

YOUDAO 4Q 2025 CONFERENCE CALL SCRIPT

Speaker dial-in numbers:

China: 4001-201203

Toll-free (U.S.): 1-866-250-8117

Conference ID: Youdao, Inc.

Operator introduction

Good day, and welcome to Youdao's 2025 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 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 2025 fourth quarter and full-year 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.

In the fourth quarter, both net revenues and cash flow showed strong improvement. Net revenues reached RMB1.6 billion, a 16.8% year-over-year increase. This growth was primarily driven by the learning services segment returning to a growth trajectory, combined with the sustained strong performance of our online marketing services. Net cash inflow from operating activities for the quarter was RMB184.2 million, up 16.4% year-over-year. Our operating profit for the fourth quarter was RMB60.2 million, marking our sixth consecutive quarter of operating profitability, representing an increase of 113.0% quarter-over-quarter and a decrease of 28.5% year-over-year.

For the full year 2025, our key financial performance demonstrated positive momentum across the board. Total net revenues for the year reached RMB5.9 billion, an increase of 5.0% year over year. Operating profit grew to RMB221.3 million, up 48.7% year over year. Notably, 2025 marked the first year we achieved full-year net cash inflow from operating activities, totaling RMB55.2 million. This compared with a net cash outflow of RMB67.9 million in 2024. This milestone reflects continued improvements in our competitiveness and operating efficiency, and fulfills the financial objectives we set at the beginning of the year.

I will now walk through the performance of each business line during the fourth quarter.

Starting with learning services, fourth-quarter net revenues reached RMB727.2 million, representing a 17.7% year-over-year increase. This performance reflects a clear return to growth following the successful completion of our strategic restructuring. Within this segment, digital content services contributed RMB436.1 million, up 12.2% year-over-year.

Youdao Lingshi continued to perform well, with revenue surging over 40% year-over-year. Retention rates exceeded 75%, representing an improvement of approximately five percentage points. These results demonstrate meaningful progress in both scale and user satisfaction.

Technological innovation remains central to our product competitiveness. During the quarter, Youdao Lingshi was recognized by CNR as the "2025 Industry Benchmark Education Group." This recognition affirms our leadership position and reflects our continued investment in education technology. Building on the successful launch of our Chinese AI Essay Grading feature, we plan to introduce an English AI Essay Grading tool in the near future. Powered by our proprietary large language model, Confucius, and aligned with rigorous examination standards, this tool is designed to help students improve their writing proficiency and quality.

Our programming courses also delivered strong results. Continuous product upgrades drove a 50% year-over-year increase in gross billings for the fourth quarter, supported by retention rates above 75%. Importantly, student achievements remain a key measure of success. In 2025, hundreds of our students achieved top results in the NOIP and the CSP-J and -S finals, validating the quality and effectiveness of our programming curriculum.

Within the learning services segment, AI-driven subscription services delivered particularly strong performance. Fourth-quarter sales exceeded RMB100 million, representing an over 80% year-over-year increase. For the full year 2025, total sales approached RMB400 million, a record high with annual growth exceeding 50%. This growth reflects both the expansion of our product portfolio and sustained demand for high-quality AI-powered apps.

We are driving this momentum through two primary avenues. First, we are expanding into new market segments through innovative applications. In 2025, we launched **Scholar AI** (学术猿), an integrated AI-powered plagiarism detection and writing refinement application. In the fourth quarter, its sales doubled quarter-over-quarter. We have also recently entered into an official partnership with Turnitin, the global leader in academic and research integrity, which we expect to further accelerate adoption.

Second, we continue to enhance our core applications. The **AI Simultaneous Interpretation** feature within **Youdao Dictionary and Youdao Desktop Translation** achieved over 100% year-over-year sales growth in the fourth quarter. These innovations were recognized with multiple industry awards, including QbitAI (量子位)'s “Outstanding AI Product” and “China AI Product of the Year”.

