OneSmart Education

OneSmart International Education Group Limited
FY20 Q3 Results Presentation

August 2020

OneSmart Education

Section 1

Strategic Focus

OneSmart Strategic Focus

Premium brand positioning

高端定位

- Remarkable track record of OneSmart students' academic excellence
- Premium quality in teaching and services
- Premium quality learning centers

Customer-oriented

客满至上

- Continue to enhance customer experience
- Personalized curriculum designed for each individual student to make smart use of time and drive top results

Technology-empowered

科技赋能

- Robust teaching system UPC (unique personalized coach)
- Data-driven OMO (online-merge-offline) tools and platforms
- AI-powered OneSmart Online

OneSmart Education

Section 2

Business Updates

Overall business update: fundamentals continue to be solid, with 1on1 education demand becoming stronger

Short-term Impact by COVID-19

- Q3 (March-May 2020) being the hardest hit quarter by the pandemic
  - All of our learning centers have been temporarily closed
  - All public schools in China have also been temporarily closed without reopen schedule being provided
  - All classes and customer acquisitions conducted through our online platform until late May
- Latest update: 90% of centers reopened as of August 4th

vs.

Long-term Positive Outlook

- Demand for highly effective and premium education services is increasing and will gain market shares
- Increasing numbers of consumers are better educated and become convinced that 1on1 format provides a better quality of education
- OneSmart's upgraded services are receiving extremely positive feedback by parents and students
- Industry consolidation opportunities

OneSmart

Market Leader in the Premium 1on1 Education Services Sector

12 Years' solid Offline operations propelled by Online technology to better serve customers and boost growth in the long term

Three core business units:

3 OneSmart Online

精锐在线
哈佛北大精英创立

精锐在线 | 少儿
(Young Children)

精锐在线 | 1对1 (1on1)

精锐在线 | 班课 (Group and small group class)

精锐在线 | 国际教育 (Overseas study preparation)

Online

Kindergarten — **Grade 3** — **Grade 12**

Offline

精锐·至慧学堂
哈 佛 北 大 精 英 创 立
Kids Math & Chinese

小小地球
FasTrack English®
Kids English

2 Young Children Education

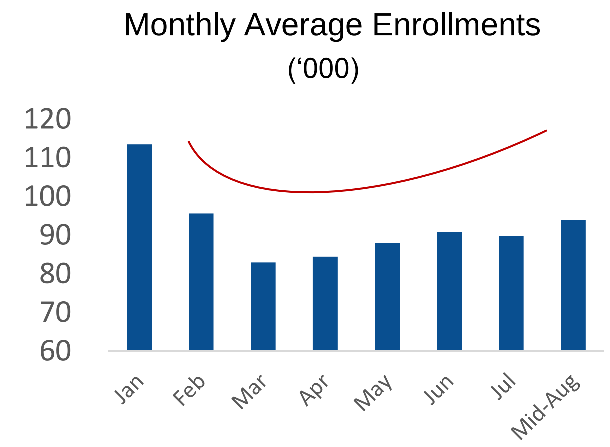
精锐·个性化
哈 佛 北 大 精 英 创 立

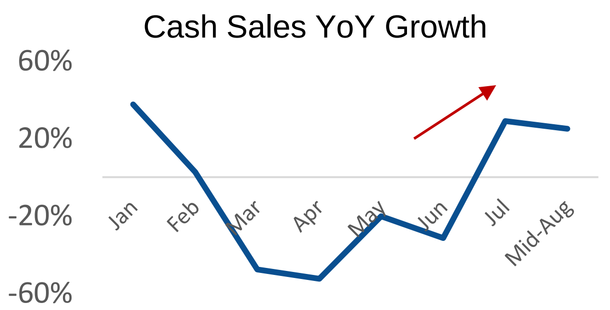
1 Premium K-12 1on1 After-school Tutoring

