



Brushed Student Counts and Cooked Books: Why We Believe GSX Techedu is the Worst Publicly Traded Education Company

- GSX Techedu Inc. (NYSE: GSX) (“GSX Techedu” or “GSX”) is portrayed as a rising star in China’s online education space, having seen its stock more than triple since its NYSE IPO in June 2019.
- GSX reports financials to the SEC that we believe are simply too good to be true. Our extensive research including review of PRC Credit Reports, SAIC filings, and web analysis indicate to us that GSX’s success is actually based on a fraudulent scheme.
- PRC Credit Reports suggest that the company has been drastically overstating its profitability in its US public filings, especially for 2018.
- We found multiple related parties that we suspect are used to offload costs to report better financials to the SEC and investors. Employee CVs, job recruitment postings and work locations indicate several off-balance sheet entities that are actually the alter-egos of GSX.
- We are deeply concerned about the recent acquisition of commercial real estate in the city of Zhengzhou, China in January 2020, and we suspect CAPEX fraud. According to our research, a total of only RMB 75 million went into the facilities that GSX recently purchased for over RMB 330 million.
- Our research found multiple strong indications of past and current order “brushing” – essentially fake student enrollments to boost student count.
- Our web traffic analysis supports the opinion that many of GSX’s reported students do not actually exist.
- While the company touts its high-quality teacher recruitment mechanism, we found a sign-up website that was not functional, multiple allegations of GSX hiring teachers right out of college with no prior experience, and fabricated teachers profiles.
- We distrust management deeply. Insiders and old shareholders are selling aggressively.
- GSX’s former CFO left in a rush during the 2019 IPO, and the current CFO was formerly involved in a Chinese online education company that also has numerous allegations of being a scam.

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1. Introduction – The Official Story Seems Too Good to be True

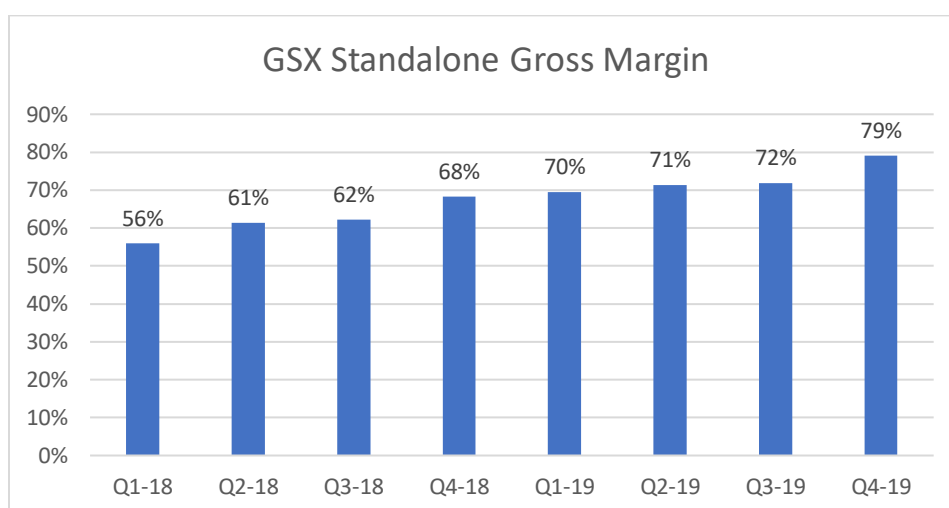
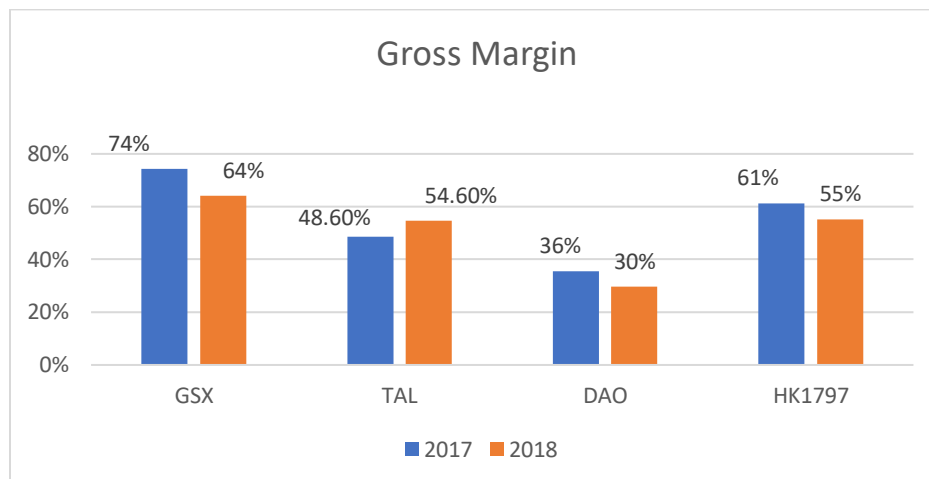
GSX Techedu Inc. (NYSE: GSX) (“GSX Techedu” or “GSX”) has been a new rising-star in the US capital markets. Founded by New Oriental Education & Technology Group Inc. (NYSE: EDU)’s former executive president Xiangdong (Larry) Chen in 2014, GSX has made a name for itself as one of the fastest growing online education players in China, and the first to purportedly achieve profitability. Analysts and management have been attributing this apparent phenomenal growth to its great management skills, low sales and marketing costs (aka student acquisition costs), and its high profitability achieved by its ground-breaking ‘star-instructor, dual-teacher, large class’ model.

On June 6, 2019, GSX began trading on the NYSE under the symbol “GSX” at \$10.5 per share. During the past eight months, the stock has risen to a high of \$42.07, reaching an astonishing annualized return of roughly 450%.



source: yahoo finance

GSX is the only publicly traded Chinese online education company that consistently reports bottom line profitability and an overall superior margin profile. While most competitors struggle with keeping gross margin above 50%, GSX is averaging around 70%, and purports to be constantly improving quarter over quarter to just shy of 80% in Q4 of 2019.



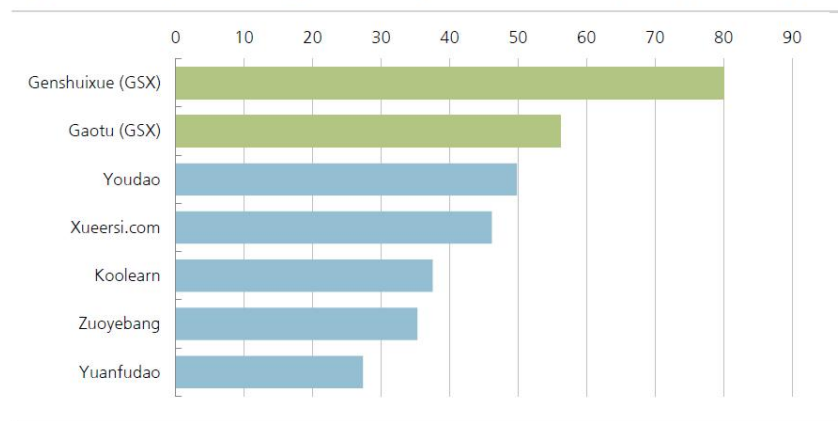
Source: Company data, Grizzly analysis

Note that costs of revenues are defined relatively similarly amongst competitors, including mainly teachers and tutors' salaries, teaching infrastructure rental expense, teaching material expense, etc.

We fail to see how this is either realizable or sustainable, especially considering GSX is paying their teachers extremely high wages compared to its peers. According to [this report](#), GSX'S main lecturers' salaries are about 40% to 50% higher than industry average, and front-line (sales) employees earn about 30% to 40% more than industry average. We see a large disconnect between the high costs and high margins and how they can co-exist with each other. This was our first clue that something might be amiss with the company's financials.

After reviewing GSX's service offering it also became clear to us that GSX's model only has minor differences when compared to its competitors. GSX replaces teachers with tutors and apparently has bigger classes than peers, which in our opinion should reduce the quality of education. GSX also targets students and parents in third-tier cities where the ability to pay is substantially lower than in wealthier areas in China. Yet, GSX reports that it charges substantial premiums for its course. Once again, we are wondering how this can be possible.

Figure 5: Hourly ASP of major online big-class AST brands (Rmb) (Dec-2019)



Source: Company data, UBS-S

It all seems so perfect and we can understand how investors were lured into the company's stock by trusting SEC reported numbers. However, experience has taught us that what looks too good to be true often is not.

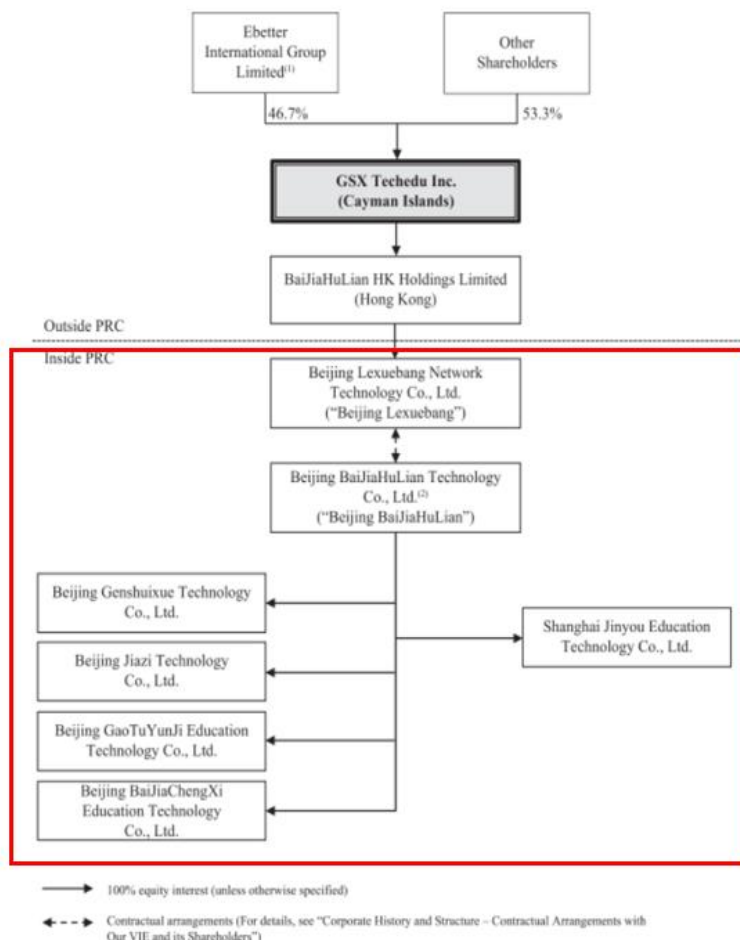
After extensive research, we have discovered many aspects that we believe have not been fully understood by the market and should be very disturbing to investors. We believe that GSX's superior financial performance stems from a different mix of "advantages", none of which has been properly disclosed because each amounts to a form of financial shenanigans:

1. Offloading costs to controlled but not consolidated entities;
2. Creating Fake Enrollments through Third Parties;
3. Super-aggressive, bordering on predatory, marketing; and
4. Cutting corners on the quality of education.

In this report, we will detail our analysis of the available information and the reasons why believe that GSX is what most companies that are too good to be true end up being: a fraud.

2. Credit Reports Filings Indicate Exaggerated Margins

One tell-tale sign that a US-listed Chinese company is falsifying its books is that the financials reported to the SEC are much better than the financials reported to Chinese authorities. We pulled the Chinese credit reports for GSX operating entities.



Source: Corporate structure chart from company’s prospectus

The credit reports we obtained for GSX’s 7 main operating entities show that GSX has apparently been overstating its net profit by an astounding 74.6% in 2018! Below are the revenues and net profit (loss) that each entity reported in the credit reports.

Net Profit (RMB’000)	2017	2018
Beijing Lexuebang (WFOE)	(36,466)	(40,385)
Beijing BaiJiaHuLian (VIE)	(13,394)	164,513
Beijing Genshuixue	18	(2)
BaiJiaChengXi	(11,826)	901
Beijing Jiazi	(6,795)	(3,703)
GaoTuYunJi	(17,494)	(109,449)

Shanghai Jinyou ¹	(168)	(623)
Sum Based on Credit Reports	(86,125)	11,252
SEC Reported Net Profit²	(86,955)	19,650
Overstatement in %	1.0%	74.6%

Note 1: Shanghai Jinyou became wholly-owned subsidiary on January 31, 2018, before that time GSX owned 25% of its equity in 2017, thus 25% of net profit/(loss) of Shanghai Jinyou was assigned for 2017. Assuming full year net income of Shanghai Jinyou for 2018.

Note 2: net income did not include the loss recorded from the convertible redeemable preferred shares redemption value accretion

The consolidated net loss for 2017 was RMB 86.1 million, which is almost a perfect match with the SEC reported loss of 87.0 million in 2017. But when we look at 2018, the consolidated net profit was RMB 11.25 million based on Credit Reports, which is 42.7% less than the SEC reported net profit of RMB 19.7 million in 2018. In other words, the net profit GSX reported to the SEC in 2018 was overstated by 74.6%!

The consolidated revenues in both 2017 and 2018 shown in the credit reports are within a 2% range difference with the revenues reported by the company to the SEC. The slight difference of the consolidated revenues between credit reports and SEC reported numbers, as well as the small difference of the consolidated net loss between credit reports and SEC reported numbers in 2017, make us believe that the company has been mainly manipulating its profits in 2018. See Appendix A for these 7 companies' translated income statements.

Revenues (RMB'000)	2017	2018
Beijing Lexuebang (WFOE)	0	971
Beijing BaiJiaHuLian (VIE)	91,132	368,583
Beijing Genshuixue	0	0
BaiJiaChengXi	3,949	20,086
Beijing Jiazi	449	0
GaoTuYunJi	644	1,028
Shanghai Jinyou ¹	0	11,794
Sum Based on Credit Reports	96,174	402,462
SEC Reported Revenues	97,580	397,306
Overstatement in %	1.5%	-1.3%

Note 1: Assume full year revenues of Shanghai Jinyou for 2018.

Our credit report review already proves in our opinion that the company's portrayed profitability is a lie and that financials cannot be trusted. We dug deeper into the company to unravel the schemes GSX employs to manipulate its financials.

3. We Suspect Related Parties are Used to Manipulate Financials

We believe a key mechanism that GSX employs to hide expenses from investors, auditors, and regulators is the use of unconsolidated related parties. We found multiple parties that we suspect of effectively acting as an alter ego of GSX. Since these parties are not consolidated, expenses do not appear on GSX's financials. These "alter-ego" entities effectively allow GSX to shift expenses off the books as it pleases.

The reasons why we suspect these related parties are in fact alter egos of GSX are:

- Operating out of the same office(s) as GSX
- Employee resume identifies GSX and the related company as one and the same
- Multiple job postings indicate that the related company and GSX are the same

3.1 Beijing Youlian Global Education Technology Co., Ltd. ("Beijing Youlian")

In GSX's prospectus, the company disclosed Beijing Youlian as a related party and that it would recognize expenses from receiving advertising service provided by Beijing Youlian. For example, for 2018, GSX recorded 4.67 million RMB in revenue from Beijing Youlian and recognized an expense of 2.05 million RMB due to Beijing Youlian. For the first 3 quarters of 2019, GSX recognized 3.615 million RMB in expense to Beijing Youlian for advertising services, and recorded 0.56 million RMB revenue. It's worth noting that it appears GSX has been dramatically increasing spending on the advertising services provided by Beijing Youlian.

