

## **YOUDAO 4Q 2022 CONFERENCE CALL SCRIPT**

---

### **Speaker dial-in numbers:**

China: 4001-201203

Toll free (US): 1-866-250-8117

Conference ID: Youdao, Inc.

### **Operator introduction**

---

Good day and welcome to the Youdao 2022 fourth quarter and full year earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Jeffrey Wang, investor relations director of Youdao. Please go ahead.

### **Jeffrey Wang**

---

Thank you, operator. Please note the discussion today will contain forward-looking statements, related to future performance of the Company, which are intended to qualify for the Safe Harbor from liability, as established by the U.S. Private Securities Litigation Reform Act. Such statements are not guarantees of the future performance and are subject to certain risks and uncertainties, assumptions and other factors. Some of these risks are beyond the Company's control, and could cause actual results to differ materially from those mentioned in today's press release and this discussion.

A general discussion of the risk factors that could affect Youdao's business and financial results is included in certain filings of the Company with the U.S. Securities and Exchange Commission. The Company does not undertake any obligation to update this forward-looking information, except as required by law.

During today's call, management will also discuss certain non-GAAP financial measures, for comparison purposes only. For the definitions of non-GAAP financial measures, and reconciliations of GAAP to non-GAAP financial results, please see the 2022 fourth quarter and full year financial results news release issued earlier today.

As a reminder, this conference is being recorded. Besides, a webcast replay of this conference call will be available on Youdao's corporate website at [ir.youdao.com](http://ir.youdao.com). Joining us today on the call from Youdao's senior management is Dr. Feng Zhou, our Chief Executive Officer, Mr. Lei Jin, our President, Mr. Peng Su, our VP of Strategy and Capital Markets and Mr. Wayne Li, our VP of Finance. I will now turn the call over to Dr. Zhou to review some of our recent highlights and strategic direction.

## Feng Zhou

---

Thank you, Jeffrey. And thank you all for participating in today's call. Before we begin, I would like to remind everyone that the financial information and non-GAAP financial information mentioned in this release is presented on a continuing operations basis, and all numbers are based on Renminbi, unless otherwise specifically stated.

Our financial performance in Q4 was strong, producing record-high net revenues and achieving our first-ever income from operations. Net revenues soared to a record of RMB1.5 billion in Q4, up 38.6% year-over-year. Income from operations reached RMB24.7 million, compared with the loss from operations of RMB248.3 million in the same period of 2021. Total gross margin climbed to 53.3%, rising by 11 percentage points year-over-year. In terms of cash flow, we achieved an operating cash inflow of RMB84.1 million.

These achievements were primarily driven by the solid performance of our new services and smart devices. Sales of digital content services reached over RMB600 million. Besides, the gross margin has been above 60% and net revenues have covered the cost and operating expenses for two consecutive quarters. As for smart devices, strong new product sales drove approaching 100% year-over-year growth on November 11 Shopping Festival and facilitated the growth of net revenues from this segment to the best level of RMB407 million in Q4.

Then let me walk through the key financial metrics of 2H22. Net revenues reached RMB2.9 billion in 2H22, increasing 36.8% year-over-year. Gross margin was 53.7%, improving 6 percentage points year-over-year. Loss from operations reached RMB194.4 million, narrowing by 59% year-over-year. Operating cash outflow improved to RMB210 million, a decline of 63.8% from the 2H21, which included discontinued operations.

For the fiscal year of 2022, our key financial indicators improved significantly. Net revenues reached RMB5 billion, up 24.8% year-over-year. Gross margin was 51.6%, improving 2 percentage points year-over-year. Loss from operations was RMB774.7 million, narrowed by 17.9% year-over-year. Operating cash outflow improved to RMB603.1 million, a decline of 55.2% from 2021, which included discontinued operations.

Then I would like to add more color on our progress in Q4.

Net revenues from smart devices hit RMB407 million, up 28.1% year-over-year. Dictionary Pen sales exceeded 400 thousand units, the majority of which were the new products launched in 2022.

Product wise, we launched Youdao Dictionary Pen P5 in Q4, specially designed for professionals. Updated with 5 million professional terms in 16 professional fields, it provides

translation into over 100 languages, and enhances recognition accuracy by deduplicating the results of continuous scanning by NLP (Natural Language Processing).

We also launched Youdao Smart Learning Pad X10 in Q4, with an upgraded AI-supported “Learning Dashboard” for better personalized learning experiences. After we entered the field of education tablets in Q3, the compound monthly growth rate of sales units exceeded 100%. Moreover, for the first three months after we launched the Learning Pad X10, its compound monthly growth rate of sales units was nearly twice that of the Y10 for the same period.

As for learning services, net revenues reached RMB806.3 million in Q4, up 39.2% year-over-year. Gross margin of learning services climbed to 64.1%, improving 13 percentage points year-over-year.

We have been exploring digitization of our learning services, and have made significant progress. In Q4, we upgraded Youdao Literature-Creative Writing, which was co-developed by Youdao and Minecraft Education Edition. The digitized content effectively enhances learners’ interaction and engagement, making learning materials easier to understand and more attractive. I encourage you to view the video on our IR website.

In addition, the Champion Class of Youdao Go was released in Q4 with a teaching team led by Ke Jie, a Go world champion. The Youdao Go courses create a learning path starting from entry level to advanced level, followed by Champion level classes. The successful adaptation of these progressive courses drove the gross billings up by over 50% year-over-year in Q4. Besides, the retention rate of the advanced-level class reached over 70%.

