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CEDU - Q1 2012 CHINAEDU CORP Earnings Conference Call and  
Webcast

EVENT DATE/TIME: JUNE 14, 2012 / 12:00PM GMT



## CONFERENCE CALL PARTICIPANTS

**Helen Plummer** *ChinaEdu Corporation - IR*

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

**Shawn Ding** *ChinaEdu Corporation - CEO, Director*

**Yixin Mei** *ChinaEdu Corporation - CFO*

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

**Fiona Yunyun Zhang** *Oppenheimer & Co. - Analyst*

## PRESENTATION

### Operator

Hello, and thank you for standing by for ChinaEdu's First Quarter 2012 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, Helen Plummer, Senior Investor Relations Coordinator for ChinaEdu.

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### Helen Plummer - *ChinaEdu Corporation - IR*

Hello, everyone, and welcome to ChinaEdu's first quarter 2012 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](http://www.ChinaEdu.net); as well as on newswire services.

Today you will hear from our executive chairman, Julia Huang, who will talk about our company and 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 and Reform Act of 1995.

Forward-looking statements involve inherent risks and uncertainties. As such, our future results maybe materially different from the views expressed today. Further information regarding news and other risks, and uncertainties; it includes in our registration statement on Form F-1, an 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. And in addition, a webcast of this conference call 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. In the first quarter of 2012, we built upon the strong momentum we saw in 2011 and the growth total revenue 24.7% year-over-year to \$18 million. Net revenue from online degree programs rose 28.3% year-over-year to \$14.6 million. This quarter continued a long trend of profitability for the Company and gave us a confidence in the Company's long-term growth.

As management members, Shawn and I have settled well into our new roles. My attention is focused mainly on new business model development. Most importantly, I have had time to focus on the standardizations of corporate culture and processes, which we need in place as the Company grows. Having processes in place makes complex tasks such as Company wide cost control measures less arduous. I will continue to work on streamlining functions and removing redundancies to allow for greater efficiencies.



As I have mentioned many times before, among ChinaEdu's core assets is our ability to make learning interactive, engaging, and fun for students. This is a Company wide asset. And part of what differentiates us from other players in the market. Managing our corporate culture, I continue to encourage each of our departments to contribute to and draw upon these unique resources. With that, I will now turn the call over to Shawn Ding.

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**Shawn Ding** - *ChinaEdu Corporation - CEO, Director*

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, and contribute to full semester recruiting. Enrollment went well, and in the fourth semester, we had approximately 197,000 students enrolled in online degree programs.

In the first quarter of each year, the long holidays for the Chinese New Year is always disruptive to our recruiting process. This year, the holiday was a particularly awkward time and brought uncertainty to our results. During the first quarter our reporting teams worked extremely hard. We were confident that our enrollment for the spring semester should be on track. We are now in the process of tuition collection. It is still too early for us to disclose our financial results and enrollment numbers.

Our learning centers network remains stable in the first quarter as of March 31, 2012, our learning center network was providing online degree programs for 22 universities with 105 learning centers. This compared to many [safe] operational learning centers at the end of the first quarter of last year. Monetization at each of our learning centers and the organic enrollment growths continues to be as focused at each of our learning centers.

Building upon our work in the fourth quarter of 2011, in the first quarter of 2012 we made progress in some of our new online non-degree training programs. While the first quarter, influenced by the Chinese New Year holiday again is below season for these types of programs, typically. We further developed several aspects of this business and strengthened the team that will lead this endeavor. We are committed to movement in this direction as it draws upon our core competencies and is a model where we are confident we can achieve economics of scale.

Overall, we are happy with our first quarter results. But in 2012, we will face some headwinds as well. As our new [joint] mentors are still not approved by the MOE to offer online degree programs, it is difficult for us to maintain a high growth rate with our existing online programs. We need to invest more in our non-online degree -- non-degree online training initiatives to further pave the way for our future.

Our one-on-one online new products are well received by our students. But the cost of marketing as a sales cycle is putting pressure on revenue and profit margins in 2012. We are committed to maintain technical leadership in our industry. In 2012, we need to invest further in technology to support the growing number of students in our non-degree initiatives.