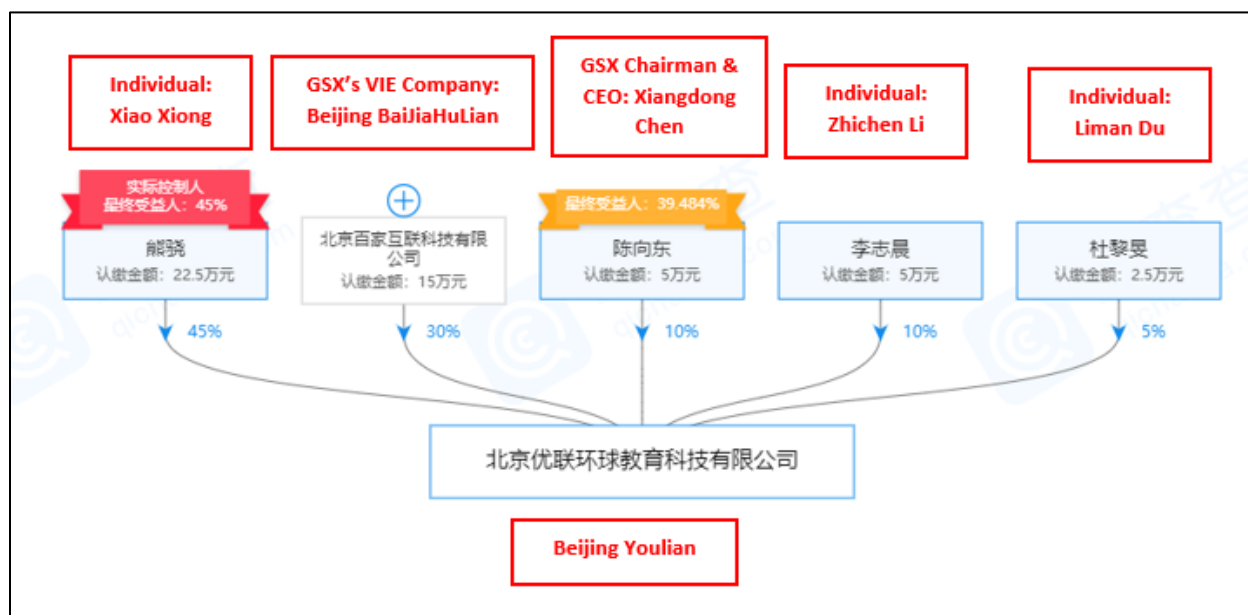
	Revenue				
RMB'000	FY 2017	FY 2018		9M 2018	9M 2019
Beijing Youlian	1,528	4,670		3,113	556
	Expense				
	FY 2017	FY 2018		9M 2018	9M 2019
Beijing Youlian	33	2,052		580	3,615

Note: The Group recognized revenue from providing technical service; The Group recognized expense from receiving advertising service provided by Beijing Youlian.

Source: GSX prospectus in November 2019.

However, based on certain job recruitment information published by Beijing Youlian (aka Jiazhong Jia), we believe Beijing Youlian is a company that GSX uses to transfer part of its selling expense out of its income statement and we suspect the expenses that GSX should have recognized are probably much bigger than what was disclosed.

Per SAIC, GSX's VIE company Beijing BaiJiaHuLian and Chairman and CEO Xiangdong Chen became Beijing Youlian's shareholders on February 22, 2016. Beijing Youlian's current shareholder chart is shown below:



Source: Qichacha

GSX owns 30% of Beijing Youlian through its VIE company Beijing BaiJiaHuLian, and GSX's Chairman and CEO, Xiangdong Chen, personally owns 10% of the company. Beijing Youlian's SAIC registered address is Shijingshan District Lugu South Road No.26, Floor 2 Room 201, Beijing (北京市石景山区鲁谷南路 26 号 二层 201). Beijing Youlian is a GSX investee company, but it is supposed to operate independently, and thus is not consolidated into its financials.

However, we found several job postings that spanned from 2017 to recent that show the actual business address of Beijing Youlian is at the same address where GSX and its subsidiaries are located. Below is the table that summarizes the registered address of GSX's subsidiaries in the city of Beijing:

English Name	Chinese Name	注册地址	Registered Address
Beijing BaiJiaHuLian Technology Co., Ltd ("Beijing BaiJiaHuLian") (VIE)	北京百家互联科技有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 1 层 W102	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 1 Room W102
Beijing Lexuebang Network Technology Co., Ltd. ("Beijing Lexuebang") (WFOE)	北京乐学帮网络技术有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 1 层 W105	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 1 Room W105
Beijing Jiazi Technology Co., Ltd. ("Beijing Jiazi")	北京加紫科技有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 2 层 W203	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 2 Room W203
Beijing BaiJiaChengXi Education Technology Co., Ltd. ("BaiJiaChengXi")	北京百家成蹊教育科技有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 3 层 W301	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 3 Room W301
Beijing Genshuixue Technology Co., Ltd. ("Beijing Genshuixue")	北京跟谁学科技有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 2 层 W201	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 2 Room W201
Beijing GaoTuYunJi Education Technology Co., Ltd. ("GaoTuYunJi")	北京高途云集教育科技有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 1 层 W101	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 1 Room W101

The address Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7 is called Beyondsoft Building (博彦科技大厦), and it appears to us it is a three-floor building. Below are screenshots from Baidu Map:



Image source: Baidu map

Below are the job recruitment posts by Beijing Youlian that showed the working place is in the same addresses. Note that they span over several years.

1. [Intern opportunity on Social Media Chatgroup Operation by Jiazhang Jia \(aka Beijing Youlian\) on March 18, 2017](#)

社群运营

2017-03-18 08:21:30 刷新

100-150/天 | 北京 | 本科 | 6天/周 | 实习4个月 | 提供转正机会

牛人大咖带领成长

福利待遇优厚

发展空间大

职位描述:

社群运营实习生:

- 1.熟悉互联网教育行业,负责公众号的推广,活动,拉新,增强粉丝间的活跃性,增加粉丝量
- 2.负责社群的组建,维护,活动策划,通过用户裂变提高社群用户增长,通过运营产品变现
- 3.收集及分析来自社群用户中家长反馈的问题,进行优化并执行
- 4.有社群运营经验优先

岗位要求:

- 1.在校期间担任学生会,参加社会兼职,班委以及社团者优先
- 2.思维逻辑性强,有组织活动经验者优先
- 3.认同教育理念,认可家长感恩,爱文化
- 4.能吃苦,对互联网比较了解

投递要求:

简历要求: 中文

截止日期: 2017-04-16

工作地点:

Work location

海淀区西北旺东路10号院东区7号楼博彦科技大厦西楼跟谁学

Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7 Beyondsoft Building - GSX

2. [Intern opportunity on Social Media Chatgroup Operation by Jiazhang Jia \(aka Beijing Youlian\) on November 27, 2018](#)

社群运营

2018-11-27 10:53:10 刷新

100-150/天 | 北京 | 本科 | 5天/周 | 实习5个月 | 提供转正机会

最大的互联网家庭教育平台

六险一金

员工福利

团建



职位描述:

全国最大家长学习社区“家长家”招募实习生啦，家长家首创互联网家庭教育“每天三分钟，学做好爸妈”学习模式，获为2016年成长最快，最优质企业

待遇：实习期：3000+，转正6000+，坐标：北京中关村软件园

社群运营实习生：

- 1.熟悉互联网教育行业，负责公众号的推广，活动，拉新，增强粉丝间的活跃度，增加粉丝量
- 2.负责社群的组建，维护，活动策划，通过用户裂变提高社群用户增长，通过运营产品变现
- 3.收集及分析来自社群用户中家长反馈的问题，进行优化并执行
- 4.有线上运营优先

岗位要求：

- 1.在校期间担任学生会，参加社会兼职，班委以及社团者优先
- 2.思维逻辑性强，有组织活动经验者优先
- 3.认同教育理念，认可家长家感恩，爱文化
- 4.能吃苦，对互联网比较了解

投递要求:

简历要求：中文

截止日期：2018-12-11

工作地点:

Work location

海淀区西北旺东路10号院东区7号楼博彦科技大厦西楼3层

[收起地图](#)

Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7 Beyondsoft Building 3rd Floor

3. [Opportunity on Social Media Chatgroup Operation by Jiazhang Jia \(aka Beijing Youlian\)](#) on kanzhun.com

Jiazhangjia aka Beijing Youlian



社群运营

家长家 招聘

学前教育 | 北京 | 20-99人 | 私企

☆ 收藏职位 ➦ 分享

9000-18000

北京 | 1-3年 | 本科 | 全职

立即投递

同行收入

¥ 5.9K

▼

就业趋势

0 %

▼

涨薪机会

99+

▼

职位描述

员工点评

面试宝典

相似职位

职位描述

职位描述:

1.依据中小学学科内容,策划相关活动,负责用户的拉新、留存、转化、活跃度;

2.具备数据分析能力和数据敏感度,执行能力强;

3.熟悉K12教育行业的人群场景和用户,建立用户激励和成长体系;

4.熟悉微信社群运营规则和技巧,传播规律;

5.思维敏捷,头脑灵活,具备良好的团队协作精神和创新能力;

公司简介

家长家成立于2016年,致力于做中国互联网+家长教育的领军品牌。创办三年来,主要创办了《家长家早课堂》、《家长家大讲堂》、《家长家优课》、《家长休息日》等内容及活动子品牌,汇聚了来自全国0-18岁孩子家长用户近1000万,是互联网背景下中国家长教育赛道上极具实力的公司。

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2、可持续发展的晋升通道:只要你敢拼,薪酬岗位无上限

3、和谐的工作氛围:团队成员充满正能量,自我驱动,激情梦想

欢迎你关注家长家公众号(jiazhanghome),了解我们,成为我们团队中的一员!

北京市 海淀区 博彦科技大厦 北京市海淀区西北旺东路10号院东区7号楼 (博彦科技C座)


Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7 Beyondsoft Building C

4. [Opportunity on Social Media Chatgroup Operation by Jiazhang Jia \(aka Beijing Youlian\)](#) on zhipin.com

社群运营 9-18K

北京 · 1-3年 · 本科

五险一金 年终奖 带薪年假 餐补 节日福利 住房补贴 忠诚奖



祁先生 联合创始人 · 刚刚在线

[微信扫码分享](#) [感兴趣](#) [举报](#)

职位描述

职位描述:

1. 依据中小学学科内容, 策划相关活动, 负责用户的拉新、留存、转化、活跃度;
2. 具备数据分析能力和数据敏感度, 执行能力强;
3. 熟悉K12教育行业的人群场景和用户, 建立用户激励和成长体系;
4. 熟悉微信社群运营规则和技巧, 传播规律;
5. 思维敏捷, 头脑灵活, 具备良好的团队协作精神和创新能力;

公司介绍

家长家成立于2016年, 致力于做中国互联网+家长教育的领军品牌, 创办三年来, 主要创办了《家长家早课堂》、《家长家大讲堂》、《家长家优课》、《家长休息日》等内容及活动子品牌, 汇聚了来自全国0-18岁孩子家长用户近1000万, 是互联网背景下中国家长教育赛道上极具实力的公司。

我们的优势:

1. 扁平的管理

[查看全部](#)

竞争力分析

综合竞争力评估

你在? 位置

一般 良好 优秀 极好

个人综合排名: 在 11 人中排名第 11

[查看完整个人竞争力](#)

工商信息

北京优联环球教育科技有限公司


法人代表: 熊晓 注册资金: 50 万元 成立时间: 2014-07-15

企业类型: 有限责任公司(自然人投资或控股) 经营状态: 开业 [查看全部](#)

工作地址

Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7 Beyondsoft Building C

北京市 海淀区 博彦科技大厦 北京市海淀区西北旺东路10号院东区7号楼 (博彦科技C座)



These job postings indicate to us that Beijing Youlian Global Education is not just a related party, but perhaps an alter ego of GSX, and effectively one and the same company.

GSX – Beijing Youlian Global Education Technology Co. Ltd.

跟谁学-北京 优联 环球 教育科技 有限公司 | 其他教育产品研发职位

2016.09-2019.03

- 成绩**
1. 在北京一对一个性化辅导机构——学大教育，做过受家长信任的咨询师和心理沟通师；
 2. 任火花思维大语文教研员，独立研发古诗词专题系统课，深受用户好评；
 3. 为原新东方执行总裁创办的“跟谁学”旗下平台“家长家”做内容运营官，《家长家大讲堂》特聘专家，一次直播间授课，获得4万+流量；独立运营《悦读课堂》，两周获得20万+流量；线上拼音、识字、等语文课讲师；
 4. 受聘于中国关工委，参与儿童心理发展课题研究，曾在全国很多一线城市做家庭教育巡回演讲，生动实际、极具亲和力、端庄高雅的授课风格，所到之处好评如潮；
 5. 开设个人微信公众号——《佳一家课堂》；
 6. 近年来和中科院心理研究所、心理学专家一起开发幼儿心理垂直课程。
- 内容**
1. 终身学习观
与时俱进追求进步的同时，从来不要忘记自我进化，思维灵活新颖，创新性可与年轻人相一致，同时又具备年轻人所不具备的丰富经历、经验，努力达到复合型人才标准。
 2. 追求卓越观

Source: Boss Zhipin

Additionally, we were able to identify a resume from a former employee who clearly states that GSX and Beijing Youlian are one and the same company. Note that employment was from September 2016 to March 2019, during which time period Beijing Youlian was only an investee company of GSX. However, it is obvious that this person disagrees.

When we discovered that Beijing Youlian Global Education was actually registered using a different address but couldn't be reached at that address by the local regulator, our concerns were solidified. We question the setup, as it only gives GSX the ability to employ “cookie-jar” accounting and shift unwanted expenses to the subsidiary where they can be hidden from public shareholders.

Beijing Youlian Global Education Technology Co., Ltd

北京优联环球教育科技有限公司 我要认证

在业 种子轮 经营异常 Abnormal Operation 20时7分钟前更新

电话: 010-82899650 更多号码 编辑 官网: www.ziliaoku.online 认证 编辑企业信息

邮箱: ssk3168808@126.com 更多邮箱 Registered address: Beijing City Shi Jing Shan District Lugu South Rd No.26, 地址: 北京市石景山区鲁谷南路26号2层201 附近企业

简介: 【家长家】中国最大的父母公益学习平台。精心打造《家长家早课堂》，每天三分钟，学做好爸妈；每周三推出《家长家大讲堂... 查看详情

经营异常 1 Abnormal Operations 导出数据

列入异常 企查查

序号	列入日期	作出决定机关	列入经营异常名录原因
1	2020-01-14	北京市石景山区市场监督管理局	通过登记的住所或者经营场所无法联系的 Cannot contact them at registered address

Source: Qichacha

3.1.1 What Does Beijing Youlian (aka Jiazhang Jia) Do?

Beijing Youlian, aka Jiazhang Jia, is a company that is focused on teaching parents on how to parent their children through various WeChat groups and postings. The company was founded by former GSX employee Xiao Xiong in February 2016. According to an [article on Jianshu](#), Jiazhang Jia was created **for the purpose of developing consumer-side users for GSX**, which is essentially the majority of GSX's current business model.

