

## GSX Techedu Inc – The Most Blatant Chinese Stock Fraud since 2011

**Up to 70% of revenues are fabricated and the Chinese media agrees**

Despite having over 4500 stores in China, Luckin Coffee (LK) recently saw its stock price vaporized as the company disclosed that it had overstated revenue by 40%. While admittedly we were startled at the brazen fraud, many in China were not and Luckin's fortunes were questioned by many "in the know" in the Chinese business community.

Luckin's cautionary tale teaches us several valuable lessons:

1. No matter how "front facing" a company is, certain Chinese company's willingness to commit fraud cannot be ignored or understated
2. Chinese people have taken a vigilant interest in exposing fraud and are not complicit as illustrated by much if not all LK investigative work being done Chinese citizens
3. If a company presents financials that cannot be relied upon, the stock should be **immediately halted** even if there is "some revenue"

And most importantly, the one common denominator of all fraud that has come out of China – **If it seems too good to be true, it is.**

With that understanding, Citron introduces what many in China already know and what will become obvious to the reader:

**GSX Techedu Inc is overstating revenue by up to 70% and should immediately halt trading and launch an internal investigation.**

This report is Part 1 of a series of reports on GSX. The presentation of our complete set of on-the-ground findings in China has been delayed due to Beijing being shutdown but we will soon present even more evidence of the extent of the fraud and mechanisms behind student brushing.

### Background

Let us start from IPO. Last June, GSX was priced at the mid-point of its targeted range at \$10.50 a share to not much fanfare. Every news agency reported on this as just another Chinese Education IPO with nothing spectacular.

[http://www.xinhuanet.com/english/2019-06/06/c\\_138122631.htm](http://www.xinhuanet.com/english/2019-06/06/c_138122631.htm)

Reception to the IPO was lukewarm but the market was steady enough to allow GSX to do a follow on secondary netting \$250 million for selling shareholders less than 6 months later at \$14 a share.

But did anyone care to look at the believability of these numbers or was it rubber stamped under the JOBS Act?

**GSX claimed that in the year up to IPO its growth was 432% along with gross margins of 75%?** Note, this is in the highly competitive and transparent world of online education. Yet, when GSX went IPO not one piece of media in China or the US referred to them as hyper growth or disruptive or gave any praise.

This is not Luckin with 4500 stores, this is more like a 2011 Chinese RTO with a too good to be true nonsense story.

The SEC must halt trading in this security.

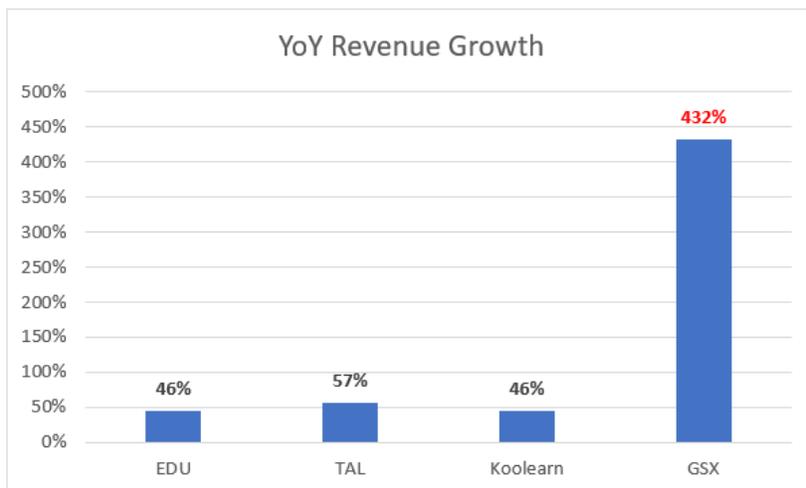
## **To Put Scale of Fraud in Perspective – Let’s Compare to Legitimate Companies**

Let’s compare GSX to two undisputed leaders in online education in China, TAL and EDU (both respected companies), along with HK traded Koolearn. Look at how all four companies performed while coming off the same historical revenue base.

\*Note – when EDU and TAL had that revenue, the online education market was much less competitive making GSX’s growth look even more unbelievable given the current levels of competition.

(RMB in mn)

	<b>FY2004</b>	<b>FY2005</b>
EDU revenue	441.8	643.3
% YoY Growth		46%
	<b>FY2010</b>	<b>FY2011</b>
TAL revenue	475.3	744.4
% YoY Growth		57%
	<b>FY2017</b>	<b>FY2018</b>
Koolearn revenue	446.2	650.5
% YoY Growth		46%
	<b>FY2018</b>	<b>FY2019</b>
GSX revenue	397.3	2,114.9
% YoY Growth		<b>432%</b>



You cannot hide a fast-growing education company in China. China’s media covers the education industry the same way the U.S. media covers the Kardashians. If this company had 432% revenue growth in one year on that scale – it would be widely known and widely reported.

**Not Just the Opinion of Citron – We now Show Chinese Government, Media, and Think Tanks – All with the Same Conclusion**

*China Consumer News*, which is backed by the State Administration for Market Regulation, sent out a survey and questionnaire to the major players in Chinese online education including TAL, Tencent Lecture, Zuoyebang, Chinese Uni MOOC, Yuanfudao, and EDU. **However, GSX was not included in this survey.**

[https://www.thepaper.cn/newsDetail\\_forward\\_6721156](https://www.thepaper.cn/newsDetail_forward_6721156)

*China Consumer News* published a different survey on the Chinese online education market last month. **GSX was missing again.**

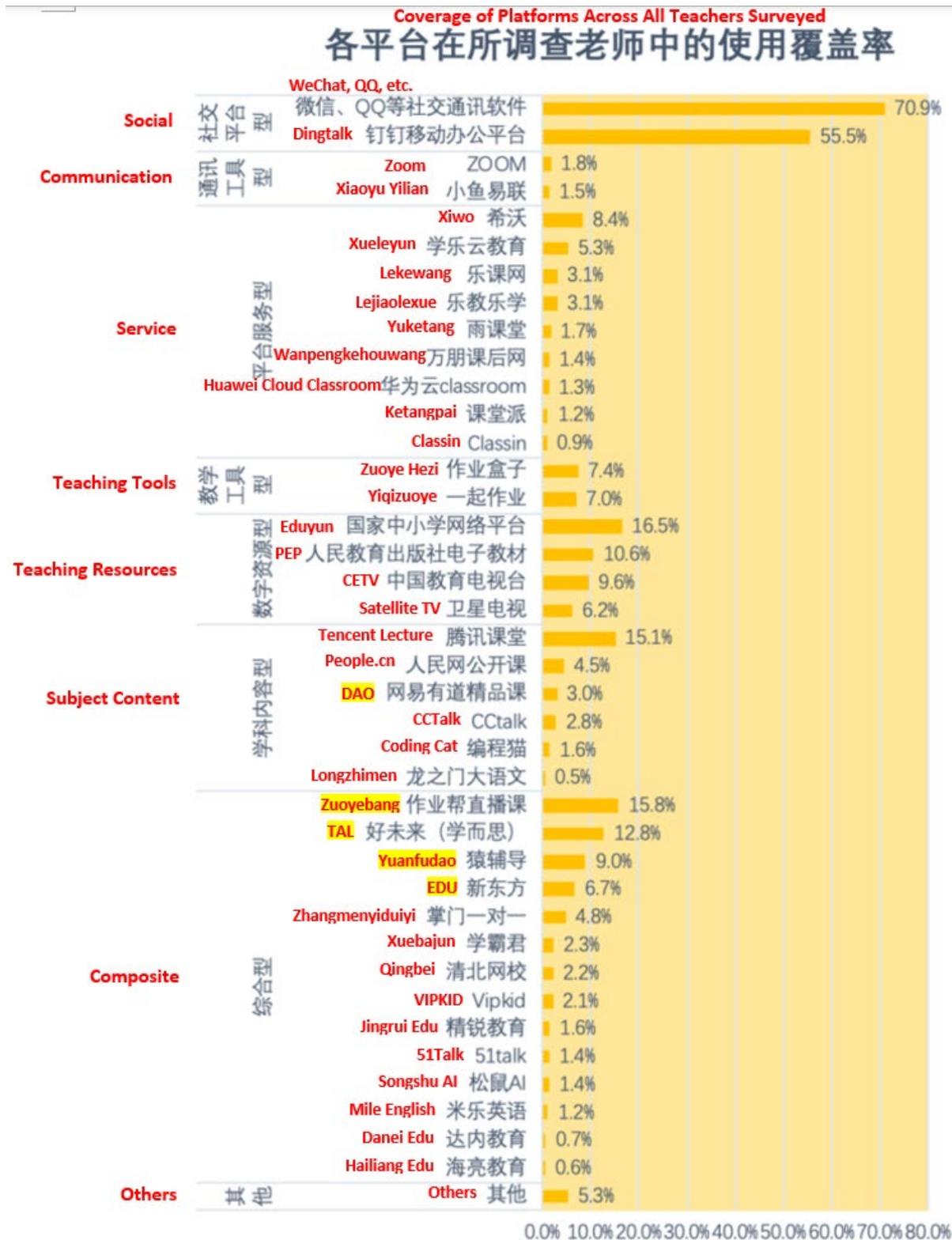
Appendix 1: Online Education Platform Consumer Experience Rating and Evaluation

