



# 51Talk

## China Online Education Group

NYSE | COE

### Management Presentation



Fourth Quarter 2020

This presentation contains forward-looking statements, including statements about the Company's business and financial outlook, strategy and market opportunity, and statements about the Company's historical results that may suggest trends for its business. All statements, other than statements of historical facts, contained in this presentation, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "target," "potential," "will," "would," "could," "should," "continue," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements are forward-looking statements within the meaning of the U.S. securities laws. These forward-looking statements are made only, and are based on estimates and information available to the Company, as of the date of this presentation, and are not guarantees of future performance. These forward-looking statements are based on a number of assumptions which are subject to known and unknown risks, uncertainties and other factors that are beyond the Company's control, such as the political, social, legal and economic environment in which the Company will operate in the future. Accordingly, actual results, performance or achievements may differ materially from those expressed or implied by these forward-looking statements and future results could materially differ from historical performance. The information presented or contained in these materials is as of the date hereof and is subject to change without notice and its accuracy, fairness or completeness is not guaranteed. The Company undertakes no obligation to update or revise these forward-looking statements for events or circumstances that occur subsequent to the date of this presentation.

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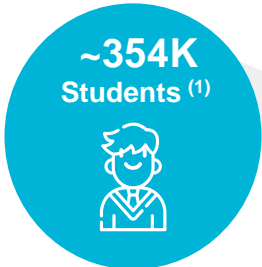
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## I. Company Overview



We are a Leading Online English Learning Platform  
Connecting Students with High Quality and Affordable English Language Education



Our Value Propositions

- Engaging learning experience tailored for every need
- Access to highly effective foreign teachers
- Highly affordable
- Accessible anytime, anywhere



Our Value Propositions

- Competitive compensation
- Flexible working hours and locations
- Sense of personal achievement

**Notes:**  
1. Active students in 4Q20. "Active students" for a specified period refers to students who booked at least one paid lesson, excluding those students who only attended paid live broadcasting lessons or trial lessons. A lesson is considered "booked" when it is taken or when the student to such lesson is confirmed absent  
2. As of December 31, 2020

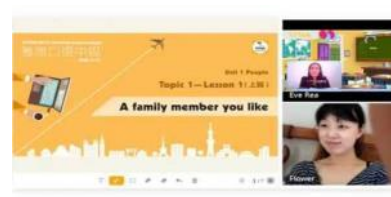
# Our Key Product Offerings



**INTERACTIVE LIVE  
STREAMING CURRICULUM**



**1X1 AND SMALL-GROUP CLASSES**



**ENGAGEMENT WITH  
FOREIGN TEACHERS**



**COMPREHENSIVE TESTING AND  
ASSESSMENT**

	Brand	Target Student Demographic	Format	Teachers	Pricing	% of Total Revenue in 4Q20
Core Offering		K-12 Mass Market	1x1	Filipino	~RMB40/25mins <sup>(1)</sup>	89.6%
						+49.8% YoY growth
Small Class & Adult Offerings	Hawo	K-12	Small Class	Foreign + Chinese	~RMB60/45mins	3.8%
	Worry-Free English <sup>(2)</sup>	Adult	1x1	Filipino	~RMB40/25mins	5.2%

**Notes:**

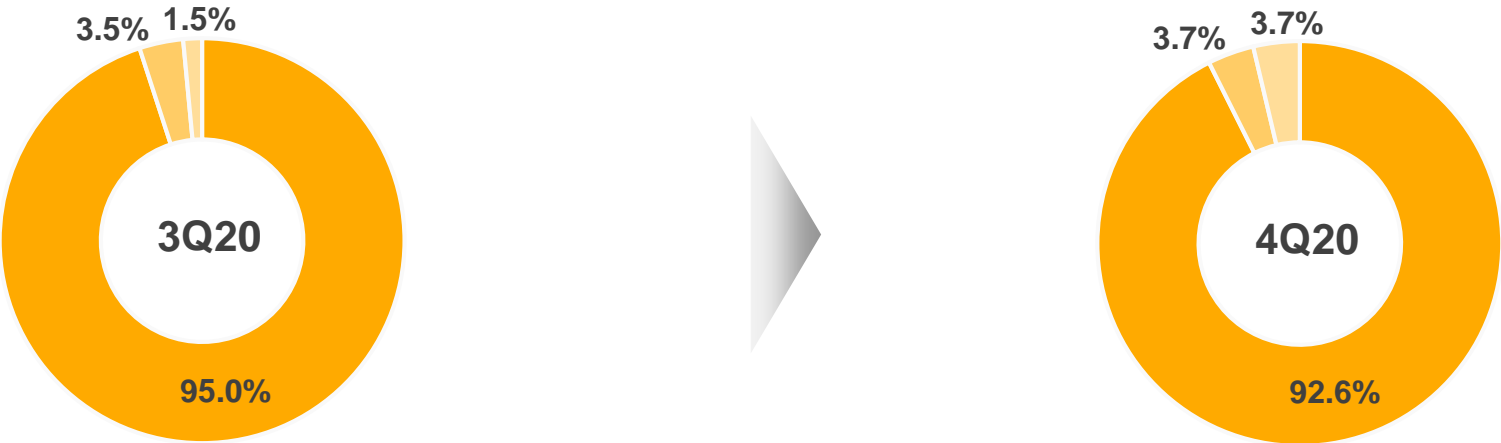
1. ~RMB30/25mins at IPO in 2016

2. Branded as *WuYouYingYu*, an adult English learning program

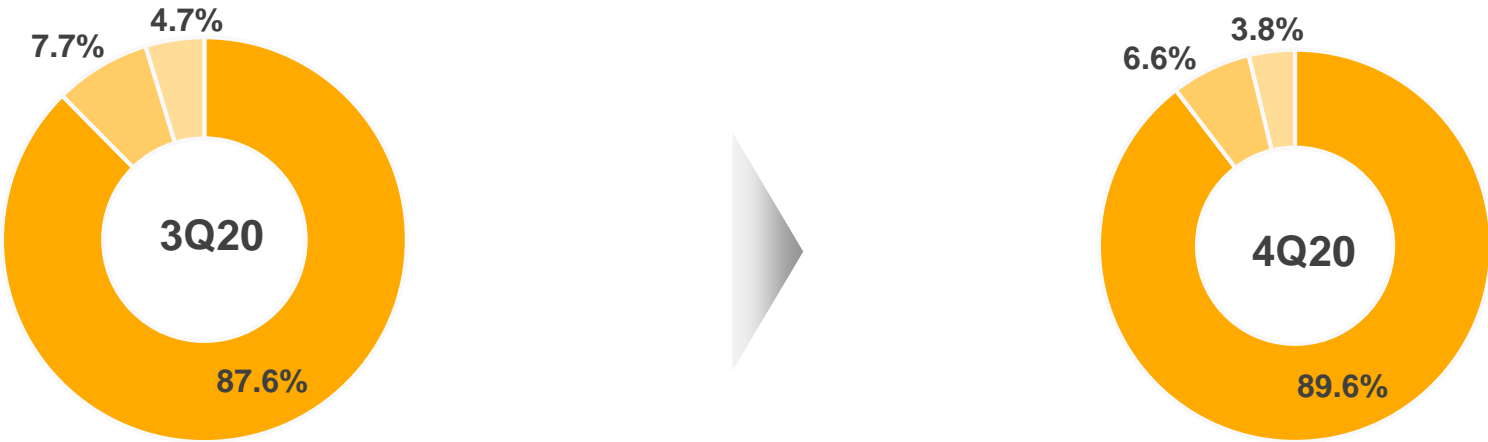
# Distribution by Product Lines



Gross Billings



Net Revenue



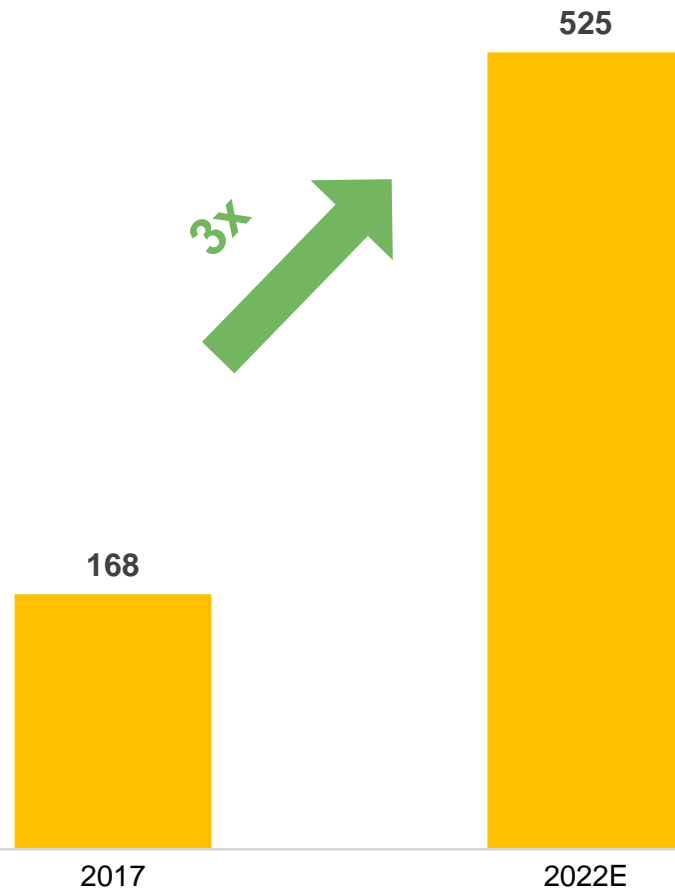
■ K-12 1x1 Mass- Market   ■ 1x1 Others   ■ K-12 Small Class