According to the article:

在跟谁学的一年多时间里，他一直被一个问题困扰：谁是我们的用户？谁来实现消费和购买。跟谁学在成立一年多的时间，发展出 50 多万的老师、6 万家教育机构入驻平台，都是 B 端用户。

「当时，我在思考一个问题，跟谁学是由 B 端和 C 端用户构成的一个学习服务型的教育 O2O 平台。就像淘宝是由 1 千万卖家中小企业和 20 亿买家用户构成的交易平台，所以我一直认为一个大型的教育 O2O 平台要着力发展 C 端用户是必不可少的。但是，谁来做？我来做，这才有了现在的家长家。」

Translation: [paraphrased]

During over one year's time when he [Xiao Xiong] was with GSX, he was bothered with one question: Who is our user? Who will consume and purchase? GSX in just over one year developed over 500,000 teachers, and had over 60,000 education institutions join the platform, but they are all Business-side users.

"During that time, I was thinking about one question, GSX is an educational service O2O platform that is comprised of Business-side and Consumer-side users, just like Alibaba's Taobao is a trading platform that is comprised of 10 million small and mid-sized enterprises and 2 billion consumers. Hence, I always believed that a big education O2O platform should develop Consumer-side users. But who will do this? I will do this, hence came Jiazhang Jia."

This statement by non-other than the founder of Jiazhang Jia, coupled with our findings that job postings shared the same business addresses as GSX reaffirms our suspicion that Jiazhang Jia is a company that channels sales to GSX.

In fact, when asked how Jiazhang Jia makes a profit, Xiao Xiong stated:

Q: 家长家未来的盈利模式是靠付费社群吗？

Q: Is Jiazhang Jia's future profitability model based on paying social medial groups?

安：据我们观察，家长的付费意愿很强，但是我们不想走这种模式，我们更想把它做成一个家长的免费学习平台，做成行业媒体的形式，给家长持续地提供优质的内容。至于盈利模式，我们还在探讨和完善中，但是我们三个月就养活了自己，实现了盈利。现在阶段主

要是养好用户，不考虑快速变现的问题。但是，我们一旦要考虑变现，一定是井喷式的发展态势。

Andy (aka Xiao Xiong): According to our observation, parents have a high willingness to pay, but we don't want to go down this route. We want to make it a free platform for all parents and into a media for the industry to provide premium content to parents. As for profitability, we are still discussing and improving, but we gained profitability within three months. Right now, the key is to cultivate users, and not to consider the issue of fast monetization. But once we do want to monetize, the development trend will explode.

In our opinion, we do not think that making lots of profit is the first priority for Jiazhang Jia, rather that their true duty lies in channeling parents and their children as users to GSX.

And here is how it's done.

We believe Beijing Youlian, through its various WeChat official accounts and chat groups, has obtained a big pool of Chinese parents through free/coupon online class campaigns and after those parents entered in their designated WeChat groups, Beijing Youlian would try to make them eventually enroll into paid online K-12 classes. Of course not all the parents who enrolled in free classes would become paying clients, but as long as the pool is big enough and keeps growing (according to the job recruitment introduction on Jiazhang Jia, it has gathered close to 10 million parents on its platforms whose kids' age range from 0 to 18 years old), and the conversion ratio (from free class to paid class) is stable, the system works.

This pattern is something that we see throughout our research on GSX. The company seems to be very focused on driving student count (even fraudulently through brushed orders) and marketing and seems to have very little regard for the actual quality of the education it provides.

3.2 Disposed Company Still Next Door to GSX Subsidiary

According to the company's filings, GSX disposed two entities in 2017, namely Beijing Baijia Shilian Technology Co., Ltd (北京百家视联科技有限公司, "Baijia Shilian") and Beijing Baijia Yuntu Technology Co. Ltd (北京百家云图科技有限公司, "Baijia Yuntu") for no consideration, and the equity interest in these two companies were distributed pro rata to the Group's shareholders.

Disposal of Beijing Baijia Shilian Technology Co., Ltd ("Baijia Shilian") and Beijing Baijia Yuntu Technology Co. Ltd ("Baijia Yuntu")

In September 2017 and December 2017, the Group disposed 100% equity interest in Baijia Shilian and Baijia Yuntu to the existing shareholders of the Company for no consideration. Baijia Shilian and Baijia Yuntu mostly focused on developing video player software with the function of providing live and on-demand video services. The disposals were accounted as a pro rata distribution to the Group's shareholders and accordingly, any gains and losses resulting from the transaction were recorded as contribution from and distribution to shareholders.

The operations of Baijia Shilian and Baijia Yuntu prior to the disposal were insignificant and thus, did not have a major effect on the Group's operation.

It is strange that after more than 2 years of the disposal, Baijia Yuntu is still operating next door to GSX's Beijing subsidiary Beijing Genshuixue.

English Name	Chinese Name	注册地址	Registered Address
Beijing Genshuixue Technology Co., Ltd. ("Beijing Genshuixue")	北京跟谁学科技有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 2 层 W201	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 2 Room W201
Beijing Baijia Yuntu Technology Co. Ltd ("Baijia Yuntu")	北京百家云图科技有限公司	北京市海淀区西北旺东路 10 号院东区 7 号楼 2 层 W202	Beijing City Haidian District, Northwest Wangdong Rd No.10, East District Building 7, Floor 2 Room W202

Not only are Baijia Yuntu and Beijing Genshuixue next door to each other, Baijia Yuntu also hires employees, i.e. in city of Wuhan, Hubei Province, that work in GSX's Wuhan office. Below is a list of job recruitments in the city of Wuhan:

- [Sales Manager](#)
- [Market Development Manager](#)
- [Sales Development Representative](#)

The work location of all these three listed jobs posted by Baijia Yuntu is Genshuixue Company Luoyu Rd No.10, Qunguang Center Floor 20 (跟谁学公司珞喻路 10 号群光中心 20 楼). Basically, it directly says the work location is in Genshuixue, aka, GSX.

The obtained SAIC filings on Baijia Yuntu's financials are worrisome to us. In 2017 Baijia Yuntu only reported 1.69 million RMB in revenue yet lost 8.7 million RMB. SAIC financials for 2018 are not available (one possible reason is that Baijia Yuntu hasn't filed their financials to the local bureau, which, in the first place, is already a redflag regarding Baijia Yuntu). We speculate that at least part of the loss, based on the evidence we provided above, was due to that Baijia Yuntu is also helping GSX take off expense from its income statement.

RMB'000	2016	2017	2018 ¹
Revenues	1,089	1,686	N/A
Net Profit	-17,601	-8,716	N/A

note 1: SAIC financials are not available for 2018. One possible reason is that Baijia Yuntu hasn't filed their financials to the local SAIC bureau

It appears to us that GSX's investee (Beijing Youlian) and disposed entity (Baijia Yuntu) continue to have its employees work in GSX's building/office. However, it is unclear whether GSX treats these employees as its own employees or not. As we mentioned, we strongly believe GSX use these entities to hire employees while at the same time hiding these expenses from its income statement.

3.3 Where Did the Cash go? We Suspect CAPEX Fraud in the latest Commercial Buildings Purchase

One key issue for companies who report fake profits is finding ways to explain the missing cash without developing suspect balance sheet accounts. We suspect GSX committed CAPEX fraud in its commercial building purchase, and in reality paid a substantially lower price for the real estate than reported to investors.

GSX [announced](#) on January 31, 2020 that:

"It has recently closed the purchase of several plots of commercial real estate in the Economics Development Area of Zhengzhou, Henan Province, for a total consideration of RMB333.8 million. GSX has made the first installment payment of RMB69 million, and expect to complete the payment of the remaining installments within the next 3 years. Such commercial real estate includes two completed office buildings and one office building in construction. GSX plans to use these premises for business operating functions. They expect to begin business operations in these office buildings in the second half of 2020."

Our research casts serious doubt on the legitimacy of this deal and we strongly urge the company to explain more details around this deal to investors. There have been no details or actual agreements filed by the company, even though this event seems to be quite material.

According to the SAIC information, GSX's VIE company Beijing BaiJiaHuLian acquired a company named Zhengzhou Kaitong Kegongmao Co., Ltd. (郑州凯通科工贸有限责任公司, "Zhengzhou Kaitong") on January 13, 2020.

6	2020-01-13	投资人变更(包括出资额、出资方式、出资日期、投资人名称等)	李从玉:50%【退出】 孙滨:50%【退出】	北京百家互联科技有限公司:100%【新增】
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Time	Change Item	Before Change	After Change
January 13, 2020	Shareholder Change	Congyu Li 50% [Exit] Ding Sun: 50% [Exit]	Beijing BaiJiaHuLian (GSX VIE):100% [New]

source: Qichacha

On January 19, 2020, the name of Zhengzhou Kaitong was changed to Zhengzhou GaoTuYunJi Education Technology Co., Ltd. (郑州高途云集教育科技有限公司, "Zhengzhou GaoTuYunJi").

Based on the [public information](#) from National Zhengzhou Economic and Technological Development Zone (郑州经济技术开发区), Zhengzhou Kaitong in 2016 (now Zhengzhou GaoTuYunJi) had applied to build 2 R&D buildings and 1 product display sales center. Here is the detailed [environment effect evaluation report](#) which the company submitted to the local government on January 6, 2016. We did not find any other reports/documents that indicate new constructions were undertaken apart from the aforementioned three buildings.

Below are some more detailed information from the evaluation report regarding this project:

Project Name	New R&D Buildings Project				
Construction Company	Zhengzhou Kaitong Kegongmao Co., Ltd.				

↑

建设项目基本情况

项目名称	新建研发楼建设项目				
建设单位	郑州凯通科工贸有限责任公司				
法人代表	王桃竹	联系人	于鹏飞		
通讯地址	郑州经济技术开发区经开第一大街东、经南三路北				
联系电话	15037125111	传真	/	邮政编码	450000
建设地点	郑州经济技术开发区经开第一大街东、经南三路北				
立项审批部门	郑州经济技术开发区经济发展局	批准文号	郑经政复[2005]69号、豫郑经技服务[2015]17693		
建设性质	■新建□改扩建□技改	行业类别及代码	K7010 房地产开发经营		
占地面积(平方米)	16709.61	绿化面积(平方米)	1001.12		
总投资(万元)	7500	其中：环保投资(万元)	56	环保投资占总投资比例	0.74%
评价经费(万元)		预期投产日期	2017年9月		

Total Investment: RMB 75 Million

This form clearly states that the total investment into this project amounts to RMB 75 million.

Here is some more information regarding this project:

“本项目占地面积为 16709.61m²，建设 2 栋研发楼和 1 栋产品展示销售中心，总建筑面积为 64660.62m²。项目建成后主要作为写字楼出租或出售给民企和社会团体使用。”

Translation [Paraphrase]

This project's area is 16,709.61 square meters, and it is to construct 2 R&D buildings and 1 product display sales center. The total construction area is 64,660.62 square meters. After the project is completed, it is mainly for office building lease or sale to private companies and social organizations.

According to the evaluation report, there is 1 R&D building that has 21 floors and it was under construction [back in 2016], and the other R&D building has 6 floors and was completed. The product display sales center has 4 floors and was completed. The total project, after completion, is expected to host 1,877 people.

The following reasons make us believe the three buildings that GSX announced to have purchased are the three buildings referred in the environment effect evaluation report by Zhengzhou Kaitong in 2016:

- Timing: GSX announced on January 31, 2020 that the deal was closed RECENTLY vs the shareholder change of Zhengzhou Kaitong that happened on January 13, 2020;
- Buildings: GSX stated that the deal include two completed office buildings and one office building in construction vs Zhengzhou Kaitong's 2016 application of constructing 2 R&D buildings and 1 product display center;
- Utilization purpose: GSX stated it plans to use these premises for business operating functions vs Zhengzhou Kaitong's 2016 evaluation report clearly stated after the project is completed it is mainly for office building lease or sale to private companies and social organizations.

If these three buildings that GSX mentioned in their press release are in fact the three buildings (2 R&D buildings and 1 product display sales center) Zhengzhou Kaitong applied to construct in 2016, our question would be why does GSX want to pay RMB 333.8 million for three buildings while the total investment of this project from Zhengzhou Kaitong is only RMB 75 million? This payment, although in installments, is over 4 times the total investment Zhengzhou Kaitong spent just a few years ago. GSX could be vastly overpaying, but we strongly suspect CAPEX fraud. We believe GSX overstates its capex investment in order to wash off the cash that was exaggerated on its balance sheet in the first place.

Again, we believe our deduction based on the limited information the company disclosed is reasonable, and if the company does not agree with our findings, they are welcome to offer a much more detailed explanation to the investors.

4. Fake Student Enrollments

We believe GSX is the worst among its peers and generates a massive amount of volume from fake student enrollments.

According to a [report](#) published in June 2015, GSX asked companies to brush orders (which means using fake accounts to purchase online classes offered by GSX and create inflated demand for those classes) for them:

某教育公司老板在朋友圈晒出截图，爆料跟谁学要求入驻机构刷单，从截图中的对话中可以看出，某商家被“跟谁学”要求刷单，刷钱最多的十二个机构可以获得跟谁学平台推荐。

据该商家透露，其一个月在跟谁学平台上刷单四十万元。他们与跟谁学签订了协议，之后每个月要保持至少 20 万，同时要求在 6 月 16 号跟谁学活动上，单日需要刷 10 万。

“（刷单）的号都是假的，平台给了我们十几个号，加上我们自己员工申请的，大概二十多个号，我们一个课，就买 2-5 万。”该商家称。

据行业人士称，不仅跟谁学，其他的家教 O2O 平台存在刷单现象，刷单在行业里已是公开的秘密。

一位北京地区知名 K12 领域老师对多知网表示：“我在一个 500 人的老师群问谁在跟学谁获得学生订单，除了我们把线下的学生通过跟谁学支付外，没有一个老师获得订单，这是令人吃惊的。”

Translation [Paraphrase]

One boss from an education company put out screenshots on WeChat Moments, saying that GSX asked other parties to brush orders [for GSX]. The conversations from the screenshots show that one company was asked by GSX to brush the orders, and 12 companies that brush the most orders would be recommended by GSX platform.

According to this company, it will brush orders worth of RMB 400,000 a month. They have signed agreement with GSX, and was required to maintain at least RMB 200,000 a month, and in the same time [it was requested by GSX] to brush order worth of RMB 100,000 on the daily activity held by GSX on June 16 [,2015].

“The accounts [to brush orders] are all fake. The [GSX] platform gave us more than 10 accounts, plus the ones our own employees applied, it’s over 20 accounts. For one class, we would purchase amounts from RMB 20,000 to 50,000,” stated by the company.

According to the person in this industry, not only GSX, other O2O platforms also have order-brushing activities, and the order-brushing is a known secret in this industry.

One well-known K12 teacher in city of Beijing area told duozhi.com that, “I asked in a GSX WeChat group with 500 teachers in it if anyone received order from any student, not a single teacher got the order, except for the students that teachers acquired offline... This is shocking.”

Some might argue that this incident is years ago and the company might have ceased doing that. Whereas in our opinion, GSX is likely to keep doing it as long as it does not get caught.

We found evidence that the company is currently actively recruiting people to brush orders.



