

Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

QuantaSing Group Limited

Rating: Speculative Buy

Howard Halpern

QSG \$1.63 — (NASDAQ)

June 11, 2024

	FY22 A	FY23 A	FY24 E	FY25 E
Revenues (in millions)	\$403.2	\$424.9	\$514.4	\$597.9
Earnings (loss) per share	(\$0.74)	(\$0.14)	\$0.16	\$0.17
52-Week range	\$9.40 – \$1.41		Fiscal year ends:	June
Shares outstanding	167.2 million		Revenue/shares (ttm)	\$2.92
Approximate float	36.7 million		Price/Sales (ttm)	0.6X
Market Capitalization	\$272.5 million		Price/Sales (FY25) E	0.5X
Tangible Book value/shr	\$0.30		Price/Earnings (ttm)	8.6X
Price/Book	5.42X		Price/Earnings (FY25) E	9.6X

All figures are in US dollars. Revenues have been translated into US dollars from the Chinese currency using US Federal Reserve and futures market data

QuantaSing Group Limited operates in Mainland China as the largest service provider in China's online adult learning market. The company's mission is to improve people's quality of life and well-being by providing lifelong personal learning and development opportunities. QSG offers easy-to-understand, affordable, and accessible online courses to adult learners under QiNiu, JiangZhen, and QianChi brands, as well as a live e-commerce division.

Key Investment Considerations:

Maintaining Speculative Buy rating but reducing our twelve month price target to \$7.50 per share from \$9.00 per share due to reductions in the sector multiple and our sales per share forecast for FY25.

QuantaSing Group's has significant growth potential for its online adult learning brand portals in China. Frost & Sullivan anticipates the Chinese online segment of the adult learning market to grow annually by 17.8% from 2022 through 2027, reaching RMB325 billion (or an estimated \$46 billion in 2027).

Supporting our growth forecast should be QSG's ability to successfully monetize its registered user base of 121 million and approximately 500,000 paying learners on its online technology portal brands. In 3Q24, registered users and paying learners grew 40.3% and 48.4% respectively, compared to 3Q23.

To monetize its users, QSG launched a live e-commerce segment that is selling Chinese liquor and its own a private label offering called YUNTING. To expand outside of Mainland China Hong Kong based Kelly's Education was acquired and launched in May 2024 its first offline language learning center.

In 3Q24, QSG reported (on 6-6-24) EPS of \$0.01 on revenue increasing 11.4% to \$131 million. In 3Q23, revenue was \$117.5 million with a loss of (\$0.02). We projected EPS of \$0.06 on revenue of \$1128.6 million.

For FY24, we project EPS of \$0.17 on 21.1% revenue growth to \$514.4 million reflecting 9M24 results and public guidance for 4Q24. We previously forecast EPS \$0.27 and revenue of \$518.9 million.

For FY25, we project EPS of \$0.17 on 16.2% revenue growth to \$597.9 million. We previously forecast EPS \$0.32 and revenue of \$611 million. Our reduced EPS forecast reflects a reduction in forecasted revenues and higher than anticipated spending on new initiatives such as the live-e-commerce segment and expansion of offline education centers outside of Mainland China using a test-and-scale approach that the company has designed to preserve profitability.

Please view our Disclosures on pages 16 – 18.

Appreciation Potential

Maintaining Speculative Buy rating but reducing our twelve month price target to \$7.50 per share from \$9.00 per share due to reductions in the sector multiple and our sales per share forecast for FY25. Our rating and price target reflects the company's ability to execute on its mission to provide adult online offerings in Mainland China in order to improve people's quality of life and well-being by providing them lifelong personal learning and development opportunities. We anticipate through the company online learning brand portals and dedicated sales and marketing efforts to grow faster than the online adult learning market in China. Frost & Sullivan estimates the Chinese online segment of the adult learning market to grow annually by 17.8% from 2022 through 2027, reaching RMB325 billion (or an estimated \$46 billion in 2027).

Supporting our growth forecast should be QSG's ability to successfully monetize its registered user base of 121 million and approximately 500,000 paying learners on its online learning technology portal brands. At March 31, 2024, registered users and paying learners grew 40.3% and 48.4% respectively, compared to the three month period ending March 31, 2023. To monetize its user base, the company launched a live e-commerce segment that is selling Chinese liquor and in January 2024 launched a private label offering called YUNTING. In a move to expand outside of Mainland China, the company acquired Hong Kong based Kelly's Education and launch an offline language learning center at the end of May 2024.

Our 12-month price target of \$7.50 per share implies shares could increase four-fold over the next twelve months. According to finviz.com, the average price-to-sales multiple for companies in the education and training services sector is 2.7X (prior was 3.2X) compared to QuantaSing's trailing price-to-sales multiple of 0.6X (prior was 0.9X). We anticipate investors are likely to accord QSG a multiple approaching the sectors trailing price-to-sales multiple. We applied a price-to-sales multiple of 2.4X (prior was 2.8X) to our FY25 sales per share forecast of \$3.53 (prior was \$3.65), discounted for execution risks that includes generating nearly all of its revenue in Mainland China, to obtain a year-ahead price target of approximately \$7.50 per share.

QSG's valuation should improve as it reports revenue growth and operating profits. We forecast revenue growth of 16.2% to \$597.9 million in FY25 from an estimated \$514.4 million in FY24. We anticipate the company generating an operating profit of \$20.8 million in FY24 compared to a loss of \$10.5 million in FY23. We forecast operating profits reaching \$27 million in FY25.

We believe QuantaSing Group Limited is most suitable for risk tolerant investors seeking exposure to an emerging growth company that generates its revenue in Mainland China as a provider of online adult learning platforms and a live e-commerce offering directed at the company's registered users.

Overview

QuantaSing Group Limited operates in Mainland China as the largest service provider in China's online adult learning market. The company's mission is to improve people's quality of life and well-being by providing lifelong personal learning and development opportunities. QuantaSing offers easy-to-understand, affordable, and accessible online courses to adult learners under QiNiu, JiangZhen, and QianChi brands. QSG also provides marketing and enterprise talent management services to enterprise customers within China.

During the summer of 2023, the company launched a live e-commerce division in order to monetize the company registered user base and leverage its technology infrastructure. In May 2024, it's Kelly's Education segment opened its first offline language learning center in Hong Kong.

The company carries out its operations in China through Beijing Liangzizhige, its wholly foreign-owned enterprise, and their contractual arrangements with Beijing Feierlai a variable interest entity based in China, and its nominee shareholder.

In 2019, the financial literacy learning services offering was launched. In 2021, according to a Frost & Sullivan report QSG became the largest service provider in China's online financial learning market in terms of revenue. In

2021, the company expanded its offerings into other personal interest offerings in order to leverage the general public's gradual awakening to more diverse needs in pursuing personal development and lifelong learning.

In 2020, QSG launched its marketing services to financial intermediary enterprises, allowing them to connect with its learners to enlarge their customer base. In 2022, the enterprise talent management services was launched.

