

LAIX Inc. Announces Fourth Quarter and Full Year 2019 Unaudited Financial Results
Fourth quarter 2019 net revenues increased by 3.1% year-over-year
Full year 2019 net revenues increased by 60.6% year-over-year

SHANGHAI--(BUSINESS WIRE)-- LAIX Inc. (“LAIX” or the “Company”) (NYSE: LAIX), an artificial intelligence (AI) company in China that creates and delivers products and services to popularize English learning, today announced its unaudited financial results for the fourth quarter and full year ended December 31, 2019.

Fourth Quarter 2019 Financial and Operating Highlights

- Net revenues were RMB231.4 million (US\$33.2 million), a 3.1% increase from RMB224.5 million for the fourth quarter of 2018.
- Gross billings¹ were RMB341.9 million (US\$49.1 million), a 4.8% decrease from RMB359.0 million for the fourth quarter of 2018.
- Gross margin was 66.7%, compared with 68.1% for the fourth quarter of 2018.
- Approximately 0.7 million paying users purchased the Company’s courses and services for the fourth quarter of 2019, compared with approximately 1.0 million paying users for the fourth quarter of 2018.
- Total cumulative registered users were 161.6 million as of December 31, 2019, compared with 110.3 million total cumulative registered users as of December 31, 2018.

Full Year 2019 Financial and Operating Highlights

- Net revenues were RMB1,023.2 million (US\$147.0 million), a 60.6% increase from RMB637.2 million for the full year of 2018.
- Gross billings were RMB1,294.3 million (US\$185.9 million), a 31.2% increase from RMB986.6 million for the full year of 2018.
- Gross margin was 73.3%, compared with 72.6% for the full year of 2018.
- Approximately 3.0 million paying users purchased the Company’s courses and services for the full year of 2019, compared with approximately 2.5 million paying users for the full year of 2018.

¹ “Gross billings” for a certain period refer to the total amount of cash received from the sale of course packages in that period net of the total amount of cash refunds paid to users in the same period.

Management Comments

“We are all very concerned about the COVID-19 outbreak in China. As part of our overall existing

corporate social responsibility mandate, we have initiated efforts as a Company to help those who have been impacted. At the end of January, we launched a nationwide initiative to offer complimentary courses as a way to support this fight and help those in the most impacted regions. We hope our offerings will bring encouragement to our users through our effective online language learning products. Internally, we have been adjusting our operations with employees in Wuhan who were working from home since the outbreak. However, we believe there will be very limited impact on our operational and financial performance due to our online business model. At the industry level, we have seen increasing user traffic and accelerating popularity of online education, we believe we can help make a difference in language learning by providing an effective, efficient, and customized online learning experience,” said Dr. Yi Wang, Chairman and Chief Executive Officer of LAIX.

“In 2019 we remained focused on product and learning experience improvement by leveraging our steadfast commitment to providing ‘education for all, starting from English.’ Net revenues for the fourth quarter of 2019 came in at RMB231.4 million, meeting our previous guidance range. As we continued to invest in the product mix, including new products targeting the kids’ English learning market, we incurred ongoing content development and IT service costs, which had impacted our gross margin. However, we believe we will benefit from these investments as they begin to show return this year. In addition, our efforts to optimize our marketing strategy showed positive signs, as gross billings for the fourth quarter increased by 24% while sales and marketing expenses decreased by 8%, both on a sequential basis, representing the trend of higher efficiency we have seen in our sales and marketing spending. We also saw gross billings per paying user increased sequentially in the fourth quarter, representing a strong testament in our ability to optimize the product mix and increase the average selling price.

“We also made meaningful progress in new product initiatives throughout the past year. The K-12 market represents an important growth driver for us in 2020 and we recently launched kids core course in early March after seeing the sales of our kids phonics course, our first paid offering in the kids market, grew nicely in the second half of 2019. With our offering being one of the top choices for language learners in the adult market, we have a number of initiatives underway to now penetrate into the K-12 market as well. As more of our adult users become parents themselves, we believe that with our strong brand recognition and compelling learning experience, they will choose our learning products for their children, allowing us to attract new users and cross-sell our products in a cost-effective manner.

