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CEDU - Q1 2013 CHINAEDU CORP Earnings Conference Call

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CORPORATE PARTICIPANTS

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Helen Plummer *ChinaEdu Corp - Senior IR Coordinator*

CONFERENCE CALL PARTICIPANTS

Mark Marostica *Piper Jaffray - Analyst*

Ella Ji *Oppenheimer & Co - Analyst*

PRESENTATION

Operator

Hello, and thank you for standing by for ChinaEdu's First Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I'd now like to turn the meeting over to your host for today's conference, Helen Plummer, Senior Investor Relations Coordinator for ChinaEdu.

Helen Plummer - *ChinaEdu Corp - Senior IR Coordinator*

Hello, everyone, and welcome to ChinaEdu's first quarter 2013 earnings conference call. The Company's first quarter earnings results were released earlier today and are available on the Company's Investor Relations website at www.chinaedu.net as well as on newswire services.

Today, you will hear from our Executive Chairman, Julia Huang, who will talk about strategy, Mr. Shawn Ding, Chief Executive Officer, who will discuss business operations, and Mr. Simon Mei, Chief Financial Officer, who will discuss our financial results in more detail. After their prepared remarks, the team will be available to answer your questions.

Please note that today's discussion will contain certain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our future results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in our registration statement on Form F-1 and annual report on Form 20-F and in other documents filed with the US Securities and Exchange Commission.

ChinaEdu does not assume any obligation to update any forward-looking statements except as required under applicable law. As a reminder, this conference is being recorded. In addition, a webcast of this conference will be available on our investor relations website at www.chinaedu.net.

I'll now turn the call over to ChinaEdu's Executive Chairman, Julia Huang.

Julia Huang - *ChinaEdu Corp - Executive Chairman*

Thank you, Helen, and thank you, everyone, for joining us today. 2013 is off to a good start. Our focus as we kicked off this year, will remain expanding and optimizing our learning centers network, and fostering collaborative relationships with top universities in China to further enhance our online course program offerings.



Beyond the online course program progress, we saw progressive developments in many other areas of our business. Continuing education non-degree training programs for teachers that were launched in 2012 have continuously showed steady results.

Additionally, the K-12 online interactive tutoring and the Q&A programs that were expanded in 2012, continue to gain traction and have shown well encouraging results.

Our private schools continue to track well and overall we're pleased with our progress in the first quarter of 2013.

Additionally, we're committed to innovation in technology as it can be applied to teaching and learning methods. As new technology becomes available, we develop next generation platforms and interactive and mobile learning applications as quickly and effectively as possible. This creates a win-win situation as our students and teachers benefit from enhanced access to curriculum and teaching methods while improved technology allows for curbed spending and greater economies of scale.

With our advantage in education technology, as well as our strong relationship with leading universities and well recognized brand name, we are poised to benefit from long-term opportunities available in the education market in China.

With that, I'll now turn the call over to Shawn.

Shawn Ding - *ChinaEdu Corp - CEO*

Thank you, Julia. Ladies and gentlemen, thank you for joining us today. Our reporting results remain unchanged from the last reporting quarter as the fourth quarter of the previous year and the first quarter of the current year contributed to Fall semester recruiting.

Enrollments went well in the Fall semester and we had approximately 207,000 students enrolled in online degree programs. This year the Chinese New Year holiday fell in the middle of February. And with the Spring recruiting season at the end of March, the timing of holiday certainly interrupted our Spring recruiting.

However, both our online degree programs and our learning center teams worked very hard to combat this challenge. Based on preliminary numbers we believe the spring recruiting results will be in line with our expectations.

At the end of the first quarter of 2013 ChinaEdu's learning centers network was providing recruiting services for 23 universities, with 122 operational learning centers, of which 54 were proprietary centers and 68 were contracted centers. We are continuously focused on improving our operational efficiency, through process re-engineering and standardization. We've seen growth and the positive impact had these changes have made and that we're optimistic about positive effects this will bring in 2013 and beyond.

[As Julia talked about our technology], we consider technology to be the corner stone and key enabler of our business. To continue to set a trend of online education, both degree and non-degree, we must continuously invest in technology improvements. So 2013 and 2014 will be critical for us in further elevating our technical technological capabilities.

The first phase of our next generation technology platform will be operational in the second half of 2013. We will continue to make further investment in technology in 2014. Our 101 online tutoring and physical schools are also performing well. In addition, facing regulatory uncertainty, we're aggressively developing online tutoring products and we believe this will be an important revenue cycle for us in the long-term.

In short, we're making a significant investment in technology and product development.

