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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Tarena International Incorporated's third quarter 2016 earnings conference call.

(Operator Instructions)

Today's conference is being recorded. If you have any objections you may disconnect at any time.

I would now like to turn the call over to your host for today's conference, Ms. Helen Song; Tarena's Investor Relations Manager. Please go ahead.

Helen Song - Tarena International Inc - Investor Relations manager

Thank you, Operator. Hello, everyone, and welcome to Tarena's third quarter 2016 earnings conference call. The Company's earnings results were released earlier today and are available on our IR website; ir.tedu.cn, as well as on news wire services.

Today, you will hear opening remarks from Tarena's Founder, Chairman and CEO, Mr. Shaoyun Han, followed by our Chief Financial Officer, Dennis Yang, who will take you through the Company's operational and financial results for the third quarter 2016 and give guidance for the fourth quarter and full year of 2016. After their prepared remarks, Mr. Han and Mr. Yang will be available to answer your questions.

Before we continue, please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. Tarena does not assume any obligation to update any forward-looking statements except as required under applicable law. Also, please note that some of the information to be discussed includes non-GAAP financial measures as defined in Regulation G. The US GAAP financial measures and information reconciling these non-GAAP financial measures to Tarena's financial results prepared in accordance with US GAAP are included in Tarena's earnings release, which has been posted on the Company's IR website at ir.tedu.cn.

Finally, as a reminder, this conference is being recorded. In addition, a webcast of this conference call is available on Tarena's Investor Relations website.

I will now turn the call over to Mr. Shaoyun Han, Tarena's founder, Chairman and CEO. Mr. Han will speak in Mandarin and Mr. Yang will translate.



Shaoyun Han - *Tarena International Inc - Chairman, Founder, CEO*

(Interpreted) Thank you Helen, and welcome everyone to our third quarter 2016 earnings conference call.

First of all, I would like to share with you that starting from the third quarter of 2016, the Company decided to change its reporting currency from US dollars to RMB to reduce the impact of increased volatility of RMB and US dollar exchange rate on the Company's reported operating results. The aligning of reporting currency with the underlying operations will better depict the Company's results of operations for each period. Solely for the convenience of readers, the result announcement for the third quarter 2016 also contains currency translations of certain RMB amounts into US Dollars.

I am pleased to report that we continued to achieve solid progress on all fronts, after delivering strong performance in the past several quarters. For the third quarter 2016, we have experienced fast growth in student enrollment, better-than-expected revenue capability, and improved net profit margin compared with the same period last year. Our net revenues increased by 29.4% to reach RMB481 million, which is translated into \$72 million based on period-end exchange rate for this quarter. This revenue growth rate exceeded the high end of our projected year-over-year revenue growth rate, which is 28%, is not including the impact from the depreciation of RMB against US Dollar, which we disclosed last quarter.

As we mentioned on the earnings call before, the significant growth in student enrollment in the previous quarter will bring us a strong course enrollment number for this quarter, which is an operating metric that better correlates with the revenue recognized in the quarter. This is finally reflected in our robust growth in net revenues this quarter. In the third quarter 2016, our course enrollment totaled 29,586; an increase of 24% year-over-year and is the primary driving factor that contributes to our revenue growth in the quarter.

Our student enrollment number, which is more of a lead operational indicator and defined as the number of new students recruited and registered in the quarter, continued its strong momentum; increased by 28% year over year to reach 30,818. This marks the record high quarterly student enrollment figure in Tarena's history, thus, the student enrollment in the first nine months of 2016 totaled 80,595; increasing by 32% year over year. Leveraging enhanced brand and reputation, comprehensive and diversified curriculum system, as well as good track record in education quality, Tarena has been able to attract more and more students for trainings.

In terms of professional education services, the Company continues to explore in the growth momentum in both IT and non-IT subjects with more appropriate strategy to better cater for the market trend. Among IT courses, Java course and Web front and development course that we newly launched last year continued to show a tremendous growth with huge market demand.