“Our strong research and development capabilities continue to gain industry recognition, as our AI lab was awarded as Shanghai Key Laboratory of Artificial Intelligence in Learning and Cognitive Science in January 2020 as one of the first ten non-state-owned companies receiving such recognition.

“Looking into 2020, we see great opportunity in strengthening our leadership position in China’s

adult English learning market. We will continue to enrich our product mix by offering a greater number of paid courses that meet the needs of a broad demographic range and address a spectrum of learning interests and needs. With the growth of our paid course offerings at a wider range of prices, we expect to further drive user conversion and enhance user lifetime value. At the same time, we are working hard to improve our operating efficiencies and cost structure as we serve an increasingly large number of users,” concluded Dr. Wang.

Fourth Quarter 2019 Financial Results

Net Revenues

Net revenues for the fourth quarter of 2019 were RMB231.4 million (US\$33.2 million), a 3.1% increase from RMB224.5 million for the same quarter last year. The increase was primarily attributable to the growth of the Company’s business and the increased adoption of the Company’s proprietary AI teacher among users in China as an effective learning approach and a better alternative to the traditional ways of English learning.

Cost of Revenues

Cost of revenues for the fourth quarter of 2019 was RMB77.1 million (US\$11.1 million), a 7.6% increase from RMB71.7 million for the same quarter last year. This change was primarily due to increases in (i) salaries and benefits for certain full-time employees and (ii) IT service cost, with all such costs resulting from the Company’s general business growth and user base expansion.

Gross Profit and Gross Margin

Gross profit for the fourth quarter of 2019 was RMB154.3 million (US\$22.2 million), a 0.9% increase from RMB152.8 million for the same quarter last year.

Gross margin for the fourth quarter of 2019 was 66.7%, compared with 68.1% for the same quarter last year.

Operating Expenses

Total operating expenses for the fourth quarter of 2019 were RMB367.7 million (US\$52.8 million), a 17.6% increase from RMB312.5 million for the same quarter last year, with expenses increase primarily resulting from business growth activities, the development and introduction of new products and the costs associated with the expansion of the Company’s user base.

Sales and marketing expenses for the fourth quarter of 2019 were RMB266.9 million (US\$38.3

million), a 10.4% increase from RMB241.7 million for the same quarter last year. The increase was primarily due to increases in (i) branding and marketing expenses, and (ii) salaries and benefits for sales and marketing personnel, including the Company's online study advisors. Sales and marketing expenses as a percentage of net revenues increased to 115.3% for the fourth quarter of 2019, compared with 107.7% for the same quarter last year.

Research and development expenses for the fourth quarter of 2019 were RMB53.2 million (US\$7.6 million), a 1.0% decrease from RMB53.7 million for the same quarter last year. Research and development expenses as a percentage of net revenues increased from the same quarter last year, representing 23.0% of net revenues for the fourth quarter of 2019, compared with 23.9% for the same quarter last year.

General and administrative expenses for the fourth quarter of 2019 were RMB47.7 million (US\$6.8 million), a 179.1% increase from RMB17.1 million for the same quarter last year, primarily due to discretionary bonus for key employees, increases in salaries and benefits for general and administrative personnel and impairment charge to the carrying value of leasehold improvements and furniture. General and administrative expenses were 20.6% of net revenues for the fourth quarter of 2019, compared with 7.6% for the same quarter last year.

Loss from Operations

Loss from operations for the fourth quarter of 2019 was RMB211.1 million (US\$30.3 million), compared with RMB159.7 million for the same quarter last year due to the aforementioned reasons including general business growth and user base expansion.

Adjusted EBITDA²

Adjusted EBITDA for the fourth quarter of 2019 was a loss of RMB195.7 million (US\$28.1 million), compared with an adjusted EBITDA loss of RMB149.1 million for the same quarter last year.

