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CEDU - Q3 2013 ChinaEdu Corp Earnings Conference Call and Webcast

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## CORPORATE PARTICIPANTS

**Helen Plummer** *ChinaEdu Corporation - Senior IR Coordinator*

**Julia Huang** *ChinaEdu Corporation - Executive Chairman*

**Shawn Ding** *ChinaEdu Corporation - CEO*

**Simon Mei** *ChinaEdu Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Mark Marostica** *Piper Jaffray - Analyst*

## PRESENTATION

### Operator

Hello. And thank you for standing by for ChinaEdu's Third 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 would now like to turn the meeting over to your host for today's conference, Helen Plummer, Senior Investor Relations Coordinator for ChinaEdu.

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**Helen Plummer** - *ChinaEdu Corporation - Senior IR Coordinator*

Hello, everyone. And welcome to ChinaEdu's third quarter 2013 earnings conference call. The Company's third quarter earnings results were released earlier today and are available on the Company's Investor Relations website, [www.chinaedu](http://www.chinaedu), as well as on Newswire services.

Today you will hear from our Executive Chairman, Julia Huang; Mr. Shawn Ding, Chief Executive Officer; and Mr. Simon Mei, Chief Financial Officer. After their prepared remarks the team will be available to answer your questions.

Please note that today's discussion will contain 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](http://www.chinaedu.net).

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

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**Julia Huang** - *ChinaEdu Corporation - Executive Chairman*

Thank you, Helen, and thank you, everyone, for joining us today. We are pleased to report another successful quarter with our operational and financial performance in line with our expectations. As I mentioned on our last second quarter earnings conference call, we concluded spring semester of our core online degree program with growth that exceeded our expectations.



In the third quarter, our topline grew in line with expansion for online degree program enrolled student body. As we look for -- as we look towards the close of the year, we remain committed to the quality of our programs, as well as the quality of the students enrolled in our programs, and maintain our conservative outlook for enrollment growth. Even uncertainty in approval of licenses for universities offering online programs, we maintain our conservative outlook for 2014 enrollment and financial performances.

As always, we are very active about cost and expense control throughout the Company. I would like to take this opportunity to update our investors our proposal to go private that was announced in June 20, 2013 as it continues to move forward.

As I mentioned last quarter, a special committee was formed consisting of the three independent directors of our Board. They are still assessing the proposal with help from independent financial advisors, as well as our independent legal team. The buyers group has been cooperating well with the special committee and the progress is being made.

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

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**Shawn Ding** - *ChinaEdu Corporation - CEO*

Thank you, Julia. Ladies and gentlemen, thank you for joining us today. Overall, we are very happy with our continued execution of plans laid out by our Board and the management team at the beginning of the year. As seen in our financial results, execution of these plans continued to bring positive results.

As we mentioned last quarter, the spring semester of 2013 we had 221,000 students enrolling our online degree programs, accounting for 14.5% year-over-year growth. Last quarter, we mentioned that we believe we would see a tightening of quality control of online degree programs in China.

As a company, we welcome the quality control. We are confident about the quality of the online degree programs at the core of our business. We are now paying extra close attention to the quality of the students we enroll.

At the end of the third quarter of 2013, ChinaEdu's learning center networks was providing recruiting services for 23 universities with 131 operational running centers, of which 59 were proprietary centers and 72 were contracted centers. We continue to focus on our operational efficiency and have seen the positive impact of our results. We continue to be positive, optimistic about growth in our learning centers network.

In the third quarter, we continued to make investment in technology for both our degree and non-degree programs. Following the execution of technology cooperated plans laid out at the beginning of 2013, we have developed a trial version of our next generation technology platform and our associated interactive and mobile learning applications. Once rolled out, these should enable us to penetrate the market further.

The first phase of this rollout will be operational in the fourth quarter of 2013. We believe we will continue to invest further in 2014 in the development of technology systems that will meet the demand of online learning. Our 101 online tutoring and the physical schools continued to perform on track in the third quarter. Additionally, our physical school continued to perform well.

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

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**Simon Mei** - *ChinaEdu Corporation - CFO*

Thank you, Shawn. Ladies and gentlemen, thank you for joining us today.

The third quarter's key financial indicators such as top line, gross margin and operating margin, all met our expectations. Total net revenue was \$23 million for the third quarter of 2014, exceeding the Company's guidance range for the quarter and representing a 13.6% increase from \$20.2 million in the corresponding period of 2012.

Gross profit margin continued to improve slightly, increasing from 61% in the third quarter of 2012 to 61.9% in the third quarter of 2013. Operating margin also improved from 15.5% in the third quarter of 2012 to 23.5% in the third quarter of 2013. The increases in both the gross margin and operating margin are mainly due to increase in net revenue and effective cost and expenses control.

As mentioned by Shawn and announced last quarter, the number of revenue students enrolled in our core online degree programs during the 2013 spring semester increased about by 14.5% year-over-year to approximately 221,000 students.

