YXT.COM Group Holding Limited
Q3 2024 Earnings Conference Call
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Executives
Xiaoyan Lu, Peter, CEO, director, founder and chairman
Pun Leung Liu, Anthony, CFO

Analysts
Anli Feng, Tiger Securities
Patrick Lin, D. Boral Capital

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to YXT.com's earnings conference call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after management's prepared remarks. Please note that today's event is being recorded.

Joining us today are YXT's CEO, director, founder and chairman, Mr. Xiaoyan Lu, also called Peter and CFO, Mr. Pun Leung Liu, who also called Anthony. Peter will begin with a brief greeting, and then Anthony will present the CEO's prepared remarks on his behalf. Following that, Anthony will provide a detailed overview of our financial performance for the quarter before we open the call up for your questions.

You can refer to YXT.com's quarterly financial results on IR website at ir.yxt.com. You can also access a replay of this call on the IR website when it becomes available a few hours after its conclusion.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call, as we will be making forward-looking statements. Please note that all numbers stated in the following management's prepared remarks are in RMB terms, and we will discuss non-GAAP measures today, which are more thoroughly explained and reconciled to the most comparable measures reported in our earnings release and filings with the SEC.

I will now turn the call over to the CEO, director, founder, and chairman of YXT.com, Peter.

Peter Lu: Hello everyone. This Peter Lu, CEO of YXT.com, thank you for joining us today.

Anthony Liu: Hello everyone. This is Anthony Liu, CFO of YXT.com, speaking today on behalf of our founder and CEO, Peter. Welcome to YXT's earnings call for the first nine months of fiscal year 2024. This marks our first earnings call since our successful NASDAQ listing in August, and on behalf of the company, I'd like to take a moment to sincerely thank you for your continued support and for joining us today. It truly means a lot to us.

Our founder is excited to be back in the CEO role and to reconnect with all of you in the investment community. Over the past few months, he has been actively involved in our operations across all business segments and has kept in close touch with our core customers. This engagement has provided him with valuable insights into our challenges and opportunities. With his extensive knowledge of the enterprise learning market and his strong commitment to our company, he is confident in guiding us into the next phase of our development.

As China's leader in digital enterprise learning solutions, we have built extensive expertise in this market over many years. According to Frost & Sullivan, the digital corporate learning industry in China reached RMB 126 billion in 2023 and is projected to grow to RMB 300 billion by 2028. Notably, the segment we specialize in—digital learning solutions for large enterprises—is expected to expand even more rapidly, with an annual growth rate of 20.5%, reaching RMB 135 billion by 2028.

What sets us apart is our innovative integrated model that combines sophisticated software capabilities with premium content delivery. Our cloud-native platform, accessible across multiple devices and enterprise collaboration tools, enables rapid deployment and scalability for large organizations. This comprehensive offering allows us to effectively meet diverse learning needs while ensuring high-quality standards.

In this underserved market, we leverage our innovative SaaS model to integrate software and content comprehensively, helping enterprise customers achieve their digital learning transformation. As of September 30, 2024, we have served 2,428 subscription customers, accumulating extensive industry experience and insights.

Today, I would like to walk you through our strategic execution, operational performance, and future roadmap. The digital corporate learning market continues to present significant opportunities despite macro challenges, and we are well-positioned to capture this potential.

Let me start with our strategic framework. We have built our growth strategy on three fundamental pillars that we believe will drive sustainable value creation.

First, we are witnessing strong demand for digital transformation in corporate learning, driven by significant changes in how enterprises approach talent development. The market dynamics strongly support our strategic direction. According to Frost & Sullivan, China's digital corporate learning market is projected to grow at nearly 19% annually through 2028, significantly outpacing traditional learning solutions.

The accelerating adoption of digital training solutions is fueled by compelling advantages. Unlike traditional offline training, our digital platform provides significant cost savings while offering enhanced flexibility and effectiveness. Our cloud-based solutions empower enterprises to engage geographically dispersed workforces, personalize learning paths, and measure outcomes with precision—capabilities that are simply unattainable with conventional training methods.

Moreover, rapid technological advancements are broadening the possibilities in corporate learning. We are leveraging technology to transform how enterprises develop and deliver training content, capture and share institutional knowledge, and measure learning effectiveness.

These innovations enable us to not only acquire new customers more efficiently but also strengthen relationships with existing clients by continuously introducing new capabilities that drive measurable business value.

Second, we are executing on our strategic transformation to focus on premium large enterprise clients. Our progress in the Fortune 500 segment, where our client base in China has expanded from 180 to 200 since the beginning of 2024, demonstrates our ability to attract and serve sophisticated enterprise customers.