The student enrollment for those two courses has exceeded 45% of total student enrollments this quarter. We also commenced our inaugural class in cities such as Beijing, Guangzhou and Hangzhou for our new course in Virtual Reality/Augmented Reality fields, which has brought us 279 student enrollments in the third quarter. We believe this new course has great market potential, and thus, will further expand our course portfolio to better serve different market demands from students.

Our other IT courses also showed strong momentum, making the total number of IT students grow by 38% year-over-year. We now have six courses with enrollment above 1,000 in the third quarter. Diversifying course offerings and expanding into high growth disciplines have always been our objective priority, which brings us unique leading positions in professional education markets.

Besides professional education courses, we launched kid education programs under the name Tongcheng and Tongmei at the end of 2015 to target younger audience from primary to high school. We continued to roll out TongChuang; a brand new course on Robot Programming and 3D printing for kids in the second quarter this year. The business initiatives in K-12 education has shown solid progress towards our target. By the end of the third quarter, K-12 programs have been rolled out in 15 cities, including Beijing, and we enrolled nearly 1,500 students -- 526 of which were enrolled in the third quarter.

In the past three quarters, we stay committed to continuously upgrade our course contents and education system for K-12 business to address the changes in market demand, which has started to bear fruit. We believe that K-12 business will show sustainable growth and gradually become an important pillar for our whole business.

Since the first quarter this year, we started to implement our teaching at appropriate levels strategy and launched advanced-level courses in five major subjects, which help our elite students to become more competitive in the job market. After the pilot trial in several large cities since March this year, we successfully attracted more targeted students and standard tuition fees for advanced courses have also been adjusted accordingly. The total number of students in advanced courses have accounted for 17% of total student enrollment.

Going forward, we will continue to execute on our strategy in delivering differentiated education services to our students, which not only diversifying existing course offerings, but also strengthening our competitiveness by designing more appropriate course contents to different student customers.

Opening new centers and expanding lease area in existing learning centers are critical ways that we increase our classroom area so as to accommodate growing demand and business development. By the end of this quarter, the total seat capacity increased to 50,270; up by 21% from the same period last year, and 6% from the end of previous quarter. In the meantime, we focus on optimizing facility resources and promoting center efficiency. The center utilization rate this quarter has reached 77%, reflecting that our operational efficiency effectively maintained at a relatively high level as we continue business expansion.

In terms of new learning centers, we opened five this quarter, consolidated three, and closed two. As a result, our total number of learning centers kept at 138. Specifically, in this quarter, we opened one new learning center in each of the following five cities, which are Beijing, Shijiazhuang, Taiyuan, Wuhan and Hohhot, among which Hohhot is the provincial capital city that we are newly entered.

As the key indicator that shows our education quality and outcome, job placement record is an operating metric that we are always proud of, and this quarter is no exception. I am very pleased to report that since the second quarter of 2016, the job market dynamics is getting better and we continue to deliver outstanding employment results for our students. The six-month post-graduation job placement rate in this quarter was above 95%. This best-in-class result would further support our market leading brand and overall competitive position in the industry.

Since last year, the Company has conducted more efforts in refinements of operational capability. Building on the success of our strategy to improve operational efficiency, which has been executed for two consecutive quarters, we kept good momentum in improving our profitability in the third quarter 2016, through the increased business scale and the optimized sales and marketing work flows to drive better operational efficiency.

We are excited to see this significant year-over-year improvement in business operational efficiency. Our gross margin in the third quarter kept at 74.9%. Our non-GAAP operating margin reached 26.4%, which is relatively high level in Tarena's entire history. Non-GAAP net margin increased by 2.5 percentage points to 27.8% from 25.3% in the same period last year. The cumulative financial data in the first nine months can better demonstrate positive impact from execution on this strategy. Our gross profit margin, operating margin, net margin for the first nine months are 70.8%, 12% and 12.5%, respectively; up by 0.6, 3.3, 1.5 percentage points from the same period 2015. Our CFO, Dennis, will elaborate on this further in his later remarks.