附件 1: 在线教育平台消费体验各维度和指标义工评价

指标/平台	TAL 学而思 网校	Zhangmen Yiduiyi 掌门 一对一	Yuanfudao 猿辅导	Zuoyebang 作业帮	Zhixuewang 智学网	VIPKID VIPKID 英语	DaDa English DaDa 英语	EDU 新东方	Tencent Lecture 腾讯 课堂	DAO 网易 云课堂	超星 学习通	DAO 慕课	综合 得分
证照资质	5	5	5	5	5	10	10	10	5	5	5	5	62.50
课程介绍	5	10	10	10	5	10	10	5	10	10	10	10	87.50
明码标价	5	5	5	5	5	5	3	5	5	5	5	5	96.67
用户评价	5	0	10	10	5	5	10	0	10	10	10	5	66.67
信息披露	57.14	57.14	85.71	85.71	57.14	85.71	94.29	57.14	85.71	85.71	85.71	71.43	75.71
教师资质	10	5	10	10	10	10	5	5	5	—	0	—	70.00
课程规范	10	10	10	10	10	10	10	10	10	10	10	10	100.00
答疑解惑	5	5	5	5	5	5	5	5	5	5	3	5	96.67
有否“三超”	10	10	10	10	10	10	10	10	10	—	10	—	100.00
课程品质	100.00	85.71	100.00	100.00	100.00	100.00	85.71	85.71	85.71	100.00	65.71	100.00	92.38
合同签订	0	10	0	0	10	10	10	5	5	10	0	5	54.17
课程退换	10	10	5	10	10	10	10	10	5	5	0	5	75.00
发票开具	5	5	5	3	5	5	5	3	0	3	3	0	70.00
客服响应	5	5	5	5	2	5	5	5	0	5	2	2	76.67
优质服务	66.67	100.00	50.00	60.00	90.00	100.00	100.00	76.67	33.33	76.67	16.67	40.00	67.50
总分/得分率	75.00	80.00	80.00	83.00	82.00	95.00	93.00	73.00	70.00	85.00	58.00	65.00	78.25

<http://www.ccn.com.cn/html/news/xiaofeiyaowen/2020/0324/483464.html>

The Guangming Daily, which is sponsored by the Central Committee of the Communist Party of China, published a research report this month on the Chinese online education market. **GSX was missing again.**



[http://edu.gmw.cn/2020-04/02/content\\_33708443.htm](http://edu.gmw.cn/2020-04/02/content_33708443.htm)

During GSX’s conference call last week, the company failed to acknowledge Grizzly Research’s criticism that GSX was noticeably absent in a 2018 online education report by iResearch highlighting the major players in the industry.

Citron’s suspicions were corroborated by the fact that GSX is missing from the list of top online education companies in both the [2019 iResearch report](#) and the [most recent iResearch report from last month](#) as well, while supposed peers TAL, Yuanfudao, and Tencent Lecture all make the list.

**And this is supposed to be a company growing 10x as fast as the competition?**



# Growth – High Quality Education Institutes are Gaining Online Users 增长—优质教育机构收割线上用户



## 免费是带来流量的方式，但关键在于内容和效果

停课不停课呼声下，大片互联网教育企业开启免费服务，既是在特殊社会危机下的公益之举，也将流量大战烧到前线。优质教育机构如老牌的学而思、年轻的猿辅导等等都获得超过200%的月活环比增长率。在月独立设备增长TOP10的APP中，有4个APP单机日使用时长也获得TOP10的增长。

**mUserTracker – Feb 2020 Education Monthly Distinct Device Count and Daily Usage MoM Growth Top 10**  
**mUserTracker-2020年2月学习教育行业月独立设备数和单机日使用时长环比增长TOP10APP**



来源：UserTracker 多平台网民行为监测数据库（桌面及智能终端）。

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11

排名	APP名称	一级行业	二级行业	触媒偏好	目标用户月独立设备数
1-20				TGI	(万台)
1	智学网 Zhixuewang	学习教育	职业教育	377.72	101.52
2	安全教育平台 Safety Edu	学习教育	教育工具	373.26	439.59
3	洋葱学院 Onion College	学习教育	职业教育	360.07	133.88
4	升学e网通 EWT	学习教育	职业教育	353.31	127.75
5	学而思网校 TAL	学习教育	教育工具	349.45	163.56
6	猿辅导 Yuanfudao	学习教育	职业教育	342.75	131.10
7	一起学（家长通）Yiqixue	通讯聊天	即时通讯	331.38	130.91
8	企业微信 WeChat Work	通讯聊天	即时通讯	279.21	232.95
9	央视频 CCTV	视频服务	聚合视频	275.50	130.51
10	学习强国 Xuexi Qiangguo	学习教育	教育工具	267.36	505.86
11	小猿搜题 Yuanfudao	学习教育	职业教育	266.53	407.49
12	晓黑板 Xiaoheiban	学习教育	教育工具	259.50	120.46
13	腾讯课堂 Tencent Lecture	学习教育	职业教育	254.66	104.45
14	一起小学学生 Yiqixiaoxue Xuesheng	学习教育	职业教育	249.29	252.30
15	作业帮 Zuoyebang	学习教育	职业教育	243.81	1569.91
16	快点阅读 Kuaidian Yuedu	电子阅读	在线阅读	234.83	104.62
17	快对作业 Kuaidui Zuoye	学习教育	职业教育	231.35	350.59
18	元气骑士 Yuanqi Knight	游戏服务	冒险闯关	217.77	116.91
19	有道翻译官 Youdao Translator	学习教育	教育工具	202.99	100.58
20	影视大全-Le123 Le123	视频服务	聚合视频	198.67	324.70

来源：UserTracker 多平台网民行为监测数据库（桌面及智能终端）。

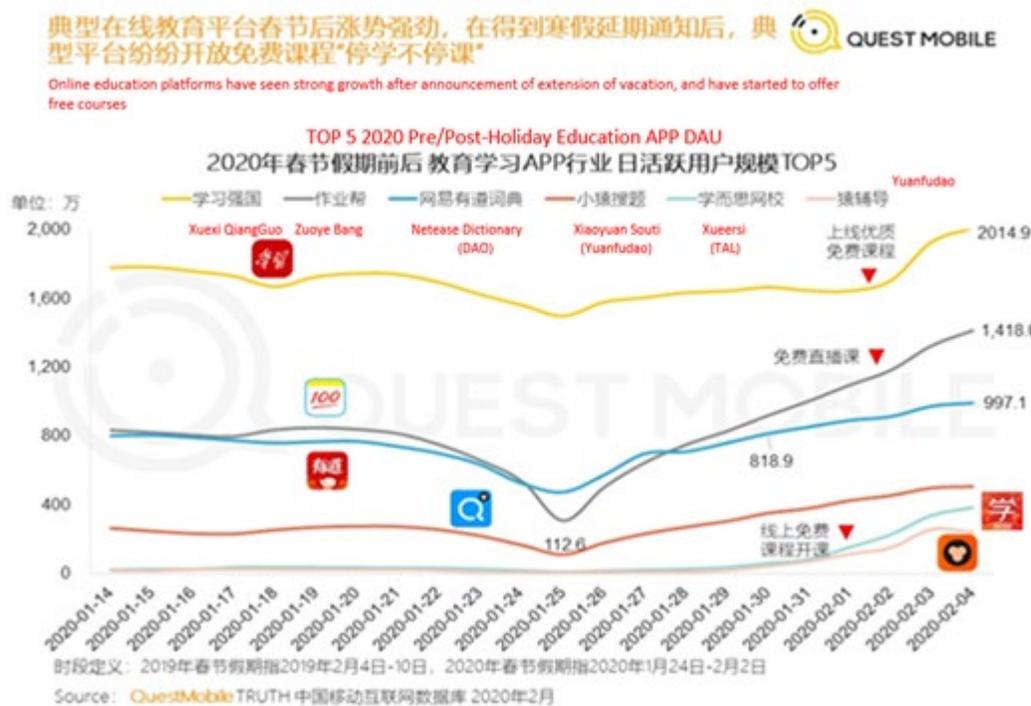
注释：1、排除所在一级行业APP进行TGI排序；2、目标用户月独立设备数为所选行业用户的在该APP月独立设备数；3、仅选择MAU > 100万APP进行排序。

