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TEDU - Q4 2015 Tarena International Inc Earnings Call

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CONFERENCE CALL PARTICIPANTS

Zoe Zhao *Credit Suisse - Analyst*

Anne Shih *Brean Capital - Analyst*

Cynthia Meng *Jefferies - Analyst*

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PRESENTATION

Operator

This is Conference #^ 5937082

Unidentified Participant

[Speaking in Mandarin]

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Tarena International Inc. Fourth Quarter and Fiscal Year 2015 Earnings conference call.

At this time, all participants are in a listen-only mode. After management 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 any time.

I would now like to turn the call over to your host today, for today's conference, Ms. Helen Song, Tarena's investor relations manager.

Helen Song - Tarena International Inc - Manager of IR

Thank you, [Albreza]. Hello, everyone, and welcome to Tarena's Fourth Quarter and Fiscal Year 2015 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 our new wealth services.

Today, you will hear opening remarks from Tarena's sponsor and chairman CEO, Mr. Shaoyun Han, followed by our [chief financial], Suhai Ji. I know - who will take you through the company's operational and financial result for the first quarter and fiscal year 2015, and give guidance for the fourth quarter and full year of 2016.

After they prepare remarks, Mr. Han and the fiscal team and [Conser Bal Dai Nee Syong] will be available to answer your questions.



Before we continue, please know that, starting today, we will continue certain [for Lucian] payments made under the 5th upper provisions of the U.S. Private Securities Education Reform Act of 1995. Before Lucian Simmons are subject to risk and uncertainties.

Some may come actually bound to defer materially from our current expectation. Tarena does not assume any obligation to update uninformed Lucian payment except as the required under applicable law.

Also, please know that some of the information to be discussed includes onset financial measures, as defined in Regulation G. The U.S. got financial measures and information. They controlling this non-GAAP financial measure for Tarena's financial results prepared in accordance with U.S. GAAP, are included in Tarena's [on] employee leave, 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 founders - ...

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Hello].

Helen Song - *Tarena International Inc - Manager of IR*

... [him and] CEO. Mr. Han will speak in Mandarin, and the fiscal team will translate.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] Thank you, Helen, and welcome everyone to our Fourth Quarter and Fiscal Year 2015 Earnings Conference call.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] 2015 marked our second fiscal year as a public company. And we, again, finished it on a strong note.

Our net revenues for the fourth quarter and for the year, grew by fifty-one percent and thirty-nine percent, respectively, supported by robust growth in student enrollment, continued business extension into new verticals, as well as strengthened branch recognition nationwide.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]



Unidentified Company Representative

[translated] In the fourth quarter, our net revenue was increased by more than fifty-one percent to reach [16] million, another record high, and exceeding the high end of our previously issued guidance.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] The strong top line revenue growth in the fourth quarter was mostly due to the strong student enrollment growth, recorded in the second and third quarter, and it is reflected in the course enrollment number for the fourth quarter.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] As we explained in the previous earnings call, course enrollment for tier 8 is the cumulative the total number of courses enrolled in by our students during such period, and it better correlates with the revenue recognized in the quarter.

In the fourth quarter, our course enrollments totaled 23,466, a increase of thirty-seven percent year over year. And this is the primary factor contributing to our revenue growth in the quarter.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] In addition, we had about 2,000 students recruited through the university channel in the first and the second quarter, who postponed their enrollment until summer, and only completed their courses in the fourth quarter.

Revenues from those students also contributed to the higher than expected revenues in the fourth quarter.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] Our student enrollment number, which is more of a leads indicator, and defined as the number of new students recruited and registered in the quarter, also grew strongly at thirty-eight percent year over year to reach 22,782 in the fourth quarter.



Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] Post IT and the now IT courses kept strong growth momentum in the fourth quarter. Total student enrollments for the 11 IT courses grew by fifty-nine percent year over year, while enrollments for the three non-IT courses grew by twenty-one percent year over year.

IT courses together accounted for sixty-two percent of the total student enrollments in the fourth quarter, as compared to fifty-six percent in the previous year.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] In the fourth quarter, we had a total of seven courses with enrollments above 9,000, and we will continue to execute our strategy to diversify our course offering, and extend into other high growth disciplines.