Our next generation learning management system initiative while certainly an integral part of our future success will put direct pressure on our bottom line. However, we believe these type of investments in 2012 will enable us to build a much more solid foundation for our long-term success. I will now turn the call over to our CFO, Simon.

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**Yixin Mei** - *ChinaEdu Corporation - CFO*

Thanks, Shawn. Hello, everyone. As Shawn and Julia have mentioned, the first quarter of 2012 [trends] nicely and we are pleased with our performance. Total net revenue for the first quarter of the 2012 was \$18.1 million, a 24.7% increase from \$14.5 million in the current running period in 2011.

Net revenue from online degree programs was \$14.6 million, an increase of 28.3% from \$11.3 million in the current running period of 2011. Equally important, as revenue growth is cost controlled, we continued to implement some more cost controls through our first quarter. Total operating expenses were \$7.3 million in the first quarter of 2012, representing a 12.6% increase from \$6.5 million for the corresponding period in 2011.

General and administrative expenses for the first quarter of 2012 were [\$4.4 million], an increase of about 16.3% from \$3.5 million in the corresponding period in 2011. The main reason for the increase was the early termination of a lease agreement.

Selling and marketing expenses were \$106 million in the first quarter of 2012, an increase of [15.4%] compared to \$104 million in the corresponding period in 2011. The increase in the selling and the marketing expenses was primarily attributable to an increase in the marketing activities. As a percentage of the net revenue, selling and the marketing expenses decreased to 9.2% comparatively with 9.9% in the same period in 2011.

(Inaudible) expenses for the first quarter of 2012 were [\$1.6 million], [slammed] with the corresponding period in 2011. As a percentage of net revenue, the (inaudible) and development expense was 8.6% in the first quarter of 2012; decreasing from 10.7% in the same period of 2011.

Having been a member of the ChinaEdu team for more than six months now, I have become fully integrated into every area of our business. I am getting my hands dirty and experience in the daily success and the hurdles of each department. As Shawn and Julia have mentioned, our core online (inaudible), benefits from the years of careful nurturing, and our [other reasons] -- areas as well over time benefit from the same level of attention. As I meet with teams across accounting, I am struck by their dedication to the development of online and innovative education in China.

As a management team, we will continue to develop programs that are (inaudible). At the same time, careful financial management is the key to keeping our business on track. We look forward to updating you on our progress again at the end of this summer.

Turning now to guidance. ChinaEdu management expect total net revenue in the second quarter of 2011, 2012 to range from RMB111 million to RMB113 million, or \$17.6 million to \$17.8 million, representing a 1% to 2% increase compared to the corresponding period in 2011. This forecast reflects ChinaEdu's current and preliminary review, which is subject to change. At this time, we would like to open the call up to your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

Ladies and gentlemen, we will now begin the Q&A session of this call.

(Operator Instructions)

Your first question comes from the line of Mr. Mark Marostica. Please ask your question.

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### Mark Marostica - Piper Jaffray - Analyst

Yes, thank you. My first question relates to Shawn's remarks about the investment to the platform that will be made throughout 2012. I was hoping that I could get a little more detail regarding the amount of such investment. Ultimately what you think the impact will be on margins for 2012? Thank you.

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### Shawn Ding - ChinaEdu Corporation - CEO, Director

Yes, Mark, thanks for the question. What we're doing is we're revamping our entire learning and management system to support both the online degree and our non-degree online initiatives as well. It is important because of the technologies that are changing. The user behaviors are changing.

Our interactive learning methodologies are changing as well. Our initial estimate for this effort will be somewhere between \$2 million to \$3 million for the phase one and the phase two. But, depending on where we get from that. There may be additional investment from that. Our margins; the other questions related to the margins are it's going to be carried the same as 2011. Mark?



**Mark Marostica** - Piper Jaffray - Analyst

Okay, thank you. I apologize for the background noise here. It's a little noisy. I wanted to also explore the comments you made about your guidance in terms of revenue. Obviously, showing that market deceleration in the upcoming quarter. And I wanted to get a sense of how you -- What your belief is as you look into the fall semester? Whether or not you think at this point you'll see any recovery from what you're seeing in the spring? Thanks.