# We are Focused on Providing Quality English Training



## Massive China English Language Training Market <sup>(1)</sup>

(RMB billion)



## Addressed by Our Highly Effective Business Model

Why **1x1**



Interactive, Engaging and Highly Effective

Why **Online**



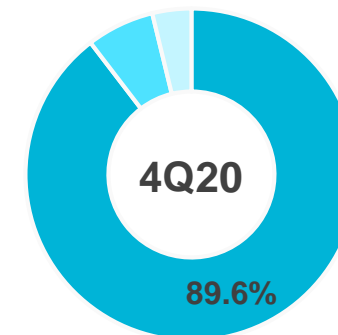
Access Anytime, Anywhere  
Rapid Scaling without Need for Physical Infrastructure

Why **Filipino Teachers**



Native-level English Proficiency with Meaningful Cost Benefits

Increasing Focus on K-12 1x1 Mass-Market as % of Net Revenues <sup>(2)</sup>



■ K-12 1x1 Mass-Market ■ 1x1 Others ■ K-12 Small Class

### Notes:

1. Technavio data (2017) accessed via Statista on April 27, 2020. Assumed exchange ratio of 1USD = 7RMB

2. Tier-one cities refers to Beijing, Shanghai, Guangzhou, Shenzhen and Tianjin, and non-tier-one cities refers to cities in China other than tier-one cities



# Well-Positioned to Tackle Immense Opportunity in Non-Tier-One City Market



## China K-12 After-School Education Market Size <sup>(1)</sup>

City Tier	K-12 Student Population	Per Capita Disposal Income	COE's Average Package Size
Tier-1	5.9MM	US\$84.6K	US\$1.7K <sup>(3)</sup>
Tier-2	33.2MM	US\$53.7K	
Tier-3+	170.5MM	US\$31.0K	

## Non-tier-one City Market



**Strong and recognizable brand versus peers**

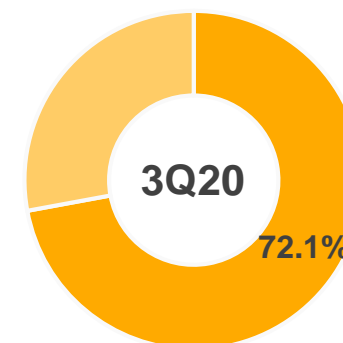


**Affordable price points given disposable income levels**



**Quality education with foreign teachers**

**Non-tier-one Cities as % of K-12 1x1 Mass-Market Gross Billings <sup>(2)</sup>**



■ Non-tier-one ■ Tier-one

### Notes:

1. China Insights Consultancy Research, UBS Evidence Lab; Tier 1 cities refer Beijing, Shanghai, Guangzhou, and Shenzhen; Tier 2 cities refer to all the capital cities in mainland China except for Guangzhou, and some prefecture-level cities namely Tianjin, Chongqing, Xiamen, Wuxi, Suzhou, Ningbo, Tangshan, Dalian, Qingdao, Yantai, Foshan, Dongguan, Quanzhou, Wenzhou; Tier 3 cities refer to all other prefecture-level cities except for Tier 1 and Tier 2 cities; Tier 4 cities refer to all other cities in mainland China

2. Tier-one cities refers to Beijing, Shanghai, Guangzhou, Shenzhen and Tianjin, and non-tier-one cities refers to cities in China other than tier-one cities

3. For 2019, calculated using the total gross billings divided by the number of paying students



# Our Strong Brand and User Engagement Drives Growth



Strong and  
recognized brand



High quality experience  
promotes retention and  
referral



Engaging experience  
encourages lesson  
consumption driving  
growth

51Talk Students  
Present at United  
Nations Climate  
Summit



**77.3%**

Retention Rate <sup>(1)</sup>



**65.4%**

Referral Rate <sup>(2)</sup>



## Notes:

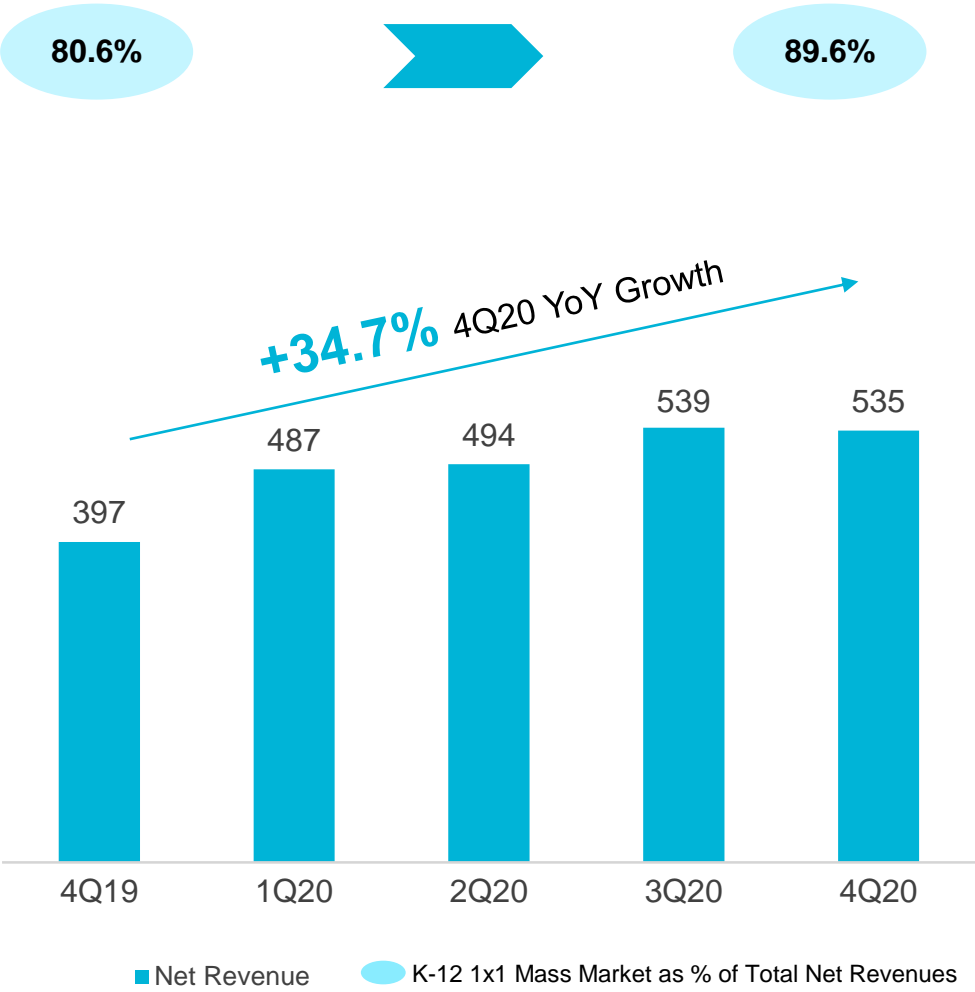
1. During 4Q 2020, K-12 retention rate
2. During 4Q 2020, K-12 referral rate.

