are also gaining profit in this quarter.

As for the operational front, it's really empowering all the employees. We are actually deploying AI tools, like AI agents to all of our employees to increase their productivity and improve their working efficiency. And we expect the operating leverage to continue to show in the upcoming quarter. Yes, I hope that answers your question.

Yikun Zheng

Thank you. It’s very clear.

Operator

As there are no further questions now, I'd like to turn the call back over to Catherine Chen for closing remarks.

Catherine Chen

Yes, thank you, everyone, for joining our call tonight. And if you have any further questions, please don't hesitate to contact our Investor Relations Department or our management via email 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

Thank you. This concludes today's conference call. You may now disconnect your line. Thank you.