YOUDAO 1Q 2026 CONFERENCE CALL SCRIPT

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Operator introduction

Good day, and welcome to Youdao's first quarter 2026 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 that the discussion today will contain forward-looking statements related to the 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 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 Company filings 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 2026 first quarter financial results news release issued earlier today.

As a reminder, this conference is being recorded. A webcast replay of this conference call will also be available on Youdao's corporate website at ir.youdao.com. Joining us today on the call from Youdao's senior management are Dr. Feng Zhou, our Chief Executive Officer; Mr. Lei Jin, our President; Mr. Peng Su, our senior VP; 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 all numbers are denominated in Renminbi, unless otherwise stated.

Youdao delivered a solid start to 2026. Net revenues were RMB1.3 billion, up 3.8% year-over-year. Operating profit was RMB57.5 million, marking our seventh consecutive quarter of operating profitability, while operating margin improved sequentially by 0.5 percentage points to 4.3%. Year over year, operating profit declined 44.7%, primarily reflecting our proactive investments in core strategic initiatives, including AI, as well as a high comparison base from the restructuring of learning services in the same period last year. Net operating cash outflow narrowed significantly by 63.6% year-over-year to RMB93.1 million. Supported by successful AI product launches in Q1 and a strong pipeline ahead, we remain focused on delivering full-year improvements in profitability and cash flow in 2026.

We continue to advance the AI technologies that drive our business growth. Just this week, we released Confucius 4, our open-source learning large language model. Its most important new feature is multimodal input, enabling industry-leading capabilities in solving and teaching K–12 subjects that require visual understanding, such as geometry. We also released EmotiVoice 2, our open-source, high-fidelity AI text-to-speech model, with advanced features including cross-lingual voice cloning. In addition, we launched Confucius-Translation 4, our latest AI translation model, delivering industry-leading performance across 40 languages.

With that, let me walk through the performance of each business line during the first quarter.

Net revenues from the learning services segment were RMB627.5 million, up 4.2% year-over-year. **Youdao Lingshi** maintained strong momentum with gross billings growing by over 20% year-over-year in Q1. Product innovation remained a key driver of this growth. Powered by our proprietary Confucius LLM, we launched English AI Essay Grading this quarter, further enhancing our differentiated AI-powered learning experience. The feature provides personalized, high-quality feedback reports in approximately one minute, improving learning outcomes for students while increasing operational efficiency for teaching assistants.

Our programming courses maintained strong momentum in the first quarter, with gross billings growing by over 20% year-over-year, supported by ongoing product enhancements and the strategic expansion of our user acquisition channels. In addition to business growth, our students continued to achieve outstanding results in top-tier competitions, winning one gold, one silver, and two bronze medals at the 43rd National Olympiad in Informatics Winter Camp. In addition, one student was selected for the Chinese national team and won a gold medal at the 2026 International Winter AI Olympiad. These results underscore the depth of our teaching capabilities and the strength of our programming education ecosystem.

Within learning services, our AI-driven subscription services continued their robust growth trajectory. In the first quarter, total sales exceeded RMB100 million, representing year-over-year growth of over 70%. We also continued to iterate our proprietary Confucius LLM, with a focus on high-utility learning and productivity scenarios, further enriching our AI Agent matrix. This quarter, we launched two new AI Agent products.

The first is **LobsterAI**, a personal AI desktop assistant designed for productivity and secure deployment. LobsterAI enables enterprises and individual users to deploy powerful, customized AI agents while maintaining data privacy. Since its open-source release, it has gained strong traction among the global developer community and surpassed 5,000 stars on GitHub.

The second is **Youdao Baoku**, an AI-native knowledge base designed for complex knowledge synthesis. Powered by a dynamic reasoning architecture, Youdao Baoku can decompose complex queries, perform multi-round verification, and provide precise citations. It helps users transform large volumes of materials into structured, multi-modal outputs, including chart-rich presentations and mind maps, helping users improve knowledge work productivity.

In addition to launching new AI-native products, we continued to upgrade our core applications. The **AI Simultaneous Interpretation** feature in Youdao Dictionary and Youdao Desktop Translation saw user engagement increase by over 100% year-over-year. This growth was driven by two key upgrades: first, the deployment of our Confucius 3 translation LLM, which reduced latency by approximately 50%; and second, the evolution of the feature from a translation tool into a more autonomous AI Agent, enabling more natural interaction and deeper contextual understanding. Our technical capabilities were further validated at the 14th National Interpretation Contest, where Youdao won championships in eight of the sixteen AI-track language categories, demonstrating the strength of our AI interpretation system.

In the first quarter, our online marketing services maintained strong momentum, generating RMB611.1 million in net revenue, up 20.9% year-over-year. Growth was primarily driven by increased demand for performance-based advertising, supported by our continued investments in AI technology.

Gaming remained a core advertising vertical and continued to demonstrate resilience and steady growth. At the same time, we captured emerging opportunities in fast-growing sectors, particularly AI applications and short-form dramas. By integrating advanced AI capabilities with vertical-specific marketing scenarios, we achieved over 50% year-over-year advertising revenue growth in each of these emerging sectors.