# Robust and Continued Topline Growth Driven by K-12 Mass-Market 1x1 Business

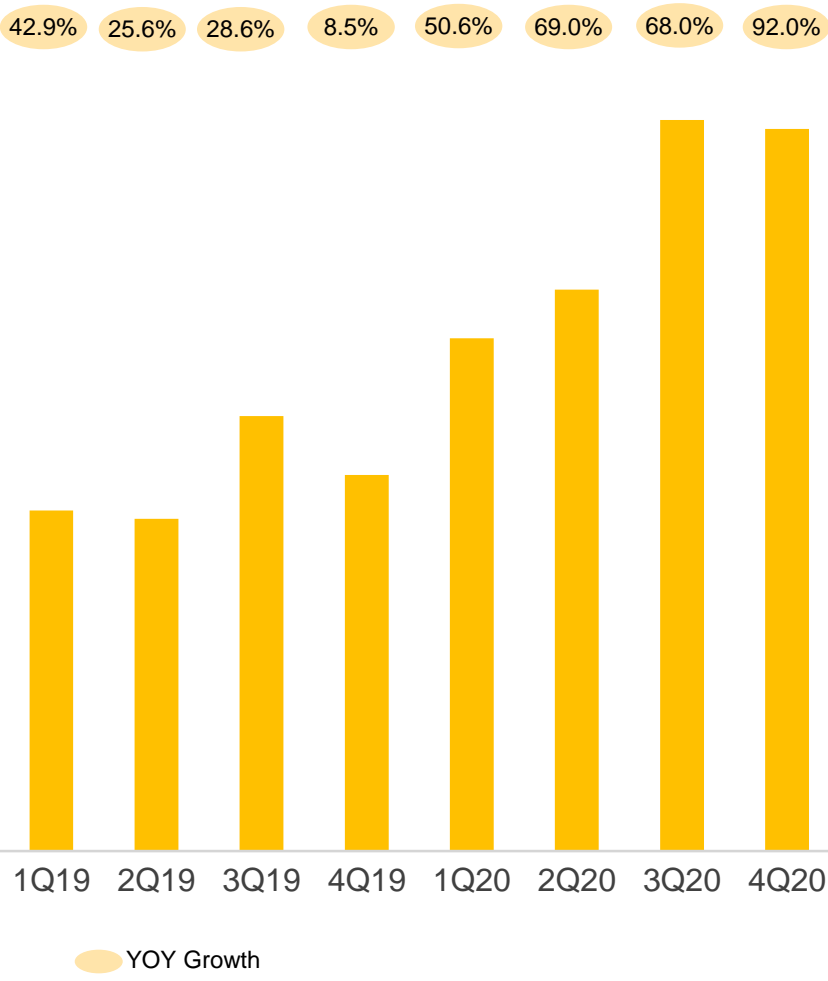


Total Net Revenues

(RMB million)

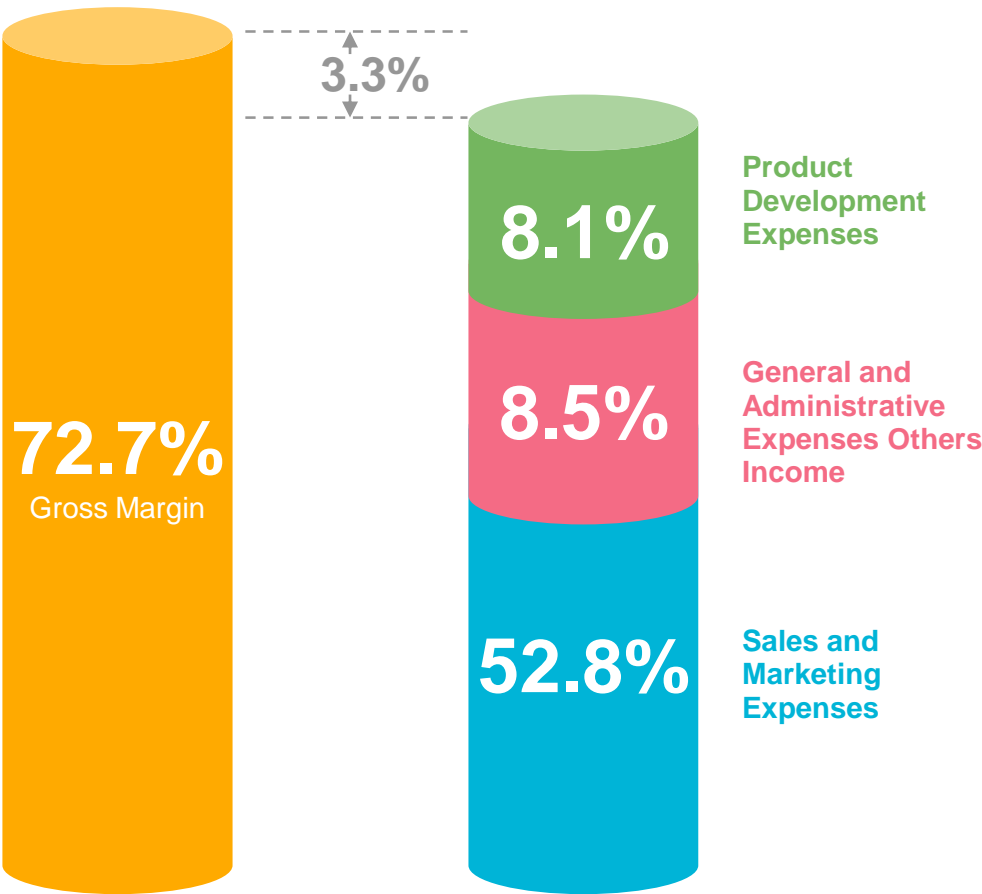


K-12 1x1 Mass-Market Net New Paying Students

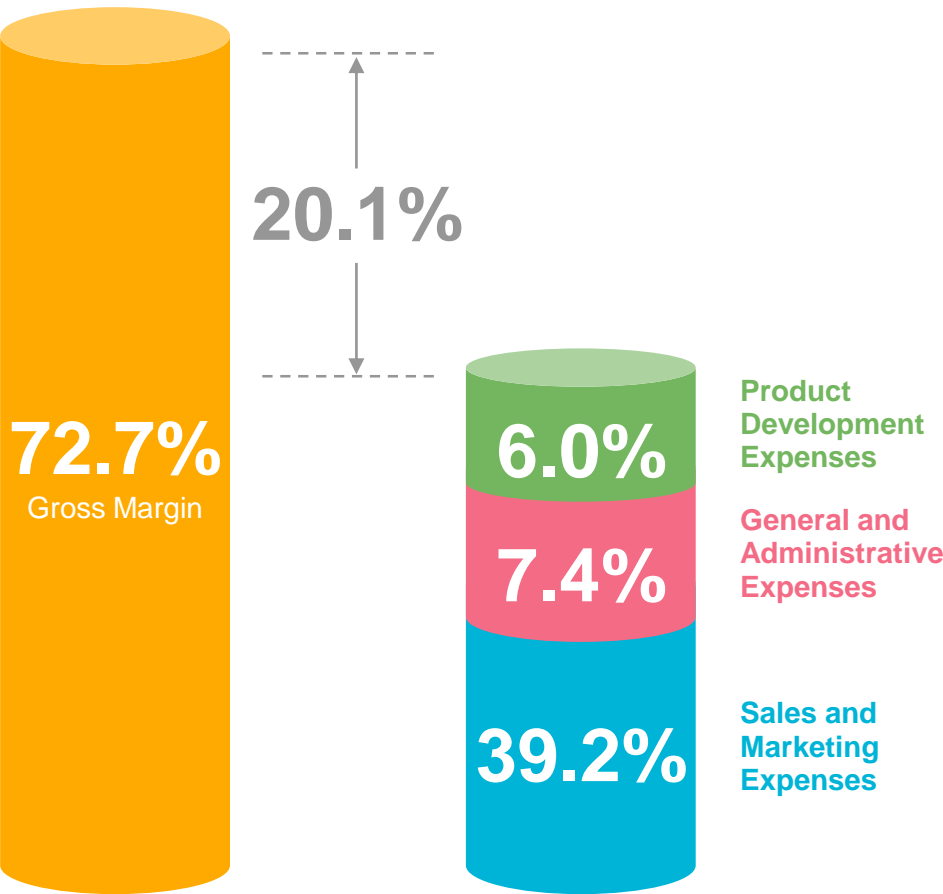


# Business Model Supports Strong Unit Economics and Operating Leverage

Gross Margin vs. Non-GAAP Operating Expenses  
as % of Net Revenue <sup>(1)</sup>



Gross Margin vs. Non-GAAP Operating Expenses  
as % of Gross Billings <sup>(1)</sup>



Notes:  
1. For 4Q20, charts height are for illustrative purposes only. Non-GAAP operating expenses adjusted for share-based compensation expenses

# Consistently Profitable with Growing Scale



Net Revenue  
(RMB MM)