Turning to online marketing services, fourth-quarter net revenues reached RMB660.9 million, up 37.2% year over year. Growth was driven by increased demand from the NetEase group as well as overseas markets, supported by our continued investments in AI technology.

This growth was broad-based across multiple verticals. In gaming, stronger collaboration with NetEase Group and expansion of third-party clients drove a 50% year-over-year increase in advertising revenue. At the same time, we are capitalizing on the AI boom. Rapid advances in large language models have fueled marketing demand for many high-growth AI apps. By positioning ourselves early as a preferred marketing partner in this trend, we achieved significant gains in client acquisition, resulting in revenue growth of over 50% for the quarter.

International performance was also strong. Overseas KOL revenues increased by more than 50% year over year in the fourth quarter. In 2025, we successfully executed campaigns in over 50 countries. Our global capabilities were recognized by TikTok for Business, which named Youdao Ads to its “2025 Influencer Agency Game Industry Pioneer List” (TikTok for Business

2025 年度达人代理商游戏行业先锋榜), further reinforcing our leadership in global digital marketing.

Gross margin for the online marketing segment was 27.8% in the fourth quarter, representing a two-percentage-point sequential improvement, despite a year-over-year decline. This reflects two deliberate strategic choices. First, we prioritized client acquisition, with new clients accounting for approximately 30% of our advertisers this quarter. While margins are typically lower during onboarding, these relationships provide a foundation for long-term value creation. Second, we are beginning to see margin expansion from technological upgrades. The launch of our second-generation AI Ad Placement Optimizer, which integrates automated creative production, has begun to improve both advertising efficiency and profitability.

In the smart devices segment, fourth-quarter net revenues were RMB176.5 million, down 26.6% year over year. We continued to focus on improving this segment's overall operational health, and made significant progress in 2025.

Our flagship Youdao Dictionary Pen remained the top-selling product on JD.com and Tmall during the November 11 Shopping Festival for the sixth consecutive year. Meanwhile, we continued to enhance the Youdao Tutoring Pen launched earlier in 2025, adding features such as intelligent knowledge cards and upgraded AI-powered video explanations. Since launch, the system has generated over 600,000 videos. User engagement has been encouraging, with active users accessing tutoring features more than ten times per day in the fourth quarter.

In summary, 2025 has been a year of comprehensive progress driven by our AI-native strategy. From the strong performance of our advertising business enabled by the AI Ad Placement Optimizer, to improved user retention and engagement across our learning services, we have demonstrated that technological innovation translates directly into user value and commercial results. Our expanding portfolio of AI subscription and device products—including Youdao Simultaneous Interpretation, Scholar AI, Anydub, and the AI Tutoring Pen—has broadened our reach to new user segments. Financially, we maintained strong discipline, delivered meaningful profitability growth, and our first-ever full year of net operating cash inflow. This milestone underscores the sustainability and resilience of our business model.

Looking ahead, we remain firmly committed to our AI-Native strategy, with a clear focus on advancing our learning services and advertising businesses. We will continue developing high-performance vertical large language models tailored to user needs, while actively capturing emerging opportunities such as AI Agents, which significantly expand the potential for application-layer innovation and data-driven value creation. Through these efforts, we aim to deliver differentiated user experiences while driving long-term, sustainable growth. We are not just participating in the AI transformation—we are building the foundation for sustained, intelligent growth.

With that, I'll turn the call over to Su Peng for a more detailed discussion of our financial results.

Thank you.

Peng Su

Thank you, Dr. Zhou, and hello everyone.

Today I will be presenting some financial highlights from the fourth quarter and full year of 2025. We encourage you to read through our press release issued earlier today for further details.

For the fourth quarter, total net revenues were RMB1.6 billion, or US\$223.7 million, representing a 16.8% increase from the same period of 2024.