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20

When questioned on the recent conference call about their lack of presence in web analytics the company referred investors to QuestMobile, yet we don't see GSX ranked as a top online education platform by QuestMobile.



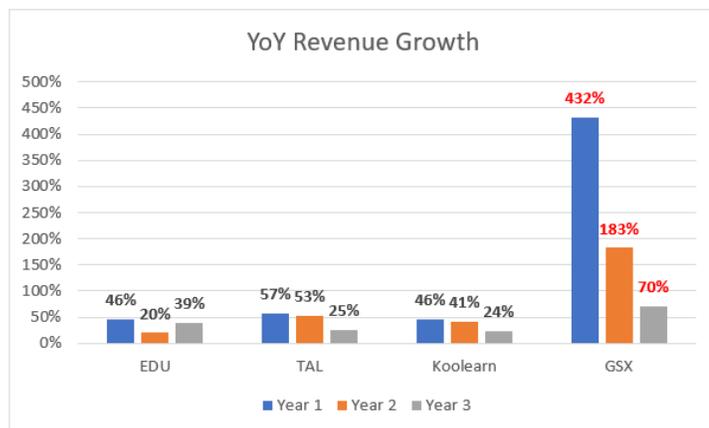
**GSX plans on continuing to commit securities fraud.**

**Citron believes that GSX overstates their revenue by up to 70% and has not intention of slowing down the fraud.**

Whereas the previous chart showed the 2 years leading up to IPO, this is the completely obscene lies that GSX attempts to tell going forward. This revenue growth chart shows GSX expectations going forward vs. the actual results of EDU, TAL, and Koolearn coming off the same historical revenue base.

(RMB in mn)

	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>
EDU revenue	441.8	643.3	770.3	1,070.7
% YoY Growth		46%	20%	39%
	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>
TAL revenue	475.3	744.4	1,139.3	1,422.7
% YoY Growth		57%	53%	25%
	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>
Koolearn revenue	446.2	650.5	918.9	1,140.1
% YoY Growth		46%	41%	24%
	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
GSX revenue	397.3	2,114.9	5,975.4	10,158.6
% YoY Growth		<b>432%</b>	<b>183%</b>	<b>70%</b>



They are not even in a “fake it till you make it” situation. Their forward growth trajectory is as foolish and fraudulent as their previous financials.

### What Is Their Claimed Secret for such Spectacular Growth?

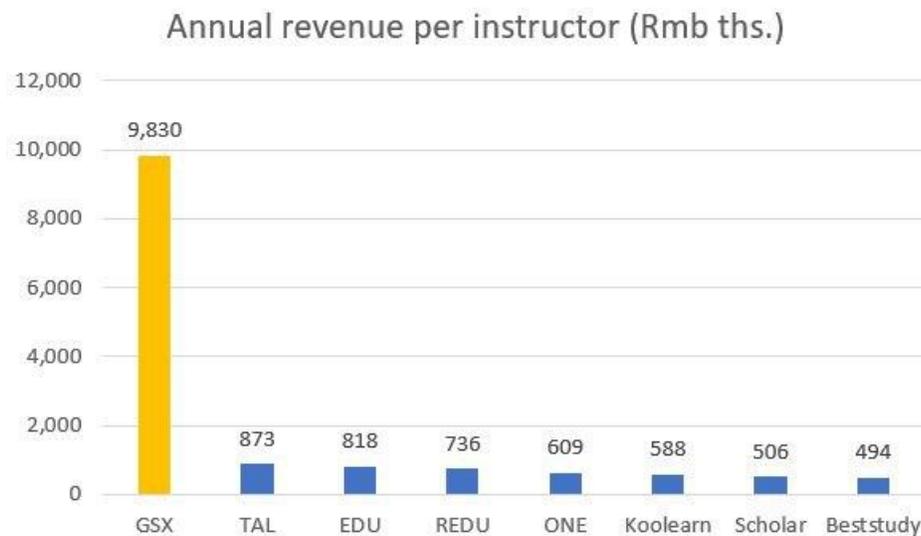
In their IPO and in their corporate materials they sold the company as “making education better through technology”.

<https://www.sec.gov/Archives/edgar/data/1768259/000119312519140662/d709082df1.htm>

But, once they realized that their minuscule technology spend would not sell the story, they changed the story to having “Star Teachers.”

Yes, these “Star Teachers” which are never named and not on any website generated 10x more productivity than any of the teachers from the established and respected players. Yet, these teachers for GSX are not under contract and do not have their own websites and are not listed anywhere. This is right out of the China Hustle.

The only analogy that comes to mind is my baseball team has a collection of hitters who each hit 400 home runs A SEASON, but you have never heard of them and you are not allowed to know their names.



\*Note – teacher productivity and “Star Teachers” were never part of their business plan.

Luckin is by far a more prominent coffee shop than GSX is an education provider.

It is interesting to note that GSX's auditor is Deloitte. This is the same auditor that was used in the Longtop and China Media Express frauds – both exposed by Citron. We are not saying that all of their clients commit fraud, but don't for a minute think because GSX has a Big Four auditor they are clean and that history won't repeat.

## The Analysis Behind the Obvious Assumptions

Even though we believe our case has been made, here are the takeaways from Citron's extensive due diligence (some of which is highlighted in more detail at the end of this report):

- After tracking >20% of available GSX classes, Citron estimates that 2019 revenue was overstated by 70%
- Our data indicates that most students are not from lower-tier cities, as GSX claims, when trying to explain how the company can grow so quickly when most Chinese parents in Tier 1 and 2 cities have never heard of them
- Wuhan and the surrounding area make up almost 50% of the student composition in Q1 2020, which further supports our thesis that a large % of

revenues are fudged given the large number of free classes offered to students of Wuhan during the Covid-19 crisis and, just as importantly, implies that GSX couldn't have a strong diversified student base to begin with, and that the previous sales revenues are largely exaggerated

- Duplicated classes (i.e., counted more than once) could be one way that revenues are inflated
- GSX management has deflected criticism with unconvincing explanations that show a greater interest in protecting their stock price than operational integrity, and their filings are riddled with suspicious transactions

**As a result of our investigation, Citron calls on the internal audit team at GSX to look into student enrollment numbers and revenue more closely. Our research suggests a huge discrepancy between reported figures and reality.**

## **Systematic Overstatements of Revenue**

We thought there was no better way to determine the scope of the financial shenanigans than to track the actual number of students in paid classes directly. This weeds out the noise, and with a large degree of certainty we can estimate the number of students in the paid classes—and hence the company's revenue.

We selected and paid for the most popular classes taught by "Star Teachers" with a significant sample size of >20% of total available classes in Q1 2020. See the below table for the breakdown.