In terms of adult courses, we released upgraded solutions to the postgraduate entrance exams. It offers comprehensive solutions from target consulting to hybrid tutoring by AI and humans. Students are thrilled with these new features, leading to gross billings up by nearly triple digits year-over-year in Q4. Meanwhile, gross billings from vocational courses, such as IT & internet and constructor courses, increased over 100% year-over-year in Q4.

Looking back, we stuck to customer-oriented philosophy and enhanced customer experience with upgraded services and smart devices facilitated by technology and innovation in 2022. We released the world’s first dictionary pen OS and launched digital content services that enhanced learning efficiency and effectiveness, which were supported by customers and ultimately reflected in our financials. Moreover, the share repurchase program demonstrated management’s confidence in the future growth of the business.

Looking ahead, we will continue leveraging our cutting-edge technology and innovation to promote the sustainable development of smart devices, digital content services, and STEAM courses, further improving our business healthiness and financial performance.

With that, I will turn the call over to Su Peng to give you more details on our financial performance. Su Peng?

## **Peng Su**

---

Thank you, Dr. Zhou, and hello everyone.

Today I will be presenting some financial highlights from our 2022 fourth quarter and full year. We encourage you to read through our press release issued earlier today for further details.

For the fourth quarter, total net revenues were RMB1.5 billion, or US\$210.8 million. This represents an increase of 38.6% from the fourth quarter of 2021.

- Net revenues from our learning services were RMB806.3 million, or US\$116.9 million, representing a 39.2% increase from the same period in 2021. We attribute this growth to the strong sales performance from the new services initiated after the implementation of the “Double Reduction” Policy.
- Net revenues from our smart devices were RMB407 million, or US\$59 million, up 28.1% from the same period in 2021, driven by the popularity of Youdao’s newly launched products, such as the Youdao Dictionary Pen X5.
- Net revenues from our online marketing services were RMB240.8 million, or US\$34.9 million, representing a 58.6% increase from the same period in 2021. The increase was mainly attributable to the increase in performance-based advertisements through third parties’ internet properties.

For the fourth quarter, our total gross profit was RMB774.7 million, or US\$112.3 million, representing a 74% increase from the fourth quarter of 2021.

- Gross margin for learning services was 64.1% for the fourth quarter of 2022, compared with 51.4% for the same period in 2021.
- Gross margin for smart devices was 46.2% for the fourth quarter of 2022, compared with 30.8% for the same period in 2021.
- Gross margin for online marketing services was 29.2% for the fourth quarter of 2022, compared with 32.6% for the same period in 2021.

For the fourth quarter, total operating expenses were RMB750 million, or US\$108.7 million, compared with RMB693.6 million for the same period of last year.

With that, for the fourth quarter, our:

- Sales and marketing expenses were RMB515.9 million, compared with RMB420.4 million in the fourth quarter of 2021.

- Research and development expenses were RMB179.5 million, compared with RMB170.2 million in the fourth quarter of 2021.

Our operating income margin was 1.7% in the fourth quarter of 2022, compared with operating loss margin of 23.7% for the same period of last year.

For the fourth quarter of 2022, our net income from continuing operations attributable to ordinary shareholders was RMB12.3 million, or US\$1.8 million, compared with net loss from continuing operations attributable to ordinary shareholders of RMB215.9 million for the same period of last year. Non-GAAP net income from continuing operations attributable to ordinary shareholders for the fourth quarter was RMB31.1 million, or US\$4.5 million, compared with Non-GAAP net loss from continuing operations attributable to ordinary shareholders of RMB168.2 million for the same period of last year.

Basic and diluted net income per ADS from continuing operations attributable to ordinary shareholders for the fourth quarter of 2022 was RMB0.1, or US\$0.01. Non-GAAP basic and diluted net income from continuing operations per ADS attributable to ordinary shareholders for the fourth quarter was RMB0.25, or US\$0.04.

Our net cash provided by continuing operating activities was RMB84.1 million, or US\$12.2 million, for the fourth quarter.

**Turning to our full year results**, our total revenues for 2022 increased by 24.8% to RMB5 billion, or US\$726.8 million.

- Net revenues from our learning services for 2022 were RMB3.1 billion, or US\$447.2 million, up 26.3% from 2021.
- Net revenues from our smart devices for 2022 grew by 28.2% year-over-year to RMB1.3 billion, or US\$182.2 million.
- Net revenues from our online marketing services for 2022 were up 13.2% year-over-year to RMB672.4 million, or US\$97.5 million.

Total gross profit for 2022 was RMB2.6 billion, or US\$375 million, compared with RMB2 billion in 2021.

Total operating expenses for 2022 increased to RMB3.4 billion, or US\$487.3 million, compared with RMB2.9 billion in 2021.

Net loss from continuing operations attributable to Youdao's ordinary shareholders for 2022 was RMB720.9 million, or US\$104.5 million, and basic and diluted net loss per ADS from continuing operations attributable to ordinary shareholders for 2022 was RMB5.83, or US\$0.84.

Looking at our balance sheet, as of December 31, 2022, our contract liabilities, which mainly consist of deferred revenues generated from our learning services, were RMB1.1 billion, or

US\$154.7 million, compared with RMB1.1 billion as of December 31, 2021. At the end of the period, our cash, cash equivalents, restricted cash, time deposits, and short-term investments totaled RMB1 billion, or US\$147.4 million.

This concludes our prepared remarks. Thank you for your attention. We would now like to open the call to your questions. Operator, please go ahead.

After the Q&A ...

### **Operator**

---

And that concludes the question and answer session. I would like to turn the conference back over to management, for any additional or closing comments.

### **Jeffrey Wang**

---

Thank you once again for joining us today. If you have any further questions, please feel free to contact us at Youdao directly, or reach out to Piacente Financial Communications in China or the US. Have a great day.