YOUDAO 2Q 2026 CONFERENCE CALL SCRIPT

Speaker dial-in numbers:

China: 4001-201203
Toll-free (U.S.): 1-888-346-8982
Conference ID: Youdao, Inc.

Operator introduction

Good day, and welcome to Youdao's second 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 second 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.

We maintained solid momentum in the second quarter, delivering robust results. Net revenues for the quarter reached RMB1.5 billion, representing a 3.5% year-over-year increase. In terms of profitability, we achieved a record high in Q2, with operating profit reaching RMB111.5 million, nearly fourfold year-over-year. This marks our eighth consecutive quarter of operating profitability, representing a critical step toward our goal of healthy and sustainable development. Meanwhile, net cash inflow from operating activities was RMB334.2 million, up 80.7% compared with the same period last year.

These strong quarterly results also drove strong first-half performance. In the first half of 2026, total net revenues reached RMB2.8 billion, up 3.6% year-over-year, while operating profit increased 27.3% to a record RMB169.0 million. We also generated RMB241.1 million in net operating cash flow, compared with a net outflow of RMB70.5 million in the same period last year, reflecting a substantial improvement in cash generation.

Let me begin with an update on our progress in AI technology and Confucius, our proprietary Large Language Model. AI remains a key driver across our business. During the second quarter, we continued to translate advances in our LLM capabilities into practical products and applications across our business lines.

First, we rolled out Confucius 4 in the second quarter, with significant upgrades in multimodal, voice and translation capabilities. The new model delivers stronger performance in visual math and physics reasoning, particularly on complex diagrams. We also improved its reasoning architecture and training data to significantly reduce inference costs. In translation, an optimized acceleration mechanism increased inference speed by approximately 80%.

Second, our growing portfolio of AI Agents was showcased at the 2026 World AI Conference. Products including **LobsterAI, Hi Echo, Youdao Baoku, InfunEase** and **iMagicbox**, together with **Confucius 4**, demonstrated how AI is moving beyond basic Q&A toward executing more complex tasks across learning, work and advertising scenarios.

Beyond technological advances and user adoption, our AI capabilities also continued to gain recognition and support from authoritative bodies. In Q2, the Beijing Key Laboratory of Artificial Intelligence for Multilingual Translation (人工智能多语种翻译北京市重点实验室)—co-founded by Youdao—was officially launched. Going

forward, we will continue advancing end-to-end multilingual translation models and accelerate their application across learning, international conferences and cross-border trade.

I will now walk through the performance of each of our business lines during the second quarter.

Net revenues from learning services were RMB795.6 million, up 20.9% year-over-year, primarily driven by the strong performance of **Youdao Lingshi**, one of our strategic focused areas. AI continues to play an increasingly important role across our learning ecosystem. Following the strong reception of our AI English Essay Grading feature launched in the first quarter, grading volume more than doubled sequentially in Q2. Together with AI-powered quiz recommendations and college admission advisory services, these differentiated AI capabilities helped enhance the user experience and contributed to a retention rate of over 75% for Youdao Lingshi in the second quarter.

For our programming courses, continued product upgrades and channel expansion helped broaden the user base, while improvements in the learning experience supported a retention rate of over 75% in the second quarter.

Within learning services, our AI-driven subscription products generated approximately RMB100 million in sales during the second quarter, up more than 20% year-over-year. Our **AI Simultaneous Interpretation** feature also maintained strong momentum, with user engagement increasing by approximately 100% year-over-year. We also launched what we believe is the world's first 14-language, cross-lingual, accent-free voice-cloning technology, enabling rapid voice replication across languages while preserving the speaker's emotional characteristics. To support broader adoption, we open-sourced the model weights and toolchains for local deployment and commercial use, significantly lowering the barrier to multilingual content production.

Meanwhile, **Hi Echo** continued to perform strongly, with second-quarter gross billings increasing by more than 100% year-over-year. The product also received positive feedback from both domestic and international users at WAIC.

Turning to online marketing services, net revenues were RMB584.4 million in the second quarter, down 7.7% year-over-year. The decline reflects our deliberate focus on higher-quality, higher-margin opportunities as we continue to prioritize the long-term health and profitability of the business. As a result, gross margin improved to 28.7%, up approximately 3 percentage points year-over-year.

At the same time, we continued to make progress in client acquisition and retention, adding more than 100 new clients during the quarter and increasing advertiser retention by approximately 5 percentage points sequentially. Our AI application and short-form drama advertising businesses also maintained strong momentum, with revenues

growing more than 50% year-over-year for the second consecutive quarter.