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**Shawn Ding** - ChinaEdu Corporation - CEO, Director

(inaudible - microphone inaccessible), Julia, you can answer the question.

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

Mark, this is Julia. Let me give you a try. If I didn't answer correctly, you can repeat the question. For this second quarter guidance, right now we -- Although we closed our enrollments by the end of March, but our cash settlement should be down by the end of June. At this point, we only see the revenue in collections grow around 1% to 2%. That is why we keep conservative estimation for Q2 and Q3.

Right now, we'll keep a very conservative view on this. Because have - you have seen that we accelerate enrollments for the last fall. We have concerns that some students are supposed to be in the spring, may go -- get into last fall. That's why, we -- right now, we keep sidelines working on the results. For the coming fall, it should be on the similar track as the last year, similar growth rate, whatever for the last year. But keep in mind that for enrollment [in the] impact on Q4 of this year. Mark, is that -- ?

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**Mark Marostica** - Piper Jaffray - Analyst

Okay, thank you. I'll turn it over.

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

Okay.

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**Operator**

Okay, thank you for the question, sir. Your next question will come from Ms. Ella Ji. Please ask your question.

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**Fiona Yunyun Zhang** - Oppenheimer & Co. - Analyst

Hi, thank you for taking my questions. Just a few I'm asking on behalf of Ella. Firstly, I have a follow-up question on the newly launched online tutoring program. Since -- just you said that this year there will not be our margins impact. I was just wondering do you have a timeline on that? Like, when do you think they will be fully ramped up? Next year, or in two years?

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

You mean, after school programs; the new products we launched?

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**Fiona Yunyun Zhang** - *Oppenheimer & Co. - Analyst*

Right, for the online tutoring?

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

Yes, online tutoring, we launched new projects the fourth quarter of last year or second half of last year. It's still moving along, but we believe the revenue pickup will be gradually in the next year, this or next year. We'll grow gradually. At the same time, we're also looking to mobile learning market as well. At the same time, our -- in the second half of this year, we might invest in some mobile applications. At this stage, we're working with (inaudible) and [Newmans] to implement our products on their learning devices. Although, right now it's in the early stage. We haven't really seen the materialized revenue yet. But we keep positive perspectives on the future of mobile learning applications.

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**Fiona Yunyun Zhang** - *Oppenheimer & Co. - Analyst*

Okay, thank you. Thank you for the information. My second question is regarding your network expansion. Do you still tend to open 30 to 40 of new learning centers this year? How many of that will be 2Q, and how many in the second half? Thank you.

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**Shawn Ding** - *ChinaEdu Corporation - CEO, Director*

Fiona, hi, thanks for the question. This is Shawn.

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**Fiona Yunyun Zhang** - *Oppenheimer & Co. - Analyst*

Hi.

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**Shawn Ding** - *ChinaEdu Corporation - CEO, Director*

Yes, we are aggressively in the process of developing a number of learning centers. Along the way, we have some problems with establishing more with what we call contracted learning centers. Because of the quality concerns and the control concerns as well. We may cut down the numbers of contracted learning centers a little bit.

Somewhere between 20 to 30 will be the target for the whole year. The split of that is between the first half of the year and the second half of the year. I believe that was the question? It will be that we will develop somewhere between seven to ten for the first half. The rest of that for the second half.

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**Fiona Yunyun Zhang** - *Oppenheimer & Co. - Analyst*

Okay. Seven to ten the first half -- about 20, 30. How many will be self-owned and how many will be contracted?

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**Shawn Ding** - *ChinaEdu Corporation - CEO, Director*

We were hoping to do that, to do roughly 40% to 60% of 40% being self-owned.

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**Fiona Yunyun Zhang** - *Oppenheimer & Co. - Analyst*

Okay, thank you, great. Thank you, so that's all my questions.

**Shawn Ding** - *ChinaEdu Corporation - CEO, Director*

Okay.

**Operator**

(Operator Instructions)

If there are no further questions, I will now hand the call back to Helen Plummer, Senior Investor Relations Coordinator for ChinaEdu.

**Helen Plummer** - *ChinaEdu Corporation - IR*

Thank you again for participating in our first quarter 2012 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). Thanks very much and have a good day.

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