1 Solid recovery in enrollments and cash sales for Premium K-12 AST 1on1 business

精锐·个性化
哈 佛 北 大 精 英 创 立

Rigid demand to drive solid recovery

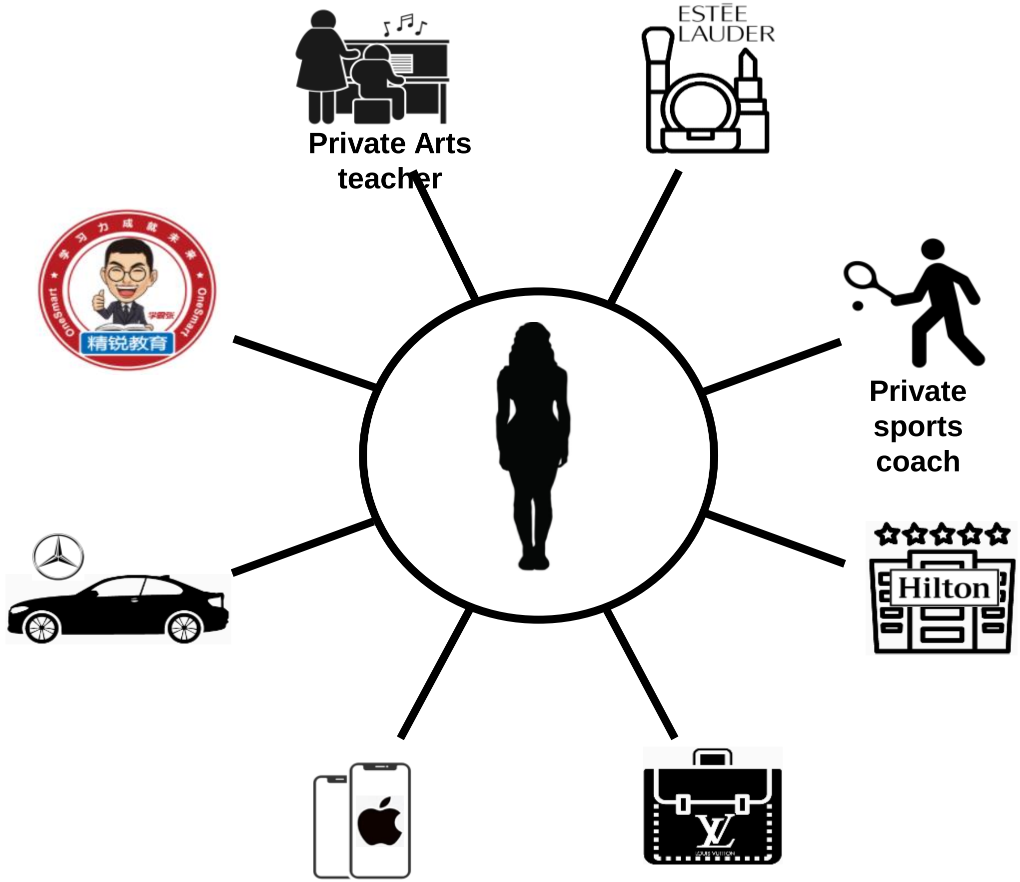




- A total of 272 learning centers as of May 31, 2020.
- More than 90% of nationwide learning centers reopened. Students in the cities affected by the resurgence of COVID-19 will continue to have access to OneSmart Online to facilitate their ongoing education until further notice.
- Cash sales have recovered to **POSITIVE GROWTH** since July 2020 (+29% yoy in July and +25% yoy in August to date), which lays solid foundation for the revenue growth in the coming quarters.
- FY2021 plan: product upgrade, center upgrade and expansion in top 20 cities

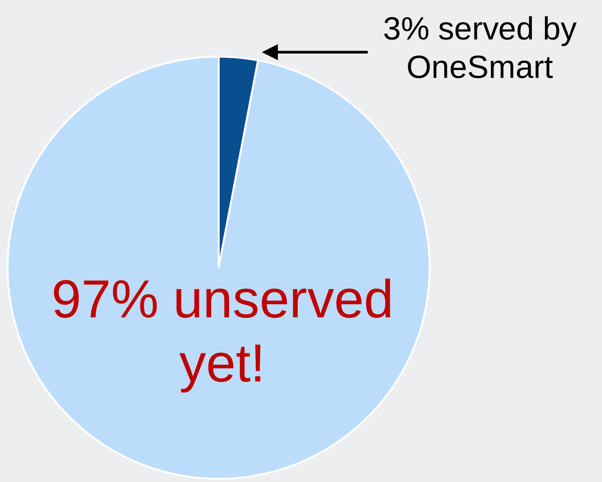
1 Our target affluent customers profile, a large under-served addressable market

OneSmart's target mother of K-12 student



A large addressable market

OneSmart serves only 3% of direct target affluent families in top 50 cities.



Note: based on BCG analysis and expert interviews, China has 1.8 million affluent families (defined as annual household income above RMB 300K, who has K-12 students). Each family has 1.3 child on average. OneSmart 1on1 has 70K students.

70K/(1800K*1.3)=3%

1 OneSmart 1on1 to help students achieve academic success in the highly selective entrance exams in China

精锐·个性化
哈 佛 北 大 精 英 创 立

OneSmart 1on1 Student Yao and his mother
Shanghai, July 2020

- **GaoKao Top 1** scorer in Shanghai
- **6-year** study experience in OneSmart 1on1

"We are grateful to OneSmart teachers for their dedicated efforts, especially during the pandemic this year. The personalized curriculum and the heartful teaching help my son to enhance his learning power and effectively improve his academic score. "

by student Yao's mother

Note: GaoKao refers to the national college entrance exam.

1 Learning center and service upgrade to solidify OneSmart Premium positioning and Premium pricing power

精锐·个性化
哈 佛 北 大 精 英 创 立

OneSmart 1on1 Elite VIP program launched since Q1 of FY2020, will accelerate its roll-out in FY2021 and onwards…

- Larger classroom with intelligent and interactive teaching tools and platforms
- Better environments to facilitate enjoyable study experiences
- **1.4~1.8x** regular price, implying increased margin potentials

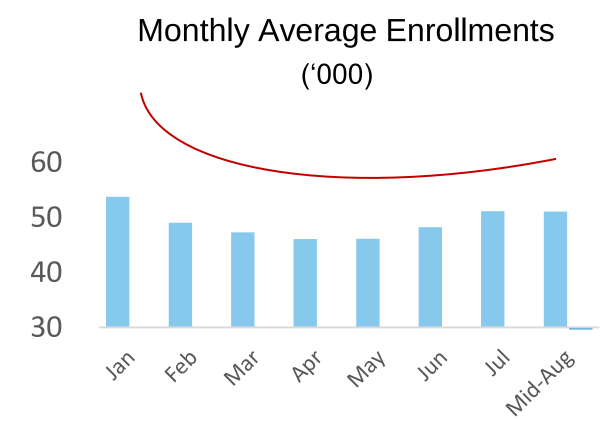
- Higher quality teachers with extensive teaching experience
- Help students achieve academic excellence
- Enhance students and parents satisfaction

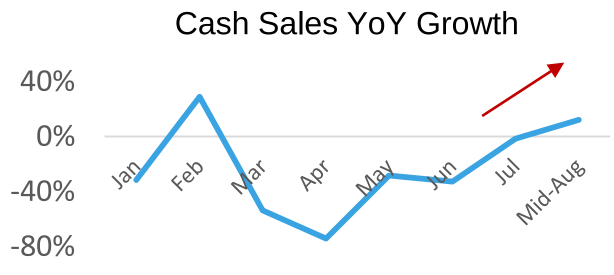
2 Cash sales POSITVE YOY Growth for young children education business resumed in August to date

精锐·至慧学堂 哈佛北大精英创立

小小地球 FasTrack English®

More solid growth expected to resume after summer vacation





- A total of 159 learning centers as of May 31, 2020. More than 90% of nationwide learning centers reopened.
- Slower recovery compared to K-12 1on1 business due to later resumption of school activities for young children.
- Cash sales from young children education business **recovered to grow by 12%** year-over-year in August to date.
- Primary demand shifts from elementary school admission preparation to development of learning power for young children.
- FY2021 plan: product upgrade, center upgrade and openings in selected cities