In the first half of 2016, we announced the purchase of a property which served as the multi-function learning center and located in the Beijing Economic-Technological Development Area, Yizhuang area. This building has been put into use this quarter and realized higher than 90% utilization rate by the end of September. We believe the positive results from the purchasing is entirely in line with our expectation. It is an important move to expand seat capacity at the lower cost, and thus, keeping a healthy balance between teaching facility scalability and margin expansion in the longer term.

On the other hand, sufficient classroom space and centralized management enabled us to enroll more students, which is another driver force behind operational efficiency and margin improvement. Last month, Tarena managed to find a second building in the Yizhuang area in Beijing, also for teaching purposes, and will accommodate growing demand and business expansion in northern China, northeast, and Tianjin province. It is expected to provide 1,800 seats, and will be put into use in the first half of 2017.

Now a quick update on the progress of our online learning platform, TMOOC.CN, which was launched in March 2015. The number of registered TMOOC users has reached more than 192,000 today, and our proprietary content library currently offers nearly 23,000 hours of video content. Through TMOOC, we also generated 22,627 VIP users to date who have become our paying customers of our standard courses. Through the

development of pure online platform, we strive to provide multi-level teaching content as well as more diversified product mix to attract more customers in the future.

With that, I will now turn the call over to our CFO, Dennis Yang, to discuss the third quarter financial results and outlook for the fourth quarter and full year.

Dennis Yang - *Tarena International Inc - CFO*

(Interpreted) Thank you, Han Zong, and hello to everyone on the call.

First of all, as what Han Zong mentioned and also included in our press release, Tarena decided to change its reporting currency from the US dollar to the RMB starting from the third quarter of 2016.

As a leading professional education service provider in China, Tarena generates most of its revenues, profits, cash flows from the entities in China whose functional currency is RMB. The aligning of the reporting currency and underlying operations will better depict the Company's results of operations. We have recast prior periods' financial information as if we always used RMB as the Company's reporting currency.

Since you already have all the detailed numbers in the press release, I will review our financial results for the third quarter and first three quarters of 2016 briefly and focus on a couple of more important areas.

Now, let's start with the key financials of the third quarter of 2016. For the third quarter of 2016, our net revenues increased by 29.4% year-over-year to RMB481 million, which was translated into approximately \$72 million. The revenue growth rate exceeding high-end our projected year-over-year revenue growth rate, which is 28%; we did close last quarter is not including the impact from the depreciation of RMB against the US Dollar.

As Han Zong explained earlier, student enrolment is our primary driver for the revenue growth. The total student enrollments in the third quarter of 2016 increased by 28% year-over-year to 30,818. With a strong student enrolment, our total course enrollments increased by 24% year-over-year to 29,586.

Average revenue per course enrollment in the quarter, as defined by net revenues divided by course enrollment, was RMB16,256 which was 4.6% higher than that in the same period a year ago. The increase in the average revenue per course enrollment resulted from increase of our standard tuition fees of RMB1,000 to RMB2,000 for selected courses starting from March 2016.

Cost of revenues in the third quarter increased by 31% year-over-year to RMB121 million, mainly due to our business expansion. The increased learning center resources and increased number of faculty staff resulted in higher personnel cost, higher rental cost and higher depreciation expenses recorded in cost of revenue. Gross profit increased by 29% year-over-year to RMB360 million. We achieved gross margin at 74.9% in the third quarter of 2016, which was almost stabilized as compared with the same period last year.

Selling and marketing expenses increased by 49% year-over-year to RMB150 million, mainly due to higher personnel cost, welfare expenses, and higher advertising marketing expenses as we develop our network of learning centers, grew student enrolments, and expanded more diversified course offerings.

General and administrative expenses increased by 7% year-over-year to RMB80 million in the third quarter, mainly due to higher personnel cost and higher share-based compensation expenses for our increased number of general and administrative personnel to support our growing operations.

As communicated previously, our bad debt expenses resulted from the legacy issue of installment payment plans extended by Tarena to our students in past years. After having partnered with the third party providers and implemented strength in internal controls over credit granting and cash collections to reduce the size and overall risks of account receivables; we well managed this legacy issue and, in the third quarter of 2016, bad debt expenses were less than half of the amount recorded in the third quarter of 2015.