On the product front, we continued to leverage our vertical advertising LLM to enhance product and service quality. In Q1, we launched an upgraded version of **InfunEase**, our one-stop AI platform for KOL marketing. The upgrade focused on two key areas. **First, workflow synergy**:

InfunEase now enables brands to manage the full collaboration lifecycle, from top-tier influencers to KOCs, through a streamlined online workflow that significantly shortens collaboration cycles. **Second, AI-powered self-service**: the platform automates influencer recommendations and content creation, lowering entry barriers while improving execution efficiency. Since the upgrade, InfunEase has received positive feedback from KOLs and marketers. To date, nearly 60,000 influencers globally have registered on the platform, providing a solid foundation for future expansion.

Gross margin for online marketing services was 29.6% in the first quarter, largely stable year-over-year and up 1.8 percentage points sequentially, marking the second consecutive quarter of sequential improvement.

Turning to our smart devices segment, net revenue was RMB109.4 million in the first quarter, down 42.6% year-over-year. We continue to exercise operational discipline in this segment, prioritizing SKU health, inventory management, and profitability over near-term volume growth. At the same time, our products continued to receive strong external recognition. This quarter, the **Youdao Tutoring Pen** was honored as the "Best Educational Hardware Solution" at the 2026 EdTech Awards, and was the only Chinese product to receive this distinction. In addition, Youdao Space X was recognized as an AI benchmark by WallstreetCN, reflecting continued recognition of our AI capabilities and educational value.

Looking ahead, we remain firmly committed to our AI-Native Strategy. By continually refining our vertical LLMs for learning and advertising, and expanding our AI Agent matrix, we are enhancing how users learn, work, and market while creating new opportunities for sustainable growth. As we continue to improve user experience, we remain focused on driving continued improvements in profitability and cash flow in 2026.

With that, I'll hand the call over to Su Peng for a deeper dive into our financial results.

Thank you.

Peng Su

Thank you, Dr. Zhou, and hello everyone.

Today I will be presenting some financial highlights from the first quarter of 2026. We encourage you to read through our press release issued earlier today for further details.

For the first quarter, total net revenues were RMB1.3 billion, or US$195.4 million, representing a 3.8% increase from the same period of 2025.

- Net revenues from our learning services were RMB627.5 million, or US$91.0 million, representing a 4.2% increase from the same period of 2025.
- Net revenues from our smart devices were RMB109.4 million, or US$15.9 million, representing a 42.6% decrease from the same period of 2025, primarily due to a decline in demand for smart learning devices in the first quarter of 2026.
- Net revenues from our online marketing services were RMB611.1 million, or US$88.6 million, representing a 20.9% increase from the same period of 2025. The year-over-year increase was mainly attributable to increased demand for performance-based advertisements through third parties' internet properties, which was driven by our continued investments in AI technology.

For the first quarter, our total gross profit was RMB602.3 million, or US$87.3 million, largely flat compared with the same period of 2025.

- Gross margin for learning services was 60.2% for the first quarter of 2026, compared with 59.8% for the same period of 2025.
- Gross margin for smart devices was 39.9% for the first quarter of 2026, compared with 52.3% for the same period of 2025.
- Gross margin for online marketing services was 29.6% for the first quarter of 2026, compared with 30.5% for the same period of 2025.

For the first quarter, our total operating expenses were RMB544.8 million, or US$79.0 million, compared with RMB510.2 million for the same period of last year.

Looking at our expenses in more detail:

- Sales and marketing expenses for the first quarter of 2026 were RMB382.2 million, compared with RMB357.6 million in the first quarter of 2025.
- Research and development expenses for the first quarter of 2026 were RMB115.4 million, remaining stable with the same period of 2025.

Our operating income margin was 4.3% in the first quarter of 2026, compared with 8.0% for the same period of last year.

For the first quarter of 2026, our net income attributable to ordinary shareholders was RMB38.6 million, or US$5.6 million, compared with RMB76.7 million for the same period of last year. Non-GAAP net income attributable to ordinary shareholders for the first quarter was RMB44.9 million, or US$6.5 million, compared with RMB81.7 million for the same period last year.

Basic and diluted net income per ADS attributable to ordinary shareholders for the first quarter of 2026 were RMB0.33, or US$0.05 and RMB0.32, or US$0.05, respectively. Non-GAAP basic and diluted net income per ADS attributable to ordinary shareholders for the first quarter was RMB0.38, or US$0.06 and RMB0.37, or US$0.05, respectively.

Our net cash used in operating activities was RMB93.1 million, or US$13.5 million, for the first quarter.

Looking at our balance sheet, as of March 31, 2026, our contract liabilities, which mainly consist of deferred revenue generated from our learning services, were RMB667.0 million, or US$96.7 million, compared with RMB847.7 million as of December 31, 2025. At the end of the period, our cash, cash equivalents, current and non-current restricted cash, and short-term investments totaled RMB515.2 million, or US$74.7 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.

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.