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PRESENTATION

Operator

Hello, and thank you for standing by for ChinaEdu's Second Quarter 2012 Earnings Conference Call.

(Operator Instructions)

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.

Helen Plummer - ChinaEdu Corporation - Senior IR Coordinator

Hello, everyone, and welcome to ChinaEdu's second quarter 2012 earnings conference call. The Company's second 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 our Company and strategy, Mr. Shawn Ding, Chief Executive Officer, who will discuss business operations, and Mr. Simon Mei, our 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 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 will now turn the call over to ChinaEdu's Executive Chairman, Julia Huang.

Julia Huang - ChinaEdu Corporation - Executive Chairman

Thank you, Helen, and thank you, everyone, for joining us today. In the second quarter of 2012, we tracked very closely to our projection. Total net revenue for the second quarter of 2012 was \$18.1 million, a 4.5% increase from \$17.3 million in the corresponding period in 2011. Net revenue



from online degree programs in the second quarter of 2012 was \$14.5 million, a 4.5% increase over \$13.9 million in the corresponding period in 2011, and net revenue from non-degree programs, which, in our business, includes online tutoring programs, private primary and secondary schools, and international and elite programs, was \$3.6 million, again, a 4.5% increase from \$3.5 million in the second quarter of 2011.

We had another profitable quarter and are confident in the long-term success of the Company. My attention in the second quarter continued focus mainly in finding ways to grow and scale up our competency in interactive learning and adult learning market.

Our main degree and non-degree programs enjoy consistent growth, and we continue to look for ways to further leverage our ability to make learning interactive, engaging, and fun for students to bring even greater profitability. With that, I will now turn the call over to Shawn Ding.

Shawn Ding - ChinaEdu Corporation - CEO

Thank you, Julia. Ladies and gentlemen, thank you for joining us today. In the second quarter 2012, spring semester enrollment was completed. We enrolled approximately 193,000 revenue students, an increase of 21.4% from approximately 159,000 revenue students in the spring semester in -- a year ago.

We reported before that -- before -- we reported before that the change in the recruiting deadline posed a challenge for us last year. Now that we have a few recruiting seasons behind us, we believe our recruiting team and channels have adapted well to the change.

On the operational side, we continued to improve our marketing and operational efficiency within our joint venture degree programs, attracting greater number of revenue students each semester. We are particularly encouraged by improvements in the student satisfaction ratings and the overall quality of the education being provided.

On the whole, our online degree program is progressing well on track. We continued our efforts, extending our learning centers' network during this quarter. As of June 30, 2012, our learning center network was providing recruiting services for 22 universities with 130 -- 113 operational learning centers, of which 55 were proprietary and 58 were contracted centers. This compares to 100 operational learning centers as of June 30, 2011, of which 57 were proprietary and 43 were contracted centers.

More important numbers I just -- more important than the numbers I just mentioned, the quality of the centers within the network has improved. During the quarter, we closed down several underperforming centers and opened new ones that are showing promise. As I have reported before, the business of reengineering effort in the learning center business is well underway, but it is a long-term effort. However, I believe we will see the costly impact of this effort in the near-term.

Monetization at each of our learning centers and organic enrollment growth continues to be a focus at each learning center. All these efforts have resulted in greater improvement in the profitability and the growth of revenue students across our learning centers.

Gross margin has increased from 3% in the first half of 2011 to 17.6% in the first half of 2012, and the new revenue student enrollment increased by 27%. On the non-degree side, several initiatives kicked off in the second quarter. I'm particularly pleased to report that a teachers' training program were launched in Fujian, Guangdong, [Jilin], and Shanghai this year. This initiative is of strategic importance to us.

Our 101 online program progressed well during this quarter, staying mostly on track with our expectations. In terms of product development for 101 online, we are proud of our newly launched 101 program for this year (inaudible) college entrance exam, and we also developed a trial version of a new school online teaching and learning product.

In the area of mobile learning, 101 launched a few interesting projects, partnering with various device manufacturers. Additionally, several sales and marketing programs was also kicked off. We expect this positive step to contribute to our near-term goals. Due to discontinuation of a major contract in our 101 business segment, net revenue for the first half of 2012 in that area of our business decreased slightly by 3.9% compared with the corresponding period last year.



Excluding these unusual factors, net revenue increased by 28.6%. Gross margin decreased from 68.3% in the first half of 2011 to 56.3% in the first half of 2012, due to these two unusual factors, as well as staff cost and rental increases.