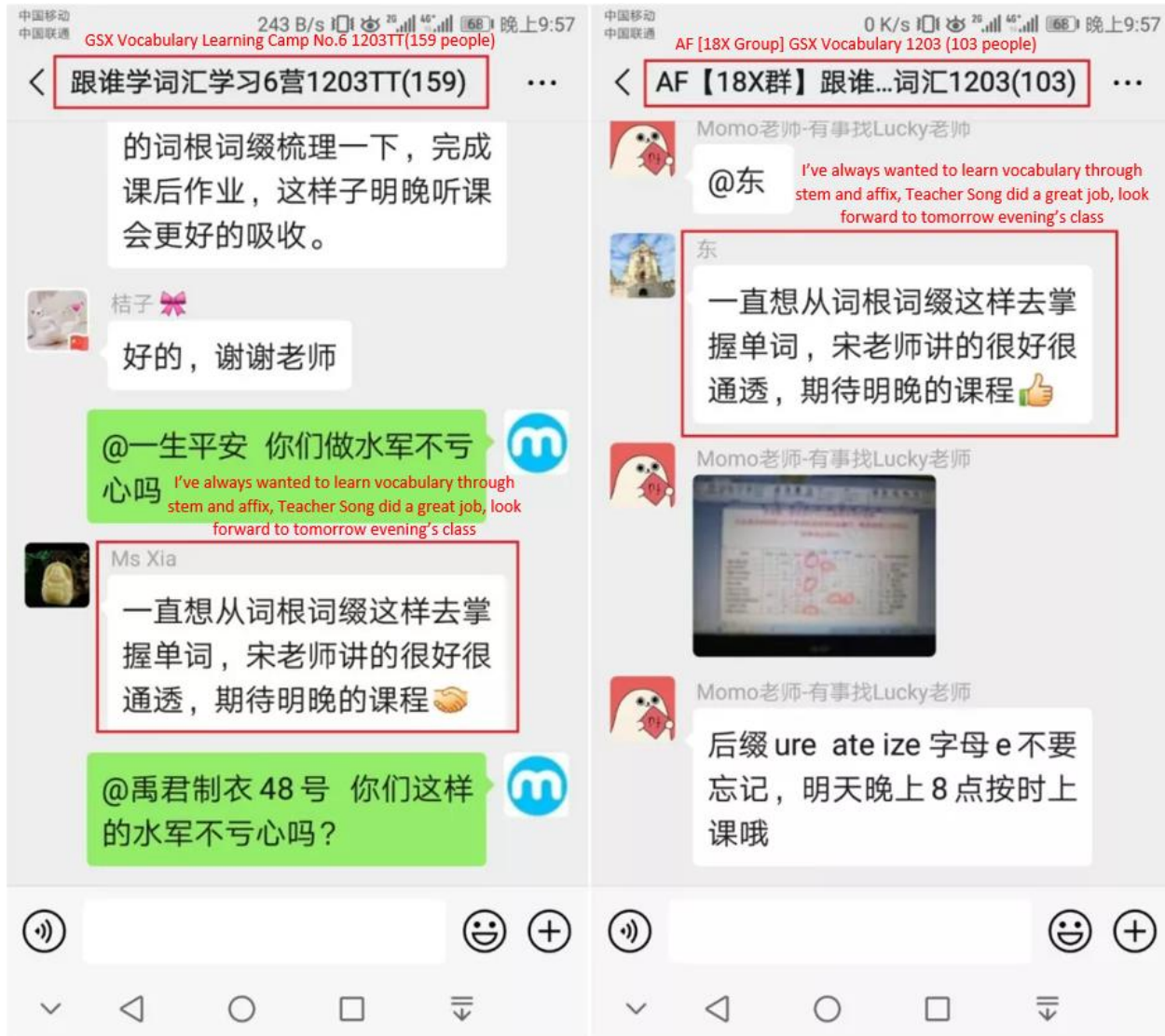
We signed up for a free account on GSX’s mobile portal and found a suspicious [profile](#) of another user that blatantly advertised jobs to brush orders for the company. We understand that a company would not recruit for these kinds of positions through its official job portal, so seeing the job advertisement placed in such an odd way makes sense to us. What other reasons are there for the existence of such an add/profile on GSX’s platform? We are deeply concerned that GSX is using off the radar means to recruit personnel that is essentially just tasked with creating fake student accounts and enrollments.

Our suspicions were also validated by a [recent report](#) published by “Moses English” on December 15, 2019. Moses has been an English teacher posting his experience on learning English vocabulary since 2008, and can be considered a thought leader in China on online education. He has his own website, blog and WeChat subscription account (used to share articles on WeChat). He is also the author of a book called

“English Vocabulary Bible”, which was recommended by many people including Minhong Yu, the founder of New Oriental Education.

According to the report, “Moses English” whose last name is Liang, enrolled into a vocabulary class offered by GSX, and was invited into several WeChat Groups hosted by GSX. However, when the course ended, Liang noticed that the people in the WeChat Groups were giving out multiple great identical reviews to teachers.





According to Liang, he listed at least 6 incidences where “students” in different groups gave out exactly identical reviews. When Liang pointed this out to GSX teachers, they simply stated there was no problem with identical reviews as their courses were so good that people unanimously felt great about it. They went on and stated that these repetitive reviews were simply a coincidence. Apparently GSX had fake students enroll in trial classes in this incident to give positive reviews and encourage others to sign up.

About a month later on Jan 14, 2020, Liang wrote another [article](#) titled “GSX: The way you defraud consumers to purchase courses are disgusting”, further addressing his concerns about the review brushing situation.



Above is a screen shot of another repetitive comment, review. This time, Liang identified as many as 25 comments that were identical and repeated by different users in different WeChat groups.

Note that we did not find any comparable cases where Moses English went so far as calling a company he reviewed “fraudulent”. He has tested many platforms and participated in numerous causes, yet his strong criticism against GSX stands out as uniquely devastating. These recent cases confirm our concerns that order brushing and creating fake profiles wasn’t something GSX did in the past, but is likely something they are still doing. In light of this evidence, we find it extremely difficult to rely on the glamorous guidance and financial KPIs the company has been reporting.

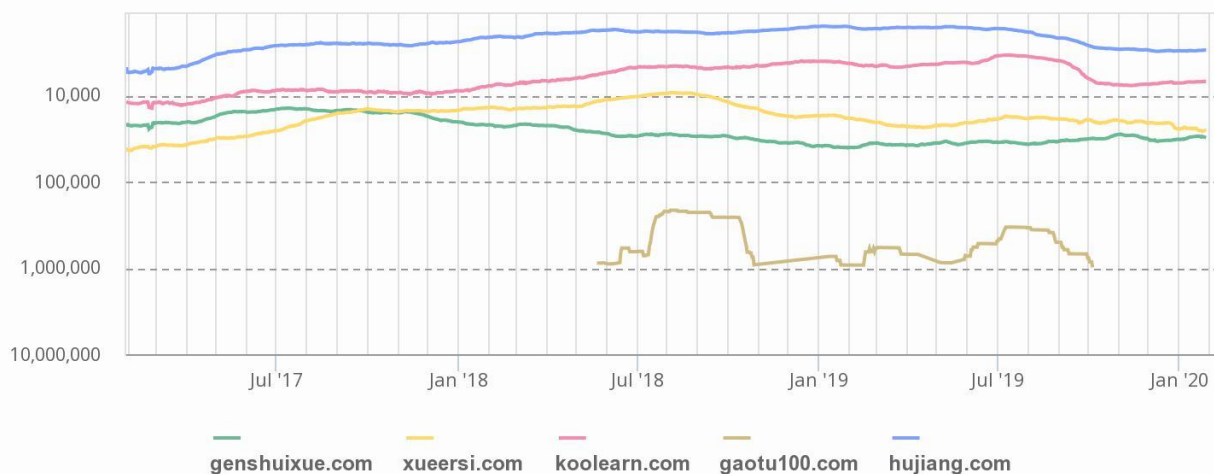
5. Web Analysis Validates GSX Lagging Behind its Peers

Since online education is conducted via the internet, we consider web traffic to be a good proxy for how many students are actually visiting GSX's websites and platforms. We referred to multiple sources including Alexa, Baidu Index, WeChat Index to check rankings, and referred to rank2traffic.com, and multiple other sources to reflect absolute traffic volume. Given that many students may opt to use mobile application to enroll and participate in courses, we also analyzed app download data across both IOS and Android from qimai.cn.

Alexa

[Alexa](#) is a widely used platform that ranks websites in terms of traffic trends. Those with higher rankings (lower numbers) typically perform well in terms of traffic volume, and those with lower rankings (higher numbers) usually lags behind. According to Alexa, GSX has in fact been trending quite poorly in the past few years compared to its online education competitors. In fact, GSX and its platform Gaotu have consistently been underperforming its major competitors ever since 2018. However, its stock performance has been steadily outpacing its peers.

Historical Traffic Trends: Alexa Traffic Rank



www.alexacom

We see that both GSX and Gaotu were ranked as the lowest tier compared to its major publicly traded competitors.



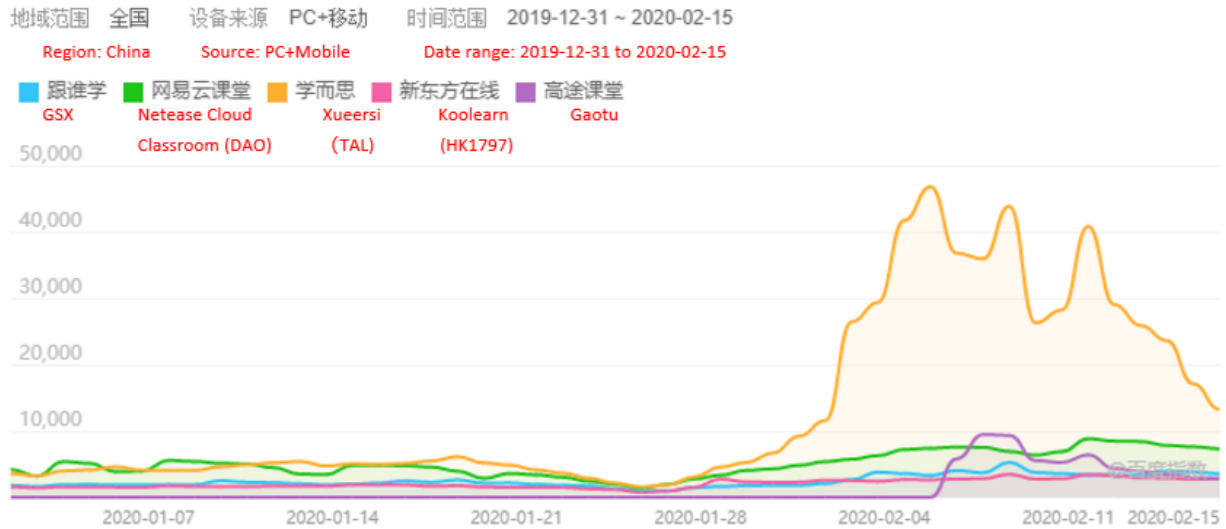
Despite this fact, GSX's stock has been outperforming its major competitors by a large margin. There is clearly a disconnect. The stock comparison tool on [Yahoo! Finance](https://finance.yahoo.com) make this crystal clear.

Baidu Index

[Baidu Index](https://index.baidu.com/) is more or less the equivalent of Google Trend in China. It reflects the popularity of key words via search scores. The higher the score, the higher the popularity.

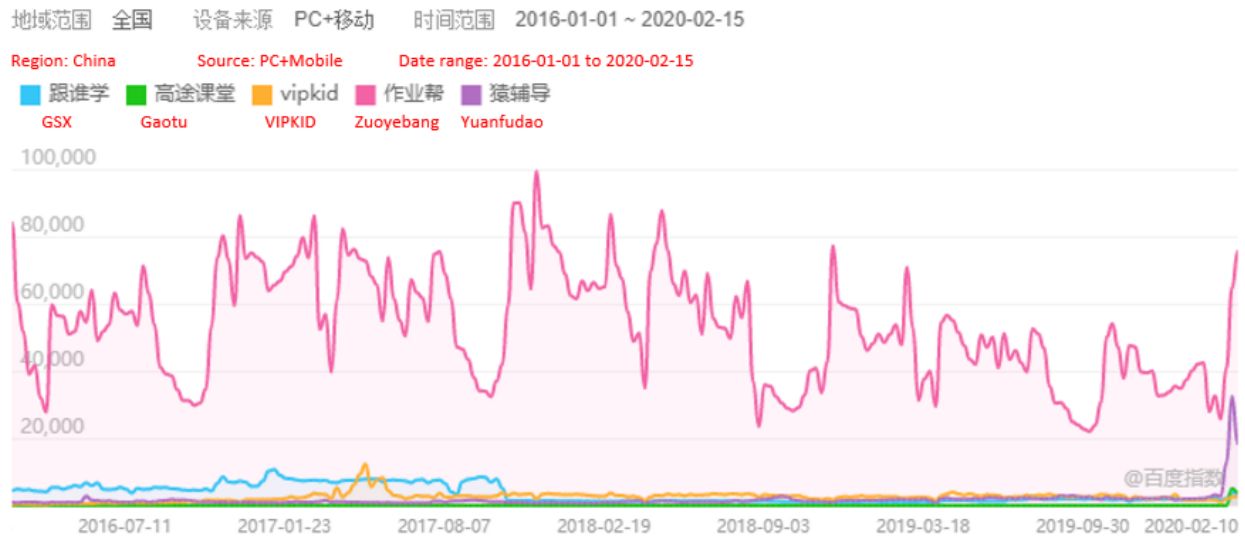


As we can see, GSX and its other platform Gaotu haven't been trending well ever since 2017. In fact, they are amongst the lowest. We see a general hike during the beginning of this year due to coronavirus and the online education frenzy it has brought about.



However, when we zoomed into the beginning of 2020, the timeframe during which online education benefited the most, we found surprising data. One would think that a popular online education provider like GSX would likely benefit greatly from the recent coronavirus as a halt on all offline afterschool education was issued by the Chinese government. However, data shows otherwise. We see that TAL's Xue Er Si has been trending particularly well, most likely due to students and parents switching aggressively to online education. However, GSX barely budged.

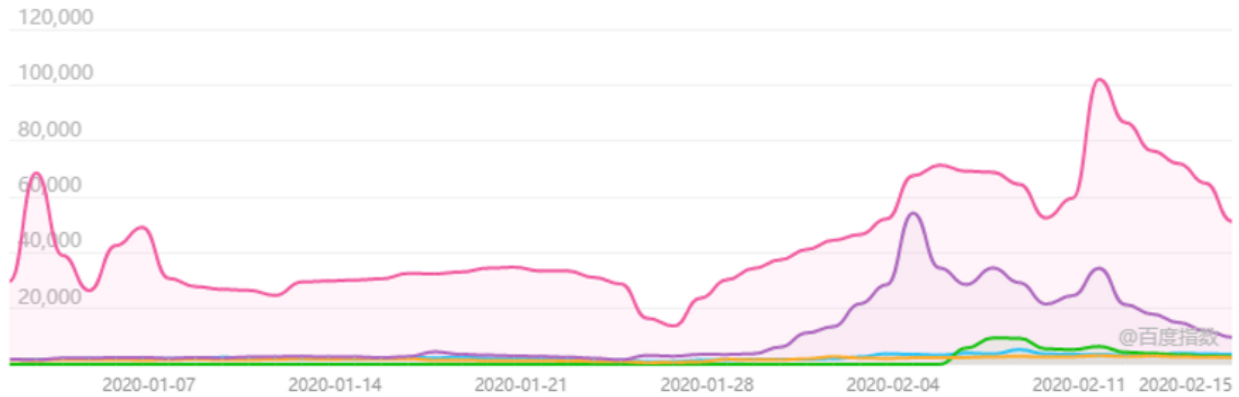
How does GSX perform compared to non-public online education companies?