Research and development expenses increased by 26% year-over-year to RMB17 million, mainly due to higher personnel cost and welfare expenses of the instructors allocated to course contents development activities, as well as increased number of research and development staff as we expanded our course offerings and operations.

As a result, operating profit was RMB114 million for the third quarter of 2016, which increased by 25% as compared with that in the same period last year. Our non-GAAP operating profit for the third quarter was RMB127 million, which increased by 28% from non-GAAP operating profit of RMB100 million in the same quarter in 2015.

In the third quarter of 2016, we recorded foreign exchange gain was RMB1.3 million compared to RMB21 million foreign exchange loss in the same period last year. Historically, the Company converted most of its US Dollar IPO proceeds into RMB and placed offshore in the bank, as deposits to earn higher interest. Due to the depreciation of RMB against US Dollar, the Company has converted its offshore bank deposit previously in RMB back into US dollars under a foreign currency forward contract settled in May 2016. With this, both foreign exchange losses and interest income got decreased in 2016 as compared with 2015.

Our net revenue was RMB120 million in the third quarter of 2016, which increased by 41% from RMB85 million in the same period in 2015. Non-GAAP net income increased by 42% to RMB134 million in the third quarter of 2016 from a net profit of RMB94 million in the same period in 2015.

GAAP basic and diluted net income per ADS were RMB2.16 and RMB2.05, respectively, in the third quarter of 2016. Non-GAAP basic and non-GAAP diluted net income per ADS were RMB2.40 and RMB2.28, respectively, in the third quarter of 2016. We generated RMB245 million in positive operating cash flow in the third quarter of 2016, which was 55% higher than the amount in the same period last year.

Now let's move on to key financials of the first 3 quarters of 2016. The first nine months of 2016, we grew our net revenues by 40% year-over-year to RMB1.116 billion. Total student enrollments in the first nine months of 2016 increased by 32% year-over-year to 80,595. Total course enrollments increased by 35% year-over-year to 74,401, which is a primary driver for our revenue increase.

Average revenue per course enrollment in the first nine months of 2016 as defined by net revenues divided by course enrollment was RMB14,994; up by 3.9% as compared to RMB14,434 in the same period last year. Cost of revenue in the first nine months in 2016 increased by 37% year-over-year to RMB326 million. Along with our business expansion, the increase in cost revenue was mainly due to an increase in personnel cost, rental cost and higher depreciation expenses.

Gross profit increased by 41% year-over-year to RMB790 million in the first nine months of 2016 and gross margin increased slightly to 70.8% in the first nine months of 2016 from 70.2% in the same period a year ago. Selling and marketing expenses increased by 40% year-over-year to RMB389 million in the first nine months of 2016, mainly due to an increase in personnel cost relating to the growth in our selling and marketing headcount and the marketing efforts as we expanded our course offerings and built up a larger network of learning centers.

General and administrative expenses increased by 26% year-over-year to RMB223 million in the first nine months of 2016. The increase was mainly due to higher compensation cost for our increased number of general and administrative personnel to support our growing operations. Research and development expenses increased by 24% year-over-year to RMB44 million in the first nine months of 2016, mainly due to an increase in the personnel cost of foreign structure allocated their content development activities for the courses, as well as growing number of research and development staff as we expand our course offerings and operations.

As a result, our operating income for the first nine months of 2016 was RMB134 million, which increased by 92% from the same period in 2015. Operating margin was 12% in the first nine months of 2016 as compared with 8.7% in the same period last year. Our non-GAAP operating income for the first nine months of 2016 increased by 90% to RMB178 million with a non-GAAP operating margin of 15.9% compared to RMB94 million and 11.7% for the same period in 2015. The improvement of our operating margin was mainly a result from business scalability, improvement of operational efficiency, and reduced bad debts through better control over account receivables.