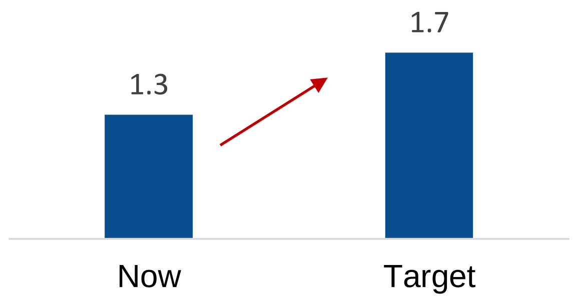
3 OneSmart Online provides convenience and complementary services to our students in a form of "take-out services"

Offline
+
Online

Higher frequency to drive better results

Weekend	Throughout the week
● offline class	★ incremental online class

Increased subject/student ratio



Online Business to Drive Incremental Growth

(in RMB million)	FQ3 2020	QoQ growth	As % in total
Cash sales from Online	59	128%	8%
Net revenues from Online	46	47%	6%

- Above figures are pure online users ONLY. If added back online courses taken by offline students (but excluded those temporarily migrated offline students during the pandemic), Cash sales and Net revenues numbers were RMB 165mm and RMB 54mm for FQ3, representing 543% and 74% QoQ growth, respectively

OneSmart Education

Section 3

Financial Highlights

Key highlights for the third fiscal quarter of FY20

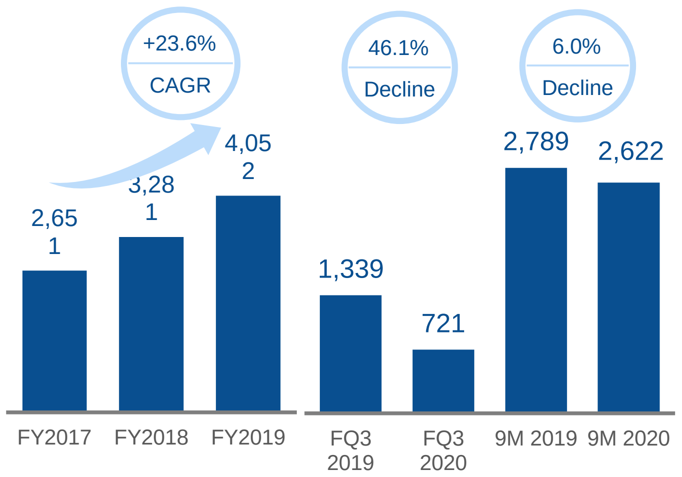
Key Highlights

1. Revenue	■ Fiscal Q3 (Mar-May) is the quarter mostly impacted by COVID-19 ■ Strong sales growth since June, with positive 25-30% YoY growth booked, indicating almost full recovery of revenue growth in the coming quarters
2. Margin	■ GPM pressure caused by one-off revenue drop due to COVID-19, coupled with previous quarters' added teacher cost to improve premium offerings ■ Marketing and G&A expenses controlled at reasonable level ■ One-off investment impairment losses of RMB 335mm primarily caused by COVID-19, related to 15 investee companies. No further impairments expected
3. Outlook	■ Optimistic on FY21's performance primarily driven by solid consumer demand and sound business fundamentals of OneSmart 1on1 business ■ Margin is expected to return to pre-pandemic level and start to expand in FY21 as topline resumed its growth ■ Additional contribution expected from upgraded products and online platform

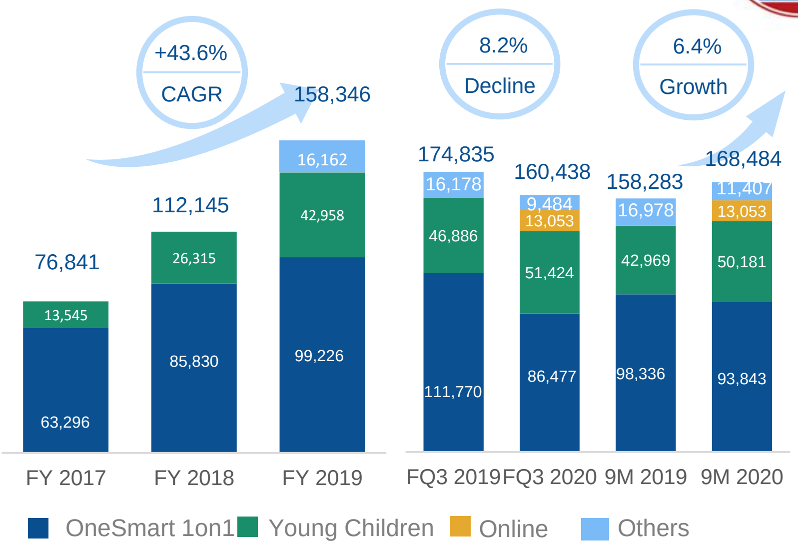
Operating metrics

Cash Sales

(in thousand)

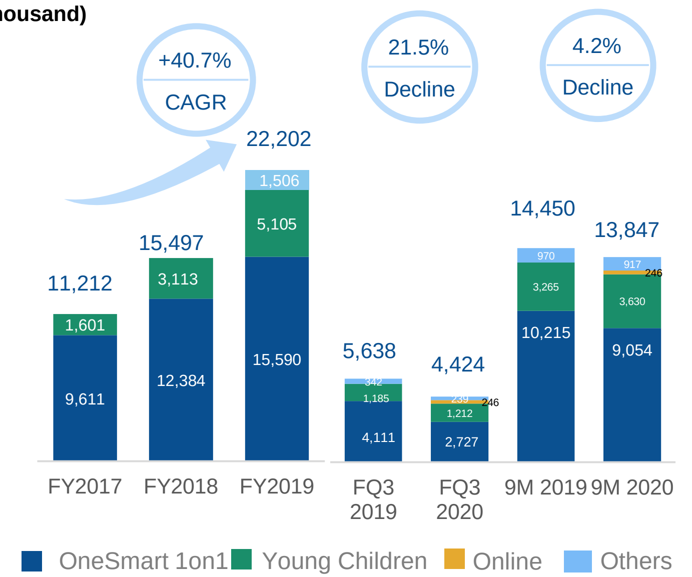


Average Monthly Enrollments



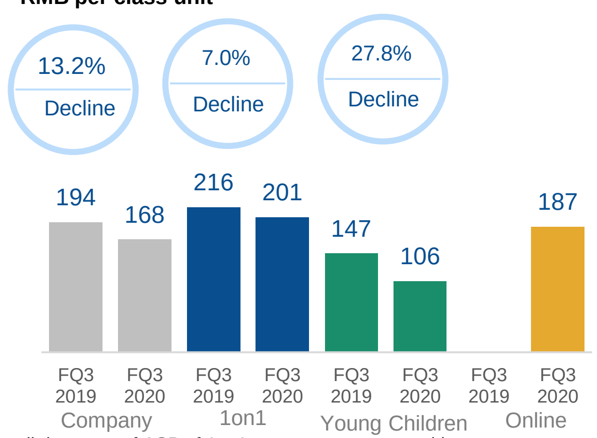
Consumed Class Units

(in thousand)