地域范围 全国 设备来源 PC+移动 时间范围 2019-12-31 ~ 2020-02-15

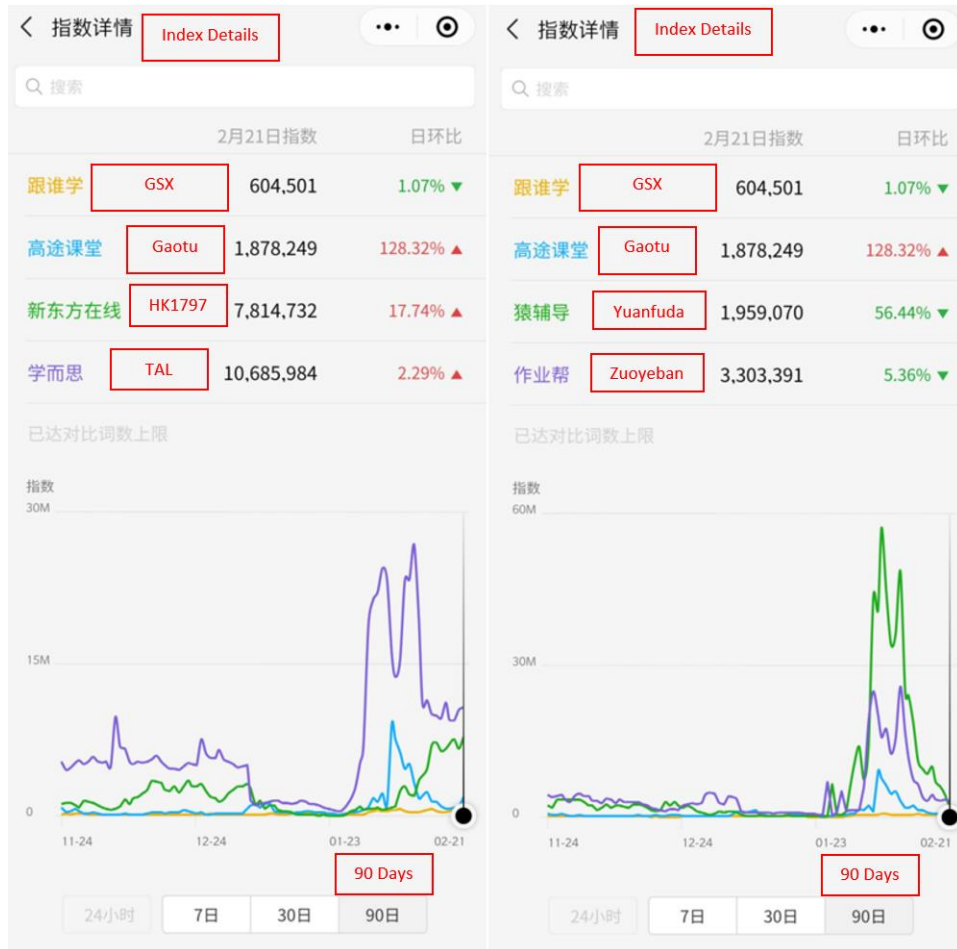
Region: China Source: PC+Mobile Date range: 2016-01-01 to 2020-02-15

跟谁学 高途课堂 vipkid 作业帮 猿辅导
GSX Gaotu VIPKID Zuoyebang Yuanfudao



Data indicates that neither GSX nor Gaotu have been trending above most of the private online education platforms in the last 4 years, nor has their popularity risen much recently compared to their private competitors.

WeChat Index



WeChat Index is similar to Baidu Index, but has gained popularity due to more people relying on mobile application and WeChat to conduct searches. The index only shows search trend for the past 90 days. We can clearly see that GSX and Gaotu, the lines in yellow and light blue are almost consistently at the bottom of the charts, indicating relatively low popularity. This is especially significant, considering GSX alleges that they were able to achieve such exponential growth at low costs due to precisely their presence and strategic focus on WeChat promotions.

Rank2traffic.com

[Rank2traffic.com](https://rank2traffic.com) estimates visitors for millions of websites, and includes a wide variety of features including historical traffic, Alexa rankings etc. Due to Rank2traffic having the most comprehensive data set spanning across at least the past two years. To ensure that we were including all traffic data that could potentially relate to enrollments, we included all meaningful company websites and domains (those with insufficient data were left out). Below are some of the results.

GSX	Monthly Average Visits (2018)	Monthly Average Visits (2019)
genshuixue.com	1,113,957	417,583
gaotu100.com	136,635	406,640
www.weishi100.com	37,083	36,667
Total Per Month	1,287,674	860,890
	2018	2019
Total Per Year	15,452,087	10,330,676
Enrollments	767,000	2,743,000
Visits Per Enrollments Per Year	20	4

Source: Rank2traffic.com; Company filings; Grizzly analysis

TAL	Monthly Average Visits (2018)	Monthly Average Visits (2019)
xueersi.com	2,041,478	1,545,292
www.jzb.com	2,505,652	2,226,667
www.mmbang.com	1,501,609	1,568,333
www.gaokao.com	1,926,478	1,000,208
www.zhongkao.com	2,587,261	1,078,500
www.jiajiaoban.com	260,391	262,500
www.aoshu.com	959,043	679,000
www.youjiao.com	165,887	96,379
www.speiyou.com	461,652	499,708
www.mobby.cn	7,807	3,385
www.yuer.com		
www.kaoyan.com	3,562,609	2,324,583
www.firstleap.cn	83,370	147,113
www.kmf.com	1,534,870	1,517,917
www.vipx.com	110,750	54,129
www.liuxue.com	240,522	190,250
www.dahai.com	69,458	32,813
Total Per Month	18,018,837	13,226,777
	2018	2019
Total Per Year	216,226,039	158,721,320
Enrollments (Estimated)	14,000,000	24,417,500
Visits Per Enrollments Per Year	15	7

Source: Rank2traffic.com; Company filings; Grizzly analysis

Note1: TAL states that Xue Er Si generates around 13.3% of revenue as of 2019. However, we have generously assumed all enrollments are related to online education. Notice, this assumption will only lower Visits Per Enrollments Per Year.

Note2: TAL 2019 enrollments are estimated using latest quarter results due to different fiscal year ends.

EDU	Monthly Average Visits (2018)	Monthly Average Visits (2019)
koolearn.com	7,966,522	4,655,417
xdf.cn	7,623,043	5,092,500
neworiental.org	73,404	81,417
51zhishang.com	77,578	108,934
maxen.com.cn	20,106	5,821
blingabc.com	33,572	56,571
Total Per Month	15,794,226	10,000,659
	2018	2019
Total Per Year	189,530,708	120,007,910
Enrollments	6,975,500	10,725,000
Visits Per Enrollments Per Year	27	11

Source: Rank2traffic.com; Company filings; Grizzly analysis

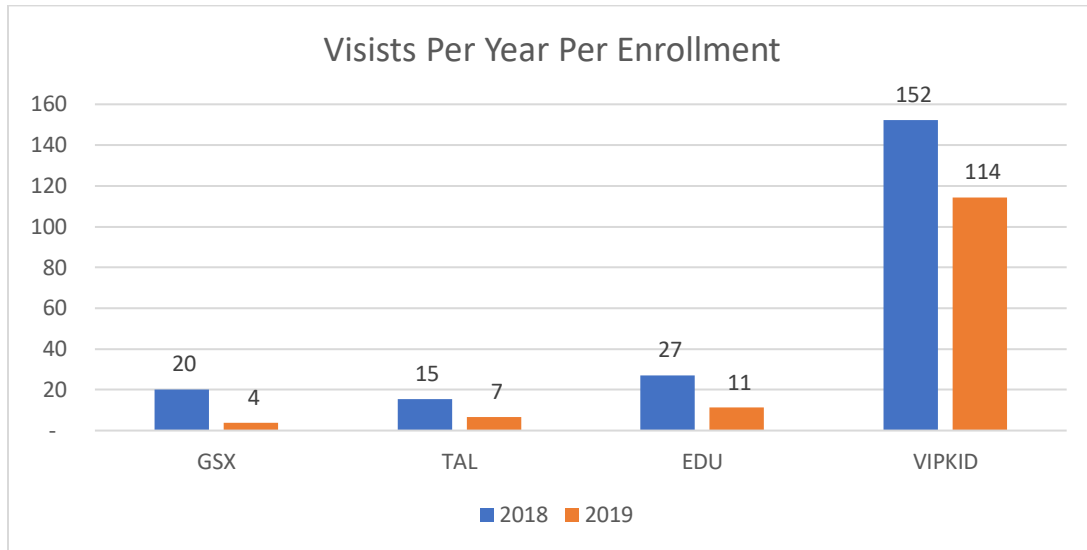
Note1: HK1797 does not disclose sufficient information, hence we are using EDU's data here as a substitute. Notice that due to EDU having many offline enrollments, this substitution will only lower visits per enrollments per year.

Note2: EDU 2018 and 2019 enrollments are estimated due to different fiscal year ends. 2018 results are from Q3 2018 to Q2 2019, 2019 results are from Q3 2019 to Q2 2020.

VIPKID	Monthly Average Visits (2018)	Monthly Average Visits (2019)
vipkid.com.cn	4,441,739	3,337,917
Total Per Month	4,441,739	3,337,917
	2018	2019
Total Per Year	53,300,870	40,055,000
Enrollments/Students	350,000	350,000
Visits Per Enrollments Per Year	152	114

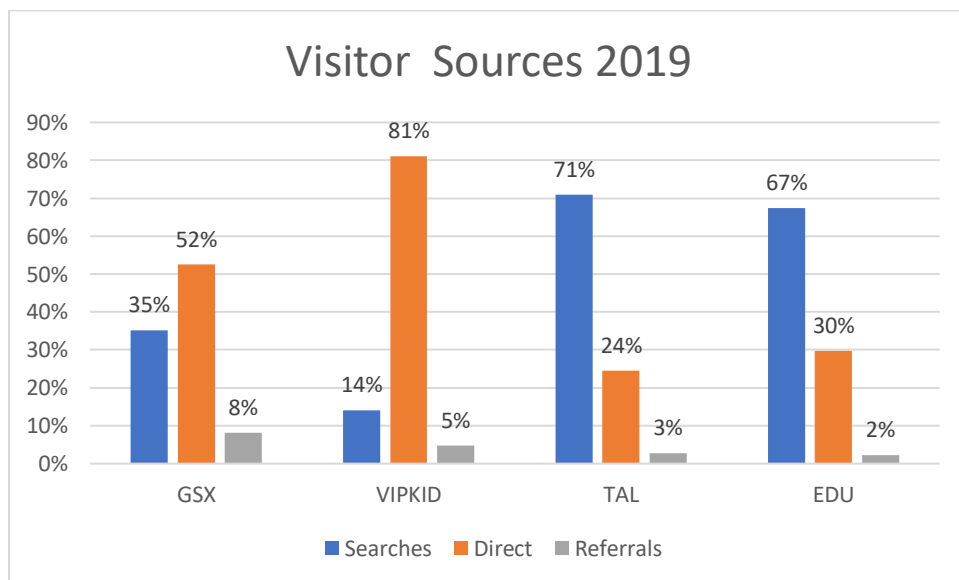
Source: Rank2traffic.com; Company filings; Grizzly analysis

Note: VIPKID does not disclose enrollment data, however, it disclosed that it currently has 700,000 students. We have separated students by half and allocated it to 2018 and 2019. Notice even if we allocate 700,000 to one year only, the Visits Per Enrollments Per Year would still be significantly higher than GSX.



Source: Rank2traffic.com; Grizzly analysis

We discovered that GSX had significantly lower number of visits per year per enrollment. Essentially, this means that each enrolled student will visit the website only 20 times per year in 2018 and 4 times per year in 2019. We acknowledge that all companies' visit numbers seem low considering the frequency of online courses. This is most likely due to many people ultimately using mobile applications instead of websites to actually participate in courses. However, this should not affect the comparability of these data. In addition, we have generously attributed all enrollments from both TAL and EDU, who have significant offline enrollments, to online education. In reality, without these assumptions, the results would likely be even less favorable for GSX.



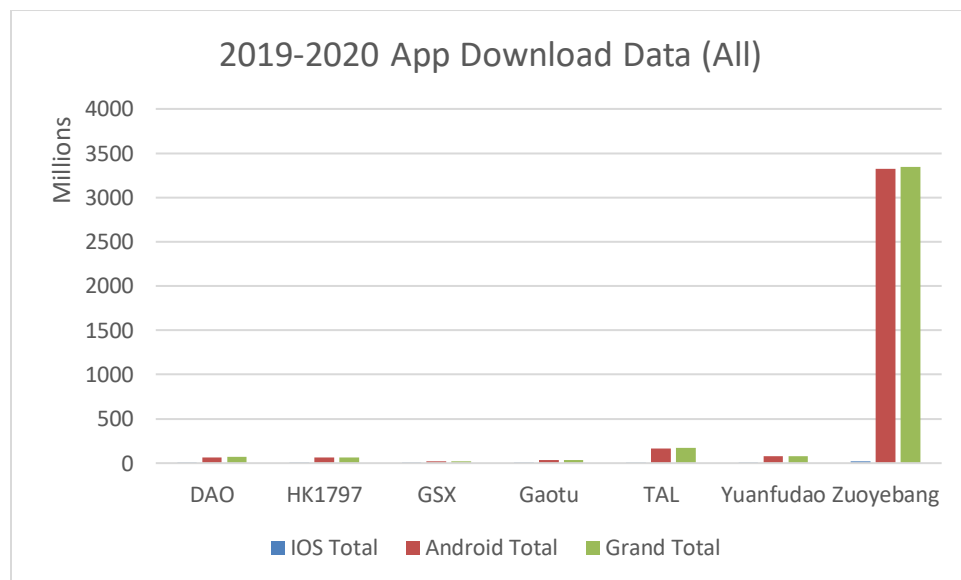
Source: Rank2traffic.com; Grizzly analysis

In addition, we are also concerned with the relatively high referral sources GSX has compared to others. Referrals are visits that are not from direct website searches or search engine hits, but are from other websites that redirect users to visit the designated websites. We see direct and searches to be organic sources to the website and referrals as the lowest quality source.

Qimai.cn

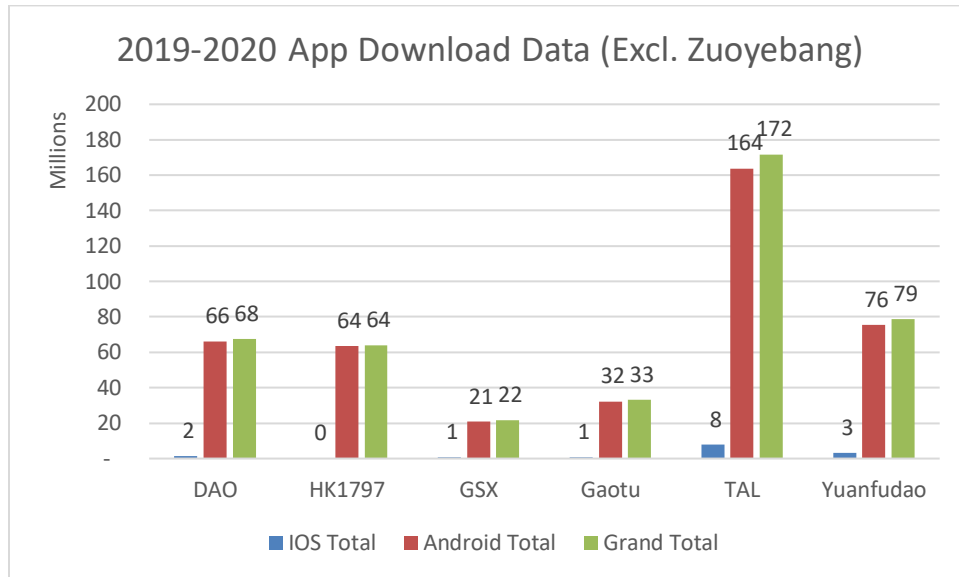
[Qimai.cn](https://qimai.cn) is a professional mobile application analytics platform. It provides app download data from a wide variety of platforms including the majority of the commonly used Android platforms in China and the Apple iOS platform.