Lastly, on the issue of timing for the MOE to approve new online degree programs, although we continued to actively talk to and work with MOE officials, to date, we have not received any concrete information about when more approvals will materialize. With that, I will now turn the call over to our CFO, Simon Mei. Simon.

Simon Mei - ChinaEdu Corporation - CFO

Thanks, Shawn, and hello, everyone. As Shawn and Julia have mentioned, the second quarter of 2012 tracked according to expectation, and we are pleased with our performance.

Total net revenue for the second quarter of 2012 was \$18.1 million in US dollars, a 4.5% increase from \$17.3 million in the corresponding period in 2011. Net revenue from online degree programs was \$14.5 million, an increase of 4.5% from \$13.9 million in the corresponding period of 2011.

In the second quarter, we continued to enforce more controls -- cost control measures. Total operating expenses were \$7.2 million in the second quarter of 2012, representing a 7.6% decrease from \$7.7 million in the corresponding period in 2011.

General and administrative expenses for the second quarter of 2012 were \$3.8 million, a decrease of 1.5%, compared to \$3.9 million in the corresponding period in 2011. As a percentage of net revenue, general and administrative expenses decreased to 21.1%, compared with 22.4% in the same period in 2011, as a result of increased net revenue.

Selling and marketing expenses were \$1.8 million in the second quarter of 2012, a decrease of 19.6%, compared to \$2.2 million in the corresponding period in 2011. The decrease in selling and marketing expenses was primarily attributable to a significant decrease in marketing activities surround elite curriculum programs. As a percentage of net revenue, selling and marketing expenses decreased to 9.8%, compared with 12.8% in the same period in 2011.

Research and development expenses for the second quarter of 2012 were \$1.6 million, a decrease of 5.8%, compared to \$1.7 million in the corresponding period in 2011, primarily because we deployed some research and development employees into maintaining services in 2012. As a percentage of net revenue, the research and development expense was 8.6% in the second quarter of 2012, decreasing from 9.5% in the same period in 2011.

Other notable results were as follows. Net income attributable to ChinaEdu was \$1.5 million. Adjusted net income attributable to ChinaEdu was \$1.9 million. Net income attributable to ChinaEdu per diluted ADS was \$0.086. Adjusted net income attributable to ChinaEdu per diluted ADS was \$0.114. Operating margin in the second quarter of 2012 was 19.7%.

Now, turning to guidance. ChinaEdu management expects total net revenue in the third quarter of 2012 to range from RMB119 million to RMB122 million, or \$18.7 million US dollars to \$19.2 million US dollars, representing a 5% to 7% increase compared to the corresponding period in 2011. This forecast reflects ChinaEdu's current and preliminary view, which is subject to change. At this time, we would like to open the call up to your questions. Operator? Hello, Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Marostica.



Mark Marostica - Piper Jaffray - Analyst

Thank you. Shawn -- excuse me. Yes, thank you. Shawn, you talked about the profitability of the learning center network, and I found that interesting, in terms of the improvement you've seen.

I didn't actually jot down the metrics that you mentioned, so I'd like you to just review those statistics again around growth and profitability of the learning center network. And then, if you could talk about, from this point forward, what type of strategy do you have in place to maintain or improve profitability of the learning center business?

Shawn Ding - ChinaEdu Corporation - CEO

Okay, Mark, thanks for the question. I think it's going to come from several -- actually, several initiatives that we're doing right now. First, probably, the most important thing is to improve the -- continuously improvement on the sales and marketing effort, particularly on this -- for example, the online marketing we're doing -- internet marketing, I mean.

And secondly, the better services to the existing students or the students that we have enrolled, which will lead to word to -- word of mouth marketing. There's -- we have quite a high percentage of the number of students that are introduced to us through the -- through existing students, and we hope to increase the percentage of that portion of the students, which is going to -- which is the cheapest way to recruit students, obviously.

And the third thing is we are also planned -- planning to open up more centers and increase the production the -- of the previous centers that we have learned -- that we have built through various support, for example, training. We are setting up more -- better, I should say, training programs to the existing staff and center directors, the consultants, or the college hustlers, if you will -- the recruiting people to service -- to serve the students.