Total programs/lessons tracked versus total programs/lessons available during 1 <sup>st</sup> Quarter 2020				
K-12 Levels	Elementary (7-12)	Middle (13-15)	High School (16-18)	Total
Total available paid programs	20	37	76	133
Total available lessons	459	418	875	1752
No. of tracked programs	4 (1 postponed)	11	3	18
<b>% of total available prgms</b>	<b>20%</b>	<b>30%</b>	<b>4%</b>	<b>14%</b>
Total tracked lessons	133 (44 postponed)	165	64	362
<b>% of total available lessons</b>	<b>29%</b>	<b>39.4%</b>	<b>7.3%</b>	<b>20.6%</b>

*Quick definition:*

*Program = the actual subject of a particular K12 level that is available*

*Lessons = the number of classes in a particular program, this ranges from 15 - 44 lessons per program.*

*Each lesson lasts 1 to 1.5 hours.*

With the exception of one elementary English program that was postponed because the start of the Spring school term in China was delayed (yes, GSX online classes mirror actual school schedules), we successfully tracked and captured the number of students and actual discounted course fees (we know because we negotiated and bought these programs ourselves) for >20% of total available classes during Q1 2020.

As shown in the table below, there are a total of 34,726 IDs across 18 programs. This was sieved out from the 478,229 comments that were captured during these lessons. Of the total 34,726 IDs, 27,558 are unique, meaning that a percentage of them have purchased two or more programs simultaneously. This is a conservative figure since we also included all the potential planted users in these classes who have participated actively in the class.

No.	Levels	Subject	Class name	Instructor	# of lessons	Class dates	Course fees (net)	No. of paid users	Revenue
1	Elemtry	English	2020【春】《超级拼读》彻底搞定单词	Sam	44	9/2 – 9/7	3,498		
2	Elemtry	Chinese	2020【春】《无忧作文》第12期精讲-上	张镇	26	1/2 – 25/7	3,288	2,401	7,894,488
3	Elemtry	Chinese	2020【春】《无忧阅读》第12期精讲-上	张镇	26	20/3 – 16/6	1,600	2,068	3,308,800
4	Elemtry	Chinese	高效学习系列课	陈晓丹	37	15/2 – 2/6	2,098	811	1,701,478
				Subtotal	133				12,904,766
5	Middle 1	Chinese	【2020-春】七年级语文目标班	木木	15	22/2 – 6/6	1,899	1,664	3,159,936
6	Middle 1	Math	【2020-春】七年级数学目标班	傲德	15	22/2 – 6/6	1,899	2,596	4,929,804
7	Middle 1	English	【2020-春】七年级英语目标班	李军	15	22/2 – 6/6	1,899	4,333	8,228,367
8	Middle 2	Chinese	【2020-春】八年级语文目标班	木木	15	23/2 – 6/7	1,899	1,082	2,054,718
9	Middle 2	Math	【2020-春】八年级数学目标班	傲德	15	22/2 – 6/6	1,899	1,357	2,576,943
10	Middle 2	English	【2020-春】八年级英语目标班	李军	15	22/2 – 6/6	1,899	5,158	9,795,042
11	Middle 2	Physics	【2020-春】八年级物理目标班	一森	15	22/2 – 6/6	1,899	239	453,861
12	Middle 2	Chinese	【2020-春】九年级语文目标班	木木	15	23/2 – 6/7	1,799	1,082	1,946,518
13	Middle 3	Math	【2020-春】九年级数学目标班	傲德	15	23/2 – 6/7	1,799	3,999	7,194,201
14	Middle 3	English	【2020-春】九年级英语目标班	李军	15	22/2 – 6/6	1,899	2,885	5,478,615
15	Middle 3	Physics	【2020-春】九年级物理目标班	一森	15	22/2 – 6/6	1,599	1,871	2,991,729
				Subtotal	165				48,809,734
16	High 1	Chinese	2020-春 高一语文拔高班	何信	16	23/2 – 7/6	2,898	840	2,434,320
17	High 1	Math	2020-春 高一数学拔高班 (海) (4+3)	程玲海	16	23/2 – 7/6	2,898	233	675,234
18	High 1	English	2020-春 高一英语拔高班 (瑶)	张冰瑶	16	15/2 – 7/6	2,898	1,260	3,651,480
19	High 1	Physics	2020-春 高一物理拔高班	马红旭	16	22/2 – 6/6	2,898	847	2,454,606
				Subtotal	64				9,215,640
				Total	362				70,930,140

Total paid users	34,726
Average no. of users	1,929

The total revenues from these 34,726 IDs sum up to around RMB 70.9 million. We then extrapolated the revenues from this sample onto the rest of the remaining untracked classes and have arrived at an estimate of K-12 Q1 2020 revenue of RMB 316 million, **which amounts to a 60% discrepancy with reported K-12 Q4 2019 revenue of RMB 773 million.** Considering the consistent growth rates of nearly doubling every quarter for the past four quarters, **we believe the revenue overstatement for 2019 could be as much as 70%.**

	Total tracked revenue	Tracked lessons	Total lessons	% of total	Extrapolated revenues
Elementary sch	12,904,766	89	459	19%	66,553,793
Middle sch	48,809,734	165	418	39%	123,651,326
High Sch	9,215,640	64	875	7%	125,995,078
					Actual Q1 2020 revenue from K12
					316,200,197
					Reported Q4 2019 revenue from K12
					773,000,000
					<b>% discrepancy assumed zero growth</b>
					<b>-59.1%</b>

The implications are devastating. With K-12 revenues making up more than 80% of GSX total revenues, it is clear that total actual revenues are likely to be much lower than reported revenues. One other thing: the company said that they have a large number of paying students that have paid for the RMB 99 and RMB 199 trial classes. It is unlikely that revenues from these trial classes make up for a significant portion of total revenues. We have taken a conservative approach to our estimates and we believe that the buffers given should more than make up for this potential gap.