Thank you and with that I will now turn the call over to our CFO, Simon.



Simon Mei - ChinaEdu Corp - CFO

Thank you, Shawn. Ladies and gentlemen, thank you for joining us today. We saw no surprises in our financial performance in the first quarter. Our top line, gross margin and operating margin all beat or met our expectations.

Total net revenue for the first quarter of 2013 was \$19.2 million, a 4.9% increase from \$18.3 million in the corresponding period in 2012. Total net revenue was within the company's guidance range for the quarter. Gross profit margin continued to improve, increased from 60.1% in the Q1, 2012 to 61% in Q1, 2013.

Operating margin also improved from 19.6% in Q1, 2012 to 21.9% in Q1, 2013, mainly due to the increase in net revenue and the effects of cost control. The number of revenue students enrolled in the online degree programs during the Fall 2012 semester increased by 5.1% year-over-year to approximately 207,000 students. We ended the fourth quarter with a strong balance sheet as well.

As of March 31, 2013, we had approximately \$72 million in cash and cash equivalent, term deposits and short-term investments on our books. In Q1, we obtained a bank facility of approximately \$35.5 million, which was fully drawn upon to support our share repurchase announced in December 2012.

During the quarter, we repurchased an average of 19.7 million ordinary shares equivalents for a total cash consideration of \$37.3 million. The repurchased shares were all canceled afterwards. The vast share repurchase contributed greatly to the 43.5% increase in the diluted earnings per ADS, while our net income attributable to ChinaEdu shareholders increased by just 11.6%. Looking ahead we're confident with a steady and a healthy financial performance for the full-year of 2013.

Now let's turn to the guidance for Q2. We expect the total net revenue in the second quarter of 2013 to range from \$20 million to \$20.9 million, representing an 8% to 13% increase from \$18.1 million compared to the corresponding period in 2012.

Now let's turn to operator. Operator?

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions). Your first question from the line comes from Mark Marostica from Piper Jaffray. Please ask the question.

Mark Marostica - Piper Jaffray - Analyst

Yes. Thank you and good evening. Shawn, I just wanted to follow-up on your comments regarding the regulatory uncertainty that you mentioned as driving some of the initiatives in online tutoring. Could you expand on the regulatory uncertainties you're referring to there?

Shawn Ding - ChinaEdu Corp - CEO

Hi, Mark. Thanks for the question. This is Shawn. Yes, we had been very hopeful in the earlier -- the beginning of the year that the regulatory approval will happen this year, but after almost six months has passed by and we have been in close communication with the MOE and some of the other related agencies.

And as of this point, we have not seen any actual action taken and not even any access for example accepting -- officially accepting application for example. So, that make us very disappointing, I would say, and at this point that we cannot clearly see a pass or timing that these things would happen any time soon. So we're very concerned on that as well.

Mark Marostica - Piper Jaffray - Analyst

I see. Okay, very good. And then you mentioned also that next generation technology platform with Phase 1 being admitted in the second half. Can you give us a sense of the types of changes that we should expect in this first phase of the new platform?

Shawn Ding - ChinaEdu Corp - CEO

Yes, Mark. Thank you. I think there's many, many changes. It's very hard to explain all the changes in a short amount of time.

But in short, the previous --our education was if you can consider them as a internet version 1 or version 2, and we're talking about version 3 with a full end-to-end solution for mobile to for example cell phone to pad, to PC and communicating to the servers in a cloud computing type of format.

And although that's enabling various teaching methodologies or the innovative ideas of allowing for example the teachers to design -- individually design their own courses or especially a program can be done in a certain way so there is a tremendous amount of flexibility and interactive and evaluation related supportive ability that needs to be implemented in the technology platform.

So, we're seeing the trend of online education be going that way both in the degree and non-degree program and also the -- like the SNS and there's various other trend that's also affecting the way online education is done. So, it's not just a purely online learning or teaching platform, it's really enabling people of different kinds to learn occasionally or in a very systematic way.

So, our next generation platform is targeted to support all that and which is a major revamp or redesign of everything.

Sorry Mark, again, it's very hard to explain the things in a short amount of time. Hope that's helpful.

Mark Marostica - Piper Jaffray - Analyst

Sure. That's helpful, high-level explanation. And then as we think about the expenses tied to the new platforms for this year and for next could you frame it for us in terms of the cost of the initiative here to launch Phase 1 and beyond?

Shawn Ding - ChinaEdu Corp - CEO

I think the -- for 2013 it will be more than \$2 million additional to our regularly type -- regular technology expense and in 2014 we're planning to invest probably even more on that.