Due to the prevalence of mobile phones and each company having its own mobile platform, we felt it important to compare the performance of such applications. We are using daily download volume as a proxy for enrollment. We believe that enrollments should be positively correlated to the app download volume due to new enrollments being at least partially students who haven't used the application before. We extracted 12 months data from February 2019 to February 2020, and compiled app download data for both Android and Apple iOS platforms. Android platforms considered includes "360", "Baidu", "Huawei", "Meizu", "OPPO", "VIVO", "Wandoujia", "Xiaomi" and "Yingyongbao". We compared GSX and Gaotu applications with applications by public companies including "有道精品课" by DAO, "新东方在线" (Koolearn) by HK1797, "学而思" (Xue Er Si) by TAL and applications by non-public companies including "猿辅导" (Yuanfudao) and "作业帮" (Zuoyebang).



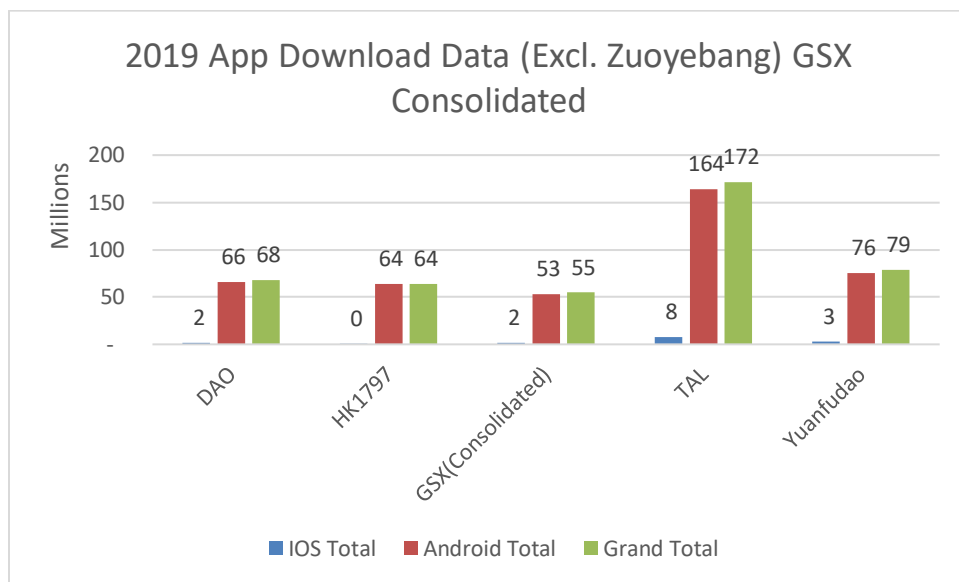
Source: Qimai.cn; Grizzly analysis

We see that "Zuoyebang" single handedly dwarfed all other platforms in terms of download volume. However, it is still evident that GSX and Gaotu are performing quite terribly, as GSX is barely visible.



Source: Qimai.cn; Grizzly analysis

If we remove Zuoyebang, we see a clearer picture. GSX and Gaotu is lagging behind competitors by a large margin (over 50%) compared to both public and private competitors.



Source: Qimai.cn; Grizzly analysis

Even after we consolidate GSX and Gaotu, we see that GSX (Consolidated) are still the weakest of the competitors.

The data shows overwhelming evidence that GSX is actually not the hypergrowth, well-regarded, well-known all-star company that management or sell-side analysts have been touting.

We encourage you to do a search for the China online-education ranking and the China online k-12 education ranking. We found numerous websites providing all sorts of rankings, however, almost none

even mentioned GSX or Gaotu as a top platform. One example would be the top 10 ranking provided by Chinaapp.com.

1 TOP		新东方在线 <small>USA</small> 新东方教育科技集团有限公司 新东方教育科技集团旗下专业的在线教育网站，国内较早专业在 线教育网站。致力于为广大用户提供个性化/互动化/智能化的课...	Koolearn HK 1797	影响力指数: 7053 查看品牌
2 TOP		学而思网校 <small>USA</small> 北京世纪好未来教育科技有限公司 好未来教育集团旗下发展历史较久的中小学在线教育品牌。国内 较早融合互联网与教育两大领域的中小学在线学习平台。致力...	Xueersi (TAL)	影响力指数: 6785 查看品牌
3 TOP		VIPKID <small>USA</small> 北京大米科技有限公司 国内知名在少儿英语教育品牌。专注于4-12岁小朋友提供专业 的北美外教在线1对1英语课学习体验。...	VIPKID	影响力指数: 6558 查看品牌
4 TOP		沪江网校 <small>USA</small> 沪江教育科技(上海)股份有限公司 由上海互加文化传播有限公司运营的沪江网是国内最大的外语学 习门户网站。提供包括国内领先的外语互联网门户网站、B2C电... <small>京东旗舰店 天猫旗舰店</small>	Hu Jiang Online School	影响力指数: 6432 查看品牌
5 TOP		正保远程教育 <small>USA</small> 北京东大正保科技有限公司 北京东大正保科技有限公司。中国十大教育培训机构。中国领先 的网络教育机构。远程教育行业的领跑者。中国第一家在纽交...	China Distance Education (DL)	影响力指数: 6213 查看品牌
6 TOP		TutorABC英语 <small>USA</small> 北京创意美奇教育信息咨询有限公司 TutorABC英语由美国硅谷技术团队研发创立。凭借自主研发的 DCGS动态课程系统。将遍布全球80多个国家、100多个城市的... <small>品牌招商</small>	TutorABC	影响力指数: 5782 查看品牌
7 TOP		作业帮 <small>USA</small> 小猿出海教育科技(北京)有限公司 作业帮是国内面向全国中小学生的移动学习平台。也是习题搜索、课 程直播和1对1辅导的综合性学习工具。截至2016年9月。作业帮...	Zuoye Bang	影响力指数: 5579 查看品牌
8 TOP		一起作业 <small>USA</small> 上海会伴信息科技有限公司 一起科技旗下。国内知名K12智能教育平台。旗下拥有一起作业/ 一起学/一起公益等品牌。以大数据为驱动的学校教育平台。...	Yiqi Zuoye	影响力指数: 5327 查看品牌
9 TOP		达内Tedu <small>USA</small> 达内时代科技集团有限公司 国内IT职业教育培训行业知名品牌。以IT培训为主的多元化/综合 性的职业教育及人才服务企业。...	Tedu.cn (TEDU)	影响力指数: 4971 查看品牌
10 TOP		猿辅导 <small>USA</small> 北京贞观雨科技有限公司 具有学生足不出户/手机联网就可以上课/尽享全国范围的教师选 课的特点。学生可针对自己的特点/或查漏补缺/或培优拔高...	Yuan Fudao	影响力指数: 4655 查看品牌

This ranking is sorted by brand recognition. We see many big names listed here, including HK1797, TAL's Xue Er Si and other public and non-public companies. TEDU and DL are also on the list. TEDU currently trades at about 115M market cap. DL has seen its stock price almost double since August 2019 and currently trades at a 290M market cap at a PE of 13.69x. GSX currently trades at about 10B market cap at a PE of 249x.

This website provides rankings based on other criteria, such as “premium select”, “up and rising” and “popularity”. None showed GSX or Gaotu.

品牌榜	优选榜	新锐榜	人气榜
1 TOP 环球网校	1 TOP 流利说 流利说Lifishue	1 TOP 邢帅教育	1 TOP 流利说 流利说Lifishue
2 TOP 51Talk 无他英语	2 TOP 尚德机构	2 TOP 沪江	2 TOP 沪江
3 TOP 新东方在线	3 TOP 100教育	3 TOP 流利说 流利说Lifishue	3 TOP 流利说 流利说Lifishue
4 TOP 中公教育	4 TOP 猿题库	4 TOP 新东方在线	4 TOP 新东方在线
5 TOP 中公教育	5 TOP 计蒜客	5 TOP 乐道教育	5 TOP 乐道教育
6 TOP 华图在线	6 TOP 东奥会计在线	6 TOP 正保远程教育	6 TOP 正保远程教育
7 TOP 掌门一对一	7 TOP 课工场	7 TOP 一起作业	7 TOP 一起作业
8 TOP 学而思网校	8 TOP 乐道教育	8 TOP 51Talk 无他英语	8 TOP 51Talk 无他英语
9 TOP 邢帅教育	9 TOP 新东方在线	9 TOP 掌门一对一	9 TOP 掌门一对一
10 TOP DaDaABC 哒哒英语	10 TOP 粉笔	10 TOP 华图在线	10 TOP 华图在线

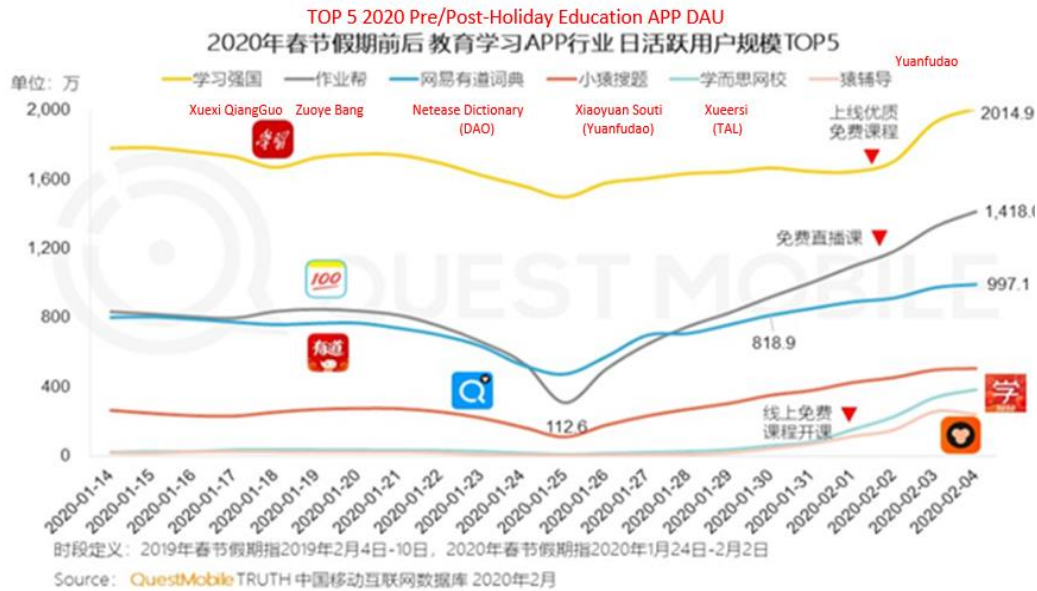
It appears that the only thing noteworthy about GSX is its stock price. If this is not a bubble destined to pop, we really don't know what is.

The data from the mobile site alone was also disturbing. QuestMobile published a report on February 12, 2020 that includes TOP 5 mobile apps that have the highest DAUs (daily average users) from January 14, 2020 to February 4, 2020, which are Xuexi Qianguo, Zuo Ye Bang, Wangyi Youdao Cidian, Xiaoyuan Souti, Xue Er Si Wang Xiao, with Yuan Fu Dao. It is clear that neither GSX's mobile apps Genshuixue or Gaotu Class are among these TOP 5 DAU mobile apps.

典型在线教育平台春节后涨势强劲，在得到寒假延期通知后，典型平台纷纷开放免费课程“停课不停课”



Online education platforms have seen strong growth after announcement of extension of vacation, and have started to offer free courses



source: <https://www.questmobile.com.cn/research/report-new/81>

While GSX has been touting its impressive growth speed, we have uncovered that GSX in reality lags behind significantly in traffic data and market recognition.

在线教育产品在各个细分领域全面开花



来源：艾瑞咨询研究院自主研究及绘制。
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www.iresearch.cn

According to an [online education industry report](#) by IResearch, GSX was not even mentioned as one of the major players in this track in 2018.

6. Worst Teacher Recruitment Practices

According to GSX, the company has a rigorous screening process that hand picks the best teachers.

From the pool of prospective instructors we identified in 2018 and during the three months ended March 31, 2019, we meticulously evaluated and employed less than 2% of the candidates. As of March 31, 2019, we had 169 instructors and 522 tutors.

However, according [to a source who claims to be a former GSX employee](#), GSX actually hires cheap teachers that just graduated and also allows applicants to make up their profile.



匿名用户

57 人赞同了该回答

跟谁学内部人员，一年前已离职，不要人肉我，再看了下目前的跟谁学，简单说下吧。

不看好跟谁学，几个方面：

1、公司管理

- 1) 官僚作风严重，不知道新东方是什么风气，但之前所在的公司各种溜须拍马，领导受用；
- 2) 提倡加班文化；
- 3) 廉价雇佣在校大学生；
- 4) 老师资料录入经历备注随便填；
- 5) 找机构过流水给福利、刷单严重、评论基本是自己给的，全部五星！在线率低的可怕。

2、产品问题（现在还是这样.....之前我有提过意见.....好吧，与我无关，心累）

- 1) 各种细节问题不重视，直接照搬网购平台界面模式。
- 2) 产品设计及其不合理，比如：

课程没有试课、视频没有前面免费试看，直接一口价放上去，试问，没有试课光靠一些水军五星评论的课程，你敢买吗？（实在不知道这一年里老陈在做一些什么）

3、存在问题

- 1) 盈利模式不成熟，教育本身无严格标准，基本靠口碑恒定，难以定价，但平台目前是刷单刷评论，基本自己堵死了口碑路子；
- 2) 平台主打的K12和艺体教育本身是属于覆盖当地，家长不会把孩子带到太远地方，机构入驻跟谁学只是本着聊胜于无的心态，他们的学员还是在原本辐射半径的学员，所以线上这块基本很少搭理，这也导致给机构带来的效果很差，配合度自然差。学员和机构就无法形成有效互动，这是本身产品定位的问题。

3) 用户使用频次低。

你会为了补课去下载一个跟谁学APP吗？而且没有补贴，就算有补贴，你觉得200一小时的课程给你150一小时，你会觉得值得去抢吗？

就这些，不会文案不会讲东西，暂时就想到这些，有些凌乱，另外我想测试下这个答案会有多少赞或者多少黑？

发布于 2016-12-22

His core concerns about GSX were:

1. Hires fresh graduates cheaply
2. Newly hired teachers filing fabricated false profiles and resumes
3. Order brushing firms give 5-star reviews and create fake student profiles. The ratio of students that are actually online during classes is terrifyingly low.