On the product side, we recently launched the second generation of our **AI Ad Placement Optimizer,** further improving advertising efficiency and quality.

- **Unified Account Management** provides centralized access across accounts, simplifying campaign operations.
- **Automated Push Notifications** delivers real-time data updates to help users respond more quickly.
- **Intelligent Alerts** provides 24/7 anomaly detection with second-level response times, helping reduce wasted ad spend and operational losses.

Together, these upgrades further enhance advertiser value and strengthen the long-term health of our marketing ecosystem.

Moving to smart devices, improving profitability remains our primary objective. Net revenues were RMB86.8 million in the second quarter, down 31.5% year-over-year, while the overall operational health of the business continued to improve.

Our market position remained strong. During the 618 Shopping Festival, Youdao Dictionary Pen ranked No. 1 in sales in its category on both JD.com and Tmall for the seventh consecutive year. Our Youdao Tutoring Pen also received recognition from several government authorities for its application of AI in education, including the Ministry of Education, the Cyberspace Administration of China, and the Ministry of Industry and Information Technology.

We also recently launched the Youdao Dictionary Pen X8, featuring an expanded database of 80 million authoritative words and AI-powered, photo-based tutoring across multiple subjects. Initial market response has been positive.

Looking ahead, we will continue to execute our AI-Native Strategy, leveraging our technical capabilities to deepen the application of vertical LLMs across learning and advertising. We will also continue expanding our portfolio of AI Agents to enhance user experience and satisfaction, supporting further improvements in our key financial metrics in the second half of the year.

With that, I'll hand the call over to Peng Su 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 second quarter of 2026. We encourage you to read through our press release issued earlier today for further details.

For the second quarter, total net revenues were RMB1.5 billion, or US$216.2 million, representing a 3.5% increase from the same period of 2025.

- Net revenues from our learning services were RMB795.6 million, or US$117.3 million, representing a 20.9% increase from the same period of 2025. The year-over-year increase was primarily driven by the strong momentum of tutoring services compared with the same period of 2025.
- Net revenues from our smart devices were RMB86.8 million, or US$12.8 million, representing a 31.5% decrease from the same period of 2025, primarily due to a decline in demand for smart learning devices.
- Net revenues from our online marketing services were RMB584.4 million, or US$86.1 million, representing a 7.7% decrease from the same period of 2025. The year-over-year decrease reflects Youdao's disciplined, strategic approach to engagement acceptance, which places greater emphasis on higher ROI (return on investment) engagements. Youdao believes this strategy has enhanced the overall operational efficiency of its business.

For the second quarter, our total gross profit was RMB716.9 million, or US$105.7 million, representing a 17.6% increase from the same period of 2025.

- Gross margin for learning services was 65.5% for the second quarter of 2026, compared with 59.8% for the same period of 2025.
- Gross margin for smart devices was 32.8% for the second quarter of 2026, compared with 41.5% for the same period of 2025.
- Gross margin for online marketing services was 28.7% for the second quarter of 2026, compared with 25.8% for the same period of 2025.

For the second quarter, our total operating expenses were RMB605.3 million, or US$89.2 million, compared with RMB580.6 million for the same period of last year.

Looking at our expenses in more detail:

- Sales and marketing expenses for the second quarter of 2026 were RMB424.1 million, compared with RMB401.8 million in the second quarter of 2025.

- Research and development expenses for the second quarter of 2026 were RMB142.0 million, compared with RMB128.3 million in the second quarter of 2025.

Our operating income margin was 7.6% in the second quarter of 2026, compared with 2.0% for the same period of last year.

For the second quarter of 2026, our net income attributable to ordinary shareholders was RMB73.8 million, or US$10.9 million, compared with net loss attributable to Youdao's ordinary shareholders of RMB17.8 million for the same period of last year. Non-GAAP net income attributable to ordinary shareholders for the second quarter was RMB90.6 million, or US$13.4 million, compared with RMB12.5 million for the same period last year.

Basic and diluted net income per ADS attributable to ordinary shareholders for the second quarter of 2026 were RMB0.62, or US$0.09 and RMB0.61, or US$0.09, respectively. Non-GAAP basic and diluted net income per ADS attributable to ordinary shareholders for the second quarter was RMB0.76, or US$0.11 and RMB0.75, or US$0.11, respectively.

Our net cash provided by operating activities was RMB334.2 million, or US$49.3 million, for the second quarter.

Looking at our balance sheet, as of June 30, 2026, our contract liabilities, which mainly consisted of deferred revenues generated from our learning services, were RMB835.1 million, or US$123.1 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 RMB849.3 million, or US$125.2 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.