Offerings

QSG's mission is to provide adult online offerings to improve people's quality of life and well-being by providing them lifelong personal learning and development opportunities. To accomplish its mission QSG has developed individual online learning services that are designed for adult learners that are easy-to-understand, affordable, and accessible online through its platforms to address their diversified demands for personal development. The online courses are distributed via its platforms under the brands of QiNiu, JiangZhen, and QianChi.

Financial literacy courses are offered under the QiNiu brand. The online courses include introductory, intermediate, advanced, and signature premium learning for adult financial literacy learning. The introductory financial literacy courses target novice learners, who wish to acquire basic financial and investment knowledge that encompass subjects ranging from the basic financial planning and investment concepts to commonly employed financial products, such as stocks, bonds, mutual funds, insurance, and other wealth management products. Intermediate-level courses expand on the topics and concepts covered in introductory courses, amplified with more detailed explanations and extensive application scenarios. These course are delivered over a consecutive nine-day module in the evenings in order to cater to the lifestyle of adult learners, who are primarily middle-aged individuals with no readily available access to easy-to-grasp financial and investment knowledge.

The company premium signature financial literacy courses are targeted at the adult learners that have completed its introductory courses and want to advance their financial and investment knowledge and skills. These premium signature financial literacy courses are delivered in online community-based training camp model. Learners may also purchase the premium signature course materials for self-study purposes. Some of courses offered include fund and stock investments, fixed income and insurance products, and financial report analysis. The company adjusts the course content and cadence by dividing them into intermediate and advanced levels. The advanced-level premium signature courses bring more in-depth aspects of the personal finance and wealth management that are important to the financial practice of the company's adult learners. These premium courses are delivered over a four-week or five-week training schedule primarily comprising pre-recorded lectures and live lectures in the mid- and final term.

In August 2021, QSG expanded its course offerings by launching its JiangZhen brand. This brand provides a comprehensive upskilling personal growth technology portal. QuantaSing has taken a progressive approach to expand the course portfolio to other personal interest offerings based on in-depth research into the competitive landscape, market demand and learner aptitudes in order to ensure the quality and degree of acceptance of each course offered. Two very popular personal interest courses are short-video production and personal well-being that includes standing meditation.

The short-video production course targets freelancers or amateurs who create video content and intend to improve their skillsets by providing easy-to-grasp introduction on the major types of social media and their business models. QSG supplements this offering with hands-on training sessions to practice their video and audio editing skills.

The personal well-being courses target individuals who care about the wellness of themselves and their families, by enabling them to acquire basic well-being and health management knowledge, understand common health conditions, and cultivate positive lifestyles and habits. The content is delivered through simplified narratives with illustrative examples, supplemented by easy-to-follow health tips to implement in daily life

In June 2022, the company launched its QianChi brand which is an interest-based learning platform for retired (or silver) learners. The electronic keyboard course is comprised of basic music theory knowledge, skills, and techniques. The instructors deliver live lectures and the company's tutors provide off-class, one-on-one training to help the paying learners practice their keyboard skills. The Chinese calligraphy course offering provides these

retired learners a way to relax while learning the stylized artistic writing style of Chinese characters, which unites the languages spoken in China. Calligraphy is considered supreme among the visual arts in China.

In the summer of 2023, the company launched a live e-commerce platform that is focused on selling Chinese liquor by engaging its customers to explore and purchase a diverse range of high-quality Chinese liquors. This new revenue generating segment is intended to leverage QSG's registered and paying learners by providing them with relevant Chinese liquor content and value in purchasing items. In 2Q24, this live e-commerce platform generated sales of RMB49 million. The company is actively engaged in developing new products and services to enhance the overall user experience, which includes collaborations with renowned liquor brands, introducing exclusive offerings, and integrating cutting-edge technologies to make the shopping process more interactive and enjoyable. In January 2024, its first private label Chinese Baijiu brand called YUNTING was introduced.

In September 2023, the company acquired Kelly's Education, an online language education platform headquartered in Hong Kong. The Kelly's Education provides personalized online language education for children aged 3-15, primarily in Hong Kong. It also should enable QuantaSing to tap into the global online and offline language learn sectors, especially as it announced in April 2024 partnerships with two major authorities in English learning courses - Disney World of English and National Geographic Learning.

Customer Acquisition and Retention Process

QuantaSing's customer acquisition process begins by offering free live streaming introductory courses to a large group of potential learners from its 121 million registered users. During these large free live stream courses the company's dual-instructor model enables tutors to interact with the learners in real-time that is intended to be converted into paying learners that move progressively through introductory, intermediate, advanced, and signature premium courses of interest. In 3Q24, the company increased its paid learners by 48.4% to approximately 500,000 compared to 3Q23. The company's service-driven dual-instructor model is designed to provide high satisfaction to an individual's online learning experience as once a learner has reached the premium course level they will experience an online community-based training camp, live lectures, and one-on-one tutoring. If successfully executed the course offerings and learning process through a supportive, interactive, and enriching environment should lead to a high retention and repurchase rate. An example is the company's has experienced repurchase rate of approximately 60% over the last seven quarters for its financial literacy courses.

Introductory courses are designed to be live sessions in a large-class dual-instructor setting to easily scale the learner base with a balanced level of attention to learners' needs. QSG staffs each course session with one or two in-class instructors to deliver the live lectures and a number of off-class tutors (called sidekick instructors) to provide learners with one-on-one guidance and support in the same class. Once a customer becomes a paid learner, QSG aims to provide such a positive experience that they become a repeat customer moving through the progression of learning to premium courses which are live lectures, one-on-one tutoring, and tailored strictly to the nature of the content taught.

Growth Strategy

QuantaSing Group's growth is aimed at growing its registered users that through its sales and introductory course activities should lead to conversion into paid learners. Entering 4Q24, the company had in approximately 500,000 paid learners from 121 million registered users. Through its customer base the company intends to employ a multi-branded online platform strategy for curriculum design, customer acquisition, advertisement campaigns, and potential international expansion via the September 2023 acquisition of Hong Kong based Kelly's Education, as well as development and expansion of its new live e-commerce operating segment. From its customer base the company believes it can monetize its newly introduced live e-commerce offering to methodically grow this segment through the sale of Chinese liquor and eventually other product offerings.

The company goal is to attract new paid learners by deploying marketing campaigns by refining its data-driven sales strategies and branding efforts across online and offline channels. In order to drive learner engagement growth and retention of paid learners it will continually seek to improve course quality and offering more interactive and personalized learning experiences. QSG is spending time and money to enrich its current course offerings and

curriculums and develop new course subjects based on customer interest, through market research efforts that includes market survey’s, customer interviews, and market competitor analysis. New offerings will be developed and designed to capture a wider audience with high demand in order to achieve operational efficiencies. Overall the company will be focused on new curriculum designs in order to up-sell customers to paid premium courses.