ASP

RMB per class unit



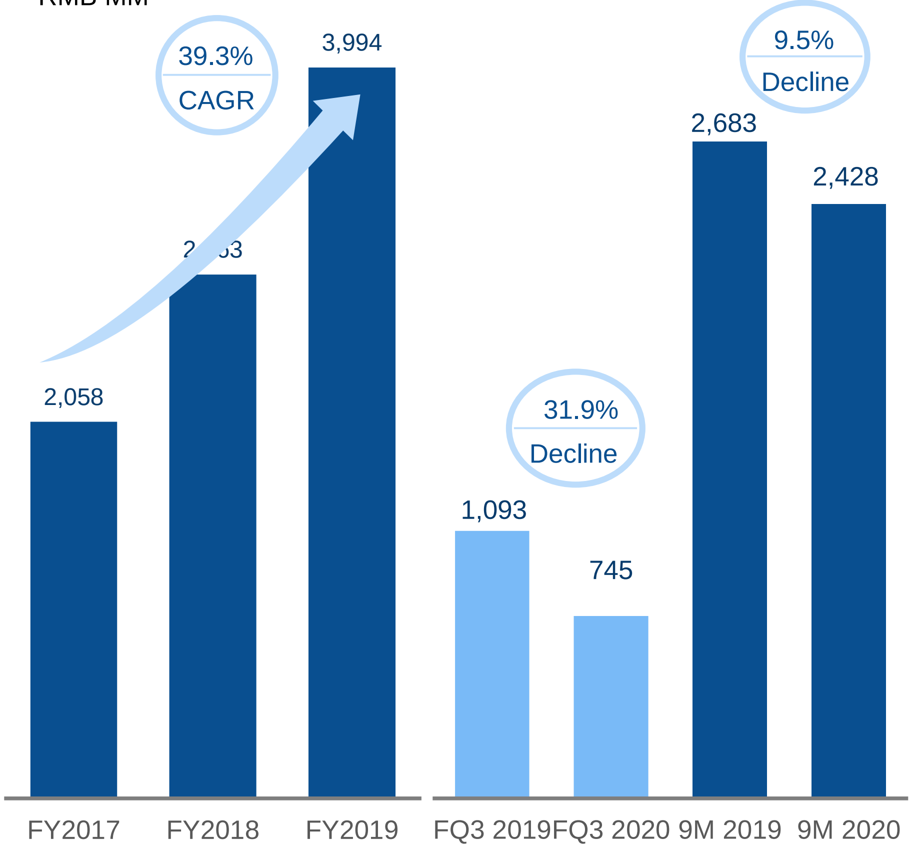
1. The small decrease of ASP of 1on1 programs was caused by temporary promotional programs offered to incentivize students to study in the online platform during the pandemic. The ASP is expected to return to normal level in Q4 and beyond;
2. The decrease of ASP of young children programs is mainly due to: 1) launch of short term promotional classes as a new marketing campaign; 2) temporary offerings of short term lower priced online programs and promotions to incentivize students to study in the online platform during the pandemic

Top-line growth in the three business segments

Net Revenues

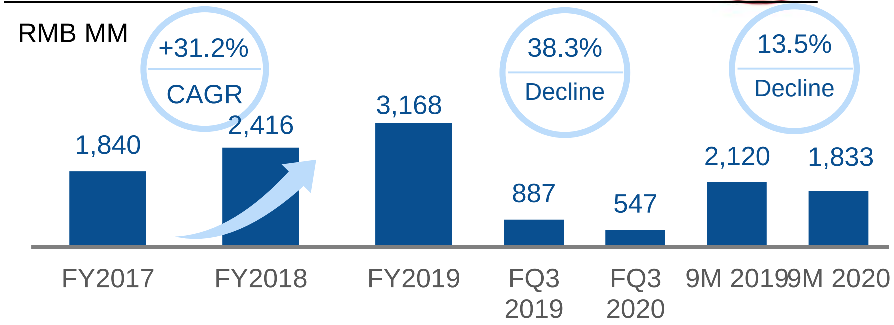
Fiscal years ended August 31 and fiscal quarters ended May 31