Our net income for the first nine months of 2016 increased by 59% to RMB139 million from RMB88 million for the same period a year ago. Non-GAAP net income was RMB196 million in the first nine months of 2016, which was a 76% increase as compared with that recorded in the same period a

year ago. GAAP basic and diluted net income per ADS were RMB2.51 and RMB2.37, respectively, in the first nine months on 2016. Non-GAAP basic and diluted net income per ADS were RMB3.54 and RMB3.34, respectively, for the first nine months of 2016.

Going forward, to see our guidance, looking forward to the first quarter of 2016, total net revenues for the quarter are expected to be between RMB450 million and RMB469 million; representing an increase of 18.3% to 23.3% on a year-over-year basis. After taking into account the actual operational performance in the first three quarters and other business information available to us, The Company also expects the total net revenues from full year of 2016 to be between RMB1.566 billion and RMB1.585 billion; representing an increase of 32.9% to 34.6% on a year-over-year basis. The latest net revenue projection is higher than the original recasted full year 2016 net revenue projection of between RMB1.528 billion and RMB1.568 billion, representing an increase of 29.7% and 33.1% on a year-over-year basis, which was issued in August 2016.

This concludes my remarks and I will now hand the phone call over to the operator and open the line for questions.

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) [Phan Liu] with Goldman Sachs.

Phan Liu - *Goldman Sachs - Analyst*

I have maybe three quick questions. Number one is that [June line] guidance, how many structures do you have right now? And with the new courses added, do you need to recruit more instructors going forward?

And also, number is two is that I see that the numbers of learning centers actually stayed quite stable during the quarter, even - I apologize if I miss - I think you have added learning centers in several cities. So is that -- the main sellers means that you have closed learning centers during the quarter? Could you please clarify on this point?

And also, third question is on advertising spending. I see the sales marketing spending per student enrollment actually increased during this quarter compared to the consecutive term decline in the past several quarters. Would you mind guiding the reasons behind that? And also, could you please guide what's the current status of the [Biju] peer account program right now?

Helen Song - *Tarena International Inc - Investor Relations manager*

(Spoken in Foreign Language)

Shaoyun Han - *Tarena International Inc - Chairman, Founder, CEO*

(Spoken in Foreign Language)

Dennis Yang - *Tarena International Inc - CFO*

Yes, we have 205 instructors. We (inaudible) some new course in the third quarter 2016 in the VR and AR field, but that course we are in the course development process in the past year. So we don't need to place incremental instructors for our newly launched course.



As we use in the hyper learning models, so we centralized all our instructors in Beijing, and their instructions were likely forecasted to all classrooms across China. So along with our business growth, we don't need to place more instructors unless we launch new courses. So we don't have much pressure to recruit more new instructors.

Your second question, the total number of learning centers, they cap at 138 by the end of September 2016, which is the number which is the same as we disclosed for the end of Q2 after we opened five new learning centers in the quarter and we also consolidated three and closed two learning centers. As we open learning center in Beijing, so we merged other Beijing learning centers to that [Jjuang] learning center. We also closed one learning center in [Kenjing] and one learning center in Wuhan. That's why you see that the total number of learning centers cap unchanged.

Your third question about the advertising spending -- actually we calculated average advertising spending per student enrollment (inaudible) RMB2,059 for the third quarter of 2016. Actually, which could be translated into \$310. You mentioned [Biju] has positively changed. Yes. The [Biju] tax policy change in June resulted in a higher [TTC]; ours, as mentioned, is somewhere between 10% to 20% increase in our overall acquisition cost of students per sales lead from that, the changing channel.

(Inaudible) Company has been taking a strategy to control overall student acquisition cost by improving our sales and marketing functions, operational efficiency, and optimizing the student acquisition channel mix. Let me clarify. When we talk about these sales and marketing functions, operational efficiency, we're trying to improve the conversion rate from sale leads to the contract. In the past quarters, we have improved this kind of efficiency by more than 10% by continuing to do more in that field. And we're also due to optimize the channel mix.