397

487

494

539

535

Non-GAAP  
Net Margin<sup>(1)</sup>

1.1%

11.7%

8.0%

7.1%

7.2%

Non-GAAP Net Income / (Loss) (RMB MM) <sup>(1)</sup>

5

57

40

39

39

4Q19

1Q20

2Q20

3Q20

4Q20

**Notes:**

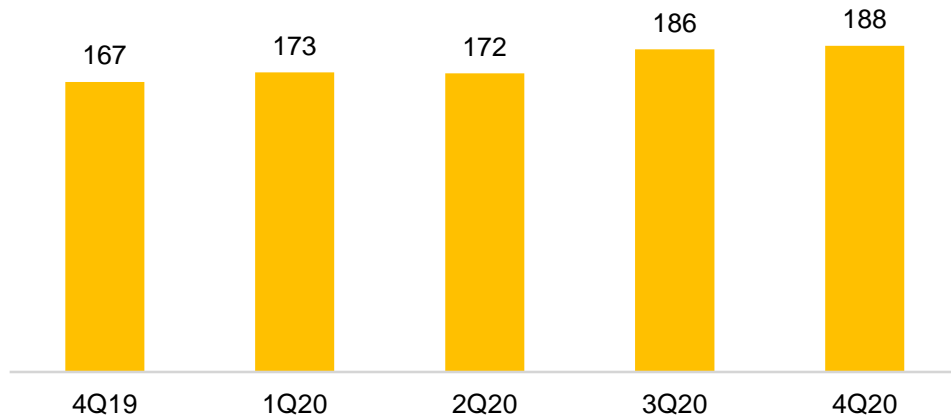
1. Non-GAAP net income adjusted for share-based compensation expenses

# Positive Operating Cash Flow and Healthy Liquidity Position



**Net Cash from Operating Activities**

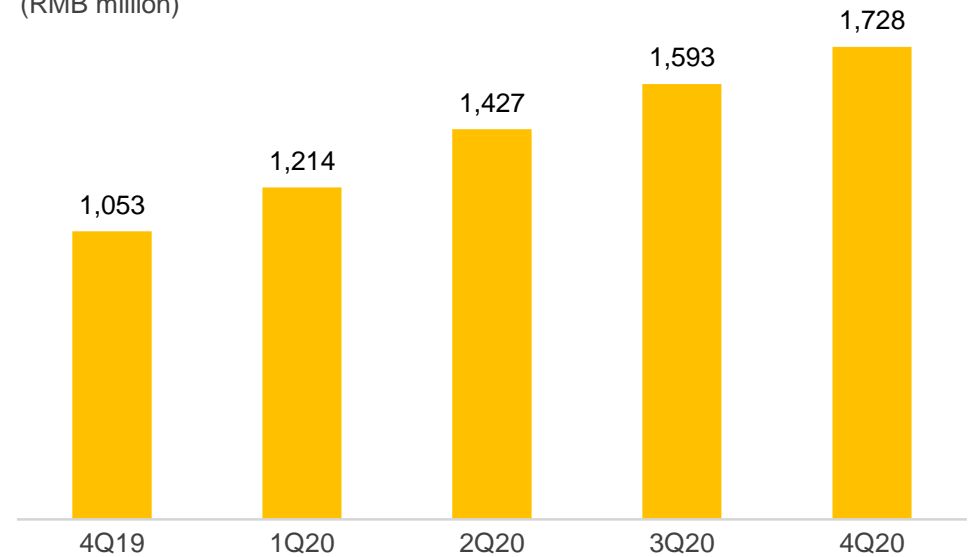
(RMB million)



**Cash Flow Positive**

**Cash Balance <sup>(1)</sup>**

(RMB million)



**Sufficient Cash Balance**

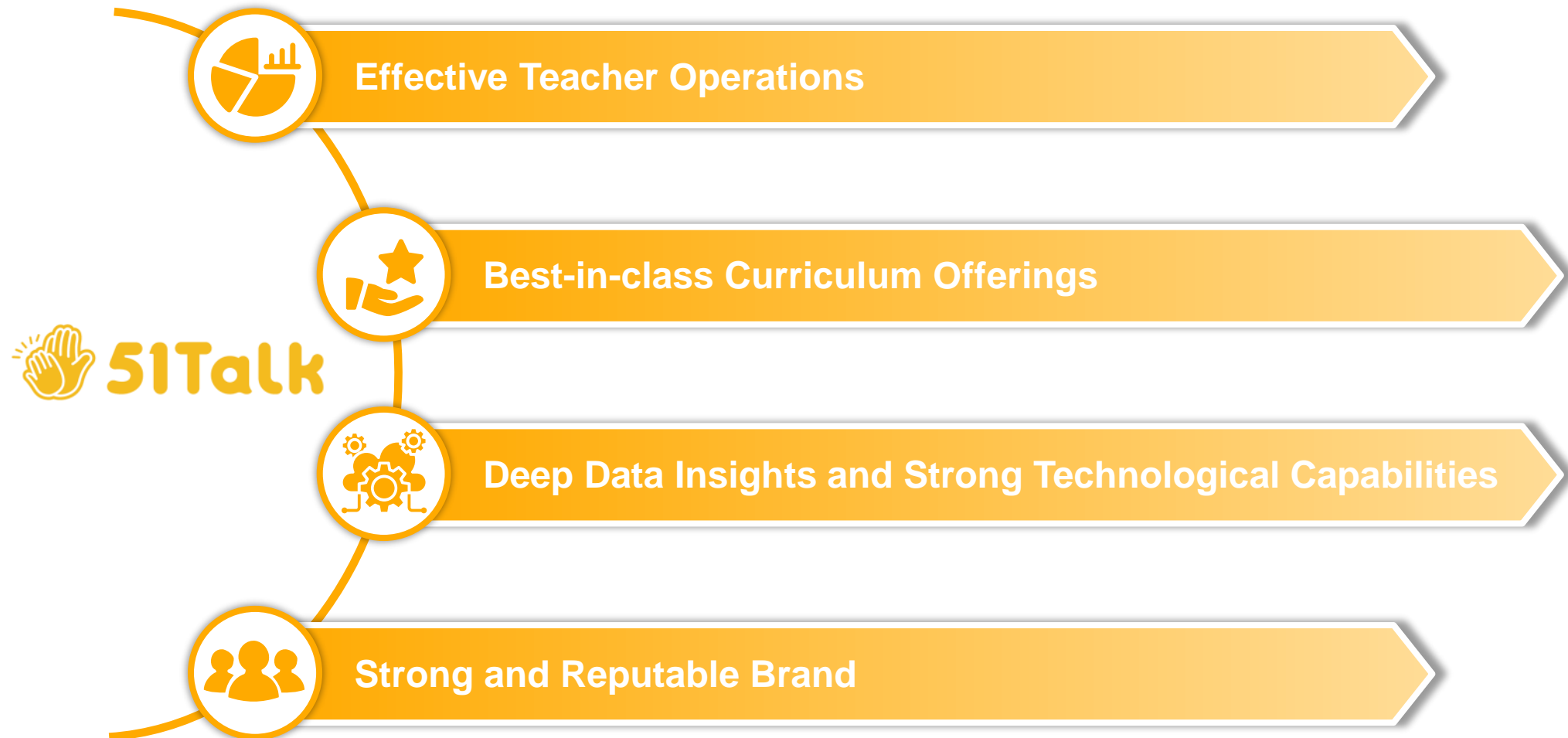
**Operational Flexibility**

**Notes:**

1. Cash includes cash and cash equivalents, time deposit and short-term investments



## II. Entry Barriers





# Systematic Sourcing of Foreign Teachers Ensures Best-in-class English Immersion Learning

## Best Brand Amongst Instructors

- **~30K Teachers** as of December 31, 2020
- High referral rate of **45%**
- Established presence with Manila central office for teacher operations **since 2012**
- **Large pool** of teacher candidates

## Rigorous Recruitment System

- **+3%** acceptance rate reflects high standards for intake
- **100%** of the teachers have TESOL certificates
- **Native-level** English proficiency

## 7 Training Centers in the Philippines



## Philippines Teachers' Clubs

- **+1,000** clubs
- Enhance teacher engagement, promote referrals, strengthen brand awareness

## 4 School Partnerships

- **4 Colleges in the Philippines**
- Conduct webinars and trainings to increase understanding of online teaching as a profession; provide job opportunities