RMB MM



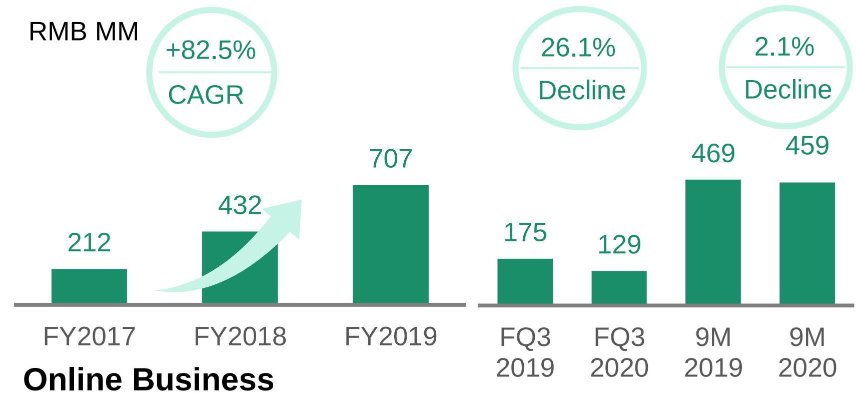
OneSmart 1on1

RMB MM



Young Children Education

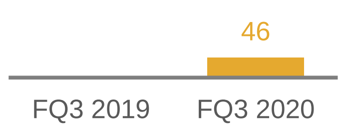
RMB MM



Online Business

RMB MM

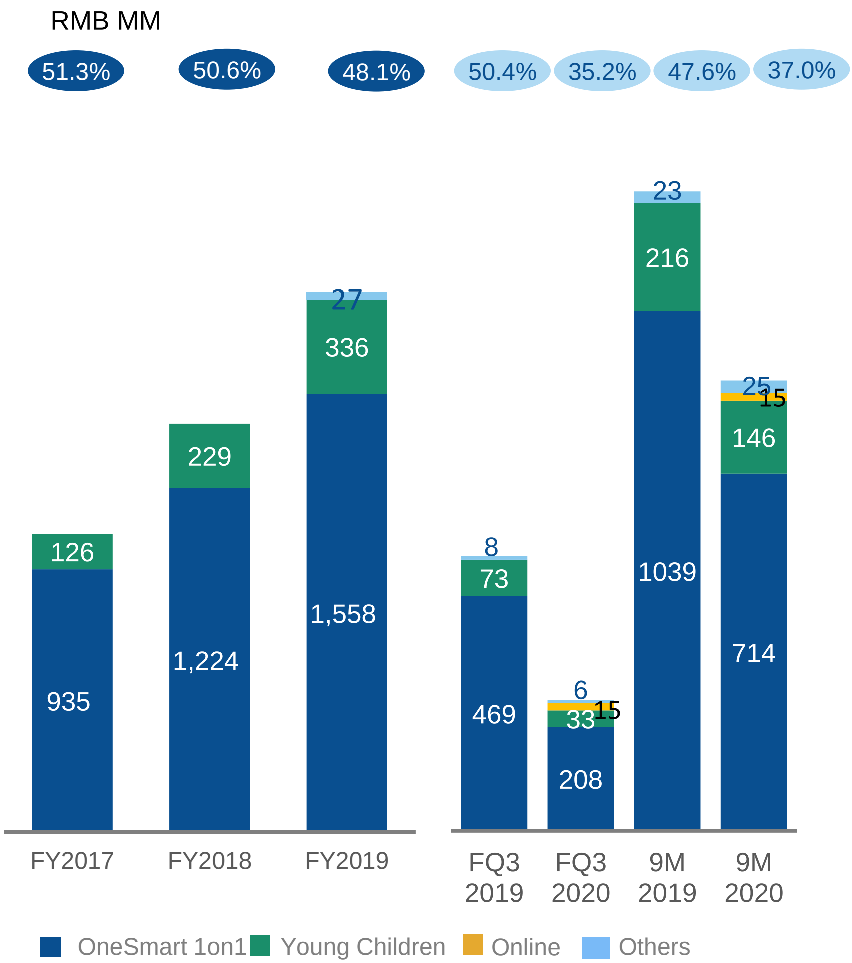
Pure online users ONLY, excluding online classed taken by offline students



1. The decline of net revenues compared with same period of last was mainly due to the impact of COVID-19, a material adverse event when all of our learnings centers were temporarily closed. Thus it is not relevant to compare with last year when all centers are operational;
2. More importantly, immediately after the reopening of our learning centers, sales recovered to strong year over year growth, indicating topline growth is normalizing in next few quarters. Specifically, we expect our Q4 revenue to grow 21%-34% from Q3.

Gross margin

Gross Profit and Gross Margin[1]



Gross Margin by Segments

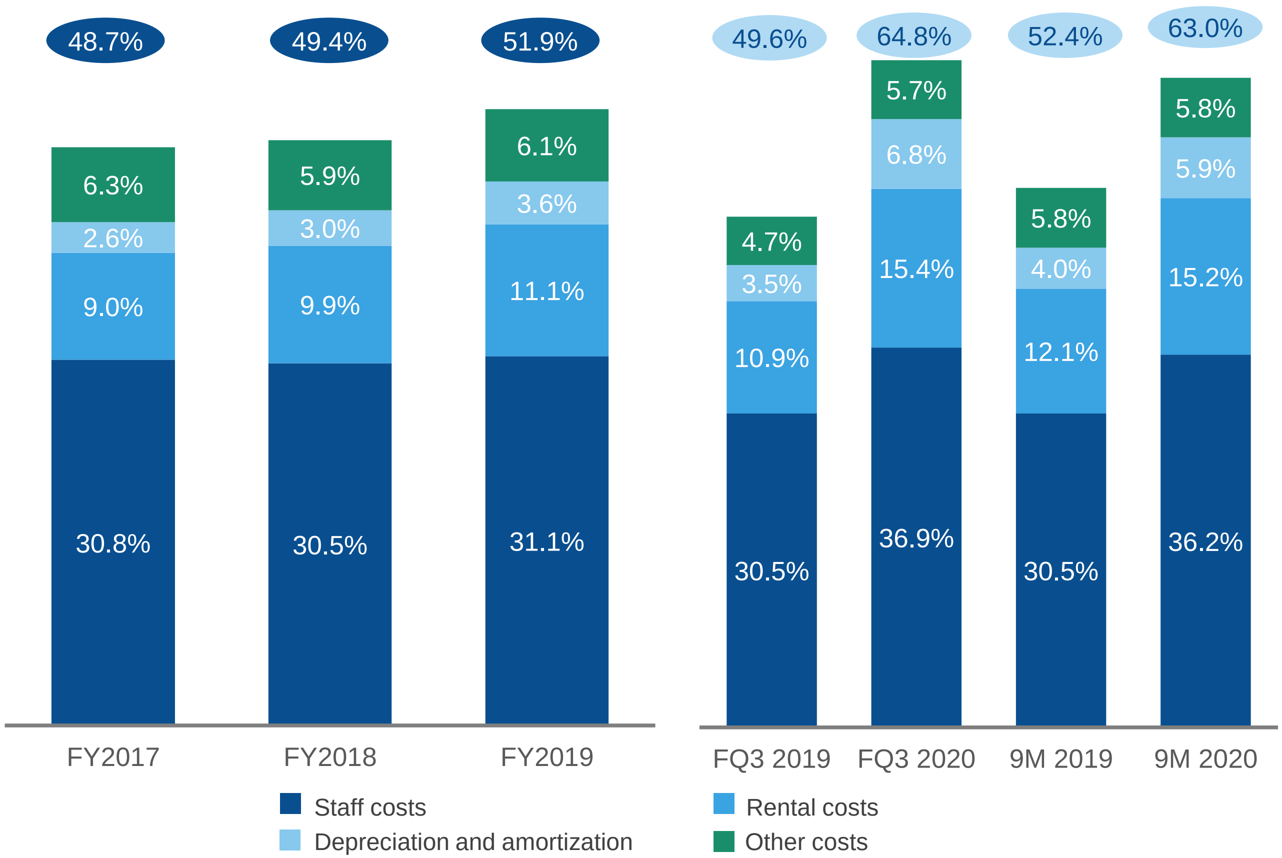
	FY 2017	FY 2018	FY 2019	FQ3 2019	FQ3 2020
OneSmart 1on1	50.8%	50.6%	49.2%	52.9%	38.0%
Young Children Education	59.6%	53.0%	47.6%	42.0%	25.2%
Online	NA	NA	NA	NA	33.5%
Others	(101.3%)	(20.9%)	22.5%	26.6%	26.7%
Overall Gross Margin	**51.3%**	**50.6%**	**48.1%**	**50.4%**	**35.2%**