This is reaffirmed by another ex-intern in the same post:



匿名用户

13 人赞同了该回答

利益相关，曾为实习生，已离职。

刚刚接触跟谁学的招聘信息是在微信上，当时说的是管培生，我就冲着管培生的轮岗机制和未来转管理岗位的职业发展路径投了简历。上午刚投的简历下午就收到面试通知要第二天去面试。

面试成功后经过三天的“培训”（说不好听就是洗脑），正式入职。和之前不一样的就是通通转为BD。这时我就对公司有了不好的印象。可是后面自己亲身经历的事情让我更加对公司死心。

1、整个下端基础员工团队BD团队素质十分一般。一开始小组的经理让我跟着另外一位正式BD跑，可他每次乘地铁基本都在逃票，我就想要是刚好被老师、机构负责人遇到，他会怎么想我们公司？另外小组领导连个Excel都不会，只会一格一格填东西，而不会函数，筛选等这些，更不用说利用数据来把控整个工作的进度了。

2、每晚公司规定每个小组有晚复盘会议，可我刚入职前几天的晚复盘会议就是流水账，每个人汇报今天几点干了什么，最搞笑的就是组内有个人连几点吃了个中午饭还和组长汇报。我之前在我爸的公司见过复盘会议应该是以KPI为导向的总结会，而不是这种形式，碍于我是个实习生，就没多说。后面有一天分公司经理来听我们的复盘会，指出错误，才拨乱反正。

3、公司福利极差，做BD每天在外跑业务是必须的，可既无餐补也无餐补。

4、上班时间非常不科学，崇尚加班，做六休一不说，BD规定每晚六点后才能回到公司，然后就是漫长冗长的复盘会，每天小组小复盘，一三五公司大复盘，大复盘必须全员参加，基本弄完就得十点多十一点，丝毫不顾及像我这种住的远的实习生的实际情况。

6、在业绩指标的压力前，在公司底层BD素质一般的条件下，虚假业绩和刷单情况十分普遍。你说健身房算机构健身房教练算老师也就算了，教育机构的前台、行政老师也就算了，你把足浴店按摩师傅算做老师是怎么回事？修电脑铺子修电脑师傅这也行？

7、在业绩指标面前，老师指标参差不齐，没有严格的教师质量把控，经常的情况就是跑成功了机构签约入驻了，老师入驻了，拿到老师的注册帐号密码，手持身份证号，个人照片，行了老师的个人资料教学经历交给我们瞎编吧。我就问问，现在只是做新增做入驻，等真的上线了，这个教师质量，家长能放心？能相信？做教育马虎不得，可现在一切为了业绩，一点教育的情怀都没有，能成功？

在经历了这一切之后，我就渐渐对这家公司死心，离职了。

不可否认，整个公司的高层团队非常强，可你实打实的为公司发展运营拉客户的是这些基层员工，如果不着手提高员工素质，公司内部规范管理，公司最后只会走向一条死路。

发布于 2016-04-01

▲ 赞同 13



● 23 条评论

➦ 分享

★ 收藏

♥ 喜欢

In point number 7, he expressed that:

Teacher's levels were widely different, there weren't strict teacher selection standards. Usually when a new institute joins GSX, we get the account the teacher registered, his ID and his photo, and would make up the rest.

We also found a review from a former teacher in the same post:



知乎用户

30 人赞同了该回答

被电话轰炸去过他们公司听演讲，听的时候觉得比较靠谱，但是后来发现一些问题，很短时间就删除他们公司的销售和群了

1. 没有进行业务细分，你什么都想吃的时候你什么都吃不看。我们做的这个培训的用户群是根本不会关注地铁和小区宣传的，一般靠熟人和品牌。所以这些招对中小学或者艺术培训可以，对于单子大的培训不行。

2. 群里鱼龙混杂，拉我进去之后我一天就删除了。里面那些没事儿做的教艺术的天天直播自己生活。

3. 销售让我厌烦，她完全不考虑我职业特点不能随时接电话，不停跟我联系叫我把学生导入平台。我最后心想：到底你给我找学生，还是我给你找学生。

4. 虚假信息。里面很多人我都认识，某些教的很烂的让自己机构里的人在上面刷评论，而且我后来发现有咨询的学生也很可疑，往往我很久没用网站后来一个，你回复她就没影儿了。果断在最后一个电话打来的时候跟她说：我的客户群不在网络上，以后不用找我了。

K12目前20年我不看好在线教育。

编辑于 2017-02-25

I was bombarded by the phone and went to their company to listen to their lecture. When I first heard it, it felt somewhat reliable, but later I found some problems and deleted their company's sales and (wechat) group quickly.

1. No business segmentation, you can't get anything if you want everything. In our line of work, we normally do not use subway or local residential complex advertisement, and generally rely on acquaintances and brands. These (subway and residential) tricks are good for elementary and middle school or art training, but not for large education platforms.

2. The (wechat) group was messy. I exited the group one day after I joined it. The art teachers who have nothing to do share daily posts of their lives every day.

3. Salespeople make me tiresome. They don't consider my professional characteristics at all and that I can't answer the phone anytime I want. She keeps contacting me and asking me to introduce students to the platform. I finally thought to myself: In the end are you the platform that finds me students, or am I (the teacher) supposed to find you students.

4. False information. I know a lot of people inside, some of the teaching is so bad that we had to use write good reviews for them ourselves, and I later found that the potential are also suspicious, they often appear when I haven't used the website for a long time, and when you reply to her, she disappears.

(I) decisively told the saleswoman the last time she called: My customer base is not online, so no need talking to me in the future. I am least optimistic about this (GSX) in the next 20 years.

These reviews point out worrisome factors, such as bad business practices, teacher profile fabrication and fake reviews.

Worse yet, these bad practices seem to be currently still ongoing. We discovered that as recently as December of 2019, company employees were extremely critical in regard to this issue. In reviews on

Kanzhun, which is a widely used job platform in china, [one employee](#) stated that they had almost no time to rest, the company wasn't paying well and it was all about aggressively pushing sales.



匿名用户

员工-1年-北京

★ ★ ★ ★ ★

2019-08-14 17:11

向TA咨询

拿命挣钱。

团队年轻有活力,只能自己没人指导,几乎天天加班,节假日不能保证

拿命挣钱。关键提点还很低,我五千底薪,五险一金才扣除400出头,严重怀疑五险一金的缴纳基数,比例肯定是按最低的缴纳

不用说都知道,出名抠门的公司,至于加班,不用说加到你爆炸,辅导基本暑期没有休息,销售基本暑期不会有睡饱的时间,就是干,可以点的销售月工资才一万多,别说别人了,基本没啥出路。

我们组XX人二十六七的女生,加班熬的看起来三四十的大妈,真的惹不起,也伤不起,我先撤你们坚持住,下周就撤,走之前给你们留点意见,不过有一点还是很好的,从这家公司出来,你就会对新公司有个很美好的感觉!积极向上。

★ 我不愿意推荐朋友来

★ 我看好公司前景

★ 我不支持CEO宋欲晓

❤ 赞

☆ 收藏

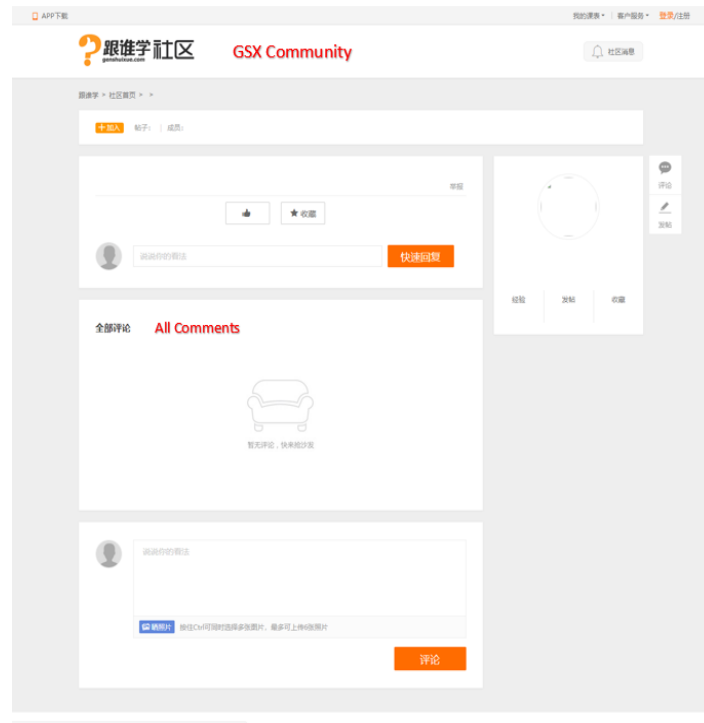
⚠ 举报

This is just one of numerous complaints who allege the same wrongdoings. We do not see this kind of employee treatment as sustainable and don't find comparable allegations for any of GSX's competitors.

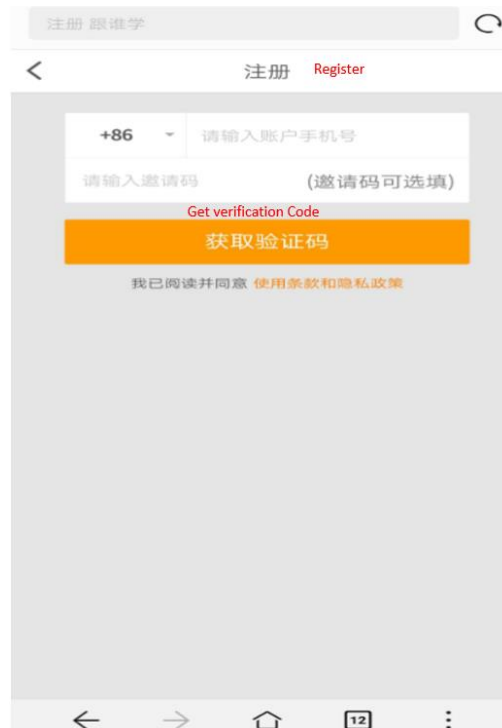
We attempted to validate these concerns by trying to construct a fake profile online and submitting our application through the [GSX teacher application portal](#). However, to our surprise, the portal does not even work.



By clicking the join now button, the website actually guides us to an [empty bbs page](#), which is shown below.



When we try to apply via phone on the mobile website, we got to the page below where we were asked to fill in a cell phone number to receive a verification code. However, after we filled in the cell phone number and clicked “retrieve the verification code” button, nothing happened, meaning we did not receive the verification code no matter what we tried. Multiple attempts failed.



It is clear to us that on both PC and mobile sites teacher recruitment does not work. Teachers who want to join GSX to become an authorized teacher are not able to do so through the company's website.

Yet just recently, it was [reported](#) that in light of the coronavirus event, GSX is recruiting nationwide online for teachers. We fail to understand how a firm with such a high growth rate and so many new student enrollments fails to have its teacher recruitment portal up and running, especially after being reported to go full-steam in terms of recruiting. This just doesn't make sense to us.

The numerous complaints regarding GSX's teacher and employee recruitment indicate symptoms of bad business practices, the fact that its online teacher recruitment portal doesn't even work is even more concerning.

7. Mysterious Departure of CFO Before IPO, Currently Untrustworthy CFO

One thing that we always pay attention to is the turnover and credibility of a company's CFO. Our due diligence on GSX's CFO history produced concerning results.

In an [interview](#) in November 2014, when introducing the 6 co-founders (including Xiangdong Chen himself), Xiangdong Chen stated that one of the co-founders, Yuxiao Song, was in charge of company's finances. Yuxiao Song used to be in charge of financial data organization and analysis, related party transactions, tax, and management of financial managers before the current public company EDU was listed in the U.S. This seems to be a credible background. However, it was [reported](#) that just before GSX went public, Yuxiao Song resigned from the position and the reason internally announced was due to family reasons. Although it is unclear when exactly Song resigned, judging from the disclosed information it seems that the current CFO, Nan Shen, was in position since December 2018. So GSX's former CFO must have resigned just 3 months before GSX submitted its initial filing to the SEC. Again, we found it strange that Song resigned just months before GSX's filing for IPO. Would you exit just when the big pay day is about to arrive? Color us skeptical.

Moreover, we also question the credibility of its newly appointed CFO, Nan Shen.

According to GSX's introduction,

"Ms. Nan Shen has served as our chief financial officer since December 2018. Prior to joining us, Ms. Shen was the chief financial officer of China Sinoedu Co., Ltd. from November 2017 to November 2018. Before that, Ms. Shen served multiple positions at PricewaterhouseCoopers between February 2012 to November 2017..."

We were particularly interested in Ms. Shen's experience as CFO of China Sinoedu Co., Ltd. First of all, based on the direct Chinese translation of this company's English name, we failed to find any corresponding Chinese company per SAIC. However, we did find one company called Beijing Sino Sunshine International Culture Communication Co., Ltd. (北京新诺阳光国际文化传播有限公司, "Beijing Sino Sunshine") which operates a brand called Sinoedu (外教中国) (Facebook page: <https://www.facebook.com/sinoeduBJ>). According to the introduction on the Facebook page, Sinoedu's website is <http://www.sinowaijiao.com/>, which is the same registered website as Beijing Sino Sunshine (website page does not work anymore).

After researching Sinoedu online, we found an unproportionally large amount of detailed posts that allege Sinoedu of being an outright scam. Below are a couple of examples:

[WARNING! SinoEdu & Sino J are China Job Scams targeting Foreign English Teachers](#) (posted on April 2, 2018)

"Attention all TEFL & ESL teachers looking to work abroad teaching in China...SinoEdu is a Chinese chain school that also uses the alias brand of SinoJ or Sino J. Do not believe anything they tell you even if they put it in your contract. They exploit foreigners and do not pay what they promise and force you to work unpaid overtime. If you dare to complain they threaten to get you

arrested and deported because they deliberately got you the wrong visa so they can keep you on a string. They were supposed to have gotten you a Z visa (work visa) from the first day. When you ask about this they will tell you that you will get it after your 90 or 180 day probation period, But when that time comes they only give you a contact on the black market and tell you to buy your own Z Visa for 20,000!

They also take twice as much taxes as they should from your pay check because they figure since you cannot read Chinese you will never know the true tax rate for foreigners (10% excluding the first 4,800 of income which is tax exempt), Anyway, there is nothing good about this school operation even the pay which is 5,000 per month below the average pay of 18,500 for foreign teachers in China.

They will take your photo and use it to make fake testimonials on the internet that you will not even know about and no matter where you come from, they will lie to the mothers and say you a famous American teacher and then demand that you go along with their lies! RECOMMENDATION: AVOID!"

Here is another one:

[SinoEdu aka Sino J is a China Job Scam for English teachers to avoid in Beijing](#) (posted 1 year and 10 months ago)

"First off this company is Chinese owned and likes to tell parents they are part of an "American Joint Venture" This is false. Secondly they are not registered with nor approved by SAFEA to hire foreigners, so all the foreign teachers working there are illegal and can be arrested any day... and then deported as a convicted criminal with a record. Thirdly, from the three teachers we spoke with that work there, only a Syrian or Ukranian refugee would think their salary is OK. All other foreigners say it is "garbage pay" and only a job they take until finding a better one.

They also play money games with their teachers by letting them work 39 hours a week instead of 40 because full-time teachers must be given rights and benefits. Fake taxes deducted from monthly pay is a common problem. The illegal teachers cannot complain to the police about this or they get arrested and deported. Part-time teachers cannot complain about unpaid overtime, and will not get vacation pay or medical insurance. All the foreign teachers are presented as "American native speakers to the mothers." In reality, most of them are from Eastern Europe and of 153 foreign teachers working at 4 locations, 7 were actually real teachers before coming to China.

In 2015-2016, 47 of their fake teachers were arrested and booted out of China dor fake diplomas, phony TEFL certificates, or black visas. For desperate refugees they fill a niche market. But the PSB was just told about these shysters and all the parents will be getting the 411 on them shortly. The smart ones will get a refund while there are still assets and money in their bank accounts.

They are blacklisted by both the CTA and CFTU and more comments about them are at [reddit.com/r/chinascamcentral](https://www.reddit.com/r/chinascamcentral)."