² "Adjusted EBITDA" is a non-GAAP measure, which represents EBITDA before share-based compensation expenses. EBITDA represents net loss before interest, tax, depreciation and amortization. See "Reconciliations of GAAP and Non-GAAP Results" at the end of this press release.

Foreign exchange related (losses) / gains, net

Foreign exchange gain was RMB1.1 million (US\$0.2 million) in the fourth quarter of 2019, compared with a foreign exchange gain of RMB0.1 million for the same quarter last year.

Net Loss

Net loss for the fourth quarter of 2019 was RMB205.6 million (US\$29.5 million), compared with RMB163.4 million for the same quarter last year.

Adjusted net loss³ for the fourth quarter of 2019 was RMB202.3 million (US\$29.1 million), compared with RMB157.0 million for the same quarter last year.

Basic and diluted net loss per ordinary share attributable to ordinary shareholders for the fourth quarter of 2019 was RMB4.15 (US\$0.60), compared with RMB3.41 for the same quarter last year.

³ “Adjusted net loss” is a non-GAAP measure, which excludes share-based compensation expenses. See “Reconciliation of GAAP and Non-GAAP Results” at the end of this press release.

Full Year 2019 Financial Results

Net Revenues

Net revenues for the full year of 2019 were RMB1,023.2 million (US\$147.0 million), a 60.6% increase from RMB637.2 million for the full year of 2018. The increase was primarily attributable to the growth of the Company’s business and the platform-wide expansion of the Company’s paying user base as well as the increased adoption of the Company’s proprietary AI teacher among users in China as an effective learning approach and a better alternative to the traditional ways of English learning.

Cost of Revenues

Cost of revenues for the full year of 2019 was RMB273.5 million (US\$39.3 million), a 56.5% increase from RMB174.7 million for the full year of 2018. This change was primarily due to increases in (i) salaries and benefits for certain full-time employees and (ii) IT service cost, with all such costs resulting from the Company’s general business growth and user base expansion.

Gross Profit and Gross Margin

Gross profit for the full year of 2019 was RMB749.7 million (US\$107.7 million), a 62.1% increase from RMB462.5 million for the full year of 2018 as a result of increased economies of scale.

Gross margin for the full year of 2019 was 73.3%, compared with 72.6% for the full year of 2018.

Operating Expenses

Total operating expenses for the full year of 2019 were RMB1,336.8 million (US\$192.0 million), a 44.4% increase from RMB926.0 million for the full year of 2018, with expenses increase primarily

resulting from business growth activities, the development and introduction of new products and the costs associated with the expansion of the Company's user base.

Sales and marketing expenses for the full year of 2019 were RMB969.4 million (US\$139.2 million), a 37.4% increase from RMB705.4 million for the full year of 2018. The increase was primarily due to increases in (i) branding and marketing expenses, and (ii) salaries and benefits for sales and marketing personnel, including the Company's online study advisors. Sales and marketing expenses as a percentage of net revenues declined to 94.7% for the full year of 2019, compared with 110.7% for the full year of 2018.

Research and development expenses for the full year of 2019 were RMB213.9 million (US\$30.7 million), a 37.8% increase from RMB155.2 million for the full year of 2018, primarily due to an increase in salaries and benefits for research and development personnel. Research and development expenses as a percentage of net revenues decreased from the prior year, representing 20.9% of net revenues for the full year of 2019, compared with 24.3% for the full year of 2018.

General and administrative expenses for the full year of 2019 were RMB153.5 million (US\$22.1 million), a 134.6% increase from RMB65.4 million for the full year of 2018, primarily due to discretionary bonus for key employees, increases in salaries and benefits for general and administrative personnel, and professional service fees. General and administrative expenses were 15.0% of net revenues for the full year of 2019, compared with 10.3% for the full year of 2018.

Loss from Operations

Loss from operations for the full year of 2019 was RMB584.7 million (US\$84.0 million), compared with RMB463.5 million for the full year of 2018 due to the aforementioned reasons including general business growth and user base expansion.