年級	科目	數量	課程	講師	課程周期
三年級	數學思維		《數學命題專家5天訓練營》助力3-6年級輕鬆應對小升初	彭澤	
三年級	數學思維		2020【寒】四年級《應用題計算專題預科班》	彭澤	
三年級	數學思維		2020【寒】三年級《思維啟蒙班》	彭澤	
三年級	數學思維		2020【春】三年級超級教學提分班	元宜	2月16日-5月31日
三年級	數學思維		2019【秋】三年級數學思維培优班	笑老師	9月7日-12月7日
三年級	英語		超級拼讀4天訓練營-5分鐘默寫一本書單詞	Sam	
三年級	英語		2020【春】《超級拼讀》徹底搞定單詞	Sam	
三年級	英語		2020【期末】《超級語法》帶你玩转英語語法	Sam	
四年級	語文		語文界的“郭德綱”讓你作文閱讀拿高分	張鎮	
四年級	語文		2020【春】《無愁作文》第12期精講（上）	張鎮	2月1日-7月25日
四年級	語文		2020【春】《無愁作文》第13期精講（上）	張鎮	4月25-10月17日
四年級	語文		2020【春】《無愁古詩文》第3期精講	張鎮	2月2日-5月17日
四年級	語文		“三位一體”精品素養課（春季）	周楠	2月16日-5月31日
四年級	語文		高效學習系列課	陳曉丹	3月20日-6月16日
四年級	語文		“三位一體”三年級閱讀寫作考神班（春季）	周楠	2月15日-6月2日
四年級	數學		《超級教學提分班》-最能提分的數學班	元宜	
四年級	數學		《數學命題專家5天訓練營》助力3-6年級輕鬆應對小升初	彭澤	
四年級	數學		2020【寒】四年級《應用題計算專題預科班》	彭澤	1月7日-7月10日
四年級	數學		小學數學應用題高頻考點全解	鮑騰越	3月24日-5月29日
四年級	數學		2019【秋】三年級數學思維培优班	笑老師	9月7日-12月7日
四年級	數學思維		《數學命題專家5天訓練營》助力3-6年級輕鬆應對小升初	彭澤	
四年級	數學思維		2020【寒】四年級《應用題計算專題預科班》	彭澤	
四年級	數學思維		2020【寒】三年級《思維啟蒙班》	彭澤	
四年級	數學思維		2020【春】四年級超級教學提分班	元宜	2月16日-5月31日
四年級	數學思維		2020【寒】五年級《應用題計算專題預科班》	彭澤	1月18日-8月5日
四年級	英語		超級拼讀4天訓練營-5分鐘默寫一本書單詞	Sam	
四年級	英語		2020【春】《超級拼讀》徹底搞定單詞	Sam	
四年級	英語		2020【期末】《超級語法》帶你玩转英語語法	Sam	
四年級	英語		【快學閱讀】——迅速搞定小學英語閱讀	大宋老師	2月14日-5月22日
四年級	英語		【快學單詞】全面搞定小學單詞音形義用	大宋老師	2月11日-5月19日
五年級	語文		語文界的“郭德綱”讓你作文閱讀拿高分	張鎮	
五年級	語文		2020【春】《無愁作文》第12期精講（上）	張鎮	2月1日-7月25日
五年級	語文		2020【春】《無愁作文》第13期精講（上）	張鎮	4月25-10月17日
五年級	語文		2020【春】《無愁古詩文》第3期精講	張鎮	2月2日-5月17日
五年級	語文		“三位一體”精品素養課（春季）	周楠	2月16日-5月31日
五年級	語文		高效學習系列課	陳曉丹	3月20日-6月16日
五年級	語文		“三位一體”三年級閱讀寫作考神班（春季）	周楠	2月15日-6月2日
五年級	數學		《超級教學提分班》-最能提分的數學班	元宜	
五年級	數學		《數學命題專家5天訓練營》助力3-6年級輕鬆應對小升初	彭澤	
五年級	數學		2020【寒】四年級《應用題計算專題預科班》	彭澤	1月7日-7月10日
五年級	數學		《魔法教學》必學應用題技巧	鮑騰越	3月24日-5月29日
五年級	數學		2020【寒】五年級《應用題計算專題預科班》	彭澤	1月18日-8月5日
五年級	數學		小學數學應用題高頻考點全解	鮑騰越	3月24日-5月29日
五年級	數學思維		《數學命題專家5天訓練營》助力3-6年級輕鬆應對小升初	彭澤	
五年級	數學思維		2020【寒】四年級《應用題計算專題預科班》	彭澤	
五年級	數學思維		2020【寒】三年級《思維啟蒙班》	彭澤	
五年級	數學思維		2020【春】五年級超級教學提分班	元宜	2月16日-5月31日
五年級	數學思維		2020【寒】五年級《應用題計算專題預科班》	彭澤	1月18日-8月5日
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五年級	英語		2020【春】《超級拼讀》徹底搞定單詞	Sam	
五年級	英語		2020【期末】《超級語法》帶你玩转英語語法	Sam	
五年級	英語		【快學閱讀】——迅速搞定小學英語閱讀	大宋老師	2月14日-5月22日
五年級	英語		【快學單詞】全面搞定小學單詞音形義用	大宋老師	2月11日-5月19日
六年級	英語		超級拼讀4天訓練營-5分鐘默寫一本書單詞	Sam	
六年級	英語		2020【春】《超級拼讀》徹底搞定單詞	Sam	
六年級	英語		2020【期末】《超級語法》帶你玩转英語語法	Sam	
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六年級	語文		語文界的“郭德綱”讓你作文閱讀拿高分	張鎮	
六年級	語文		2020【春】《無愁作文》第12期精講（上）	張鎮	2月1日-7月25日
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六年級	數學		《超級教學提分班》-最能提分的數學班	元宜	
六年級	數學		《數學命題專家5天訓練營》助力3-6年級輕鬆應對小升初	彭澤	

We found out that 24 are free classes (hence excluded), 10 summer classes (hence excluded), and 46 programs are duplicates. Effectively, there are only 20 paid programs out of the 100 programs that we've initially recorded (100 total - 46 duplicates - 10 summer classes - 24 free classes = 20 paid classes).

The duplicates are classes that are exactly the same (taught by the same instructor and during the same time) for the different levels of elementary school. The duplicates appear in each of the elementary levels' menu of programs but end up with the same program ID number just before purchase (i.e., an elementary 1 student would purchase the exact same program as an elementary 6 student).

One may ask: How can a level 1 student take the same class as a level 6 student? The company could explain by saying duplicate classes are usually the ones that teach the techniques of language or math, for instance in the example below, how to learn English Vocabulary effectively. Like you, we are still very skeptical about the large number of duplicate classes and suspect that duplicate classes were used mostly to give the impression that there are a large number of elementary courses offered.

年级	科目	数量	课程
一\二年级	英语		2020【春】《超级拼读》彻底搞定单词
三年级	英语		2020【春】《超级拼读》彻底搞定单词
四年级	英语		2020【春】《超级拼读》彻底搞定单词
五年级	英语		2020【春】《超级拼读》彻底搞定单词
六年级	英语		2020【春】《超级拼读》彻底搞定单词

*One example of duplicates: elementary levels 1 to 6 have the same program called "2020 Spring: Super Puzzles, Conquer English Vocabulary"*

Because these duplicates only appear for elementary levels—touted by GSX as their fastest growing segment—we can't help but wonder if this is a trick that GSX has conveniently used to fool the auditors and 'make up' for the shortfall in revenue (why not just claim twice the revenue for the same class).

\*In the Appendix, we have included our methodology. Needless to say Citron has employed an extensive on the ground team in China who has come to these conclusions with web scraping, interviews, and deduction. While it is impossible to obviously capture the workings of any fraud 100% without being in court, we believe the work is complete enough to get us to our deduction of 70% fake revenues. Part 2 will provide more details with additional government documentation.

## **GSX management's behavior mimics all of the others in the past who have been guilty of fraud.**

*"The lady doth protest too much" – William Shakespeare*

After going public less than a year ago at \$10.50 per share and insiders dumping stock in a secondary shortly thereafter at \$14 per share, the company's recent reaction to a small correction in its share price highlights GSX management's "sensitivity" when being called out on the accuracy of their numbers.

When asked about the accuracy of his traffic compared to respected sources of data information, the CEO responded in the most non-quantitative way.

*"If you treat traffic as traffic, traffic is traffic. If you treat traffic as people, then it spreads from people to people."*

Later in the US, the CFO responded,

*"The most effective approach will always be visiting the company physically and in person to fully understand that the company, the management and the people. Did you may visit GSX to know those GSX people who devoted their full heart to our parents and students, those work day and night and still could jam the traffic and those young men and girls who fight for their beautiful life and serve each parents and students to their satisfaction."*

What does all that mean? Why does no one know of your success but yourself?

When asked if there is any share pledge financing, the Chairman stated that until now the core management hasn't sold any of their shares and that he is even considering "purchasing some more shares."

GSX still didn't explain why so many co-founders are leaving. For instance, GSX Chairman Larry offered the simple explanation that Huaiting Zhang resigned for personal reasons and that Yuxiao Song left the company due to family reasons.

## **Why do GSX's Chinese Official Government Financials Differ from the Ones Filed with the SEC?**

Lastly, and not to be tedious, we will discuss the answer that gives away that they are in way over their head with covering up the fraud.

For this, we analyze why their PRC credit reports and SEC filings do not reconcile.

In response to criticism of their PRC credit reports and SEC filings showing a 75% discrepancy in net profits, the company answered:

*“The gap between the company's credit report and S-1 filing was actually GAAP difference between China and U.S. after the group's restructured to spin-off 2B business in 2017. The difference is totally reasonable and legitimate and has nothing to do with operational numbers.”*

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 <sup>1</sup>	0	11,794
<b>Sum Based on Credit Reports</b>	<b>96,174</b>	<b>402,462</b>
<b>SEC Reported Revenues</b>	<b>97,580</b>	<b>397,306</b>
<b>Overstatement in %</b>	<b>1.5%</b>	<b>-1.3%</b>

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

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	(168)	(623)
<b>Sum Based on Credit Reports</b>	<b>(86,125)</b>	<b>11,252</b>
<b>SEC Reported Net Profit</b>	<b>(86,955)</b>	<b>19,650</b>
<b>Overstatement in %</b>	<b>1.0%</b>	<b>74.6%</b>

Citron along with accounting experts dug through the F-1 and 20-F filings for any disclosures around a spin-off or divestiture, and the conclusion is that management is lying.

[Page F-27 of F-1 filing](#) notes that:

*“Disposal of Beijing Baijia Shilian Technololy 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. 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.”***

[Page F-47 of 20-F filing](#) shows an RMB 6 million decrease GSX’s valuation allowance related to subsidiary disposals in 2017. A RMB 6 million decrease in valuation allowance is in no way immaterial.