The evolution of our customer base illustrates this strategic shift. As of September 30, 2024, we have a total of 2,428 subscription customers. This figure is influenced by two key factors: the deconsolidation of CEIBS Publishing Group Limited, which accounted for 571 customers, and our intentional decision to focus on larger enterprise accounts that demonstrate consistent demand for comprehensive learning solutions.

During this transition period, our net revenue retention rate for subscription customers was 101% for the first nine months of 2024, compared to 104.8% in the same period last year. While we're seeing anticipated short-term impacts on our metrics, we believe this strategic realignment is crucial for establishing a more sustainable business model. By focusing on enterprise clients who can fully leverage our comprehensive platform capabilities, we are positioning ourselves to build deeper client relationships that we expect will generate more predictable, higher-quality revenue streams over time.

Third, we are actively strengthening our product leadership position through targeted investments in AI innovation. We have expanded our R&D team focusing on inovation since last year to accelerate development of new feature and product iteration. Our approach focuses on enhancing existing solutions based on client feedback while developing new capabilities that address emerging enterprise needs. We have successfully completed customer validation for several new solutions and are preparing for broader commercialization in 2025.

In parallel with these growth initiatives, we maintain a strong focus on operational efficiency. Our technology-enabled approach has led to significant improvements across the organization. In sales, our digital enablement tools have enhanced team productivity and effectiveness. Our service delivery has become more efficient while maintaining high quality standards. R&D productivity has increased through streamlined development processes. Most importantly, our focus on large enterprise clients has resulted in an improved selling expense ratio.

As China's leading provider of corporate digital learning solutions, we are uniquely positioned in a market with extraordinary growth potential. Our strategy is clear and focused. We are deepening our relationships with large enterprise clients while continuously enhancing our product offerings to deliver compelling value.

Looking ahead, the demand for corporate digital learning solutions remains strong as companies prioritize efficiency and talent development. We have made substantial progress in evolving our product portfolio to meet the sophisticated needs of enterprises while driving operational efficiency through improved management practices.

This combination of market opportunity, product excellence, and proven enterprise expertise gives us confidence in our ability to drive sustainable growth and create long-term value for our stakeholders.

I will now share more details about our financial performance for the period.

Before that, let me note that all amounts are in RMB terms for the first nine months of 2024 ended September 30. Along with GAAP measures, we'll also discuss non-GAAP measures to give better insight into our operational performance.

For the first nine months of 2024, our total revenues were 241.7 million. To help with year-over-year comparisons, let me note that excluding the CEIBS PG impact, the net decrease in revenue was 20.1 million, compared with the same period of last year. This decrease from last year reflects two main factors: first, our strategic shift towards subscription-based corporate learning solution, and second, our strategic decision to focus on large enterprise customers. While this transition period has impacted our near-term revenue, we believe focusing on quality large enterprise relationships will position us better for the long term.

Looking at our revenue mix, corporate learning solutions were 240.3 million, making up over 99% of total revenues. Within this, subscription-based solutions generated 221.7 million, compared with 271.1 million in the same period of last year. The change from last year comes from two main factors. First, the separation of CEIBS PG, which reduced revenues by 46.1 million. Second, a net change of 3.3 million from our product strategy - we stopped certain non-core online teaching tools while growing our main platform services. Our revenue generated from subscription-based solution represented 91.7% of total revenues, up from 82.5% last year, showing our successful strategic shift towards subscription-based corporate learning solution.

Despite the revenue headwinds, our gross margin slightly improved to 60.4%, up from 59.3% last year. This improvement comes from our focus on operational efficiency and careful cost management, even as we maintain high service quality for our enterprise customers.

On expenses, we kept tight cost control while investing in key growth areas, especially our AI capabilities and enterprise solutions. Cost of revenues fell by 28.4% to 95.8 million, mainly because of three things. First, the CEIBS PG separation reduced costs by 22.7 million. Second, we spent less on instructor fees as we cut back offline activities which align with our strategic shift towards subscription-based corporate learning solutions. And third, we lowered staff and infrastructure costs through better operations.

Sales and marketing expenses dropped by 38.9% to 105.8 million, mostly from the CEIBS PG separation impact of 36.5 million and better resource management. We've focused our sales efforts on large enterprises with consistent demand for corporate learning solutions.

Research and development expenses were 90.6 million, decreased by 33.8%. While this reflects the CEIBS PG separation impact of 18.8 million and better cost management, we've maintained strong investment in our AI-driven learning solutions, which are gaining traction with Fortune 500 clients.