Adjusted EBITDA

Adjusted EBITDA for the full year of 2019 was a loss of RMB528.7 million (US\$75.9 million), compared with an adjusted EBITDA loss of RMB413.0 million for the full year of 2018.

Foreign exchange related (losses) / gains, net

Foreign exchange loss was RMB2.5 million (US\$0.4 million) for the full year of 2019, compared with a foreign exchange loss of RMB4.2 million for the full year of 2018.

Net Loss

Net loss for the full year of 2019 was RMB574.8 million (US\$82.6 million), compared with RMB488.1 million for the full year of 2018.

Adjusted net loss for the full year of 2019 was RMB548.1 million (US\$78.7 million), compared with RMB442.6 million for the full year of 2018.

Basic and diluted net loss per ordinary share attributable to ordinary shareholders for the full year of 2019 was RMB11.64 (US\$1.67), compared with RMB19.17 for the full year of 2018.

Balance Sheet

As of December 31, 2019, the Company's cash, cash equivalents, restricted cash and short-term investments totaled RMB552.6 million (US\$79.4 million), compared with RMB747.8 million as of December 31, 2018.

The Company had deferred revenues (current and non-current) of RMB696.0 million (US\$100.0 million) as of December 31, 2019, compared with RMB477.6 million as of December 31, 2018.

Outlook

For the first quarter of 2020, the Company currently expects:

- Net revenues to be between RMB190.0 million to RMB210.0 million, which would represent a decrease of approximately 25.0% to 17.1% from RMB253.3 million for the same quarter last year;

This forecast reflects the Company's current and preliminary view on the current business situation and market conditions, which is subject to change.

Conference Call

The Company's management will host an earnings conference call at 9:00 PM U.S. Eastern Time on March 12, 2020 (9:00 AM Beijing/Hong Kong time on March 13, 2020).

Dial-in details for the earnings conference call are as follows:

United States (toll free):	+1-877
International:	+1-647
China:	400-04
China, Domestic:	400-04
Hong Kong:	+852-5
Conference ID:	386961



Participants should dial-in at least 10 minutes before the scheduled start time to be connected to

the call.

Additionally, a live and archived webcast of the conference call will be available on the Company's investor relations website at <http://ir.laix.com/investors>.

About LAIX Inc.

LAIX Inc. ("LAIX" or the "Company") is an artificial intelligence (AI) company in China that creates and delivers products and services to popularize English learning. Its proprietary AI teacher utilizes cutting-edge deep learning and adaptive learning technologies, big data, well-established education pedagogies and the mobile internet. LAIX believes its innovative approach fundamentally transforms learning. LAIX provides its products and services on demand via its mobile apps, primarily its flagship "English Liulishuo" mobile app launched in 2013. On the Company's platform, AI technologies are seamlessly integrated with diverse learning content incorporating well-established language learning pedagogies, gamified features and strong social elements to deliver an engaging, adaptive learning experience. LAIX provides a variety of courses inspired by a broad range of topics and culture themes to make English learning more interesting and is committed to offering a fun, interactive learning environment to motivate and engage its users.

For more information, please visit: <http://ir.laix.com>.

Use of Non-GAAP Financial Measures

We use adjusted EBITDA and adjusted net loss, each a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes.

We believe that adjusted EBITDA and adjusted net loss help identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in loss from operations and net loss. We believe that adjusted EBITDA and adjusted net loss provide useful information about our results of operations, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

Adjusted EBITDA and adjusted net loss should not be considered in isolation or construed as an alternative to loss from operations, net loss or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review the historical non-GAAP financial measures to the most directly comparable GAAP measures. Adjusted EBITDA and adjusted net loss presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

Exchange Rate Information

This announcement contains translations of certain RMB amounts into U.S. dollars at a specified rate solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars are made at a rate of RMB6.9618 to US\$1.00, the rate in effect as of December 31, 2019 published by the Federal Reserve Board.