We ended the third quarter with a strong balance sheet as well. As of September 30, 2013, we had approximately \$59 million in cash and cash equivalents, term deposits and short-term investments on our books.

Excluding outstanding bank loans of \$46 million, we had net cash of \$23 million at the close of the third quarter of 2013. Looking ahead, we are confident with the steady and healthy financial performance for the full year of 2013.

Now turning to guidance for Q4, we expect total net revenue in the fourth quarter of 2013 to range from RMB145 million to RMB150 million, or \$23.7 million to \$24.5 million, representing a 7% to 10% increase from RMB146 million or RMB22.1 million recorded in the fourth quarter of 2012.

At this time, we would like to open the call up to your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Your first question is from Mark Marostica, Piper Jaffray. Please go ahead, sir.

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**Mark Marostica** - *Piper Jaffray - Analyst*

Yes.

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**Shawn Ding** - *ChinaEdu Corporation - CEO*

Hey, Mark?

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**Julia Huang** - *ChinaEdu Corporation - Executive Chairman*

It's some problem.

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**Shawn Ding** - *ChinaEdu Corporation - CEO*

Operator?

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### Operator

Hi. Sorry, sir. I think, Mr. Mark, have you placed your line on mute? Can you please un-mute your line?

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**Mark Marostica** - Piper Jaffray - Analyst

My apologies. Can you hear me now?

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**Julia Huang** - ChinaEdu Corporation - Executive Chairman

Yes, yes.

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**Shawn Ding** - ChinaEdu Corporation - CEO

Yes, we can.

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**Mark Marostica** - Piper Jaffray - Analyst

Yes. So sorry, something wrong with my phone. Yes, my first question is in regards to the go private transaction and, Julia and Shawn, if you could talk about the next steps in the process and when you expect it to conclude?

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**Julia Huang** - ChinaEdu Corporation - Executive Chairman

Mark, we're -- the special committee is reviewing all the material. Right now we already complete the financing with China Merchant Bank, China Merchant Bank. And we are in the processing of completing merger agreement. And we have submitted document to legal and our special committees. And we -- it's depending on the progress and timing in terms of SEC feedbacks and the future holdings from the shareholders, so we are expecting to get it completed by March or April.

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**Mark Marostica** - Piper Jaffray - Analyst

Okay, great. And then regarding new licenses for online degree programs, a question I've asked often on these calls, any further visibility on potential new licenses or not?

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**Shawn Ding** - ChinaEdu Corporation - CEO

Unfortunately not. That's the short answer, Mark. It's everything is still up, up in the air, sorry, no (inaudible).

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**Mark Marostica** - Piper Jaffray - Analyst

Very consistent.

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**Shawn Ding** - ChinaEdu Corporation - CEO

Yes.

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**Mark Marostica** - Piper Jaffray - Analyst

Quite consistent with the past, sure, sure. Okay. And your enrollment growth is actually fairly healthy this quarter for the semester. I'm just curious as you look at the practices you put in place to control quality, can you give us a sense of how many people you're turning away in the enrollment process or what enrollment growth would have been? I'm just trying to get a sense of how strict your controls, probably control process has been.



**Simon Mei** - *ChinaEdu Corporation - CFO*

Mark, we don't have the exact number because we are only paying a lot of attention to the students we enrolled, but it -- yes and it varies school-by-school. And if I have to give you a number I would probably guess, emphasize the word guess, it's roughly about 10%.

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**Mark Marostica** - *Piper Jaffray - Analyst*

Okay. So 10% -- you are rejecting 10% that you wouldn't have under the former enrollment guidelines?

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**Simon Mei** - *ChinaEdu Corporation - CFO*

That's right, and roughly that's, yes, that's a very guesstimate number.

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**Mark Marostica** - *Piper Jaffray - Analyst*

Sure, sure. Okay. And then the last question I had is related to the teacher initiatives that you talked about, specifically mobile. Can you give us an update as to your mobile strategy where you are currently at in rolling out various mobile initiatives and the like? Thank you.

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**Julia Huang** - *ChinaEdu Corporation - Executive Chairman*

Mark, right now we are planning to put more investment in mobile end because what we are going to do is starting from 2014 our technology team will try to enable all our products. All the platforms will have mobile end, so which means our students will be able to access through the iPad, cellphone and Web based.

And all the contents we are planning to put on the cloud base. So on ongoing basis, mobile and mobile applications are going to be spreaded around all the products which we are going to develop in the future.

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**Mark Marostica** - *Piper Jaffray - Analyst*

All right, very good. I'll turn it over.

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**Operator**

(Operator Instructions). It appears there are no more questions. At this time I would like to hand the call back over to Helen Plummer, Senior Investor Relations Coordinator for ChinaEdu. Please go ahead.

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**Helen Plummer** - *ChinaEdu Corporation - Senior IR Coordinator*

Thank you again for participating in our third 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](mailto:ir@chinaedu.net). Thank you very much and have a good day.

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