

GSX Refutes Muddy Waters Research's Allegations

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BEIJING, May 19, 2020 /PRNewswire/ -- GSX Techedu Inc. (NYSE: GSX) ("GSX" or the "Company"), a leading online K-12 large-class after-school tutoring service provider in China, today refuted the false allegations in Muddy Waters Research's latest report, dated May 18, 2020. The Company respects Muddy Waters' efforts. However, after analyzing the report, the Company believes that Muddy Waters lacks a basic understanding of GSX's operations.

The Company's management regrets to see confusion in the market and will continue to use its best efforts to ensure that investors fully understand all aspects of the business. The Company would like to respond to some of the specific allegations:

1. Precise Joiners, Burst Joiners and Early Joiners

GSX's business, which focuses on online live large classes, splits a large class with one instructor into smaller groups with multiple tutors. Burst joiners are caused when classes transition from tutors to instructors, which is a typical course procedure. Typically, a tutor offers a prep session before a paid class to warm up students with games and quizzes. When the formal class starts, the tutor will transition all his or her students from the small groups to the instructor's large class, and the instructor takes over. If a tutor fails to do so in time, the system will automatically switch classes for students, usually around the class start times, thus causing large groups of users to join classes at the same time.

Precise joiners exist for the same reason, especially with respect to K-12 classes, which are typically delivered periodically. Early joiners are students who sign in early to participate in the tutor's prep sessions.

2. GSX IP Joiners

GSX reproduced the full dataset for all of the Company's paid classes between January and March 2020, and concluded that the IP overlap rate between students, instructors and tutors was only 0.78%, far less than the 28.2% claimed in the report. We believe that a 0.78% overlap is a reasonable level.

3. Chairman Larry Xiangdong Chen's Share Pledge

On April 7, 2020, Larry received a margin loan of US\$50 million by pledging an immaterial proportion of his GSX shares.

The 9 million ADRs mentioned in Muddy Waters' report were not the actual pledged amount, but a total deposit amount by Larry through the pledging process, since he was not able to retrieve and split the physical stock certificate from the United States due to the COVID-19 outbreak.

4. Remarks in the Report

The remarks in the report allege that Weishi and Beijing Youlian provided bot users to GSX.

Firstly, Weishi is a GSX-owned and consolidated online live broadcasting vendor. All of its transactions are properly recorded. Transactions within GSX are eliminated during the preparation of GSX's consolidated financial statements. In short, GSX cannot inflate net revenues through internal transactions. The allegation is false.

Secondly, transactions with Beijing Youlian have been fully disclosed in the Company's annual filings. The transactions were negligible and accounted for 0.025% of GSX's net revenues in the first quarter of 2020.

Lastly, GSX's current business is completely different from online-to-offline model. The Company focuses entirely on online live large classes, and has been profitable with positive operating cash flow and increasing cash and cash equivalents, short-term and long-term investments since IPO. The short report does not reflect the Company's current business situation.

As always, GSX is committed to maintaining the highest standards of corporate governance, as well as transparent and timely disclosure in compliance with the applicable rules and regulations of the SEC and the NYSE. The Company remains focused on further developing its business, better serving its students, and creating value for shareholders over the long term.

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," "future," "intends," "plans," "believes," "estimates" and similar statements. GSX may also make written or oral forward-looking statements in its reports filed with, or furnished to, the U.S. Securities and Exchange Commission, in its annual reports 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 statements about the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement. Further information regarding these and other risks is included in the Company's reports filed with, or furnished to the U.S. Securities and Exchange Commission. All information provided in this press release and in the attachments is as of the date of this press release, and GSX undertakes no duty to update such information or any forward-looking statement, except as required under applicable law.

About GSX

GSX is a technology-driven education company and leading online K-12 large-class after-school tutoring service provider in China. GSX offers K-12 courses covering all primary and secondary grades as well as foreign language, professional and interest courses. GSX adopts an online live large-class format to deliver its courses, which the Company believes is the most effective and scalable model to disseminate scarce high-quality teaching resources to aspiring students

in China. Big data analytics permeates each aspect of the Company's business and facilitates the application of the latest technology to improve teaching delivery, student learning experience, and operational efficiency.

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