Safe Harbor Statement

This announcement contains forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as “will,” “expects,” “anticipates,” “aims,” “future,” “intends,” “plans,” “believes,” “estimates,” “confident,” “potential,” “continue” or other similar expressions. Among other things, the Outlook and quotations from management in this announcement, as well as LAIX’s strategic and operational plans, contain forward-looking statements. LAIX may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission, in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including but not limited to statements about LAIX’s beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties, and a variety of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: LAIX’s goals and strategies; LAIX’s future business development, results of operations and financial condition; the expected growth of the education market; LAIX’s ability to monetize the user base; fluctuations in general economic and business conditions in China; the potential impact of the COVID-19 to LAIX’s business operations and the economy in China and elsewhere generally; and assumptions underlying or related to any of the foregoing. Further information regarding these and other risks is included in the Company’s filings with the Securities and Exchange Commission. All information provided in this press release and in the attachments is as of the date of the press release, and the Company undertakes no duty to update such information, except as required under applicable law.

LAIX INC.

UNAUDITED CONSOLIDATED BALANCE SHEET
(Amount in thousands of Renminbi ("RMB") and US dollars)

ASSETS

Current assets:

Cash and cash equivalents

Cash and cash equivalents

Restricted cash

Short-term investments

Accounts receivable, net

Prepayments and other current assets

Total current assets

Non-current assets:

Property and equipment, net

Investment in equity fund

Intangible assets, net

Operating lease right-of-use assets, net (1)

Other non-current assets

Deferred tax assets

Total non-current assets

Total assets

LIABILITIES

Current liabilities:

Accounts payable

Deferred revenue

Salary and welfare payable

Tax payable

Operating lease liability, current (1)

Accrued liabilities and other current liabilities

Total current liabilities

Non-current liabilities:

Deferred revenue, non-current

Operating lease liability, non-current (1)

Other non-current liabilities

Total non-current liabilities

Total liabilities

Shareholders' equity/(deficit)

Class A Ordinary shares

Class B Ordinary shares

Subscriptions receivable from founding shareholders

Treasury Stock

Additional paid-in capital

Accumulated other comprehensive income

Accumulated (deficit)

.....,,
Total shareholders' equity/(deficit)

Total liabilities and shareholders' equity/(deficit)

(1) On January 1, 2019, the Company adopted ASC 842, the new lease standard, using the additional transition method. No cumulative effect adjustment to the opening balance of retained earnings was required.

LAIX INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amount in thousands of Renminbi ("RMB") and US dollars, except for number of shares and per share amounts)

	Three months	
	December 31 2018 RMB	September 30 2019 RMB
Net revenues	224,461	262,092
Cost of revenues	(71,656)	(71,825)
Gross profit	152,805	190,267
Operating expenses:		
Sales and marketing expenses	(241,745)	(289,184)
Research and development expenses	(53,719)	(57,723)
General and administrative expenses	(17,082)	(57,893)
Total operating expenses	(312,546)	(404,800)
Other operating income	-	-
Loss from operations	(159,741)	(214,533)
Other income/(expenses):		
Interest income	371	376
Foreign exchange related gains/(losses), net	143	(2,605)
Change in fair value of short-term investment	-	1,767
Other income, net	1,903	1,108

LAIX INC.

Reconciliation of GAAP and Non-GAAP Re
(Amount in thousands of Renminbi ("RMB") and US \$
except for percentage data)

	Three months ended	
	December 31, 2018	September 30, 2018
	RMB	RMB
Net loss	(163,366)	(210,000)
Add:		
Share-based compensation expenses	6,374	6,374
Depreciation of property, plant and equipment and amortization of Intangible assets	1,970	1,970
Amortization of prepaid interest expense and service fees to loan companies	245	245
Impairment loss	-	-
Income tax expenses	6,042	6,042
Subtract:		
Interest income	(371)	(371)
Adjusted EBITDA	<u>(149,106)</u>	<u>(200,000)</u>
Net loss	(163,366)	(210,000)
Add back:		
Share-based compensation expenses	6,374	6,374
Adjusted net loss	<u>(156,992)</u>	<u>(203,626)</u>



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