In the last year, in 2015 the third quarter we had more than 60% of total student enrollment came from search engine. And by now for the recent quarter, the total student enrollment from search engine was down to not any higher than 40%. So this is kind of where our - to implement this in strategy to optimize the channel mix.

So going forward the Company will continue to implement that strategy to optimize student acquisition cost. Our target is to maintain the average acquisition cost per student at RMB2,000.

Shaoyun Han - Tarena International Inc - Chairman, Founder, CEO

(Spoken in Foreign Language)

Dennis Yang - Tarena International Inc - CFO

Let me translate. The main objective, the main purpose to close the learning center in certain cities is to optimize our teaching facilities in that particular city. Results is like what I mentioned, [Kenjing] and Wuhan. The overall student enrollments are still growing in those cities, so the closure of our existing learning center is not because of the business not doing well. We are trying to provide better education facilities to our students.

Phan Liu - Goldman Sachs - Analyst

Do you mind guide us -- how much percentage of sales marketing spending is advertising and how much percentage is personnel cost? And also, while we're on advertising spending, how much percentage is from [Biju]?

Dennis Yang - Tarena International Inc - CFO

In the selling marketing stances, total amount -- about 50% of the total spending in sales and marketing goes to advertising. And the [Biju] takes about 35% to 40% of total student enrollment. But you know, that [Biju] is one of the most expensive channel for student inflation. So a majority of our advertising spending, we pay before we spend in [Biju] channel.

One more thing I would like to share some more with you about the impact of our strategy to control our student acquisition. Our first cost of the average advertising spending per student was RMB1,957. What I mentioned the third quarter, the average spending per student acquisition was RMB2,069. So in third quarter this kind of advertising went up by 5.7%.

When we compare it to the overall [Biju] CPC increase is somewhere between 10% to 20%. So this actually is a very good matrix for our success in our total improvement on the student acquisition.

Operator

Zoe Zhao, Credit Suisse.

Zoe Zhao - *Credit Suisse Equity Research - Analyst*

First is, could the management guide the operating margin outlook for 2017 and also the enrollment growth outlook by both the adult courses and the K-12 courses?

Also, if possible, could you guide to percentage of students from referral and also the percentage of students from the installment plan?

Dennis Yang - *Tarena International Inc - CFO*

For the fourth quarter 2016, 7% of students used our installment plan. For student referrals in the third quarter 2016, 21% of students we recruited from student referrals.

For the operating margin, we hold the same expectations as we communicated last quarter; very closely 2% expansion from the level of non-GAAP operating margin, which is somewhere close to 18% non-GAAP operating margin.

Zoe Zhao - *Credit Suisse Equity Research - Analyst*

Could you also please guide the enrollment growth outlook for 2017 for adult and K-12 courses?

Dennis Yang - *Tarena International Inc - CFO*

The K-12 for 2016 was higher than 2,000. We're already including the students higher than 1,500. Total enrollment for the whole year is about 2,000.

Zoe Zhao - *Credit Suisse Equity Research - Analyst*

For 2016 or 2017?

Dennis Yang - *Tarena International Inc - CFO*

For 2016, this year. For 2017, K-12, the total of student enrollment for K-12 expected to be double, more than double actually. This goes for somewhere between 5,000 and 6,000.

Operator

Wendy Huang with Macquarie.

Ivy Laos - Macquarie - Analyst

This is [Ivy Laos] on behalf of Wendy. I have two questions. One is regarding your (inaudible). You said you opened high-level classes in March 2016. So I'm wondering how much pay in revenue contributions are from those high-end classes. So, do they have like a higher average revenue per enrollment? And what's your expectation for 2017 in terms of growth, and what's the contributions on that?

Dennis Yang - Tarena International Inc - CFO

For the advanced courses, we implement an allocation strategy from March, from first quarter in 2016. For the third quarter 2016, 17% of students took advanced level courses. We charged higher tuition, actually, for the advanced courses.

For the coming year, we are expanding a higher proportion of students can take developed level courses. So the 2017, maybe 25% of -- the total student will take advanced level courses.

Ivy Laos - Macquarie - Analyst

I have a second question. So, are you observing students that's taking more than one courses? So, what's the percentage of students that's taking more than one IT courses?