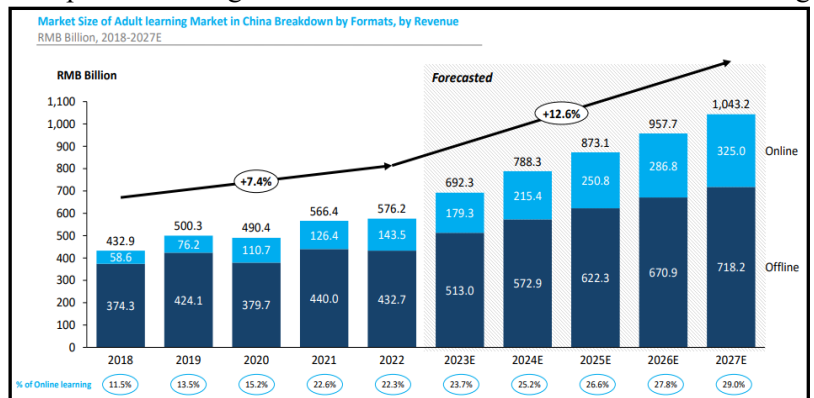
An additional strategic growth area is to expand its recurring revenue model for enterprise service customers. Enterprise service offerings should provide the company opportunities to cross-sell add-on services. The company is leveraging its proprietary artificial intelligence technology and systems that underlie its online learning platforms by launching a recurring revenue learning segment to this customer segment. This technology learning platform provides customized, systematic online courses and evaluation mechanisms to address enterprise customers’ needs for internal talent management and optimize their relevant procedures. Enterprise customers can receive automatically generated reports about the learning progress and assessment performance of the enrolled employees, which allows them to timely adjust their talent strategy.

In order to continue building the company’s technology based branded platforms (QiNiu, JiangZhen, and QianChi), as well as its enterprise service offerings and e-commerce segments, strategic investments will be made to enhance its technology and data analytics and bring aboard and train more qualified instructors. The company can track a number of data points throughout a learners’ journey with QSG in order to facilitate product development and live streaming developments of interactive features to further enhance a learners’ experience.

The company’s technology plan intends to leverage data analytics capability to promote system security so as to ensure that its platforms are reliable and can support rapid expansion. QSG intends to use its resources to attract additional qualified instructors in adult online learning markets through the lateral hiring of experienced instructors and the systematic training of emerging teaching talents.

Chinese Adult Learning Market

In September 2023, Frost & Sullivan published a report indicating that the market size of China’s adult learning industry grew annually by 5.9% from RMB432.9 billion in 2018 to RMB576.2 billion in 2022. The chart on the right is a breakdown of the online and offline markets and overall annualized growth rate of 12.6% through 2027 from 2022. The aggregate market size in RMBs anticipates a market that can generate total revenue of over 1 trillion. The company’s offerings reside in the Chinese online segment of the adult learning market, which is forecast to grow annually by 17.8% from 2022 through 2027, reaching RMB325 billion (or an estimated \$46 billion in 2027). The Frost & Sullivan report showed that China’s online individual adult learning market growth should be driven by the overall development of the country’s macro economy, improved living qualities, enhanced literacy rates, and adults having increased rates of internet and mobile connections.



The report projected that the senior adult learning market in China should grow annually by 34% reaching RMB120.9 billion in 2027 from RMB28 billion in 2022. Growth in China’s adult online learning and senior segments of the market should occur based on increasing disposable income and a growing need for personal development of Chinese adults especially people over 60 years of age.

An article published on a financial new site called FinSMEs, indicated that China has one of the fastest-growing aging populations in the world. At the end of 2022, there were approximately 280 million people aged 60+ in China (or 19.8% of the entire population). By 2025, the people in China aged 60+ is anticipated to reach 300 million with growth to over 400 million by 2035. This demographic population growth along with the Chinese government

seeking to encourage senior learning should support growth in China's adult learning market as it seeks to increase the level of social participation among people over 60 years of age. National and local governmental policies will include boosting the supply of education resources and raising the quality of cultural and sporting services. China has integrated education for older adults into its comprehensive lifelong learning system that seeks to stimulate the growth of tailored educational resources by supporting organization the operating adult learning platforms including online learning services.

The September 2023 Frost & Sullivan report anticipates the enterprise professional training market in China to grow annually by 10.9% to RMB250.3 billion from RMB148.9 billion in 2022. Supporting growth for this market segment is the trend of paying for systematic and well-designed enterprise professional training courses by organizations in China. Companies in China have begun to realize a sustainable way to enhance work efficiency for new and experienced employees is to build comprehensive training systems that are well-designed and with high-quality. This is where QSG's enterprise offerings should provide a platform for sustainable revenue growth through our forecast period.

Projections

Basis of Forecast

Our forecast reflects the growth trends within the adult learning market in China and the significant opportunity to convert registered users of free learning classes into paying learners on the company's three education-related technology branded portals (QiNiu, JiangZhen, and QianChi brands). Entering 4Q24, the company had approximately 500,000 paying learners engaged on its education-related technology branded portals with 121 million registered users, up from 86.3 million at March 31, 2023. Both categories should continue to experience organic growth through social media and direct marketing campaigns. Over our forecast period, revenue contributions should occur from the company's FY24 launch and expansion of its live e-commerce division and the September 2023 acquisition of Hong Kong based Kelly's Education, an online language education platform that could provide global growth opportunities, as well as new learning offerings to its domestic user base. At the end of May 2024, the company opened its first offline school in Hong Kong where Kelly's Education will provide language education to a younger demographics. This is part of the company's test-and-scale approach to launching new revenue generating opportunities. Initially, this is likely to restrain operating income growth as the company will likely need to increase spending above our prior forecast in order to successfully launch and expand these new operations.

All historic financial information and financial forecasts have been converted into US dollars from the Chinese currency using data from the Federal Reserve and future markets.

Economy

In April 2024, the International Monetary Fund (IMF) left unchanged its GDP growth estimate for China of 4.6% in 2024 and 4.1% for 2025.

Operations FY24 (ending June 30, 2024)

We project revenues to grow by 22.1% to \$514.4 million (prior was \$518.9 million) from \$424.9 million in FY23, reflecting 9M24 results and public guidance issued for 4Q24.

We forecast gross profit increasing 17.9% to \$437.4 million from nearly \$371 million last year due primarily to revenue growth, partly offset by gross margin narrowing to 85% from 87.3% in FY23. Gross margin compression reflects increasing sales from the lower margin live e-commerce division and opening of the company first offline learning center in Hong Kong.

We expect operating expenses increasing 7.8% to \$416 million from \$386.6 million in FY23. The company's level of spending should allow for increasing paid learners on its online education platforms and expand its live e-commerce division, as well as support growth opportunities from its Kelly's Education operations such as launching at the end of May 2024 an offline language center in Hong Kong. We anticipate sales and marketing expense increasing 12.3% to \$373.1 million from \$332.1 million last year. We anticipate G&A and R&D expenses of \$20.9 million and \$22.6 million, respectively, compared to \$24.2 million and \$30.3 million last year.

We project the company should generate an operating profit of \$20.8 million compared to an operating loss of \$15.7 million in FY23. Our operating income forecast reflects revenue growth and operating expense margin improving to 81% from 91% in FY23. The improvement in operating expense margin reflects the company deploying internally developed artificial intelligence technologies that is providing operating efficiencies by reducing labor costs and increasing customer satisfaction, as well as reducing stock-based compensation.

We anticipate non-operating income of \$4.6 million compared to income of \$3.8 million last year. The current period should include interest income of \$1.5 million and other income of \$3.1 million (as reported during 9M24). In the year-ago period interest income was \$735,000 and other income was \$2.9 million.