1. The decrease of gross margin was mainly due to one-off revenue drop caused by the impact of COVID-19, coupled with previous quarters' added teacher cost to improve premium offerings. As our cost structure such as teachers' compensation and rents are relatively stable, an one-off dip in revenue will cause gross margin to drop;

2. As centers reopen starting late May, we expect Q4 revenue to grow 21%-34% over Q3, thus gross margin to expand strongly and return to normal level.

Cost structure

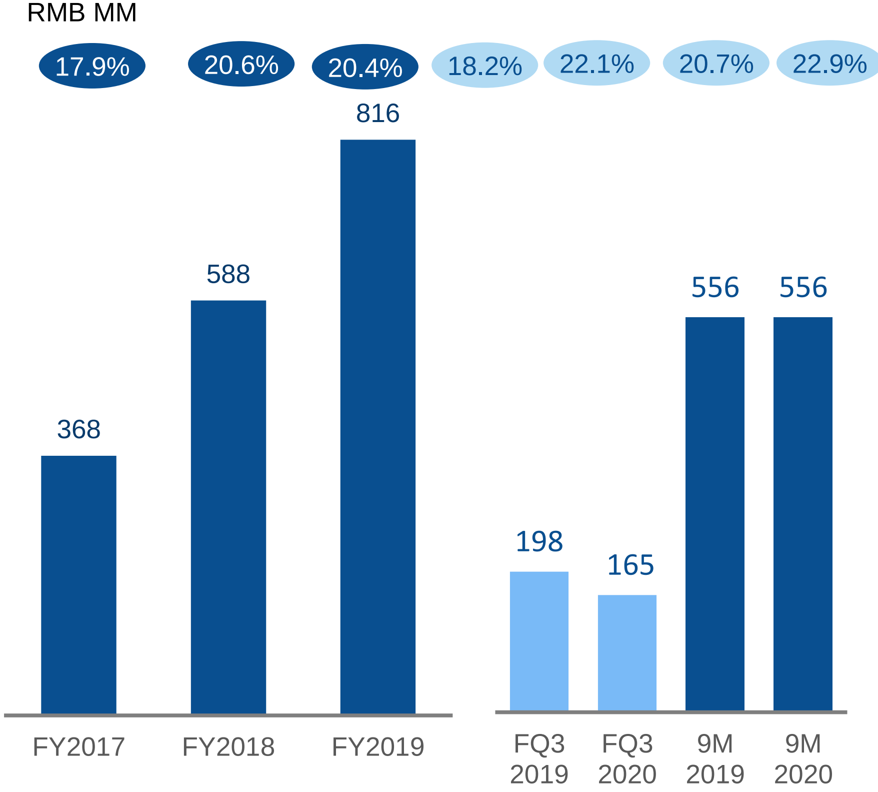
Total Cost % of Net Revenue:



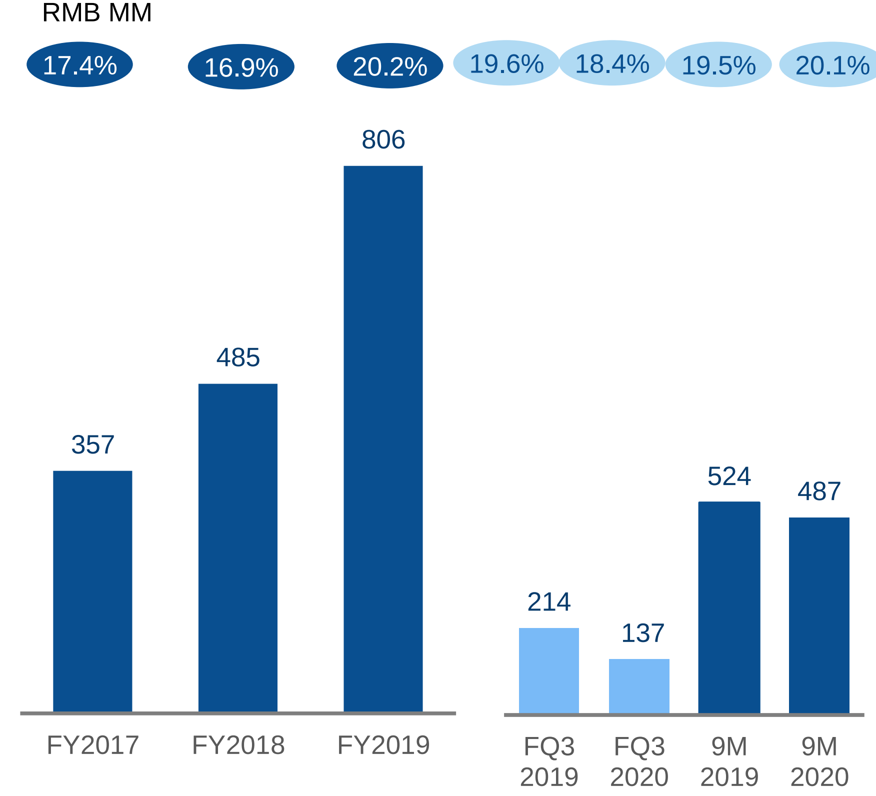
1. The increase of direct cost as % of revenue was mainly due to one-off revenue drop caused by the impact of COVID-19. In addition, we also added teacher cost to improve premium offerings in recent quarters and incurred higher rent last year due to relocations to comply with new regulations
2. We expect the cost structure to return to pre-COVID-19 level as: 1) revenues return to normal growth after center reopening and 2) price increases due to product and services upgrades in coming quarters to fully cover the previous increases of costs