And so more money need to be spend on product development as well in terms of courseware, in terms of non-degree program products, for example, programs to offer students to be able to learn and attach a certain required exam or certificate for example, and so there is lots of opportunities ahead of us and we think the investment is a very diverse lot.

Mark Marostica - Piper Jaffray - Analyst

Sure. And this perhaps may lead into the next question regarding the go private announcement or offer to go. Can you walk us through the strategic rationale or kind of going there without and then talk about the next steps that we should expect out at?



Shawn Ding - *ChinaEdu Corp - CEO*

Sure. Mark, I think our decision is mainly based on considerations or obligations and responsibilities for our shareholders. There are few points, just to share our thinking or our thoughts and/or thinking process with you.

Number one, for the long-term growth of the Company, we intend to make serious investment in technology and product development as we just talk about. I think we have lot more to do to offer top tier products and technology. So, there are significantly investments needed, which is going to impact our near-term financial results.

And remaining as a public company, we'll limit our ability of making such investment decisions and also along with these decisions there are significant risks and substantial risks and uncertainties with that. So we think it's a -- for the long-term growth of the Company, I think it's time for us not to wait for the regulatory approval, but to take some progressive actions at this point. Where we're -- number two is, we are limited by the approval and the online degree program growth has slowed down due to these delayed new school approval.

We cannot see any clear pass and so it's very aggravating at certain point. This is limiting our near-term revenue growth. So, it's very hard for us to drive up the growth just from the non-degree or some of the other business lines. So number three, we will be making the company private would also penetrate our shareholders with an opportunity to liquidate or exit with a fair amount of premium above our current market value or market price. So these are some of the points that we think is the core rationales behind the decision.

As to your question about the next steps, Mark, to be honest with you, we're pretty new to this as well. You know, I think following that, we will follow the steps of every other company who has done [filing] to work closely with the special committee and the legal councils to fulfill the complete due diligence of the company and the buyer group and that's what we intend to do.

Mark Marostica - *Piper Jaffray - Analyst*

Okay. And then just tied -- to go private the transaction or perspective transaction, are there any that you say callers on the deal or just anything that we should expect that have the tradition that have to be satisfied in order for this to move forward?

Julia Huang - *ChinaEdu Corp - Executive Chairman*

Mark, at this point, we just estimate the offering. So, you know, the Board hasn't made any decision and just -- we think that we will follow-up in the due course. Please keep in mind that the Board of Directors has just received the proposal and hasn't made any decision yet. So we cannot be sure that the definitive answer will be made. Maybe Simon can give you better ideas, but because we just did the offer today so there a lot of things we still need to find out.

Simon Mei - *ChinaEdu Corp - CFO*

So, let me just add up a little bit. So, Mark as you know the Company and the Board has just received the offer as is paying just now and the Board will follow-up in the due course. Please keep in mind that the Board of Directors has just received this proposal and has not made any decisions with respect to the Company's response to the proposal. We cannot be sure that a specific offer will be made by us or any other person or that any specific agreements will be exactly relating to these proposed transactions. Mark, does that help?

Mark Marostica - *Piper Jaffray - Analyst*

Okay, yes, that helps quite a bit. So, thank you for all the color around this and I'll turn it over. Thank you.



Operator

Thank you. Your next question on the line comes from Ella Ji from Oppenheimer. Please ask the question.

Ella Ji - Oppenheimer & Co - Analyst

Yes, thank you for taking my questions and good evening. So, with regards to your going private proposal, I just want to ask how do you plan to manage or operate through the company differently, you know, assuming that you will successfully become a private company?

Shawn Ding - ChinaEdu Corp - CEO

Ella, let me make sure I understand your question. Your question is that, how will we manage the company as a -- successfully as a private company? Was that the question?

Ella Ji - Oppenheimer & Co - Analyst

How do you think you'll operate this Company if it becomes a private company? Because you've mentioned when you answered the previous question that, you know, the regulatory approval for new online degrees are slow, it's disappointing, but it doesn't change if you're private or a public company.

So, I just wonder if you can (inaudible) for taking this Company as private and if it's through any -- if you will operate this Company, differentiate if it becomes private?

Shawn Ding - ChinaEdu Corp - CEO

Okay, okay. Thank you I got it. Ella, I think the major difference is with the first point that I talked about, is that we'll be able to make more investment in the technology development and product development, that's the major driver for us. So we can do things a little bit more differently from being a public company with less pressure on the financial numbers.