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at beginning of the period	25,976	31,387	42,797
Additions	11,743	11,410	36,138
Decrease related to subsidiary disposals	(6,332)	—	—
Reversal	—	—	(38,583)
Balance at end of the period	31,387	42,797	40,352

## How does an “insignificant” transaction drive a 75% difference in net profit between your SEC filings and PRC credit reports?

GSX also failed to address the main concern that these related parties exist to remove expenses off the company’s books. Instead, they deliberately misconstrued the previous criticisms of Grizzly Research’s and said that “Beijing Youlian transferred its profit to GSX.” Moreover, the company failed to address the job postings that Grizzly Research found which basically signals that related parties are alter egos for GSX, as we have seen in other fraudulent Chinese companies over the years.

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

## Another Red Flag – Fake Students

Several reports have accused the company of inflating its revenues by planting fake student users in WeChat groups. This can be spotted in their overly positive, frequent, and identical comments below.

 请输入 ★★★★★	非常好，学到新的单词，棒棒棒棒 词霸天下38000词汇记忆全集	Very good, I've learned new words, great great great	2020-04-07 19:16:28
 请输入 ★★★★★	非常好，学到新的语法，棒棒棒棒 万法归宗之英语语法速成全集	Very good, I've learned new grammar, great great great	2020-04-07 19:16:13
 手续费 ★★★★★	感觉越听越有进步，学到的单词也很多，但是需要课后的练习巩固。 词霸享之词汇记忆训练营		2020-04-07 19:01:51
 手续费 ★★★★★	老师讲课幽默风趣用的方法很实用，但是希望老师稍微长的慢一点，刚开始。 词霸天下38000词汇记忆全集		2020-04-07 19:01:16
 手续费 ★★★★★	老师讲的单词都很实用，讲的都是干货，听一次爽，一直听一直爽。 语法写作速成公开课		2020-04-07 19:00:41
 Ymc ★★★★★	爱听课的我，每天坚持听一节课真的好 极简英语—从零基础到英语能力全面提升	As a person who likes to attend classes, I feel so good to attend a class everyday	2020-04-07 09:26:34
 Ymc ★★★★★	听了这节课来报班学习的，这么多人一起 极简英语第一节课	Enrolled after attending this class, so many people together	2020-04-07 09:24:01
 小文静 ★★★★★	喜欢字幕的教学风格，易懂，喜欢 【极简英语】—跟着翻译官重塑英文体系		2020-04-07 09:23:50
 Alice & You ★★★★★	一节课就让我对百分之70的句子有了清晰的认识，太神奇了，如果我以前的老师能这样教的话估计我的英语能考140分 极简英语第一节课		2020-04-07 09:07:43
 Alice & You ★★★★★	希望能跟着老师学习，希望自己是最后一次学习英语 极简英语—从零基础到英语能力全面提升	Hope to study with this teacher, also hope this is my last time studying English	2020-04-07 09:06:10
 Alice & You ★★★★★	很喜欢老师讲的，听完后总想再听，停不下来 极简英语第二节课		2020-04-07 09:05:33
 Alice & You ★★★★★	老师讲得非常有条理，让我茅塞顿开 极简英语限时福利回放		2020-04-07 09:05:00

During the video conference, Chairman Larry shared a story about how thorough auditors were, claiming they went through various sampling and complicated statistical models to ensure GSX operating data was not fake. However, we believe if the company showed the auditors the screen shots from their promotional WeChat groups that clearly signal duplicate accounts and fake students, auditors will not hesitate to issue an adverse opinion.



Credit to @leaps\_capital for uncovering recent evidence showing that comments under GSX courses came from fake accounts. According to their research, 70% of the course comments were given by accounts with names that correspond to students of the ancient Chinese philosopher and politician, Confucius, and that many accounts used fake profile pictures. According to them, about 80% of the users are fabricated.

Note: Leaps Capital also analyzed their streaming software and found that there was nothing innovative about it. In fact, GSX **cannot even support two-way communication**, which is crucial to live streaming. Hence, they claim that 50% of the so-called large streaming classes are, in fact, videotaped.

## Conclusion

Citron has uncovered more fraud in China than anyone. In 2011, the Chinese government was arresting locals who helped short sellers expose fraud. 2020 is completely different. The beauty of this whole thing is that we must give credit to the local Chinese consumers who helped expose fraud at GSX. This report could

not have happened without the diligence and tech-savvy of the locals who assisted us.

## Cautious Investing to All

### Appendix

The following information provided was compiled by a group of sophisticated on the ground researchers in China. We recommend readers read [Grizzly Research](#) and [Leaps Capital](#) for additional information.

### Methodology

To estimate the companies' revenues for Q1, we dove deep into GSX operations. This included more than 1,000 hours of class time and cleaning up data over a span of a full quarter from January to March 2020. This represents >20% of the total available class hours during Q1 2020. We selected the more popular classes taught by GSX's star teachers in order to capture higher quality paid users and revenue.

The work has allowed us to clearly identify:

- Number of unique paid users
- Quality of comments to differentiate actual from automated users or bots
- Geographic distribution of users across China
- User patterns over the span of the classes to understand trends such as plateauing of user growth and potential drop-out rates

This has given us a high degree of confidence that our estimate of users and revenue of GSX is accurate.

Since K-12 classes make up more than 80% of the total revenue of GSX, we only chose to buy, track, and analyze the K-12 classes that were available during Q1 2020. To ensure we have a healthy and representative sample size, we selected >20% of total available lessons and picked the more popular classes with the so-called "star teachers." We believe our sample was a high-quality representation of GSX's student body as the classes that we did not select had below-average adoption rates.

Below is a list of the classes we've selected, and the teachers' names:

	Levels	Subject	Class name	Instructor	Total classes	Class dates	Course fees (net)
1	All Elmtry	English	2020【春】《超级拼读》彻底搞定单词	Sam	44	9/2 – 9/7	3498
2	All Elmtry	Chinese	2020【春】《无忧作文》第12期精讲-上	张镇	26	1/2 – 25/7	3288
3	All Elmtry	Chinese	2020【春】《无忧阅读》第12期精讲-上	张镇	26	20/3 – 16/6	1600
4	All Elmtry	Chinese	高效学习系列课	陈晓丹	37	15/2 – 2/6	2098
			Subtotal		<b>133</b>		
5	Middle 1	Chinese	【2020-春】七年级语文目标班	木木	15	22/2 – 6/6	1899
6	Middle 1	Math	【2020-春】七年级数学目标班	傲德	15	22/2 – 6/6	1899
7	Middle 1	English	【2020-春】七年级英语目标班	李军	15	22/2 – 6/6	1899
8	Middle 2	Chinese	【2020-春】八年级语文目标班	木木	15	23/2 – 6/7	1899
9	Middle 2	Math	【2020-春】八年级数学目标班	傲德	15	22/2 – 6/6	1899
10	Middle 2	English	【2020-春】八年级英语目标班	李军	15	22/2 – 6/6	1899
11	Middle 2	Physics	【2020-春】八年级物理目标班	一森	15	22/2 – 6/6	1899
12	Middle 2	Chinese	【2020-春】九年级语文目标班	木木	15	23/2 – 6/7	1799
13	Middle 3	Math	【2020-春】九年级数学目标班	傲德	15	23/2 – 6/7	1799

14	Middle 3	English	【2020-春】 九年级英语目标班	李军	15	22/2 – 6/6	1899
15	Middle 3	Physics	【2020-春】 九年级物理目标班	一森	15	22/2 – 6/6	1599
			Subtotal		<b>165</b>		
16	High 1	Chinese	2020-春 高一语文拔高班	何信	16	23/2 – 7/6	2898
17	High 1	Math	2020-春 高一数学拔高班 (海) (4+3)	程玲海	16	23/2 – 7/6	2898
18	High 1	English	2020-春 高一英语拔高班 (瑶)	张冰瑶	16	15/2 – 7/6	2898
19	High 1	Physics	2020-春 高一物理拔高班	马红旭	16	22/2 – 6/6	2898
			Subtotal		<b>64</b>		
			Total class hours tracked		<b>362</b>		

To date, we have bought and tracked 29% / 39% / 7% of the total available lessons of elementary / middle / high school classes, respectively. The reason why we tracked fewer high school classes is simply because there are more subjects and programs for high school students than for middle and elementary school students.