Selling & marketing expenses, and G&A expenses

Non-GAAP Selling & Marketing Expenses as % of Revenues[(1)]



Non-GAAP General & Administrative Expenses as % of Revenues[(1)]

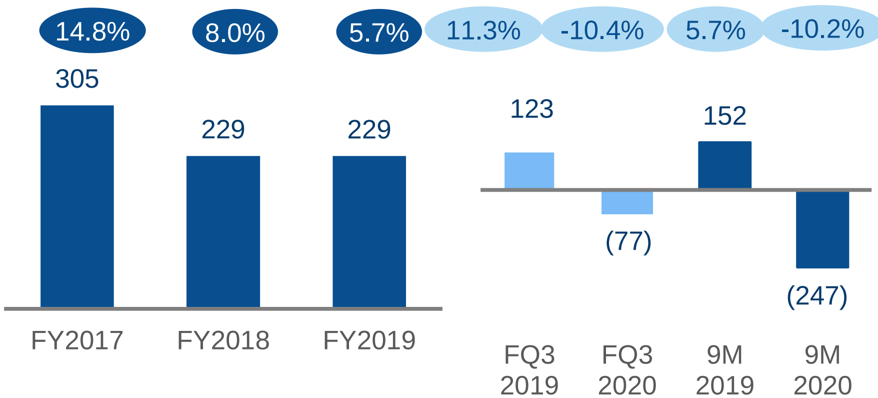


Notes
1.Excluding share-based compensation expenses

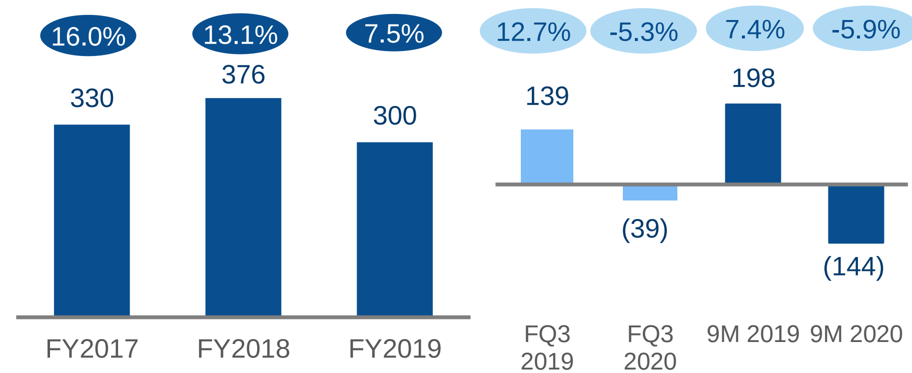
Operating income and net income

Operating Income (Loss) and Operating Margin

RMB MM

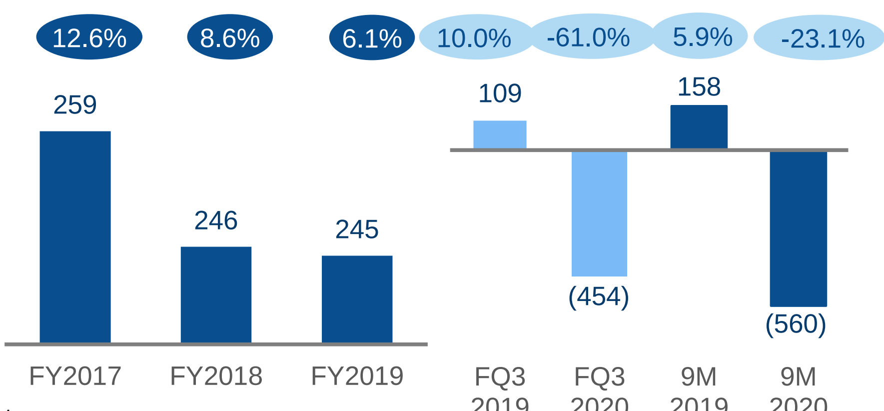


Non-GAAP Operating Income (Loss) and Operating Margin [2]

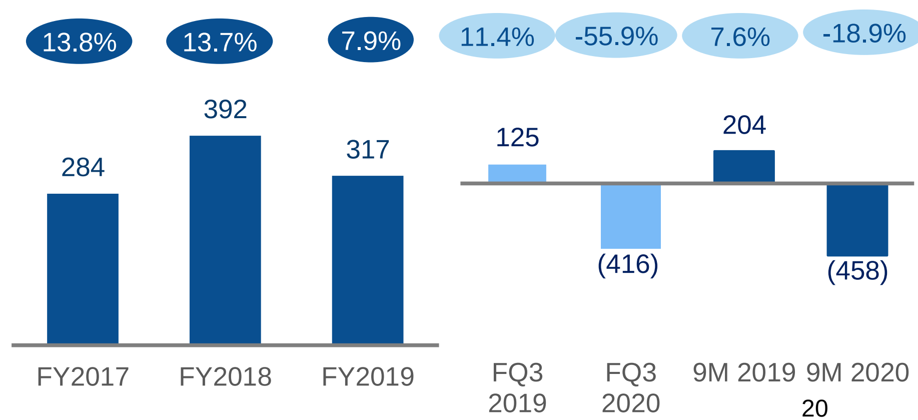


- The decrease of margin was mainly due to one-off revenue drop due to the impact of COVID-19. We expect margin will return to normal level and start to expand in FY21.