### Notes:

1. Training center headquarters

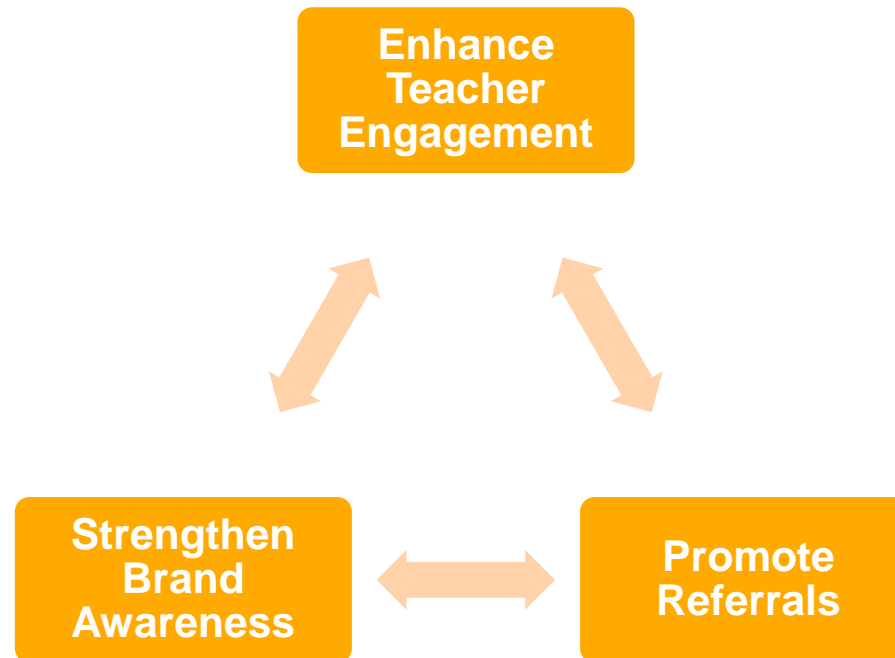
# Teacher Training Centers in the Philippines



# Philippines Teachers' Clubs



- Over 900 51Talk teacher clubs in the Philippines
- Clubs for teachers living in the same area – multiple benefits:



# Proprietary Curriculum Development Capabilities

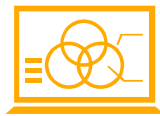
## Our Curriculum Design Philosophy



11-level K-12 Courses Based on Proficiency



Integrated Interactive Learning Materials



Animation and Gamification

## Systematic Curriculum Development



~100 Dedicated Course Content Development Professionals<sup>(1)</sup>

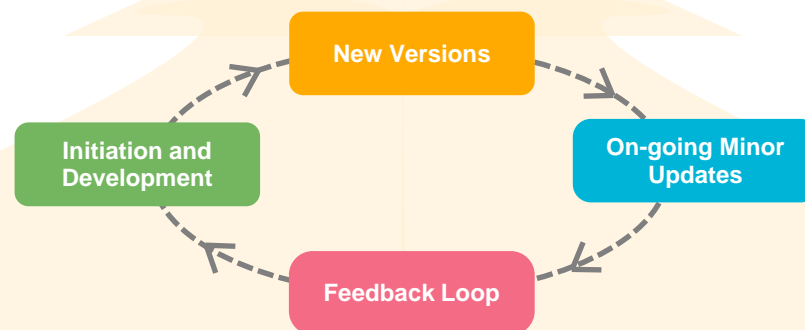


CEFR Standards<sup>(2)</sup>



Tailored and Immersive

## Virtuous Feedback Cycle for Continuous Improvement



### Notes:

1. As of December 31, 2019

2. CEFR refers to Common European Framework of Reference for Languages



# Proprietary Curriculum: Level-K

**Notes:**

1. Level-K was launched in the third quarter of 2020

# Ongoing Investment in Technology to Optimize Class Quality and Student Experience

## Technologies Support Learning Experience



### Optimized streaming technologies supporting smooth learning experience

- Adaptive adjustment for audio and video quality
- Scalable video coding technology
- Dedicated VPN lines & optimized network topology across countries



### Facial recognition based

- Virtual make-up
- Background superimposition



### AI based

- Speech and gesture recognition
- Voice speed detection
- Background noise reduction
- Pronunciation correction

## Technologies Enable Interactive Curriculum



### Interactive

- Prompt interactive features backed by strong technology
- Animated in-class reward mechanism
- Constant feedback collected to develop better curriculum

## Technologies Improve Business Operation



### Accurate matching and behavior based suggestions

- Match students with suitable teachers for optimized learning outcome
- Analyze student behavior and provide personalized learning experience

# Strong and Reputable Brand



English Speech Contest  
Organized by 51Talk





## Strong and Reputable Brand



Cooperation with Popular  
TV show



### 超能一家人

每周六晚6点准时播出，  
51Talk全年冠名

作为一档亲子协作挑战类节目，周末全家玩不停的同时，还有小学员作为游戏裁判官登场，大秀英语风采！  
51Talk我最行，超能口语说不停！





# 2021 Chinese Lantern Festival Marketing in 5 Cities





# Education & Government Leaders Attended 2020 Sino-Philippines Educational Exchange Seminar Hosted by 51Talk

- 51Talk hosted 2020 Sino-Philippines Educational Exchange Seminar in October 2020
- The ambassadors from China and the Philippines and education and government leaders attended
- Over 5,000 people from China and the Philippines celebrated the 45th anniversary of the establishment of diplomatic relations between the two countries, through live streaming
- This video received the **Guinness World Records award** for *'the largest online video album of people waving'*



# 51Talk Signed a Framework Agreement to Jointly Build Standards for Online Foreign Teachers

- 51Talk was the only online education enterprise chosen to participate in the 2020 China Annual Conference for International Education held on October 26, 2020
- Provided key input for future guidelines and requirements for online foreign teachers in China
- Signed a framework agreement with the China Education Association for International Exchange to jointly create recruiting and training standards for online foreign teachers