高二	英语	2020英语高考培优班 (柳)	徐森	1,698	8	1月19日-2月9日
高三	物理	2020高考物理二轮复习春季班	耿佩	2,898	16	2月16日-5月10日
高三	物理	2020高考物理二轮复习寒假班	耿佩	1,698	7	1月20日-1月31日
高三	化学	2020高考化学二轮复习寒假班	文树斌	1,698	7	1月20日-1月31日
高三	化学	2020高考化学二轮复习春季班	文树斌	2,898	16	2月16日-5月10日
高三	化学	2020高考化学二轮复习寒假班	张苗苗	1,698	7	1月20日-1月31日
高三	化学	2020高考化学二轮复习春季班	张苗苗	2,898	16	2月16日-5月10日
高三	生物	2020高考生物二轮复习寒假班	周莹	1,698	7	1月20日-1月31日
高三	生物	2020高考生物二轮复习春季班	周莹	2,898	16	2月15日-5月9日
高三	生物	2020高考生物二轮复习寒假班	张继光	1,698	7	1月20日-1月31日
高三	生物	2020高考生物二轮复习春季班	张继光	2,898	16	2月15日-5月9日
高三	地理	2020高考地理二轮复习寒假班	李伟俊	1,698	7	1月20日-1月31日
高三	地理	2020高考地理二轮复习春季班	李伟俊	2,898	16	2月16日-5月10日
高三	历史	2020高考历史二轮复习寒假班	褚润	1,698	7	1月20日-1月31日
高三	历史	2020高考历史二轮复习春季班	褚润	2,898	16	2月16日-5月10日
高三	政治	2020高考政治二轮复习寒假班	徐微微	1,698	7	1月20日-1月31日
高三	政治	2020高考政治二轮复习春季班	徐微微	2,898	16	2月16日-5月10日

More subjects for high school as seen in the high school program list above, including history, politics, geography, and so on, that middle and elementary school do not have

Also, there are sometimes more than one teacher for the same high school program, and these programs are also split into shorter and longer sessions, just to give high school students more selection, since they are older and usually are given more freedom from their parents than the younger middle and elementary school crowd.

年级	科目	课程名称	教师	人数	课时	上课日期
高三	数学	2020高考数学二轮复习春季班 (殷)	殷方展	2,898	16	2月15日-5月9日
高三	数学	2020高考数学二轮复习寒假班 (殷)	殷方展	1,698	7	1月20日-1月31日
高三	数学	2020高考数学二轮复习春季班 (赵)	赵礼亚	2,898	16	2月13日-5月9日
高三	数学	2020高考数学二轮复习寒假班 (赵)	赵礼亚	1,698	7	1月20日-1月31日
高三	数学	2020高考数学二轮复习春季班 (胡)	胡金利	2,898	16	2月15日-5月9日
高三	数学	2020高考数学二轮复习寒假班 (胡)	胡金利	1,698	7	1月20日-1月31日

Three different teachers for the same math program for High School level 3; the same math programs are split into a shorter lessons (7) and longer ones (16)

Hence, we only selected the more popular teachers and programs to track. For example, English programs would definitely be more popular than politics programs. This also supports our conservative selection process in order to obtain more accurate extrapolated numbers.

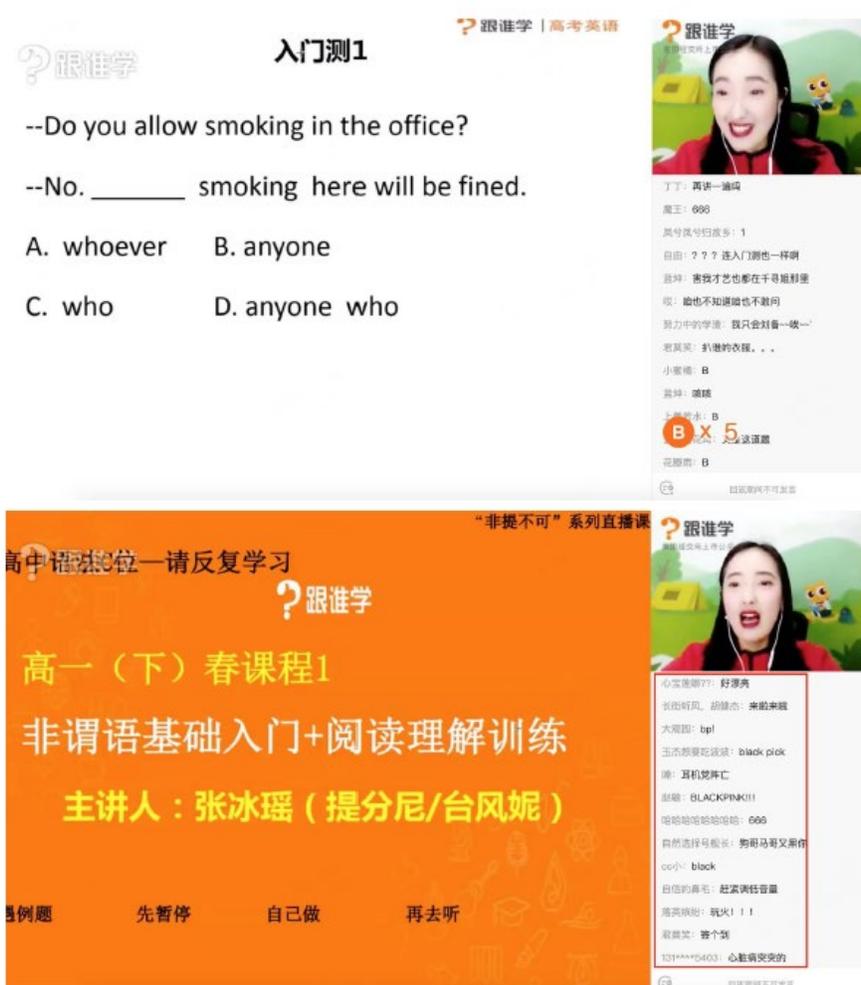
We captured a total of 478,229 comments made by a total of 27,558 unique users whom we believe are paid users in these classes. Of the 27,558 unique users, we found that 22% of them enrolling in 2 or more classes.

Breakdown of students enrolling in 2 or more classes		
	Student numbers	% of total students
2 classes	5,025	18.2%
3 classes	981	3.6%
4 classes	64	0.2%
5 classes	2	0.0%
<b>Number of students in 2 or more classes</b>	<b>6,072</b>	<b>22.0%</b>
<b>Total number of unique paid users</b>	<b>27,558</b>	

## How are unique paid users captured?

Paid users participate actively throughout these classes, responding to the teachers' questions or asking teachers questions in the comment section (see red box in the image below). These classes are only available to paid users. As long as a user makes a comment once over the entire duration of the class (10-12 weeks) their unique ID will be captured.

Below are snapshots of an English lesson with live comments on the right-hand corner.



We believe that most paid students would engage in the class at some point. This can range from posting a single “1” during the start of class to acknowledge the teacher, or answering and asking questions. Every student leaves a mark in class

and as long as they leave one comment, we can capture the unique ID of the paid user. Social interaction is highly encouraged during the online class and based on our interviews with numerous students and parents, most if not all of them confirm that online engagement is high and is a barometer for parents to gauge their child's participation in the online lesson.

We believe that we have captured >95% of students in all classes tracked and that it would be extremely rare for the less motivated students to have paid for a class and not participate at all over a 3-month period.

Finally, to further support that our method is sound, the average paid users per class that we captured also matches what the company reported during its Q4'19 earnings transcript.