We project net income of \$27.7 million or \$0.16 per share on 170.8 million average shares outstanding and after recording an income tax benefit of \$2.3 million (as recorded so far in 9M24). We previously forecast net income of \$44.9 million or \$0.27 per share on 169.3 million average shares outstanding and after recording income tax expense of \$1.4 million. The reduction in our net income forecast reflects 3Q24 results and higher than anticipated operating expenses as the company increases spending on growth opportunities, such as new online course offerings, the live-commerce segment, and offline education centers in Hong Kong.

Finances

We project cash earnings of \$34.8 million and a \$4 million decrease in working capital resulting in cash from operations of \$38.8 million. Cash from operations is likely to cover the purchase of property and equipment, short-term investments, and repurchase of common ADS shares. Cash should increase by \$20.9 million to \$126.3 million at June 30, 2024.

Operations – FY25 (ending June 30, 2025)

We project 16.2% revenue growth to \$597.9 million (prior was \$611 million) from an estimated \$514.4 million in FY24, reflecting increases in the number of paid learners and course engagements on the company's three online education platforms, monetization of its registered users through the launch of the live e-commerce technology platform that should add additional products to be sold from its initial launch of Chinese liquor and private label products, and a full year contribution and expansion of the services (opening of offline education centers) provided by Kelly's Education that was acquired in September 2023. Also, a factor in our revenue forecast is the exchange rate from the Chinese currency to the US dollar (7.07 forecasted for June 2025 versus 7.25 forecasted for June 2024).

We forecast gross profit increasing 15.5% to \$505 million from an estimated \$437.4 million in FY24 due primarily to revenue growth, partly offset by a narrowing of gross margin to 84.5% from an estimated 85% in FY24. The narrowing of gross margin could occur as the company expands its revenue contribution from its live e-commerce division and operations of Kelly's Education as the latter launches offline education centers.

We anticipate operating expenses increasing 14.7% to \$478 million from an estimated \$416.6 million FY24. The increase in operating expenses should support revenue growth from the company's core adult learning platforms, expansion of its live e-commerce offering, and Kelly's Education operations, as well as provide the infrastructure to support growth initiative beyond FY25. We anticipate sales and marketing expense increasing 15.4% to \$430.5 million from an estimated \$373.1 million in FY24. We project G&A and R&D expenses increasing to \$23.5 million and \$24 million, respectively, from \$20.9 million and \$22.6 million estimated for FY24.

We project the company's operating profit increasing to \$27 million from an estimated operating profit of \$20.8 million in FY24. Our operating income forecast reflects revenue growth and operating expense margin improving to 80% from an estimated 81% in FY24.

We anticipate non-operating income of \$1.5 million compared to income of \$4.6 million last year.

We project net income of \$28.5 million or \$0.17 per share on 169.4 million average shares outstanding, while not recording income tax expense or benefit. We previously forecast net income of \$53.3 million or \$0.32 per share on 167.4 million average shares outstanding, after recording an income tax expense of \$5.9 million. The decrease in our

net income forecast reflects higher than anticipated operating expenses as the company increases spending on growth opportunities, such as new online course offerings, the live-e-commerce segment, and offline education centers outside of Mainland China.

Finances

We project cash earnings of \$29.8 million and a \$20.7 million increase in working capital resulting in cash from operations of \$9.1 million. Cash from operations is likely to cover the purchase of property and equipment, short-term investments, and repurchase of common ADS shares. Cash should increase by \$3.2 million to \$129.5 million at June 30, 2025.

3Q24 and 9M24 Results (ending March 31, 2024)

3Q24

QSG reported revenue increased 11.4% to \$131 million from \$117.5 million in 3Q23 due primarily to growth in revenues from skills upgrading courses that consist of courses aiming to improve the soft skills of individuals, such as short-video production and memory training courses, as well as personal well-being, electronic keyboard, and standing meditation courses. Overall revenue growth in terms of RMB's was 17.1% to RMB945.6 million from RMB807.2 million in the year-ago period. Additionally, since the company's revenue is generated in China, the change in exchange rates restrained overall US denominated revenue growth. In 3Q24, the exchange rate was 7.2203 compared to 6.8676 in 3Q23.

Revenues from individual online learning services increased 8.7% to \$114.7 million from \$105.5 million in 3Q23 reflecting revenues from upgrading skills of \$64.3 million and recreation and leisure courses of \$13.2 million, which was restrained by a \$30.2 million decrease in revenues from financial literacy courses. Enterprise services experienced a decrease in revenue to \$9 million from \$11.8 million last year reflecting a change in revenue streams from transactions involving related party and external entities, partially offset by an increase in demand from existing and new customers for marketing services. Revenues from others increased to \$7.3 million from approximately \$200,000 in the year-ago-period driven by the company's newest offering, live e-commerce.

Gross profit increased 7.7% to \$110.8 million from \$102.8 million in the year-ago period due primarily to revenue growth, partly offset by gross margin compression to 84.6% from 87.5% in 3Q23. Gross margin compression reflects higher labor outsourcing and procurement costs reflecting the company new live e-commerce offering and inclusion of the Kelly's Education acquisition, partly offset by a reduction in staffing costs.

Operating expenses increased to \$111.5 million from \$106.2 million in 3Q23. Sales and marketing expenses increased to \$101.1 million from \$91.9 million last year due primarily to an increase in labor outsourcing costs and marketing and promotion expenses, partially offset by a decrease in staff costs that includes a decrease in share-based compensation. Partly offsetting the increase in total operating expenses was G&A expense decreasing to \$5 million from \$7 million in the year-ago period due primarily to a reduction in share-based compensation and office expenses. R&D expenses decreased to \$5.4 million from \$7.2 million in 3Q23 due to reduced staffing costs and share-based compensation expenses for personnel developing the company's technology and course infrastructure.

The company reported an operating loss of \$710,000 compared to an operating loss \$3.4 million in 3Q23. The improvement reflects revenue growth and operating margin expense improving to 85.1% from 90.3% in the year-ago period, partly offset by gross margin compression.

Non-operating income was \$1.4 million compared to income of \$1 million last year. The current period includes interest income of \$348,000 and other income of nearly \$1.1 million. 2Q23 included interest income of \$264,000 and other income of \$758,000.

Net income was \$2 million or \$0.01 per share, after an income tax benefit of \$1.1 million on 170.9 million average shares compared to a net loss attributable to QuantaSing Group of \$3.2 million or (\$0.02) per share, after an income tax expense of \$958,000 on 135.8 million average shares in the year-ago period. We projected EPS of \$0.06 on revenue of \$128.6 million on 167.4 million average shares.

9M24 Results

QSG reported revenue increased 18% to \$387.1 million from \$328.1 million last year due primarily to 1H24 results and growth in revenues from skills upgrading courses that occurred in 3Q24.

Gross profit increased 14.8% to \$330.5 million from \$288 million in the year-ago period due primarily to revenue growth, partly offset by gross margin compression to 85.4% from 87.8% in 9M23. Gross margin compression reflects higher labor outsourcing and procurement costs reflecting building the live e-commerce operations and inclusion of Kelly’s Education operations that expands operations into Hong Kong.