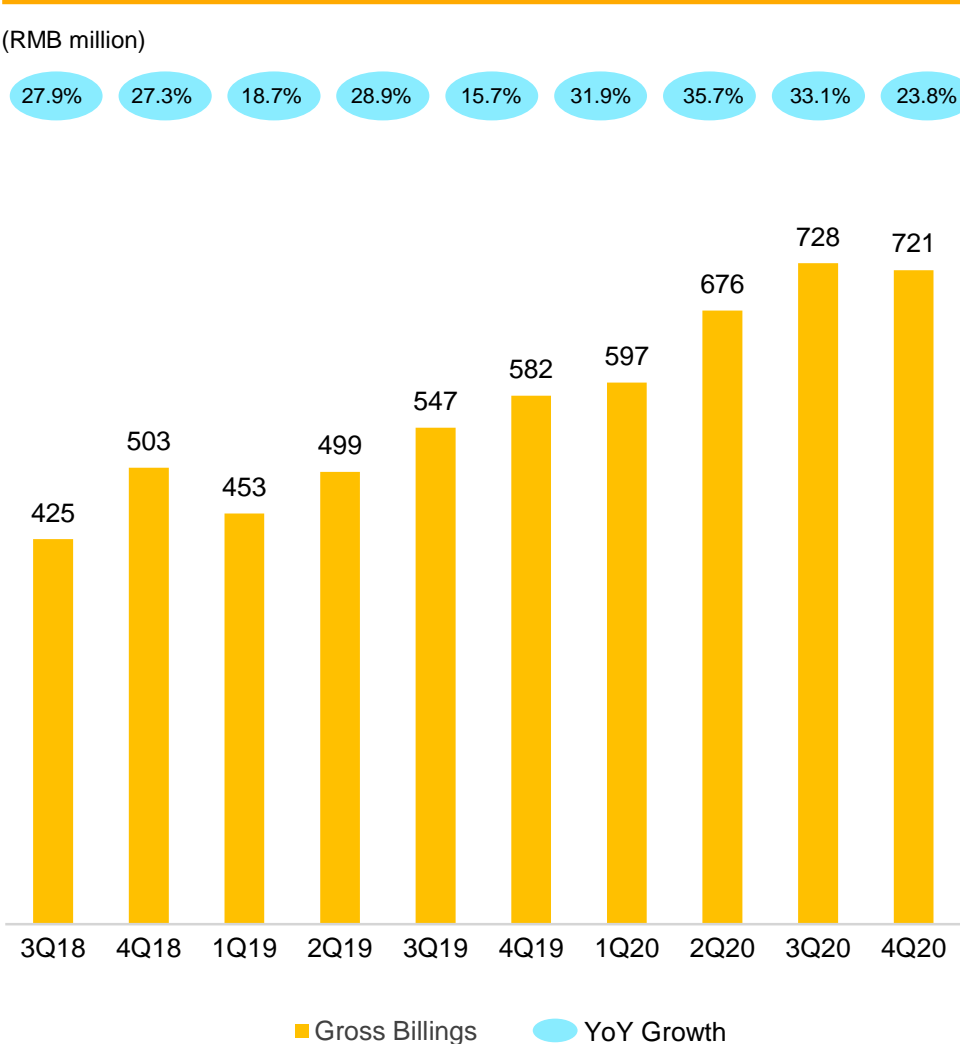


### III. Financial Highlights

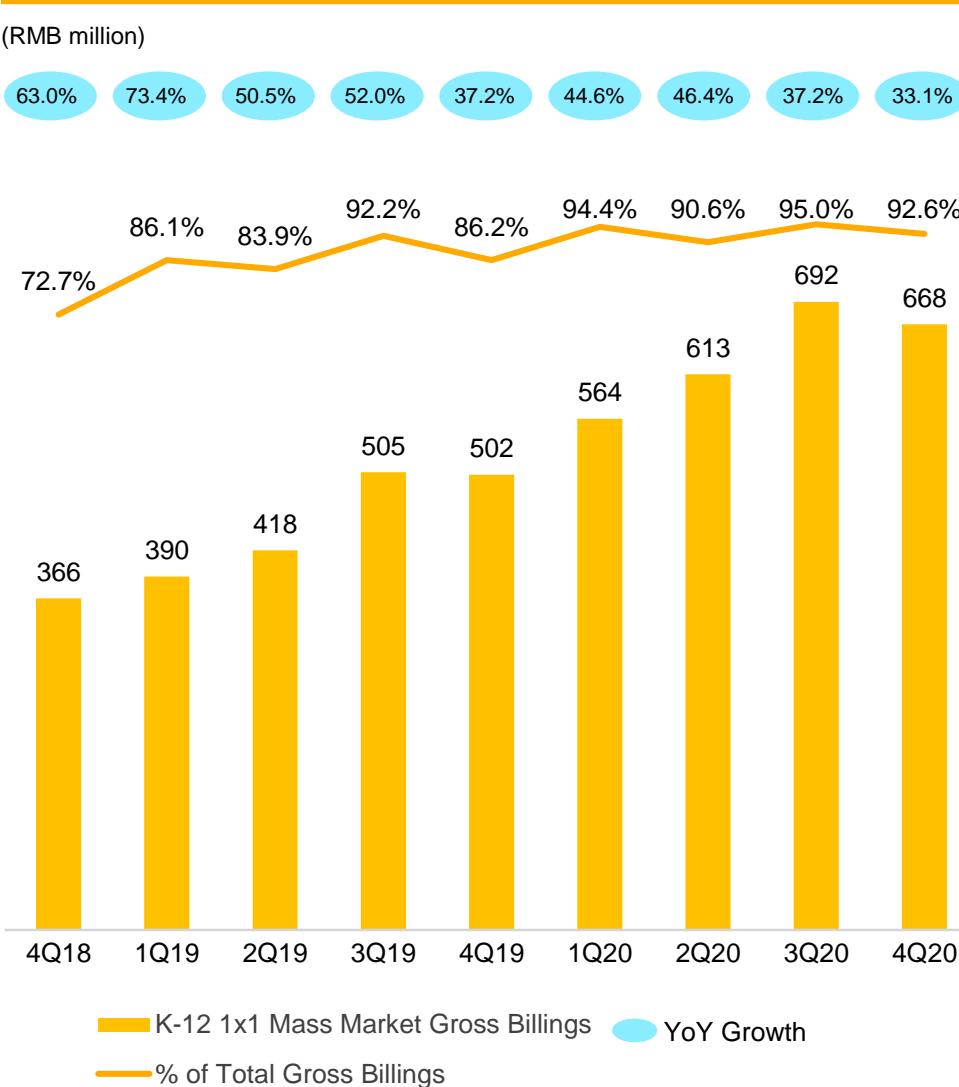
# Robust and Sustained Topline Growth



Total Gross Billings



K-12 1x1 Mass Market Gross Billings

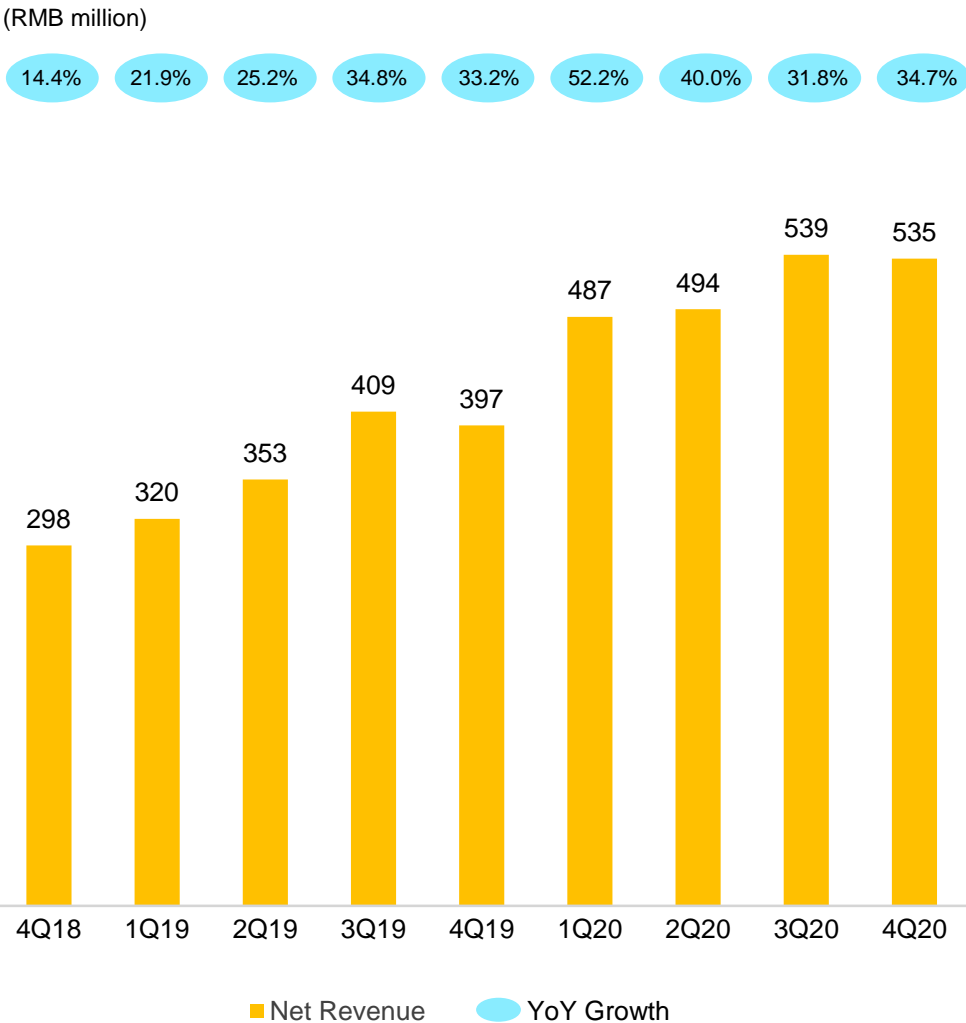




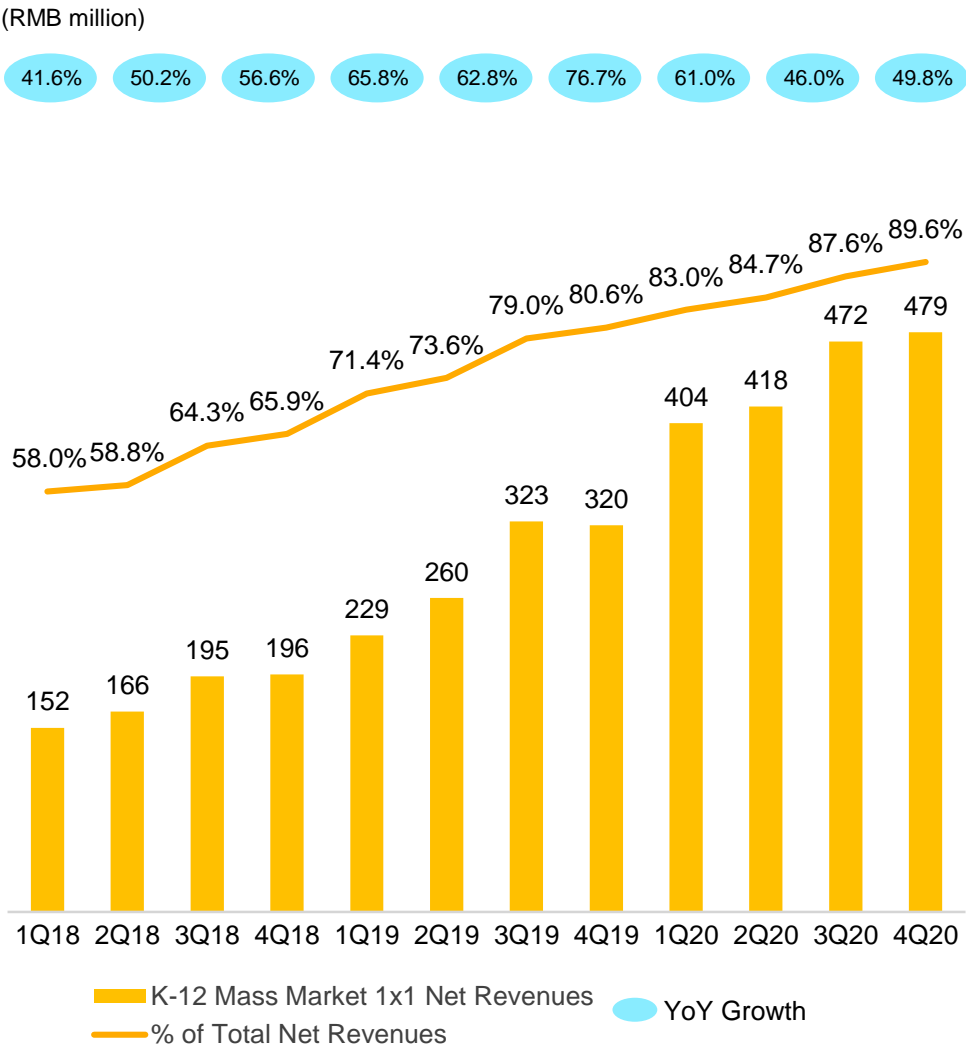
# Robust and Sustained Topline Growth (Cont'd)



Total Net Revenues