GSX CFO Shannon Shen:

*“Average enrollments per class further increased from 1,400 in the third quarter in 2019 to around 1,700 in the fourth quarter.”*

Average enrollments that we have captured is 1,929, which is significantly higher than the average of 1,700 per class disclosed by the company. **This means that the classes we've selected are indeed the more popular ones and our estimate is likely inflated by planted users.**

## Overlapping of customers from Winter

We also wanted to address the issue of overlapping classes from Winter or Q4 2019 (begun in October to December) and extended into Spring. Similarly, many of the Spring classes also overlapped into Summer (i.e., Q2 2020). We assumed that all monies and classes started in Q4 2019 are recorded as revenues in Q4 2019 and that all spring classes that began from January to March are recorded in Q1 2020. Revenue treatment should cancel out the overlap effects. Another simple factor: since the company is constantly developing more classes, Spring programs should exceed the number of Winter programs.

## Prices

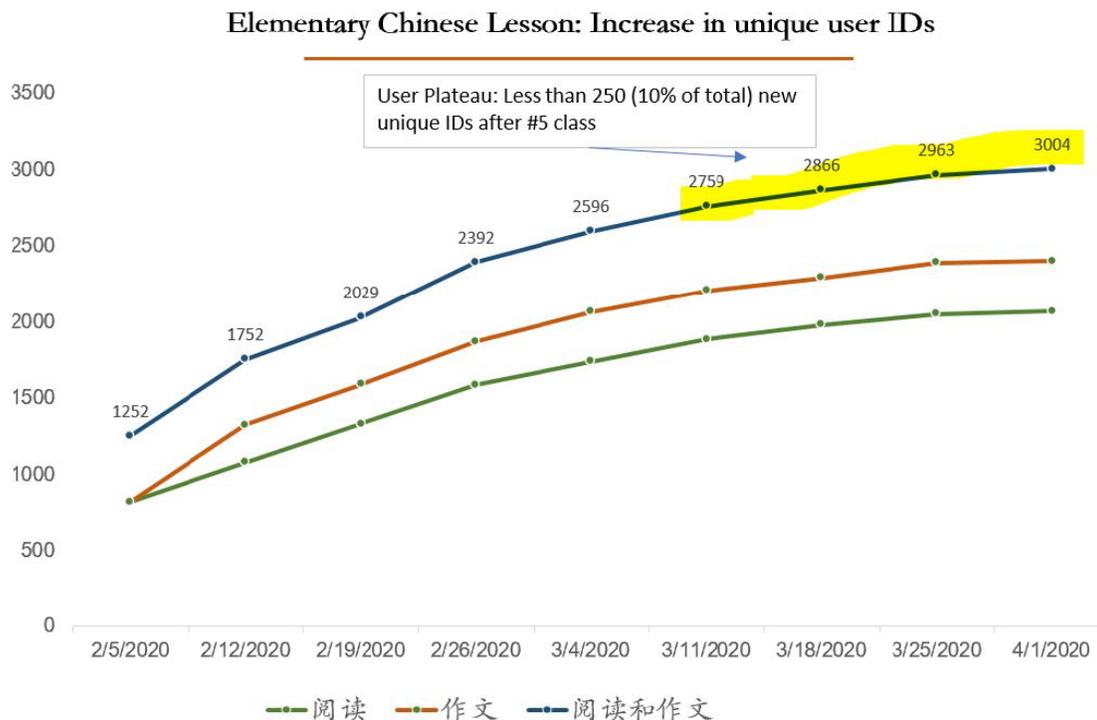
The net fees that we've paid for the classes are significantly lower than list prices. We are using these prices in calculating the net revenues of GSX during Q1 2020

instead of the list prices, as most parents are able to obtain these prices as a first-time user or through a bundled price. *We didn't even try to bargain very hard.*

### User plateau and tracking

We believe that the numbers we have today cover nearly all the students for three key reasons:

- New additional unique IDs typically plateau after the 4th or 5th class
- Students typically do not purchase a class that has already started 3 or 4 classes ago
- GSX doesn't allow new signups for programs that have started for a while (after 4th or 5th class) and instead will direct students to the same class running in the next quarter (i.e., from Spring to Summer / Q1 to Q2)



注释: 该表统计授课过程中, 不同用户的数量

The graph above shows the cumulative increase in unique IDs for three different elementary Chinese programs that we've been tracking, and the plateau of new users is evidenced from the less than 250 new IDs (less than 10% of total users) increase from lesson #6 to #9.

### User Geography

As mentioned earlier, a unique user ID's geographic location can only be captured when he or she changes the name that was initially auto-generated when one first logs in as a free user. Of all the 27,558 unique IDs that we have captured in the paid classes, only 15,257 of them, or 60%, have changed their names. Hence, our geographic data is only limited to this sample size.

The table below shows a breakdown of paid students across China and a few from overseas.

Provinces/Other Countries	Student #	% of total	Less Hubei Prov
Hubei Province	6,533	42.82%	-
Guangdong Province	980	6.42%	11.23%
Jiangsu Province	870	5.70%	9.97%
Zhejiang Province	744	4.88%	8.53%
Shandong Province	528	3.46%	6.05%
Beijing	463	3.03%	5.31%
Hebei Province	423	2.77%	4.85%
Liaoning Province	420	2.75%	4.81%
Sichuan Province	406	2.66%	4.65%
Henan Province	400	2.62%	4.59%
Hunan Province	384	2.52%	4.40%
Fujian Province	338	2.22%	3.87%
Anhui Province	305	2.00%	3.50%
Shaanxi Province	298	1.95%	3.42%
Jiangxi Province	280	1.84%	3.21%
Shanghai	269	1.76%	3.08%
Shanxi Province	193	1.26%	2.21%
Heilongjiang Province	167	1.09%	1.91%
Yunnan Province	164	1.07%	1.88%
Jilin Province	150	0.98%	1.72%
Chongqing	148	0.97%	1.70%
Tianjin	147	0.96%	1.69%
Inner Mongolia Autonomous Region	140	0.92%	1.60%
Gansu province	111	0.73%	1.27%
Guangxi Zhuang Autonomous Region	103	0.68%	1.18%
Guizhou Province	88	0.58%	1.01%
Xinjiang Uygur Autonomous Region	47	0.31%	0.54%
Qinghai Province	38	0.25%	0.44%
Hainan	35	0.23%	0.40%
Ningxia Hui Autonomous Region	25	0.16%	0.29%
Xinjiang Province	23	0.15%	0.26%
Guangxi Province	12	0.08%	0.14%
Inner Mongolia	10	0.07%	0.11%
Ningxia	4	0.03%	0.05%
Japan	4	0.03%	0.05%
Hong Kong Special Administrative Region	3	0.02%	0.03%
United States	2	0.01%	0.02%
Tibet Autonomous Region	1	0.01%	0.01%
Australia	1	0.01%	0.01%
<b>Total</b>	<b>15,257</b>		

GSX announced earlier this year that they would be giving out RMB 20 million worth of free classes to the students who are on lockdown in Hubei province, especially in Wuhan City. As mentioned above, we found that nearly half the paid users were from Hubei province and largely from Wuhan city for Q1 2020. *This is troubling because it could only mean that GSX didn't have a strong diversified*

*student base to begin with, and that the previous sales revenues are largely exaggerated.*

Breakdown of cities in Hubei Province		#
Wuhan		6,322
Yichang City		27
Jingzhou		25
Xiangyang		21
Xiaogan		18
Huanggang		16
Ezhou		16
Jingmen		13
Shiyan		9
Qianjiang		6
Enshi Tujia and Miao Autonomous Prefecture		6
Xianning		5
Suizhou		4
Tianmen		2
Yellowstone		2
Xiantao		1
Unknown		40
total		<b>6,533</b>

Breakdown of Tier cities		
	#	%
Tier 1 and 2	10,326	68%
Tier 3 and 4	4,931	32%
Total	15,257	

Another interesting discovery was that most of the GSX students appear to come from Tier 1 and 2 cities (Wuhan alone contributes 6K people and is a Tier 2 city). Why would the company lie about this and say that the majority of paid users are from lower tier cities? Two possible explanations:

- Our sample size is too small and not representative of the entire paid user population
- GSX is lying that the majority of users are from lower tier cities in an attempt to explain how the company has grown so fast despite many Chinese parents in Tier 1 and 2 cities being unaware of GSX

Which explanation to believe? Previous short reports have already correctly pointed out that GSX's prices are significantly higher than its more well-known online education peers. Also, we all know that lower-tiered cities are typically more sensitive to price. If the product is somewhat similar, it usually comes down to price—and in this instance, it should be no different.

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