Net Income (Loss) and Net Income (Loss) Margin [1]



Non-GAAP Net Income (Loss) and Net Income (Loss) Margin [1] [2]



Notes

1. Net income attributable to OneSmart; 2. Excluding share-based compensation expenses

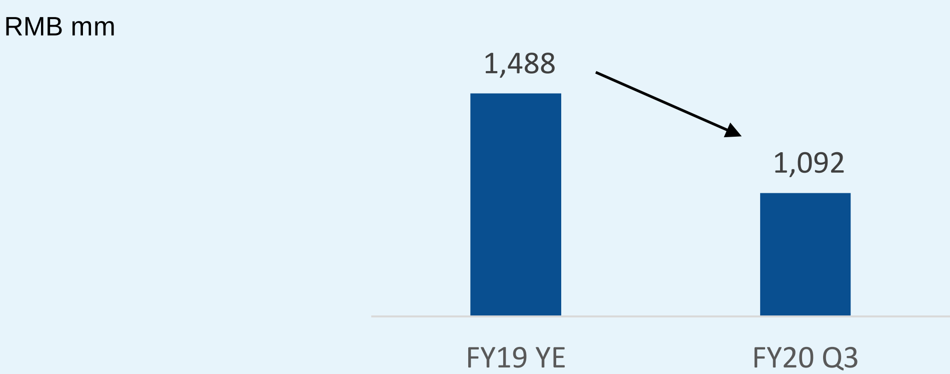
One-off Impairment loss from Long-term Investments

Non-operating impairment losses in Q3

1.	Available for Sales	RMB (233mm)
2.	Cost methods investments	RMB (60mm)
3.	Other receivables	RMB (42mm)
Total Impairment Losses		**RMB (335mm)**

- One-off impairments primarily caused by COVID-19, related to 15 investee companies.
- We used prudent approach in evaluating financial performance of these investing companies, and decided to mark down our investment amount by at least 80% for 14 of the 15 investee companies
- We will continue to stick to the highly selective investment discipline adopted in FY19, and will only consider opportunities that can immediately help the growth of our core business

Long-term investments balances as of Q3

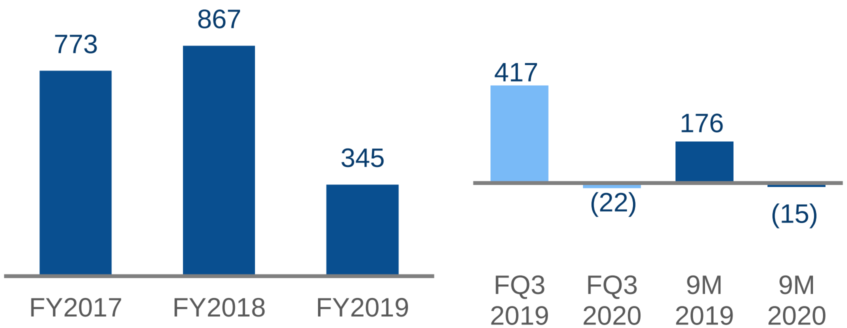


- Significantly reduced risk exposures
- Remaining investments expected to be solid, with more upside potential than downside in future

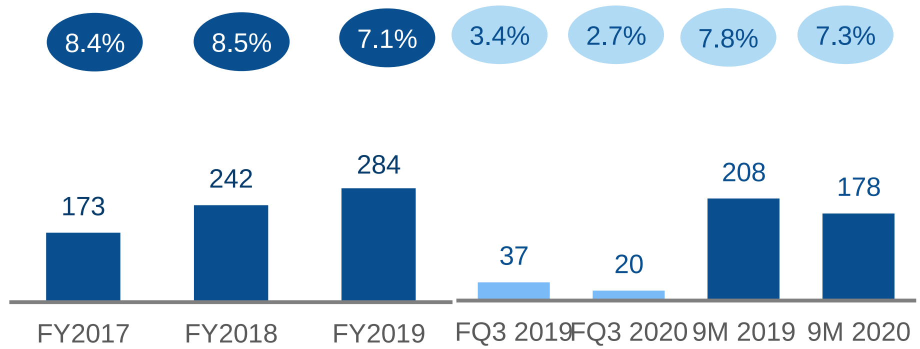
Operating cash, Capex and cash balance

Operating Cash Flows

RMB MM

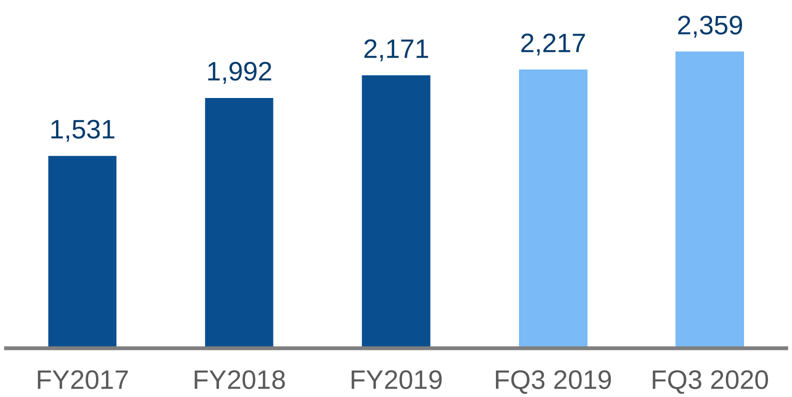


Capex and Capex as a % of net revenues



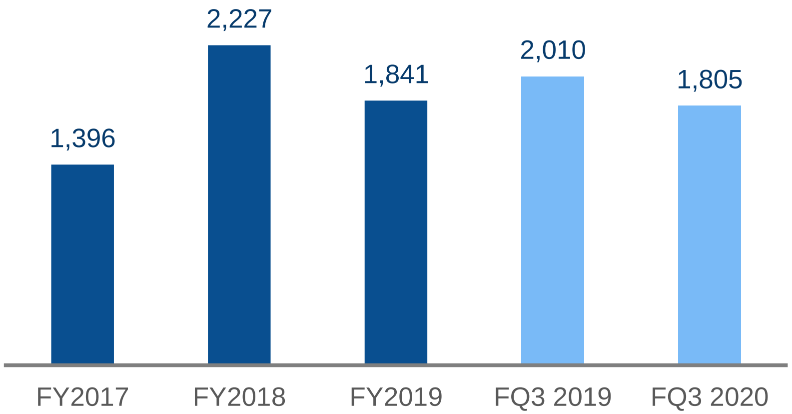
Prepayments from Customers

RMB MM



Cash and Cash Equivalents, Restricted Cash and Short-term Investments

RMB MM



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Thank You