Dennis Yang - Tarena International Inc - CFO

Most of our students take only one course. So around 10% of students take multiple courses.

Operator

David Li with Guoyuan Securities.

David Li - Guoyuan Securities - Analyst

I have three questions here. First is for your gross profit margin. It seemed to achieve a little drop in Q3. So I want to know the reason and the trend in future. This is my first question.

Dennis Yang - Tarena International Inc - CFO

Well, the gross profit has slightly dropped. But again, the last year we've reached - the really high gross margin with utilization at 80%.

For this quarter we're hopping to pick a learning center in Beijing. So in this quarter, the first month - I mean, July, we put this learning center into use. But in the first month, that learning center is not fully occupied.

At the end of September, that new learning center in Beijing, the seats utilization is hard at 90%. So this is we believe the main reason for the slight drop in GP margin. One more reason to the lesser extent that the rental increased in certain cities, that's also the reason we are trying to seek for opportunities for purchase properties to build out learning centers.

David Li - *Guoyuan Securities - Analyst*

So he means, it will recover in the future, right?

Dennis Yang - *Tarena International Inc - CFO*

Yes. Recover in the future, as with the purchase of the property. In the long run, that impact will be significant.

David Li - *Guoyuan Securities - Analyst*

My second is for your total course enrollments. So can (inaudible) give us some color for the industrial setting and the growth rate of the total growth enrollment in the future - I mean, in the next year?

Dennis Yang - *Tarena International Inc - CFO*

Sorry, for the course enrollment?

David Li - *Guoyuan Securities - Analyst*

Total course enrollment. Yes.

Dennis Yang - *Tarena International Inc - CFO*

You want to know the growth for the next year in the course enrollment? The course enrollment are actually those students registered in our courses and actually take classes. So our core matrix for our business growth for student enrollment, as we communicated before, to the market. The next year student enrollment is expected to grow, somewhere between 20% to 30%. So, this is our expectation for the enrollment growth for the next year.

David Li - *Guoyuan Securities - Analyst*

And my last question is, can you tell us about the learning center increase plan in the next year and the distribution of the new learning center?

Dennis Yang - *Tarena International Inc - CFO*

We already have plans to put up more new learning centers next year, and also in Q4. The next year, we configure, open about 15 to 20 new learning centers. And again, I would like to share some more information with you around our plan for Q4. We plan to open about six to eight new learning centers in Q4. We are trying to implement the strategy to open more new learning centers from Q4 and through the next year.

One more thing. We opened [Edrong], you know, Beijing learning center. That learning center can provide about 2,000 seats. And the second property we purchased is also the [Edrong] area; can provide 1,800. So those two learning centers together can provide very close to 4,000 seats. That would be very big learning centers. That's equivalent to our traditionally maybe four to five learning centers, more traditional centers.

Operator

Wendy Huang



Ivy Laos - *Macquarie - Analyst*

I have a quick question on the utilization; it's still currently at 77%. So what is the long-term target level? And another question is on the employment placement rate. So we mentioned that we are seeing 95% employment rate. I'm wondering if we have break down in terms of the IT courses and the non-IT courses.

David Li - *Guoyuan Securities - Analyst*

Well, you mentioned the optimal utilization rate. For 2016 whole year, we are -- expect to stabilize for a slight increase in utilization as compared to the level that we have seen. In the long run, we believe the overall utilization will be stabilized at somewhere between the whole year utilization, I mean, somewhere between 73% to 75%.

Even so, there will be a job placement rate among courses. Most of our courses have really outstanding job placement. You mentioned you want to have an idea, the non-IT courses, job placement rate. I can check. So I can share with you the UID achieved 97% of job placement rate, accounting achievement 100% job placement rate.

Operator

[Eric Giu] with CCBI.