K-12 1x1 Mass-Market Net Revenues



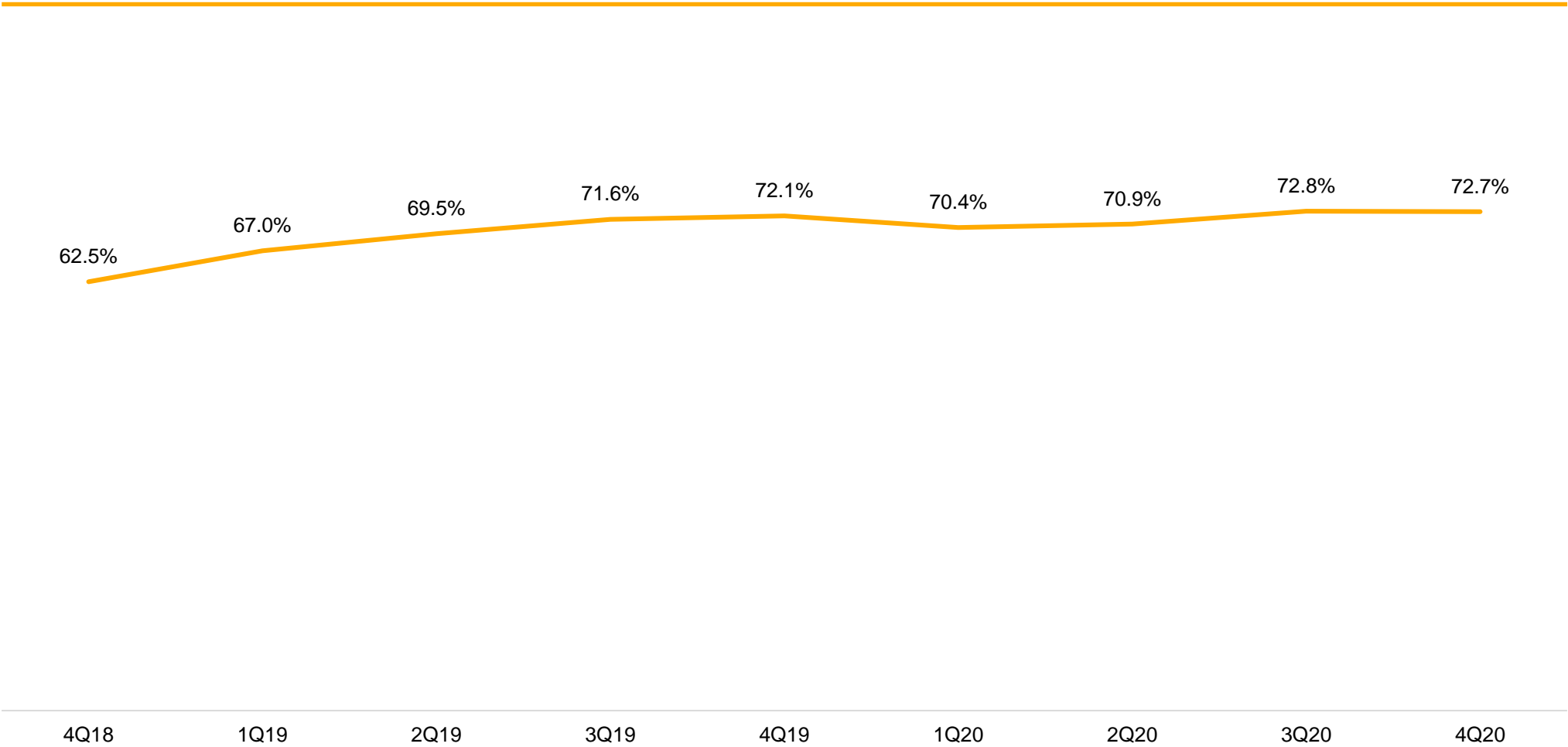


# Significant Operating Leverage

Industry-leading Gross Margins that Continue to Improve



Total Gross Margins

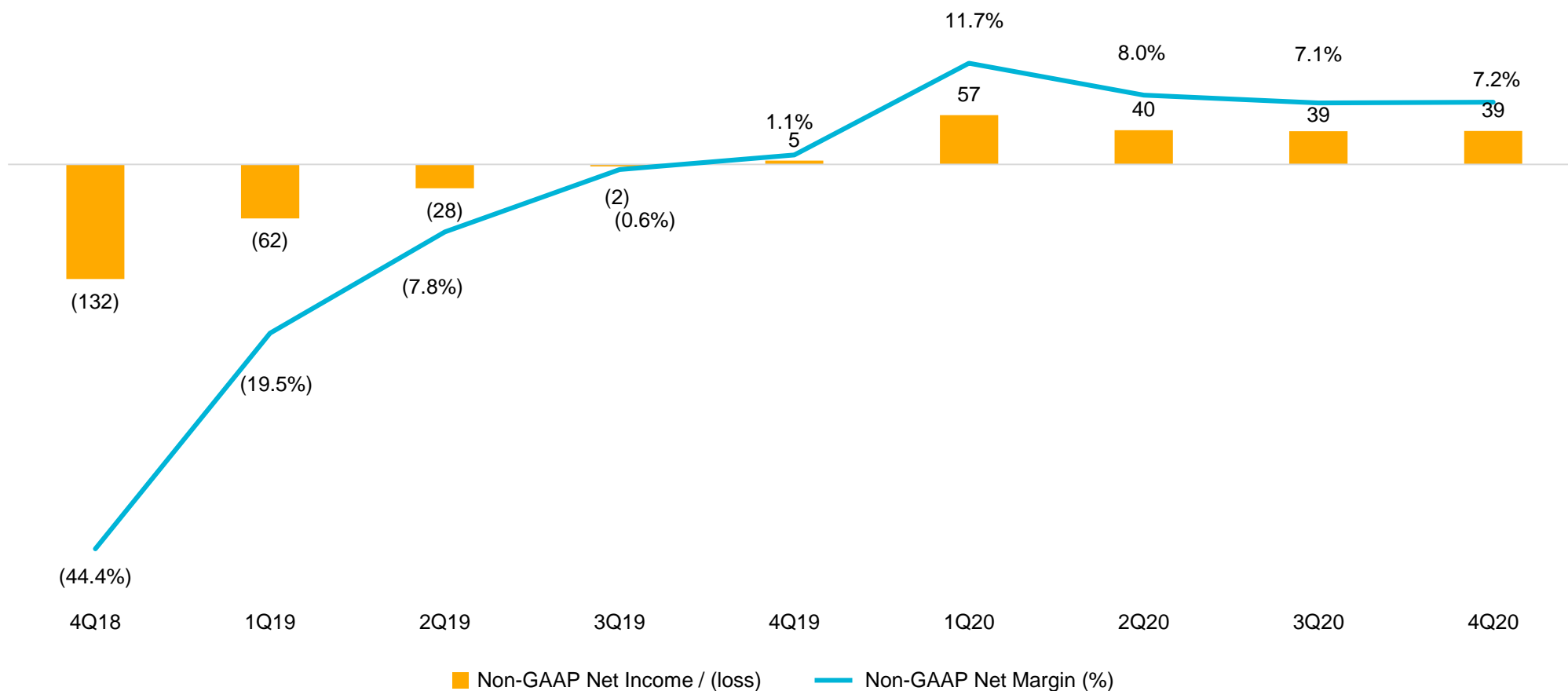


# Increasingly Profitable



Non-GAAP: Net Income / (Loss) <sup>(1)</sup>

(RMB million)