Operating expenses were essentially flat at \$311 million as reductions in share-based compensation, office expense, and staffing costs was offset by increased sales and marketing programs.

The company generated operating income of \$19.6 million compared to an operating loss \$23.5 million in 9M23. Non-operating income was \$4.2 million compared to income of \$2.6 million last year.

Net income was \$26.2 million or \$0.15 per share, after an income tax benefit of \$2.3 million on 171.1 million average shares.

	in \$ thousands	9 Mos. 24	9 Mos. 23	% D
Total Revenue		\$387,137	\$328,067	18.0%
Total Cost of Sales		56,654	40,097	41.3%
Gross Profit		<u>\$330,483</u>	<u>\$287,970</u>	14.8%
Total Operating Expenses		310,894	311,439	(0.2%)
Operating Income		19,589	(23,469)	NMF
Total Other Income (Expense)		4,229	2,594	NMF
Pre-Tax Income		23,818	(20,875)	NMF
Income tax expense (benefit)		(2,347)	2,619	NMF
Net Income (loss)		<u>\$ 26,165</u>	<u>\$(23,494)</u>	NMF
Earnings (loss) per share		\$0.15	(\$0.29)	
Avg Shares Outstanding		171,090	82,295	
Margins				
Gross margin		85.4%	87.8%	
Operating Margin		5.1%	(7.2%)	
Pre-Tax Margins		6.2%	(6.4%)	
Source: company reports				

Finances

While the company did not provide a cash flow statement, we estimate for the 9M23 adjusted EBIDTA of \$26.1 million compared estimated adjusted EBIDTA loss of \$1 million last year.

Capital Structure

At March 31, 2024, QSG had no outstanding debt, contract liabilities of \$73.1 million, accrued expenses of \$30.8 million, and shareholders’ equity of \$51 million. Cash and short-term investments was \$134.6 million and \$24.7 million, respectively, at March 31, 2024.

The company’s board of directors previously authorized a share repurchase program under which QSG may repurchase up to \$20 million of its Class A ordinary shares in the form of American depository shares during a twelve-month period commencing on June 11, 2024. Repurchases under the program may be made from time-to-time through open market transactions at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means. At March 31, 2024, under the prior share repurchase program the company had repurchased 2.6 million ADSs for approximately \$11.5 million.

On March 20, 2024, QSG entered into a partnership agreement to form a PRC limited partnership enterprise for future equity investment in order to expand the company’s e-commerce and artificial intelligence and technology opportunities. As of June 6, 2024, the company fulfilled its initial capital contribution of RMB3.0 million.

Competitive Landscape

QuantaSing’s revenues are primarily derived from its operations within the adult learning market in China, which is fragmented with a large number of market participants. It is estimated that the top five organizations in the Chinese adult learning market accounts for less than 5% of total market revenues. While QSG is an online provider of adult learning in China, it also must compete with organizations that provide offline adult learning in China. While highly fragmented, the company believes it is the largest service provider in China’s adult learning market for personal

interest courses and online financial learning. The company's competition for its service offerings include individual organization that may provide online learning and enterprise services. Competitors may have longer operating history, greater brand recognition, or greater financial, technical, and marketing resources.

Industry participants compete for high-quality instructors, technology infrastructure, and data analytics capabilities. Other competitive factors include the quality of services offered, the overall learning experience, brand awareness, and the scope of course offerings. Competitors to QSG could adopt similar curriculums and marketing approaches, with different pricing and service packages that may have greater appeal to learners.

Risks

In our view, these are the principal risks underlying the stock.

Doing Business in China

The People's Republic of China (PRC) government has the authority influence operations of an offshore holding company and offerings conducted overseas and foreign investments in China-based issuers. QSG's operations and nearly all of its assets are located in China. The company's results of operations and financial conditions may be influenced significantly by the PRC political, economic, and social conditions. The PRC government may intervene or influence operations at any time, which could result in a material change in operations and/or the significantly reduce the valuation of its securities that are traded on the NASDAQ market.

Corporate Structure in China

QuantaSing Group Limited is a Cayman Islands holding company with no substantive operations. Beijing Liangzizhige (a wholly foreign-owned enterprise (WFOE)) is its wholly-owned PRC subsidiary and a foreign-invested enterprise under Chinese law. The company's WFOE is not eligible to engage in businesses that are subject to foreign ownership restriction under the PRC laws, therefore business in China is conducted through the contractual arrangements entered into by QSG's WFOE with the Variable Interest Entity (VIE) based in China. Investors in the company's shares are purchasing the equity securities of QuantaSing Group Limited, the Cayman Islands holding company, rather than the equity securities of the VIE or its subsidiaries. QuantaSing is the primary beneficiary of the VIE and consolidate the financial results of the affiliated entities under US GAAP accounting.

If the PRC government deems QSG's contractual arrangements with its variable interest entity do not comply with the governments regulatory restrictions on foreign investment in the relevant industries the company may decline in value or become worthless.

Limited Operating History

In July 2019, the company began offering its financial literacy learning services, which was followed by the launch of additional courses for other personal interests in August 2021. The limited history under QSG's current business model may not serve as an adequate basis for evaluating future prospect especially converting registered users to paying learners. The ability to execute on its adult learning and enterprise services operations in China will determine if the company has the ability to growth within China and expand to a global footprint. If execution fall short operations and future growth opportunities are likely to diminish.

Internal Controls

The company identified material weaknesses related to the lack of personnel with appropriate knowledge of US GAAP accounting and reporting requirements. To remedy the material weaknesses QSG began to and will continue to implement measures such as the hiring of an additional financial reporting manager and a reporting associate with appropriate knowledge and experience in US GAAP accounting and SEC reporting. However, those measures may not be sufficient and future financial statements may be produced even though internal controls maybe ineffective.

Online Learning in China

The company has built a technology infrastructure for the integration of technology and online learning services to provide an engaging and immersive online learning experience. However, adult personal interest learning is a

relatively new concept in China. If the company's offerings become less appealing to learners in the future its operations and financial condition could be materially and adversely impacted.

Intellectual Property

Copyrights, trademarks and other intellectual property are likely to be an essential part of the company achieving its growth potential. The company relies primarily on copyrights, trademarks, trade secrets and other contractual restrictions for the protection of the intellectual property used to generate revenue from its operations. While the company has taken steps to protect its proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of its intellectual property, which could diminish future operations.

Cyber Security

Maintaining data security and protecting personal information are critical the company's operations, since it processes a large amount of data and information related to its registered users and paid learners. To ensure the confidentiality and integrity of the data and information QSG maintains and continuously implements comprehensive and rigorous data security policies and measures to safeguard against unauthorized data access and disclosure to effectively address concerns related to privacy and data sharing. However, failure to prevent, mitigate, or respond to security breaches could result in interruptions to the company's technology online learning platforms and legal and financial exposure, as well as diminishment of customer confidence that could reduce future operations.