Eric Giu - *CCBI - Analyst*

I have three questions. One is regarding to your margin. First, the operating margin and non-GAAP is 26.4 this quarter. A little down from 27 last - 3Q, and the 27.2 the year before. So I was wondering if, like, operating margin above 27 was the cap. Second question is about ARPU for the new students at K-12. You said K-12 is 2,000 in this year, and probably 5,000 to 6,000. I'm wondering what's the ARPU per year? Third is regarding to your gross. For last few years it's all from organic growth, so I'm wondering if any will come from the exterior, for instance M&A, in the future?

Dennis Yang - *Tarena International Inc - CFO*

The first, you mentioned the operating margin as slightly down in Q3 as compared to last year. The main reason we believe is the account of overall increase in cost, especially advertising costs due to value changes and policy interim. So we have our impact on that as policy change. I believe there's a correct word, [half] spending in quarter.

While our [half nation] in the future from this is - [we're turning to] internally to improve our operational efficiency as well as to optimize the student acquisitional channel mix to over control the abundant student acquisition cost as RMB2,000. This kind of level we can't wait to achieve in the next year.

So with this, we believe in the next year we have ability to increase our tuition and hold the acquisition cost more stabilized so the market can expect it to expand in 2017. This is to your first question. Your second question is [do you value] ARPU for K-12? Our tuition for K-12 is between RMB15,000 to RMB17,000 per year. This is our current standard tuition for K-12 courses. We need to increase tuition next year, but it depends on the [power level trends].

Your second question, you asked about how we plan for the future growth. We believe most of our growth in the coming couple of years will come from organic growth. We are open to think about the opportunities outside to see kind of mergers or acquisitions that we're now targeted to do that way; we're targeted to grow our business organically. And also, with a very strong profession education market in China, Tarena actually holds very good market position to achieve this.



Eric Giu - *CCBI - Analyst*

I just have one follow-up question that you have a good record and history of adding new courses. I was just wondering, what's your plan to pace for adding new courses? Because I read from the results that it seems you are starting with, like, VR/AR courses. And so, wondering what's your plan for the pace of adding new courses?

Dennis Yang - *Tarena International Inc - CFO*

I would like to answer your question from a couple of perspectives. The first; Tarena is a very market oriented company. So whether to launch on the new course or not, it depends on whether there's enough demand in the market. Actually, this is not how Tarena decides to launch a new course, but the market does.

The second is, historically you can see our course offerings from the list of our course offerings, you may see that from 2009, Tarena has launched at least one new course every year. So we believe in the IT sector in China there's this kind of business climbed quite fast in both. So if we go back a year, there's a large probability that a new topic will be emerged. And with that, Tarena will -- to cater to this campus market demand to launch the new courses.

Shaoyun Han - *Tarena International Inc - Chairman, Founder, CEO*

(Interpreted) Yes, again, [!] also emphasize our new course strategy, launching a new course that's really to meet the new market demands. So Tarena is not planning to open a new course ahead of the market that's mature enough to hold enough job openings in that area.

Dennis Yang - *Tarena International Inc - CFO*

One more thing I want to highlight is, in China, our target population is huge enough. And they are trying to take courses to learn the skills necessary to find job opportunities. So for Tarena, with a very diversified course offerings, we are trying to help those -- the young people in China, to be good with those skills with taking our professional trainings. So whether launching new courses or not does not have impact - or have very little impact on the demand outside in the market from our customer size wise.

Those groups of young people want to have a job, no matter whether there's a new initiative in the market or not. So with this kind of market demand out there, so it's no matters. The Tarena business can grow no matter whether we launch a new course or not. This is our perspective.

Operator

Now I will revert the call to Helen Song, Tarena's Senior Investor Relations Manager.

Helen Song - *Tarena International Inc - Investor Relations manager*

Thank you, Operator. If there are no further questions at present, we'd like to conclude by thanking everyone for joining us on the call. We welcome you to reach out to us directly by e-mailing IR@tedu.cn should you have any questions or requests for additional information, and encourage you to visit our investor relation site at ir.tedu.cn.

This concludes Tarena's earnings conference call. Thank you.

Operator

Ladies and gentlemen, that concludes our conference for today. Thank you for your participation and you may now disconnect.

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