- Net revenues from our learning services were RMB727.2 million, or US\$104.0 million, representing a 17.7% increase from the same period of 2024. The year-over-year increase was primarily driven by the strong sales performance of AI-driven subscription services compared with the same period of 2024.
- Net revenues from our smart devices were RMB176.5 million, or US\$25.2 million, down 26.6% from the same period of 2024, primarily due to the declined demands of smart learning devices in the fourth quarter of 2025.
- Net revenues from our online marketing services were RMB660.9 million, or US\$94.5 million, representing a 37.2% increase from RMB481.7 million for the same period of 2024. The year-over-year increase was mainly attributable to the increased demands from the NetEase group and overseas markets, which was driven by our continued investments in AI technology.

For the fourth quarter, our total gross profit was RMB705.4 million, or US\$100.9 million, representing a 10.1% increase from the fourth quarter of 2024.

- Gross margin for learning services was 62.5% for the fourth quarter of 2025, compared with 60.0% for the same period of 2024.
- Gross margin for smart devices was 38.1% for the fourth quarter of 2025, compared with 43.9% for the same period of 2024.
- Gross margin for online marketing services was 27.8% for the fourth quarter of 2025, compared with 34.2% for the same period of 2024.

For the fourth quarter, our total operating expenses was RMB645.2 million, or US\$92.3 million, compared with RMB556.6 million for the same period of last year.

Looking at our expenses in more detail:

- Sales and marketing expenses for the fourth quarter of 2025 were RMB437.1 million, compared with RMB381.8 million in the fourth quarter of 2024.

- Research and development expenses for the fourth quarter of 2025 were RMB142.6 million, compared with RMB120.7 million in the fourth quarter of 2024.

Our operating income margin was 3.8% in the fourth quarter of 2025, compared with 6.3% for the same period of last year.

For the fourth quarter of 2025, our net income attributable to ordinary shareholders was RMB48.2 million, or US\$6.9 million, compared with RMB83.0 million for the same period of last year. Non-GAAP net income attributable to ordinary shareholders for the fourth quarter was RMB58.7 million, or US\$8.4 million, compared with RMB91.8 million for the same period of last year.

Basic and diluted net income per ADS attributable to ordinary shareholders for the fourth quarter of 2025 were RMB0.41, or US\$0.06 and RMB0.40, or US\$0.06, respectively. Non-GAAP basic and diluted net income per ADS attributable to ordinary shareholders for the fourth quarter were RMB0.50, or US\$0.07 and RMB0.49, or US\$0.07, respectively.

Our net cash provided by operating activities was RMB184.2 million, or US\$26.3 million, for the fourth quarter.

Turning to our full-year results, our total revenues for 2025 increased by 5.0% to RMB5.9 billion, or US\$845.0 million.

- Net revenues from our learning services for 2025 down by 4.2% year-over-year to RMB2.6 billion, or US\$376.2 million.
- Net revenues from our smart devices for 2025 down by 18.2% year-over-year to RMB739.6 million, or US\$105.8 million.
- Net revenues from our online marketing services for 2025 were up 28.5% year-over-year to RMB2.5 billion, or US\$363.0 million.

Total gross profit for 2025 was RMB2.6 billion, or US\$374.2 million, compared with RMB2.7 billion in 2024.

Total operating expenses for 2025 decreased to RMB2.4 billion, or US\$342.6 million, compared with RMB2.6 billion in 2024.

Net income attributable to ordinary shareholders for 2025 was RMB107.3 million, or US\$15.4 million, and basic and diluted net income per ADS attributable to ordinary shareholders for 2025 were RMB0.91, or US\$0.13 and RMB0.90, or US\$0.13, respectively.

For 2025, net cash provided by operating activities was RMB55.2 million (US\$7.9 million), compared with net cash used in operating activities of RMB67.9 million for 2024.

Looking at our balance sheet, as of December 31, 2025, our contract liabilities, which mainly consist of deferred revenues generated from our learning services, were RMB847.7 million, or US\$121.2 million, compared with RMB961.0 million as of December 31, 2024. At the end of the period, our cash, cash equivalents, current and non-current restricted cash, and short-term investments totaled RMB743.2 million, or US\$106.3 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.