General and administrative expenses fell by 35.9% to 75.0 million, driven by three things: the CEIBS PG separation lowered costs by 13.5 million, share-based compensation dropped by 18.5 million, and we spent less on professional services.

Looking at the bottom line, we greatly reduced our net loss to 14.9 million from 245.3 million last year. This improvement shows much more than just cost savings. We've made fundamental changes to how we run our business. These include moving to a more efficient sales model focused on large enterprises, streamlining our product development process through technology, and building a more scalable delivery platform. Our adjusted net loss, which leaves out certain non-GAAP items, was 123.1 million.

Turning to our balance sheet, as of September 30, 2024, we maintained a strong cash position of 488.7 million in cash and cash equivalents, restricted cash, short-term investments and long-term bank deposits, compared to 496.2 million at the end of last year. This gives us the flexibility to invest in growth while maintaining financial discipline.

Looking ahead, we're focused on three main areas: deepening our relationships with large enterprise customers, expanding our AI-powered learning solutions, and maintaining operational efficiency. We believe this approach will drive sustainable growth and bring us closer to profitability.

That wraps up my prepared remarks. Operator, we can now take questions.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). And our first question comes from the line of Anli Feng with Tiger Securities.

Anli Feng: Can you hear me?

Operator: Yes, yes, we do.

Anli Feng: Okay, okay. My question is about operating efficiency. And as we can see, you've achieved significant cost reductions through AI-enabled operational improvements across multiple functions. And would you elaborate on efficiency gains you are seeing across your organization and particularly in organization particularly in sales productivity and service delivery. And also how sustainable are this improvement as you look to scale your business?

Anthony Liu: Okay. Indeed, we strategically implemented AI-powered solutions across multiple business functions, which has allowed us to serve our growing enterprise client base while actually improving our service quality and customer satisfaction levels. Let me share some specific examples:

In sales, we've deployed an automated Sales Assistant that helps our sales teams better identify and prioritize opportunities. This has meaningfully increased our sales team's productivity and allows them to focus more time on building strategic relationships with our enterprise clients.

For customer service, we've introduced Smart ServiceDesk that handles routine service inquiries, which has significantly improved our response times while allowing our service teams to focus on more complex client needs. This has been particularly effective with our enterprise clients who require sophisticated support.

In our development process, we're using AI-assisted code development and testing tools, which has streamlined our ability to deliver customized solutions for our enterprise clients.

The key point here is that these efficiency gains are built directly into our core operations through digital tools. These solutions are now fundamental to how we operate, and we continue to identify new areas where we can implement similar improvements.

These improvements position us well for the future - our AI-enabled workforce can handle significant business growth without proportional increases in headcount. With additional tools in development, we expect to drive even greater operational efficiencies across our business.

Anli Feng: Okay, thank you.

Anthony Liu: You are welcome.

Operator: Thank you. One moment, please. Our next question comes from the line of Patrick Lin with D. Boral Capital.

Patrick Lin: Hi, it's Patrick Lin with D. Boral Capital. We're following this space and we're seeing increased competition in digital learning space during this challenging macro environment that's actually impacting enterprise spending in China. And could you tell us about your competitive position and what advantages helping maintain market leadership at this point? Thank you.

Anthony Liu: Okay. Sure. Thanks for the question. Yeah, the competitive landscape is certainly dynamic, particularly given current market conditions. However, our strategic focus on large enterprise clients has proven resilient, helping us maintain stable relationships with key customers.

Let me highlight several key competitive advantages that set us apart in the market. First, our growing China Fortune 500 client base demonstrates our enterprise-grade capabilities. These relationships reflect the quality and reliability of our solutions, and our ability to meet the sophisticated needs of large organizations.

Second, we've deeply integrated cutting-edge technology across our platform and products. This allows us to deliver innovative solutions that address our clients' evolving needs effectively.

Third, our position as the industry leader in terms of revenue and customer base, combined with our status as the first listed company in this sector, provides additional confidence to our enterprise clients. This is particularly important as companies are being more selective with their spending.

What's particularly encouraging is how our ongoing investments in product innovation and enhancement continue to strengthen our market position. When combined with our enterprise-grade capabilities, technological integration, and industry leadership, we're well positioned to navigate current market challenges and capture future opportunities.

Patrick Lin: Great. Awesome. Thank you. That's it for me.

Anthony Liu: Sure. You're welcome. Sure.

Operator: Thank you. As there are no further questions, I would like to hand the conference back to management for closing remarks.

Anthony Liu: Sure. Thank you again for joining our call today. If you have any further questions, please feel free to contact us or submit a request through our IR website. We look forward to speaking with everyone in our next call. Have a good day. Thank you.