So we have more room in making these investments for the long-term growth and the long-term well-being of the Company. I think that is the major decision driver for us to do this and that will be the major difference.

As to the regulatory approval thing, I don't think there is any difference, you know there's very little things we can do other than keep promoting and closely communicating with the various agencies of the government to help the process. So in that regard I don't think there's too much difference.

Ella Ji - Oppenheimer & Co - Analyst

Okay, great. That's helpful. And then could you remind us how much ownership you and Julia have now after your share repurchases -- yes what's the update to ownership?

Shawn Ding - ChinaEdu Corp - CEO

Ella, I don't have the number with me right now. I think that's a changing number. So, maybe we can -- after the call we can talk about that.



Ella Ji - *Oppenheimer & Co - Analyst*

Okay. And can you also discuss your thoughts of how do you intend to finance the deals? Is it debt or equity or a combination? Any initial thoughts of that will be helpful.

Julia Huang - *ChinaEdu Corp - Executive Chairman*

Ella, we're negotiating with a few financial institutions. So it's going to be mainly the debt. The loans from the bank.

Ella Ji - *Oppenheimer & Co - Analyst*

Borrowing from the bank?

Julia Huang - *ChinaEdu Corp - Executive Chairman*

Yes.

Ella Ji - *Oppenheimer & Co - Analyst*

Okay.

Julia Huang - *ChinaEdu Corp - Executive Chairman*

And plus we may have some shareholders fund go over along with management.

Ella Ji - *Oppenheimer & Co - Analyst*

Okay, thanks. And then, going back to these regulatory approval thing, Shawn I wonder if you can share with us what are you -- what is the feedback there, how far it is -- what's the impact did they give you, and what [change] has they shared with you, you know, with regards to the development in this area?

Shawn Ding - *ChinaEdu Corp - CEO*

Well, no, they didn't really -- this is the difficult thing is that they really -- they cannot clearly specify that at what time or under what condition or how these things will happen. And that is the most frustrating thing for us.

So, that's really, you know, I don't think in any of the -- in this type of a situation it's probably very hard for them to give us that thing anyway so.

Ella Ji - *Oppenheimer & Co - Analyst*

But have they commented whether (inaudible) tend to further develop this industry?



Shawn Ding - *ChinaEdu Corp - CEO*

Yes, I don't think anybody in this environment would say that we will not do this. This is the time of the internet or the century of the communication. So, with the 4G coming and with the mobile learning and the mobile communication become so prevalent, as nobody is going to say they're not going to do this, but when this is up in the air so.

Ella Ji - *Oppenheimer & Co - Analyst*

Okay. So, could you also give us an update of your thought hopeful, your learning center network expansion, not only for this year, but maybe a longer term picture?

Shawn Ding - *ChinaEdu Corp - CEO*

Sure. The longer term there's couple of things. I think the most important thing is for us to be able to drive out the efficiency of the learning centers and be able to stand up as whole set of standardized process, so that we can -- every time we open up a center from the very, very beginning, we know how long it's going to take to be profitable, what's the training needed for each individual positions to be and how do we do the marketing, the renovation or the marketing, the whole nine yards needs to be done, and so that we can comfortably say that every time we open up a center, it's going to be profitable within X amount of time. So that is the objective that we're working on right now.

And the second thing is that we're not only considering just online degree programs in these learning centers starting from this year we're trying to for lack of a better word sell non-degree products in these centers. So we're promoting probably a better work, non-degree training products.

And that would require a very different set of mindset and skill set to be able to do that. So that's another thing that we're investing in, which is to build the non-degree products and probably beat the channel for some other people's non-degree products. So we're doing that in 2013 as well.

So looking down the road in the long-term, we think that we have a very ambitious plan to set up a successful chain of learning centers being able to satisfy lifelong learning needed of the community by servicing both degree and non-degree products.

But it's going to be for the -- it's going to be for the (inaudible) business [at this point] not targeting for K-12 sector of the market.

Ella Ji - *Oppenheimer & Co - Analyst*

Okay. Okay, that's all my questions and I thank you for taking my questions.

Shawn Ding - *ChinaEdu Corp - CEO*

Thank you, Ella.

Operator

(Operator Instructions). There are no further questions on the line at this time. I would now hand the call back to Helen Plummer, Senior Investor Relations Coordinator for ChinaEdu.

Helen Plummer - *ChinaEdu Corp - Senior IR Coordinator*

Thank you again for participating in our first quarter 2013 earnings conference call. As always, we appreciate your interest and support. If you have any questions please do not hesitate to contact us at ir@chinaedu.net. Thank you very much and have a good day.



Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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