The content of these posts and allegations are pretty detailed and look credible to us. To be clear, we do not know whether or not the company Nan Shen worked for before joining GSX is actually a scam or not,

it's just that these posts were online in the 2018 period (maybe early 2019), when Nan Shen was Sinoedu's CFO (November 2017 – November 2018), and we believe these kind of allegations are a legitimate reason for people to question the credibility of the company Sinoedu, and also to question Nan Shen's integrity as a CFO, in our opinion. We note that the allegations are numerous and detailed and we couldn't find anything comparable on competitors.

It is a big redflag to us that GSX's co-founder and CFO, Yuxiao Song, resigned months before the company's filing for IPO. We also see as a red flag that the company that current CFO, Nan Shen, used to work for was alleged to be an education scam.

8. Management's Background Presents Risk to the Company

GSX's founder, Chairman and CEO, Xiangdong Chen, is the biggest shareholder (35%) of a financial company called Jining Century Tangren Minjian Capital Management Co., Ltd (济宁世纪唐人民间资本管理有限公司, "Tangren Capital"), which is a 50% equity interest holder of Jining Shende Taihe Minjian Capital Management Co., Ltd (济宁慎德泰和民间资本管理有限公司, "Taihe Capital"). Both these companies are in the business of conducting equity and debt investment, short term financial investments, investment consulting, etc. However, these two companies were mentioned by the local government multiple times as not having the required operation certificates to conduct its business.

First, it was [reported](#) by Jining Daily that according to [Shandong Province] Jining City Rencheng District local finance regulator in February 2017, both Tangren Capital and Taihe Capital did not obtain business operating certificates.

现将12家未办理业务许可证的民间融资机构名单公告如下:

1、济宁市中盈民间资本管理有限公司	
2、济宁慎德泰和民间资本管理有限公司	Jining Shende Taihe Minjian Capital Management Co., Ltd
3、济宁世纪唐人民间资本管理有限公司	Jining Century Tangren Minjian Capital Management Co., Ltd
4、济宁市家和民间资本管理有限公司	
5、山东航防民间资本管理有限公司	
6、山东朗善民间资本管理有限公司	
7、济宁广聚民间资本管理有限公司	
8、济宁天道人和民间资本管理有限公司	
9、济宁市彬佐民间资本管理有限公司	
10、山东扶唯民间资本管理有限公司	
11、济宁永源民间融资登记服务有限公司	
12、济宁运河发展民间融资登记服务有限公司	

Jining City Rencheng District Local Finance Regulatory and Management Bureau
February 1, 2017

济宁市任城区地方金融监督管理局
2017年2月1日

Secondly, even as recent as January 10, 2020, according to the [notice](#) published by Jining City Rencheng District local finance regulator, these two companies still do not have the required business operating certificates to conduct business:

16	山东明德典当有限公司	任城区	由市商务局移交, 2016年—2019年列入经营异常名录, 2019年列入严重违法失信企业名单
17	济宁慎德泰和民间资本管理有限公司	任城区	未经省地方金融监管局批准
18	济宁世纪唐人民间资本管理有限公司	任城区	未经省地方金融监管局批准
19	山东朗善民间资本管理有限公司	任城区	未经省地方金融监管局批准

17	Jining Shende Taihe Minjian Capital Management Co., Ltd	Rencheng District	[Business Operating Certificate] Unapproved by Local Financial Regulator
18	Jining Century Tangren Minjian Capital Management Co., Ltd	Rencheng District	[Business Operating Certificate] Unapproved by Local Financial Regulator

Based on the information mentioned above, it appears to us that for nearly 3 years, these two companies have been operating without required local-government-approved certificates. Although Xiangdong Chen is not listed as these two companies' key management, the fact that he is the biggest shareholder (35%) of Tangren Capital and indirect 17.5% shareholder of Taihe Capital puts him at risk. Conducting business without the required certificates in the financial industry is a very serious crime in China and both big shareholders and key management and shareholders could face severe backlash.

9. Existing Shareholders Are Selling and Co-Founders are Leaving the Company

According to the [prospectus](#) filed in November 2019, insiders and former shareholders have been selling shares aggressively. GSX did not sell any new stocks and all the 18 million ADSs were from its existing shareholders with an aggregate of \$252 million. The tables below are a summary for the existing shareholders that sold their stocks in the offering.

	Ordinary Shares Beneficially Owned Prior to This Offering				Ordinary Shares Being Sold in This Offering		Ordinary Shares Beneficially Owned After This Offering			
	Class A Ordinary Shares	Class B Ordinary Shares	% of Total Ordinary Shares†	% of Aggregate Voting Power††	Class A Ordinary Shares	%†††	Class A Ordinary Shares	Class B Ordinary Shares	% of Total Ordinary Shares†	% of Aggregate Voting Power††
Directors and Executive Officers**:										
Larry Xiangdong Chen ⁽¹⁾	—	73,305,288	46.7%	89.7%	—	—	—	73,305,288	46.7%	89.7%
Xin Fan ⁽²⁾	—	—	—	—	—	—	—	—	—	—
Yiming Hu ⁽³⁾	—	—	—	—	—	—	—	—	—	—
Ming Liao ⁽⁴⁾	—	—	—	—	—	—	—	—	—	—
Xiuping Qi ⁽⁵⁾	1,714,560	—	1.1%	0.2%	—	—	1,714,560	—	1.1%	0.2%
Wei Liu	*	—	*	*	—	—	*	—	*	*
Nan Shen	*	—	*	*	—	—	*	—	*	*
Huaiting Zhang ⁽⁶⁾	9,678,125	—	6.2%	1.2%	—	—	9,678,125	—	6.2%	1.2%
All Directors and Executive Officers as a Group	12,696,245	73,305,288	54.7%	91.3%	—	—	12,696,245	73,305,288	54.7%	91.3%
Principal and Selling Shareholders:										
Ebetter International Group Limited ⁽¹⁾	—	73,305,288	46.7%	89.7%	—	—	—	73,305,288	46.7%	89.7%
Origin Beyond Limited ⁽⁷⁾	20,019,036	—	12.7%	2.5%	1,566,666	13.1%	18,452,370	—	11.7%	2.3%
Huai Yuan Group Limited ⁽⁶⁾	9,678,125	—	6.2%	1.2%	—	—	9,678,125	—	6.2%	1.2%
Banyan Partners Fund II, L.P. ⁽⁸⁾	9,375,000	—	6.0%	1.1%	2,812,500	23.4%	6,562,500	—	4.2%	0.8%
QFcapital Limited ⁽⁹⁾	5,625,000	—	3.6%	0.7%	1,687,500	14.1%	3,937,500	—	2.5%	0.5%
QF Group Limited ⁽¹⁰⁾	5,000,000	—	3.2%	0.6%	1,500,000	12.5%	3,500,000	—	2.2%	0.4%
Jenny and Jerry International Limited ⁽¹¹⁾	4,025,364	—	2.6%	0.5%	—	—	4,025,364	—	2.6%	0.5%
ROGER INTERNATIONAL VENTURE LIMITED ⁽¹²⁾	3,000,254	—	1.9%	0.4%	1,200,000	10.0%	1,800,254	—	1.1%	0.2%
Rolancy International Limited ⁽¹³⁾	2,163,174	—	1.4%	0.3%	412,980	3.4%	1,750,194	—	1.1%	0.2%
JSR Limited ⁽¹⁴⁾	1,666,219	—	1.1%	0.2%	833,108	6.9%	833,111	—	0.5%	0.1%
JPXC LIMITED ⁽¹⁵⁾	1,487,246	—	0.9%	0.2%	1,487,246	12.4%	—	—	—	—
ABUNDANT DELIGHT LIMITED ⁽¹⁶⁾	1,000,000	—	0.6%	0.1%	500,000	4.2%	500,000	—	0.3%	0.1%

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Source: Prospectus, page 139

Selling Entities	Beneficiaries	# of ordinary shares	# of Equivalent ADSs	Sales Proceeds (\$)
Origin Beyond Limited	GSX employees	1,566,666	2,349,999	\$32,899,986
Banyan Partners Fund II, L.P.	Gaorong Capital (高榕资本)	2,812,500	4,218,750	\$59,062,500
QFcapital Limited	Qifu Capital (启赋资本)	1,687,500	2,531,250	\$35,437,500
QF Group Limited	Qifu Capital (启赋资本)	1,500,000	2,250,000	\$31,500,000
ROGER INTERNATIONAL VENTURE LIMITED	Mr. Haoxiang Hou	1,200,000	1,800,000	\$25,200,000
Rolancy International Limited	Mr. Bin Luo	412,980	619,470	\$8,672,580
JSR Limited	Ms. Dongmei Ji	833,108	1,249,662	\$17,495,268
JPXC LIMITED	Ms. Fei Ge	1,487,246	2,230,869	\$31,232,166
ABUNDANT DELIGHT LIMITED	Ms. Cuilan Ma	500,000	750,000	\$10,500,000
Total		12,000,000	18,000,000	\$252,000,000
Offering Price per ADS	\$14.00			
Every three ADSs represent two of our Class A ordinary shares				

Early investors Gaorong Capital and Qifu Capital cashed out \$59 million and \$67 million, respectively. Entity Origin Beyond Limited whose beneficiaries are GSX's employees cashed out \$33 million, and it appears to us that one of GSX's co-founders, Bin Luo, also cashed out \$8.7 million. In addition, according to the prospectus, one of the co-founders, Gangjiang Li, granted to the underwriters an option, exercisable within 30 days from the date of the prospectus to purchase up to nearly 2 million ADSs, with an aggregate of about \$28 million; and another co-founder, Yuxiao Song, who was in charge of GSX's finances but resigned months before GSX's IPO, also granted the same option to underwriter to purchase up to 250k ADSs, with an aggregate of about \$3.5 million.

Another thing we want to point out is that the company's second biggest individual holder, Huaiting Zhang, who is also one of the co-founders, resigned in December 2019. Although he did not participate in the initial offering, he held 14.5 million equivalent ADSs, which is worth about \$500 million based on the closing price of February 14, 2020. As soon as he decides to unload some of the shares that he owns, GSX's stock would experience tremendous selling pressure.

According to an [interview](#) in November 2014, Xiangdong Chen said there were another 5 co-founders for GSX, and they are :

- Gangjiang Li: used to work at Microsoft, Intel, Goggle, Sohu Video and Baidu;
- Huaiting Zhang: used to work at Baidu and played a significant role for Baidu's search engine technology
- Bin Luo: used to work at Baidu, and played a significant role for Baidu's search engine technology
- Yuxiao Song: used to work at public company EDU over 10 years and was in charge of financial data organization and analysis, related party transactions, tax, and management of financial managers before EDU was listed in the U.S.
- Wei Su: used to be a teacher but later founded an education training company, an entrepreneur in the education industry

Based on GSX's disclosure and media [reporting](#), it is expected that 4 out of 6 co-founders are planning to leave the company.

Co-founders	Status	Time of Leave (or expected to)
Gangjiang Li	Leave	2017
Huaiting Zhang	Leave	December 2019
Bin Luo	On	N/A
Yuxiao Song	Leave	2018
Wei Su	On	Expected to leave in 2020 according to report cited above
Xiangdong Chen	On	N/A

Generally speaking, we are cautious on the company when employees/insiders are selling stocks and multiple co-founders are leaving so quickly.

Conclusion

Our research and analysis supports our view that the competitive advantages GSX claims do not appear to actually exist. We have laid out our case in detail why we believe that in reality GSX employs nefarious schemes like order brushing and the use of non-consolidated entities to offload costs.

In short: We believe that GSX is a fraud.

One of the things that struck us as peculiar in this case is that GSX should not hold up to the due diligence of any credible institution. A simple online review would reveal that the company is not what it portrays itself to be. Red flags around the CFO departure were blatantly ignored. Financials that are simply too good to be true are taken at face value. GSX's auditor Deloitte Touche Tohmatsu and underwriters including Deutsche Bank, Goldman Sachs, Bank of America, and Credit Suisse have apparently failed to perform basic due diligence on their client – otherwise they should have easily detected at least some of the major red flags we outline in this report.

We see GSX as yet another example of skewed incentives due to a lack of skin in the game, that will ultimately go to the detriment of the public investors.

Appendix A

Beijing BaiJiaHuLian Technology Co., Ltd. Income Statement:

Income Statement (RMB'000)	2017	2018
Revenues	91,132	368,583
Cost	-	65,627
Tax and Associate Charge	474	2,077
Gross Profit	90,658	300,879
Operating Expenses	62,617	68,919
Administrative Expenses	26,865	57,166
Financial Expenses	1,750	1,515
Investment Income	-348	-8,730
Operating Profit	-922	164,549
Non-operating Income	2,001	403
Non-operating expense	14,473	439
Total Profit	-13,394	164,513
Income tax	0	0
Net Profit	-13,394	164,513

Beijing GaoTuYunJi Education Technology Co., Ltd. Income Statement:

Income Statement (RMB'000)	2017	2018
Revenues	644	1,028
Cost	1,298	62,066
Tax and Associate Charge	2	6
Gross Profit	-656	-61,044
Operating Expenses	15,398	26,797
Administrative Expenses	1,440	21,605
Financial Expenses	-	2
Operating Profit	-17,494	-109,448
Non-operating Income	-	-1
Total Profit	-17,494	-109,449
Income tax	0	0
Net Profit	-17,494	-109,449

Beijing Genshuixue Technology Co., Ltd. Income Statement:

Income Statement (RMB'000)	2017	2018
Revenues	0	0
Gross Profit	0	0
Operating Expenses	-	1
Administrative Expenses	3	0
Financial Expenses	-24	1
Operating Profit	21	-2
Total Profit	21	-2
Income tax	3	0
Net Profit	18	-2

Beijing BaiJiaChengXi Education Technology Co., Ltd. Income Statement:

Income Statement (RMB'000)	2017	2018
Revenues	3,949	20,086
Cost	7,499	6,420
Tax and Associate Charge	22	114
Gross Profit	-3,572	13,552
Operating Expenses	3,745	10,365
Administrative Expenses	4,515	2,286
Financial Expenses	-6	-
Operating Profit	-11,826	901
Total Profit	-11,826	901
Income tax	0	0
Net Profit	-11,826	901

Beijing Jiazi Technology Co., Ltd. Income Statement:

Income Statement (RMB'000)	2017	2018
Revenues	449	0
Cost	797	374
Tax and Associate Charge	2	-1
Gross Profit	-350	-373
Operating Expenses	2,767	201
Administrative Expenses	3,682	3,128
Financial Expenses	-1	1
Operating Profit	-6,798	-3,703

Non-operating Income	3	-
Total Profit	-6,795	-3,703
Income tax	0	0
Net Profit	-6,795	-3,703

Beijing Lexuebang Network Technology Co., Ltd. Income Statement:

Income Statement (RMB'000)	2017	2018
Revenues	0	971
Cost	-	2,821
Tax and Associate Charge	-	3
Gross Profit	0	-1,853
Operating Expenses	10,046	12,098
Administrative Expenses	27,819	24,588
Financial Expenses	-1,399	1,846
Operating Profit	-36,466	-40,385
Total Profit	-36,466	-40,385
Income tax	0	0
Net Profit	-36,466	-40,385

Shanghai Jinyou Education Technology Co., Ltd. Income Statement:

Income Statement (RMB'000)	2017	2018
Revenues	4,373	11,794
Cost	628	2,404
Tax and Associate Charge	15	41
Gross Profit	3,730	9,349
Operating Expenses	-	3,473
Administrative Expenses	4,397	6,497
Financial Expenses	4	2
Operating Profit	-671	-623
Non-operating Income	-	6
Non-operating expense	-	6
Total Profit	-671	-623
Income tax	0	0
Net Profit	-671	-623

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