And also, as well, we are planning to launch non-degree products, so the same center will not only provide degree program product; also, we'll provide non-degree product, so -- which will much better utilize the facility and the team. And there are several things, but I think that should probably give you a rough idea of what we're doing right now. Does that help?

Mark Marostica - Piper Jaffray - Analyst

And then, Shawn, just review -- yes, that helps greatly. Just review for us -- what was the proportion of revenue from your online degree services business that was attributable to the learning center business? I'm not sure if you threw that out or not, but I believe you talked the gross margins of the learning center business, right? If you could review that as well.

Shawn Ding - ChinaEdu Corporation - CEO

It's 9% of the total revenue, Mark.

Mark Marostica - Piper Jaffray - Analyst

Total revenue.

Shawn Ding - ChinaEdu Corporation - CEO

Right.



Mark Marostica - Piper Jaffray - Analyst

Okay. And how does that compare to a year ago?

Shawn Ding - ChinaEdu Corporation - CEO

It's about 7% to 8%.

Mark Marostica - Piper Jaffray - Analyst

And then, on the profitability side, I thought you quoted a six month, a year -- kind of a year-to-date gross margin for the business.

Shawn Ding - ChinaEdu Corporation - CEO

You want me to read the number to you again? It's -- a year ago, the gross margin was about 3% -- a year ago.

Mark Marostica - Piper Jaffray - Analyst

Yes.

Shawn Ding - ChinaEdu Corporation - CEO

Right now, in the first half of 2012, it's 17.6%.

Mark Marostica - Piper Jaffray - Analyst

And that's for the learning center business.

Shawn Ding - ChinaEdu Corporation - CEO

Exactly.

Mark Marostica - Piper Jaffray - Analyst

Okay, great. All right. And then, second question just relates to a follow-up on Simon's remarks concerning the leverage you've seen on the selling and marketing expense line due to curtailment of elite curriculum program marketing. Is -- should we expect the selling and marketing expense trends to, more or less, continue as they are?

Do you expect to continue to hold back on spending marketing dollars on elite curriculum programs? Just trying to get a sense for how we should be modeling selling and marketing going forward.

Simon Mei - ChinaEdu Corporation - CFO

Hi, Mark, and thanks. This is Simon. Yes -- so, for the sales and marketing expense as of revenue, I think we will pretty stay at there around 9% to 10% of the net revenue.



Julia Huang - ChinaEdu Corporation - Executive Chairman

Mark, this is Julia. Last year, (technical difficulty). This year, it's going to be around 9% to 10%, so it's going to be [2%] revenue, but because we are not going to aggressively market our international programs, as we are changing our model. We're not going to add in a training team into it, so we're going to have an advisory and counseling team. So, those sales and marketing costs we intentionally to reduce this year.

Mark Marostica - Piper Jaffray - Analyst

Great. And then, last question I had is back to the school calendar shift that you endured last fall. Are the effects of that, then, given the results you saw in the spring here, completely behind us now? Should we expect a more normal recruiting season coming up here, or how would you, I guess, characterize the recruiting that you've seen since you've reported the quarter here?

Shawn Ding - ChinaEdu Corporation - CEO

Yes, Mark, I should mention that we are -- I believe we are -- excuse me -- we are pretty much adapted to the change right now. We had a -- actually, a few recruiting seasons under the belt, so everybody is pretty much used to the new [wisdom]. Upcoming recruiting seasons will be pretty much normal seasons from now on.

Mark Marostica - Piper Jaffray - Analyst

And so, the trends that you've seen since the spring recruiting -- have those trends, more or less, stayed intact then?

Shawn Ding - ChinaEdu Corporation - CEO

Yes. It's going to be -- it's -- we're -- everybody has the -- really, has -- are very much used to the new timelines.

Mark Marostica - Piper Jaffray - Analyst

Fair enough. Okay, I'll turn it over. Thank you.

Shawn Ding - ChinaEdu Corporation - CEO

Thank you, Mark.

Operator

(Operator Instructions) Ella Ji, Oppenheimer.

Ella Ji - Oppenheimer & Co. - Analyst

Hey, Julia, Shawn, and Simon. Good evening. So, you talked about the increase in profitability of your learning center. I'm wondering if you are still stick to your original learning center plan, which is to open 20 to 30 new centers for this year, or is there an update to the target for this year? And what's your -- going forward into 2013 and forward, what's your annual run rate of learning center opening?