Shareholder Control

At October 23, 2023 SEC filing, QSG is considered a controlled company as defined under the Nasdaq Stock Market Listing Rules because its founder, chairman, and CEO, Mr. Peng Li, holds 29.4% of total issued and outstanding ordinary shares and may be able to exercise 80.7% of the total voting power after the IPO. This ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

Other Risk Factors

Investors should be aware of additional risk factors that should be considered. **Licensing requirements** are needed for online learning and live streaming operations since they are highly regulated by the Chinese government. **Customer acquisition** in the online adult learning market in China is a process that requires substantial resources and careful planning. **Instructors and content development staff** are critical to operations and the ability to attract and retain them are important to future growth opportunities. **Maintaining and expanding relationships with enterprise customers.** **PRC laws and regulations in China** are continually evolving and subject to change and uncertain interpretations. **Reliance on third-party online payment channels** in China and bank transfers from its customers. **The legal system in the Peoples Republic of China** could have a material adverse effect on operations. **The dual-class structure of the company's ordinary shares may adversely affect the trading market for its shares.** All these other factors could negatively impact the company's operations that could diminish growth initiatives and financial results.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including third party, competition, economic conditions in China and globally, operations, financial markets, regulatory, legislative, status as an emerging growth company, online adult learning activities, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

Over the last three month ending June 10, 2024 was approximately 142,200. We estimate QSG has a float of approximately 36.7 million shares and outstanding shares of approximately 167.2 million.

QuantaSing Group Limited
Consolidated Balance Sheets – Ending June 30
FY2021A – FY2025E
(in thousands)

	FY2021A	FY2022A	FY2023A	3Q24A	FY2024E	FY2025E
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 3,888	\$ 37,454	\$ 105,399	\$ 134,562	\$ 126,304	\$ 129,548
Short-term investments	4,589	18,645	22,934	24,704	27,000	30,000
Accounts receivable, net	15,353	272	1,689	3,956	5,000	7,000
Amounts due from related parties	379	6,663	4,015	317	-	-
Inventory, net	-	-	-	995	1,200	3,000
Prepayments and other current assets	18,366	16,245	18,851	25,328	26,000	27,500
Total current assets	42,575	79,279	152,888	189,862	185,504	197,048
Property and equipment, net	736	727	1,022	928	925	900
Intangible assets, net	5,162	-	-	389	350	300
Operating lease right-of-use assets	1,447	3,362	11,585	8,987	8,987	8,987
Goodwill	-	-	-	1,023	1,023	1,023
Other non-current assets - includes deferred tax assets	1,226	1,466	3,224	4,859	4,800	4,700
Total assets	\$ 51,145	\$ 84,834	\$ 168,719	\$ 206,048	\$ 201,589	\$ 212,958
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	11,533	6,351	8,563	12,049	12,842	10,322
Accrued expenses and other current liabilities	10,670	15,266	23,604	30,839	28,293	25,412
Amounts due to related parties	3,027	-	-	-	-	-
Income tax payable	357	1,026	1,213	707	707	707
Contract liabilities	41,466	54,084	71,327	73,120	70,000	55,000
Advance from customers	20,630	21,240	19,913	27,855	30,000	35,000
Operating lease liabilities	1,104	2,296	5,667	6,409	6,409	6,409
Total current liabilities	88,787	100,263	130,287	150,979	148,251	132,850
Contract liabilities	4,082	1,247	1	-	-	-
Operataing lease liabilities	301	923	7,287	4,066	4,066	4,066
Deferred tax liabilities	1,265	-	-	-	-	-
Mezzanine Equity - convertible redeemable preferred shares A-E	-	93,366	-	-	-	-
Total Liabilities	94,435	195,799	137,575	155,045	152,317	136,916
Stockholders' equity:						
Non-controlling interest	-	-	294	-	-	-
Total shareholders' equity (deficit)	(43,290)	(110,965)	31,144	51,003	49,272	76,042
Total liabilities and invested/shareholders' equity (deficit)	\$ 51,145	\$ 84,834	\$ 168,719	\$ 206,048	\$ 201,589	\$ 212,958
SHARES OUT	N/A	54,643	165,618	167,150	168,000	169,000

All figures are in US dollars and translated from the Chinese currency using US Federal Reserve data

Source: Company reports and Taglich Brothers estimates

QuantaSing Group Limited
Annual Income Statement – Ending June 30
FY2021A – FY2025E
(in thousands)

	FY2021 A	FY2022 A	FY2023 A	FY2024 E	FY2025 E
Revenues	\$ 272,580	\$ 403,173	\$ 424,942	\$ 514,417	\$ 597,930
Cost of sales	<u>27,712</u>	<u>57,462</u>	<u>53,990</u>	<u>77,050</u>	<u>92,900</u>
Gross Profit	<u>244,868</u>	<u>345,711</u>	<u>370,952</u>	<u>437,367</u>	<u>505,030</u>
Operating Expenses:					
Sales and marketing	262,513	316,927	332,142	373,102	430,485
Research and development	18,007	38,446	30,309	22,559	24,000
General and administrative	15,541	23,427	24,168	20,939	23,500
Total Operating Expenses	<u>296,061</u>	<u>378,800</u>	<u>386,619</u>	<u>416,600</u>	<u>477,985</u>
Operating Income (loss)	(51,193)	(33,089)	(15,667)	20,767	27,045
Interest (expense) income	68	54	735	1,509	1,500
Other income (expense)	<u>2,338</u>	<u>2,799</u>	<u>2,939</u>	<u>3,057</u>	<u>-</u>
Total Other Income (expense)	<u>2,406</u>	<u>2,853</u>	<u>3,674</u>	<u>4,566</u>	<u>1,500</u>
Pre-Tax Income (loss)	(48,787)	(30,236)	(11,993)	25,333	28,545
Income Tax Expense (Benefit)	<u>161</u>	<u>2,580</u>	<u>2,990</u>	<u>(2,339)</u>	<u>-</u>
Net loss attributable to noncontrolling interests	-	-	16	-	-
Net income (loss) attributable to QSG	<u>(48,948)</u>	<u>(32,816)</u>	<u>(14,967)</u>	<u>27,672</u>	<u>28,545</u>
Earning (loss) per share attributable to QSG	<u>\$ (2.00)</u>	<u>\$ (0.74)</u>	<u>\$ (0.14)</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>
Avg Shares Outstanding	24,518	44,346	103,948	170,813	169,375
Adjusted EBITDA	NA	\$ 10,420	\$ 10,761	\$ 27,416	\$ 27,845
RMB Exchange Rate - H.10 Federal Reserve at period end	6.4566	6.6981	7.2513		
RMB Exchange Rate - Futures market estimates				7.2489	7.0731
Margin Analysis					
Gross margin	89.8%	85.7%	87.3%	85.0%	84.5%
Sales and marketing	96.3%	78.6%	78.2%	72.5%	72.0%
Research and development	6.6%	9.5%	7.1%	4.4%	4.0%
General and administrative	5.7%	5.8%	5.7%	4.1%	3.9%
Operating margin	(18.8%)	(8.2%)	(3.7%)	4.0%	4.5%
Pre-tax margin	(17.9%)	(7.5%)	(2.8%)	4.9%	4.8%
Tax rate	(0.3%)	(8.5%)	(24.9%)	(9.2%)	0.0%
YEAR / YEAR GROWTH					
Total Revenues	N/A	32.4%	5.4%	21.1%	16.2%