**Notes:**

1. Non-GAAP net income adjusted for share-based compensation expenses

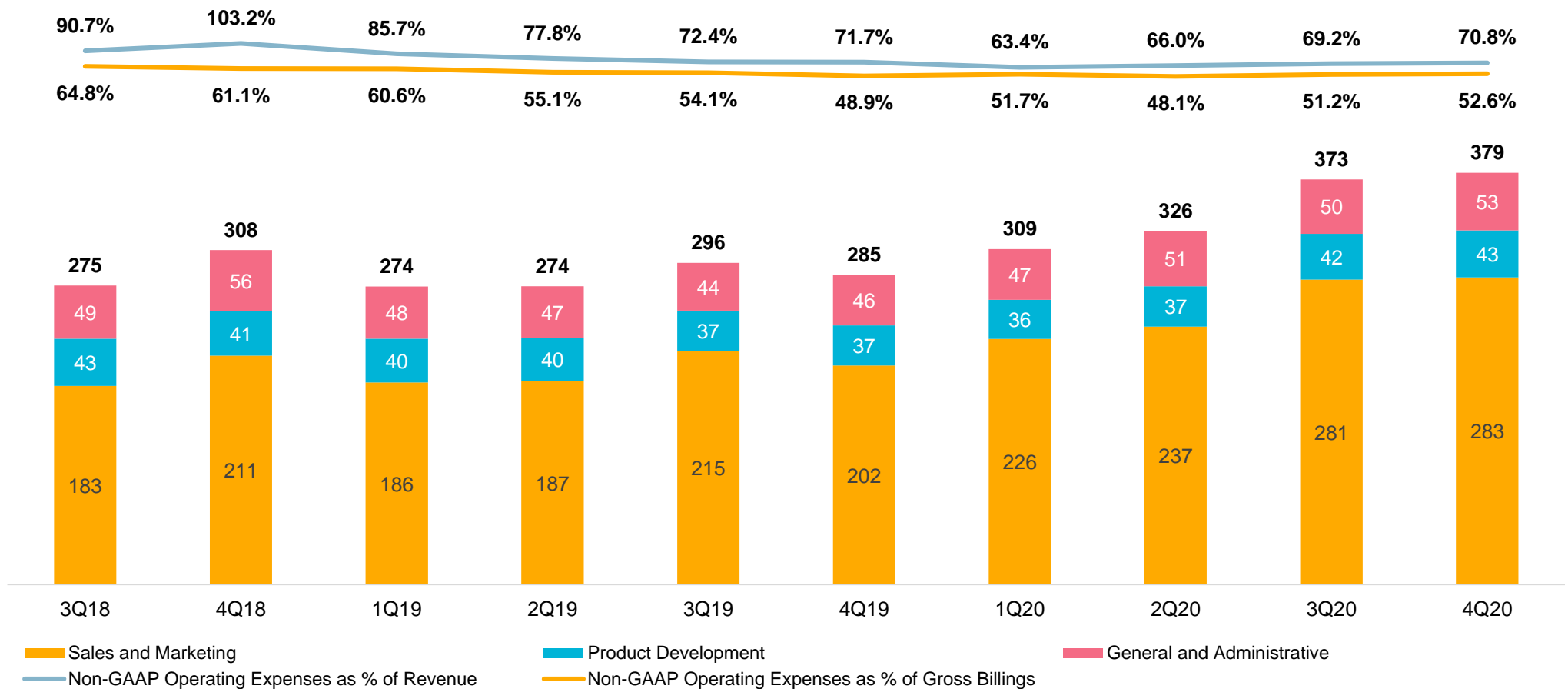
# Significant Operating Leverage

Stable Non-GAAP Operating Expenses Allow for Sustainable Growth



(RMB million)

(%)



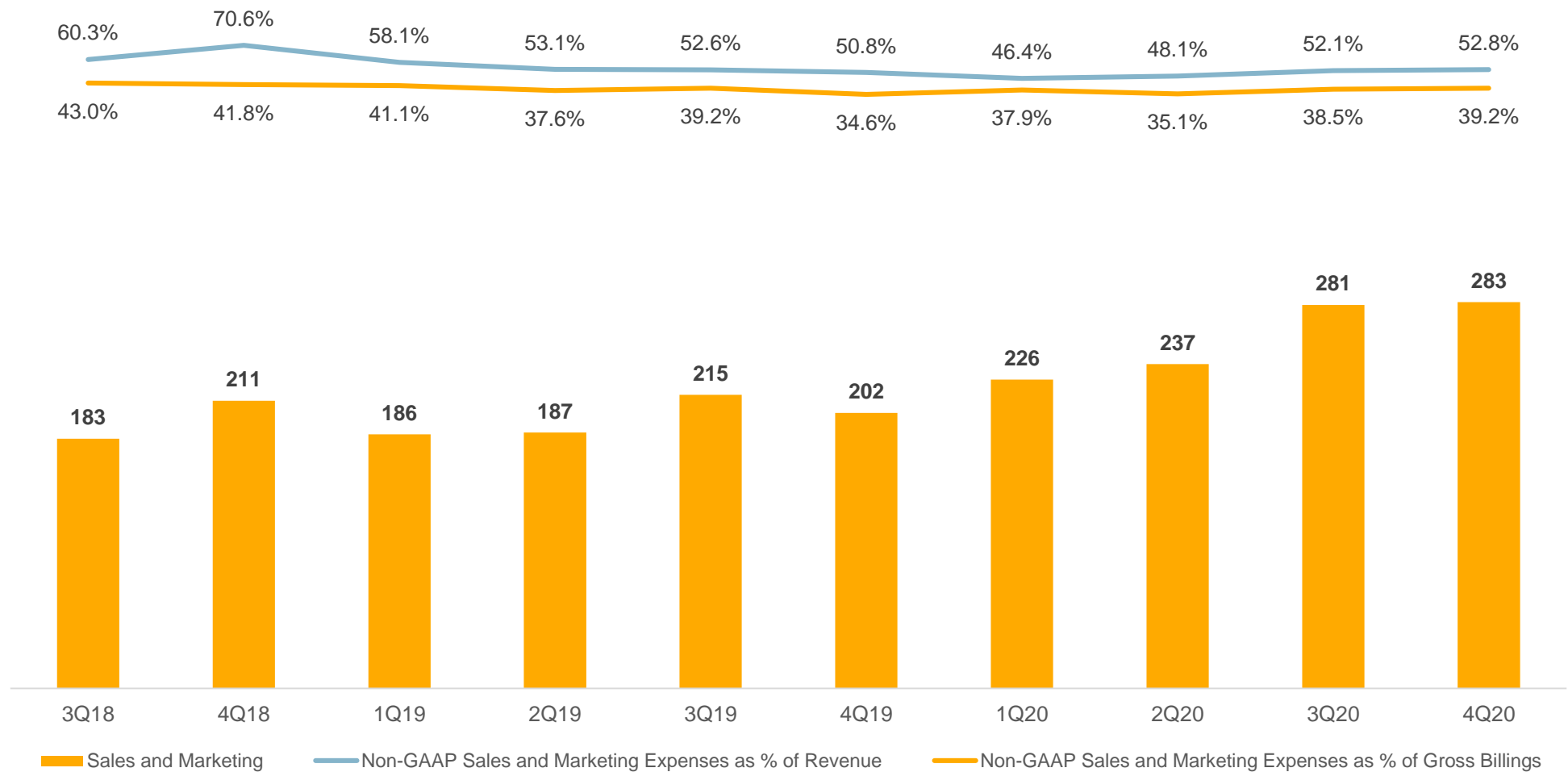
# Significant Operating Leverage (Cont'd)

Stable Non-GAAP Sales and Marketing Expenses Allow for Sustainable Growth



(RMB million)

(%)





Thank you