Shawn Ding - ChinaEdu Corporation - CEO

(technical difficulty) annual run rate? Okay. Ella, thanks for the question. This is Shawn. But, yes, we are on target with opening up the number of learning centers as we planned before, and as you can see, this year, we have opened many learning centers. And the reason that we have only (technical difficulty) middle of the year was that we were doing some shuffling. We were closing down some of the nonperforming centers, and we continued -- we will continue to do so.

We are really focused on the quality of the centers and the profitability of the centers this year, so opening up learning -- new centers is definitely one of the strategic direction that we're going to do this year as well as next year. But it's a bit too early for me to give you a exact number of how many centers we are going to open in 2013 right now, but the general direction is, yes, we will be opening more centers in 2013. Otherwise, (inaudible), let me know.

Ella Ji - Oppenheimer & Co. - Analyst

Yes. So, how -- what's your thought about the split between Company owned and franchise centers? And can you comment on how do you find your potential franchisee, and is it getting more and more difficult or still, there's pretty much a lot of interest on the market to join your learning center network?

Shawn Ding - ChinaEdu Corporation - CEO

Okay. First of all, yes, there are lots of interest. There's very strong interest. There are many applicants to join the learning center network, but we have a very strict process to evaluate and approve the learning -- the franchise learning centers, because it's not going to be a short-term relationship. So we are very, very careful in selecting who we want to be part of the network.

It's -- so it's not difficult to find partners. It's rather we want to find the good partners, who are responsible, with good reputation, really provide the services, can recruit the students, and follow the rules and guidelines that we provide to the centers to really provide quality education services to the students. So that is that -- the answer to part of your question.

The other part of your question was that -- whether we have a preset split of how many percentage of proprietary versus contracted. I don't think we have a strict, say, 51%-49% or 48%-52%. It depends on the -- for example, as I mentioned, how many good partnership -- partners we can find. So we don't have a predefined split, percentage wise, on that.

Ella Ji - Oppenheimer & Co. - Analyst

Okay. Thank you for that. And then, my next question is regarding your revenue growth. So, the revenue growth has been below the enrollment year over year growth. I understand [there was some expected reasons] for that, but, just wondering, when do you expect your revenue growth to catch up with the enrollment? Should we expect that to happen in 4Q, or maybe we need to wait until 2013?

Julia Huang - ChinaEdu Corporation - Executive Chairman

Ella, this is Julia. Actually, the -- mainly, the difference between the enrollment number growth and the revenue growth is mostly between -- is because of the cutoff date. Some students enroll, but the payment we have received through the third party or the school account. And secondly is because a mix of the university students. Our learning center or (inaudible) service contracts contribution, in terms of revenue size, is smaller than our joint ventures.

So, all this, together, has variations, quarter to quarter, so over the year, you will see it's on track. So we'll see -- next couple quarters, you will see the students and the revenue numbers will gradually catch up as we are moving to collect more the payments from the third party or school account.



Ella Ji - *Oppenheimer & Co. - Analyst*

Okay, thank you.

Julia Huang - *ChinaEdu Corporation - Executive Chairman*

Yes.

Ella Ji - *Oppenheimer & Co. - Analyst*

And then, my last question is about the use of cash. So, can you comment any results on that front? Thank you.

Julia Huang - *ChinaEdu Corporation - Executive Chairman*

Ella, we are -- right now, there are two or three initiatives we're working on. Number one is build our technology core competency, because, as we are seeing in China and over the world, the online learning or interactive learning is become more and more popular. So we're spending more effort in our core technology development.

Secondly, if we see an acquisition target, we intend to acquire the business which we have a synergy with. Thirdly, we are looking into the markets in -- for our core -- a down market where we can provide more certifications to other non-degree training to continue the students who are going to get degrees.

They can still continue to learn any other product from us, so they'll not only get degrees from us, and they could benefit of their current career or their job matching. So we'll continue to look into opportunities in the professional and activity training for adult learners.

Ella Ji - *Oppenheimer & Co. - Analyst*

Okay, thank you. Thank you for taking my questions.

Julia Huang - *ChinaEdu Corporation - Executive Chairman*

Okay.

Operator

(Operator Instructions). There are no questions at this time. Ms. Helen Plummer, do you have any closing remarks?

Helen Plummer - *ChinaEdu Corporation - Senior IR Coordinator*

Thank you again for participating in our second 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. Thank you very much, and have a good day.



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