All figures are in US dollars. Revenues have been translated into US dollars from the Chinese currency using US Federal Reserve and futures market data

Source: Company reports and Taglich Brothers estimates

QuantaSing Group Limited
Income Statement Model – Ending June 30
Quarters FY2023A – FY2025E
(in thousands)

	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 A	FY2023 A	Q1 24 A	Q2 24 A	Q3 24 A	Q4 24 E	FY2024 E	Q1 25 E	Q2 25 E	Q3 25 E	Q4 25 E	FY2025 E
Revenues	\$ 95,599	\$ 114,021	\$ 117,544	\$ 114,234	\$ 424,942	\$ 119,125	\$ 138,106	\$ 130,960	\$ 126,226	\$ 514,417	\$ 136,785	\$ 153,754	\$ 156,821	\$ 150,570	\$ 597,930
Cost of sales	10,883	14,390	14,715	16,015	53,990	16,200	20,425	20,200	20,225	77,050	20,750	23,750	24,250	24,150	92,900
Gross Profit	84,716	99,631	102,829	98,219	370,952	102,925	117,681	110,760	106,001	437,367	116,035	130,004	132,571	126,420	505,030
Operating Expenses:															
Sales and marketing	84,260	90,312	91,936	79,024	332,142	84,999	92,552	101,051	94,500	373,102	98,485	110,700	112,900	108,400	430,485
Research and development	7,583	9,318	7,222	7,393	30,309	6,003	5,777	5,379	5,400	22,559	6,000	6,000	6,000	6,000	24,000
General and administrative	6,436	6,456	7,034	5,243	24,168	5,861	4,938	5,040	5,100	20,939	5,300	5,750	5,950	6,500	23,500
Total Operating Expenses	98,279	106,086	106,192	91,660	386,619	96,863	103,267	111,470	105,000	416,600	109,785	122,450	124,850	120,900	477,985
Operating Income (loss)	(13,563)	(6,455)	(3,363)	6,559	(15,667)	6,062	14,414	(710)	1,001	20,767	6,250	7,554	7,721	5,520	27,045
Interest (expense) income	28	95	264	368	735	472	339	348	350	1,509	375	375	375	375	1,500
Other income (expense)	935	508	758	849	2,939	1,680	313	1,064	-	3,057	-	-	-	-	-
Total Other Income (expense)	963	603	1,022	1,217	3,674	2,152	652	1,412	350	4,566	375	375	375	375	1,500
Pre-Tax Income (loss)	(12,600)	(5,852)	(2,341)	7,776	(11,993)	8,214	15,066	702	1,351	25,333	6,625	7,929	8,096	5,895	28,545
Income Tax Expense (Benefit)	1,504	150	958	510	2,990	(925)	(90)	(1,324)	-	(2,339)	-	-	-	-	-
Net loss attributable to noncontrolling interests	-	-	-	16	16	-	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to QSG	(14,104)	(6,002)	(3,299)	7,282	(14,967)	9,139	15,156	2,026	1,351	27,672	6,625	7,929	8,096	5,895	28,545
Earning (loss) per share attributable to QSG	\$ (0.26)	\$ (0.10)	\$ (0.02)	\$ 0.04	\$ (0.14)	\$ 0.05	\$ 0.09	\$ 0.01	\$ 0.01	\$ 0.16	\$ 0.04	\$ 0.05	\$ 0.05	\$ 0.03	\$ 0.17
Avg Shares Outstanding	54,540	57,839	135,769	175,755	103,948	175,004	167,357	170,891	170,000	170,813	169,750	169,500	169,250	169,000	169,375
Adjusted EBITDA	\$ (6,841)	\$ 2,703	\$ 3,097	\$ 11,762	\$ 10,761	\$ 9,802	\$ 14,628	\$ 1,685	\$ 1,301	\$ 27,416	\$ 6,450	\$ 7,754	\$ 7,921	\$ 5,720	\$ 27,845
RMB Exchange Rate - H.10 Federal Reserve at period end	7.1135	6.8972	6.8676	7.2513	7.2513	7.2960	7.0999	7.2203							
RMB Exchange Rate - Futures market estimates									7.2489	7.2489	7.2011	7.1543	7.1100	7.0731	7.0731
Margin Analysis															
Gross margin	88.6%	87.4%	87.5%	86.0%	87.3%	86.4%	85.2%	84.6%	84.0%	85.0%	84.8%	84.6%	84.5%	84.0%	84.5%
Sales and marketing	88.1%	79.2%	78.2%	69.2%	78.2%	71.4%	67.0%	77.2%	74.9%	72.5%	72.0%	72.0%	72.0%	72.0%	72.0%
Research and development	7.9%	8.2%	6.1%	6.5%	7.1%	5.0%	4.2%	4.1%	4.3%	4.4%	4.4%	3.9%	3.8%	4.0%	4.0%
General and administrative	6.7%	5.7%	6.0%	4.6%	5.7%	4.9%	3.6%	3.8%	4.0%	4.1%	3.9%	3.7%	3.8%	4.3%	3.9%
Operating margin	(14.2%)	(5.7%)	(2.9%)	5.7%	(3.7%)	5.1%	10.4%	(0.5%)	0.8%	4.0%	4.6%	4.9%	4.9%	3.7%	4.5%
Pre-tax margin	(13.2%)	(5.1%)	(2.0%)	6.8%	(2.8%)	6.9%	10.9%	0.5%	1.1%	4.9%	4.8%	5.2%	5.2%	3.9%	4.8%
Tax rate	(11.9%)	(2.6%)	(40.9%)	6.6%	(24.9%)	(11.3%)	(0.6%)	(188.6%)	0.0%	(9.2%)	0.0%	0.0%	0.0%	0.0%	0.0%
YEAR / YEAR GROWTH															
Total Revenues	N/A	N/A	N/A	N/A	5.4%	24.6%	21.1%	11.4%	10.5%	21.1%	14.8%	11.3%	19.7%	19.3%	16.2%

All figures are in US dollars. Revenues have been translated into US dollars from the Chinese currency using US Federal Reserve and futures market data

Source: Company reports and Taglich Brothers estimates

QuantaSing Group Limited
Cash Flow Statement – Ending June 30
FY2021A – FY2025E
(in thousands)

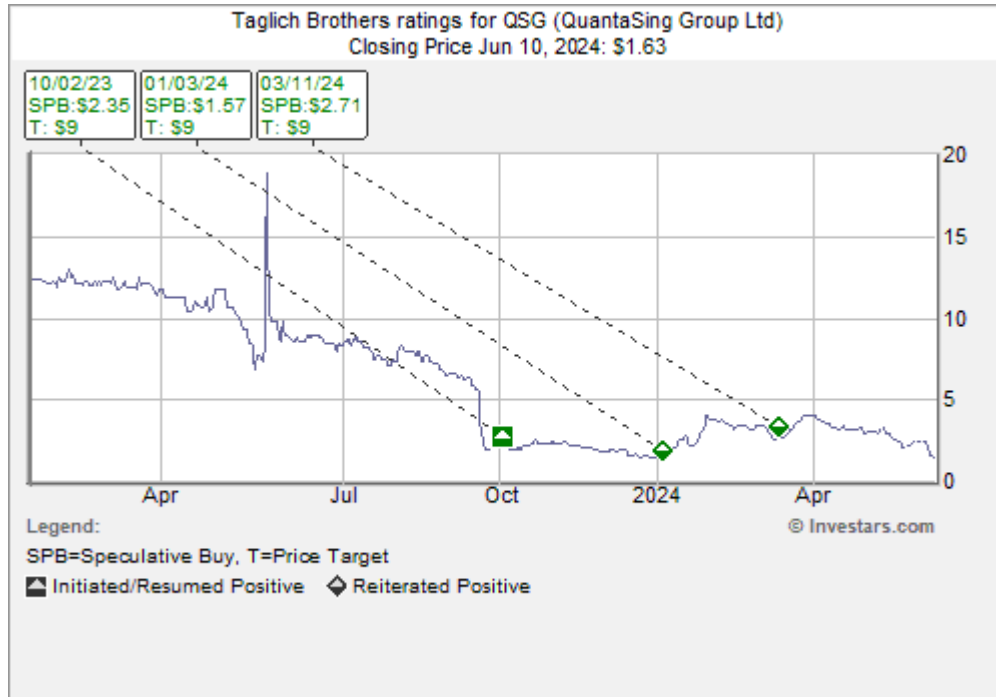
	<u>FY2021A*</u>	<u>FY2022A*</u>	<u>FY2023A**</u>	<u>FY2024E</u>	<u>FY2025E</u>
<i>Cash Flows from Operating Activities</i>					
Net Income (loss)	\$ (48,948)	\$ (32,816)	\$ (14,983)	\$ 27,672	\$ 28,545
Fair value changes of short-term investments	(97)	-	(6)	-	-
Provision/(reversal) of allowance for expected credit losses	68	(34)	(6)	-	-
Depreciation of property and equipment	216	565	512	550	500
Amortization of intangible assets	933	925	-	-	-
Loss on disposal of property, equipment, and intangible assets	-	17	-	-	-
Realized gains from short-term investments	(274)	(688)	(1,268)	-	-
Share-based compensation	15,771	40,968	26,428	6,549	800
Deferred income tax	(196)	(203)	(287)	-	-
Cash earnings (burn)	<u>(32,526)</u>	<u>8,734</u>	<u>10,390</u>	<u>34,771</u>	<u>29,845</u>
<i>Changes In:</i>					
Accounts receivable	(15,315)	7,781	(1,416)	(3,311)	(2,000)
Amounts due from related parties	-	(3,262)	(842)	4,015	-
Inventory, net	-	-	-	(1,200)	(1,800)
Prepayments and other current assets	(14,988)	(630)	(2,913)	(7,149)	(1,500)
Operating lease right of use asset, net	(1,382)	(2,049)	(8,287)	(2,598)	-
Accounts payables	9,624	370	2,333	4,279	(2,519)
Accrued expenses and other current liabilities	8,445	8,582	8,601	4,689	(2,881)
Income tax payable	357	708	206	(506)	-
Contract liabilities	39,273	13,989	17,048	(1,327)	(15,000)
Advance from customers	18,430	2,515	(923)	10,087	5,000
Operating lease liabilities, current portion	1,029	1,294	3,415	742	-
Operating lease liabilities, non-current portion	301	650	6,381	(3,221)	-
Other non-current assets	(945)	(357)	(1,500)	(500)	-
(Increase)/decrease in Working Capital	<u>44,828</u>	<u>29,591</u>	<u>22,103</u>	<u>4,000</u>	<u>(20,700)</u>
Net cash provided (used in) Operations	<u>12,301</u>	<u>38,325</u>	<u>32,493</u>	<u>38,771</u>	<u>9,145</u>
<i>Cash Flows from Investing Activities</i>					
Purchase of short-term investments	(67,311)	(137,302)	(398,749)	(4,066)	(3,000)
Proceeds from short-term investments	62,819	122,823	394,940	-	-
Purchase of property and equipment	(902)	(641)	(794)	(800)	(900)
Investment income from wealth management products	274	688	1,268	-	-
Disposal of subsidiaries	-	1,986	276	-	-
Loan provided to related parties	(379)	(18,195)	(309)	-	-
Loan repaid by related parties	457	15,378	3,396	-	-
Cash flow provided (used in) Investing Activities	<u>(9,657)</u>	<u>(15,263)</u>	<u>28</u>	<u>(4,866)</u>	<u>(3,900)</u>
<i>Cash Flows from Financing Activities</i>					
Proceeds from issuance from IPO of Class A ordinary shares upon the, net	-	-	32,472	-	-
Proceeds from issuance of ordinary shares from underwriters' over-allotment	-	-	1,377	-	-
Proceeds from noncontrolling interests	-	-	310	-	-
(Distribution to) / Contribution from Predecessors	(5,737)	13,352	-	-	-
Proceeds from loans from Predecessors	8,164	17,268	-	-	-
Repurchase of ADSs	-	-	-	(13,000)	(2,000)
Repayment of loans to Predecessors	(5,694)	(20,550)	-	-	-
Net cash provided (used) by Financing	<u>(3,267)</u>	<u>10,070</u>	<u>34,159</u>	<u>(13,000)</u>	<u>(2,000)</u>
Effect of exchange rates	-	793	1,977	-	-
Net change in Cash and restricted cash	(623)	33,925	68,657	20,905	3,245
Cash and restricted cash Beginning of Period	<u>4,506</u>	<u>3,529</u>	<u>36,742</u>	<u>105,399</u>	<u>126,304</u>
Cash (and restricted) End of Period	<u>\$ 3,883</u>	<u>\$ 37,454</u>	<u>\$ 105,399</u>	<u>\$ 126,304</u>	<u>\$ 129,548</u>

* From the company's 424B4 Filing **From the company's 20-F Filing

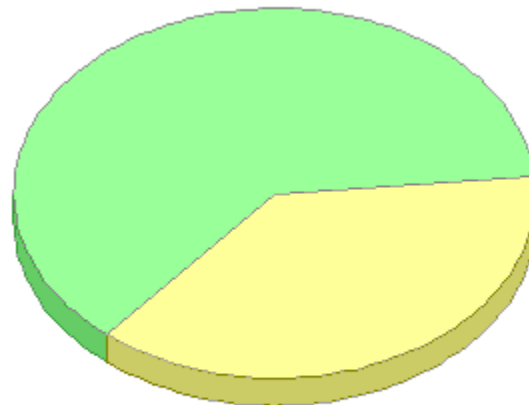
Source: Company reports and Taglich Brothers estimates

Taglich Brothers, Inc.

Price Chart



Taglich Brothers Current Ratings Distribution



62.5 % Buy | 37.5 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	18
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In August 2023, the company paid Taglich Brothers a monetary fee of \$12,000 (USD) representing payment for the creation and dissemination of research reports for three months. Three-months after publication of the initial report (January 2024), the company will begin paying Taglich Brothers a monthly monetary fee of \$4,000 (USD) for the creation and dissemination of research reports for a minimum of twelve months after the date the initiation report is first published.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Axos Clearing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

None

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.