For example, we launched [Tensen Tomai] courses in December 2015 to target younger audiences from primary to high school. This is another new initiative that we're excited about, and will bring additional growth opportunities.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] In the fourth quarter, our student enrollments from the retail and the university channels were eighty percent with twenty percent of the total student enrollments, respectively. This compares to eighty-two percent from retail, and eighteen percent from university channels in the same period a year ago.

As we further penetrate into the university channel and drive enrollment growth, more and more students recruited through such channel, and not in their final year of college, and may postpone their training until later date, this would also impact the course of these revenues, as we explained earlier.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] For fiscal year 2015, we grew our revenues by thirty-nine percent to 189 million. Our course enrollments increased by thirty-five percent to reach 78,729, while student enrollment increased by forty percent to reach 84,041.

The student enrollment mix from retail and the university channel for fiscal year 2015 was eighty-four percent and sixteen percent, compared with eighty-two percent and eighteen percent for fiscal year 2014.

Together, with a standard tuition fee increase in March 2015, such channel mix also contributed to the higher effective average selling price for our courses.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] In terms of course offerings, as previously mentioned, [Tensen Tomai] courses in the fourth quarter of 2015 does bring the total number of course offerings to 16 in fiscal year 2015 up from 12 in fiscal year 2014.

The other two new courses launched in 2015, were front and web development in the first quarter, and the Java big data in the second quarter.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] In terms of a new learning center, we open the six in the fourth quarter of 2015, compared to searching in the same period of 2014 and four in the previous quarter.

Specifically, we opened two centers in Shenzhen, and one each in Shanghai, [Lanzhou], [Loi Yung], [and Egreegen], with the latter three being the new tier 3 cities that we just entered.

The total number of learning centers by the end of 2015 increased to 134 from 128 in the previous quarter, and 118 at the end of 2014.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] In addition to opening new learning centers, we also extended these areas in a number of learn - existing learning centers so that our total feet capacity increased to 42,434 at the end of fiscal year 2015, up by two percent from the end of the previous quarter, and by thirty-five percent from the end of fiscal year 2014.

Our central utilization rate in the fourth quarter declined slightly to seventy-two percent from seventy-five percent in the same period a year ago, due to the capacity expansion, and opening up the new learning centers. But for the year as a whole, center utilization for fiscal year 2015 was seventy-three percent, higher than the seventy-one percent figure in 2014, reflecting increased operating efficiency.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] Another operating metric that we are particularly proud of has been our job placements record, which is a key indicator of our education quality and outcome. And please report that, in 2015, we continued to deliver outstanding employment results for our students. Our former post-graduation job placements rate in 2015 was once again above ninety-five percent.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] These best in class results are a function of the strength and the quality of our learning platform, as well as the market demand for trained professionals. They also support our market leading brand, pricing strategy, and offer a competitive position. As a mission focused organization, we're proud of our role in enhancing the career prospect of tens of thousands of students who went to a Tarena course each year, and that believe strongly that our student success is the foundation for our own.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] In the fourth quarter, we are also pleased to see the [big ten in] year over year improvements in profitability of business.

Our gross margin in the fourth quarter increased by 210 basis points year over year - so, seventy-five percent. And the non-GAAP operating margin increased by 890 basis points year over year to reach twenty-six percent, mainly due to the increased business scale, as well as improvements in sales and marketing efficiency, and to better control on bad debt expenses.

Our [example], Suhai, will elaborate on this further in his later remarks.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]



Unidentified Company Representative

[translated] 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 160,000 to date, and our proprietary content library currently offers nearly 13,000 hours of video content. Through TMOOC, we also generated 12,500 VIP users to date, who have become our paying customers.

Shaoyun Han - Tarena International Inc - Sponsor and Chairman

[Speaking in Mandarin]

Unidentified Company Representative

[translated] Lastly, I would also like to share our teaching at appropriate levels strategy that we will focus on implementing in 2016.

We believe that we can achieve better teaching results, and make - and make better use of student time if they can be taught at appropriate levels. To meet this objective, we would redesign one course into two levels - basic course and advanced course.

And the student can choose the course most appropriate for them. Through this arrangement, we can help more capable students equipped with even better skills, and, therefore, make them more competitive in the job market.

In 2016, we plan to adopt and implement this strategy in five different subject. And we believe this will provide better service for our students, as well as new opportunity to scale up our business.

Shaoyun Han - Tarena International Inc - Sponsor and Chairman

[Speaking in Mandarin]

Unidentified Company Representative

[translated] With that, I would now turn the call over to our [sevenfold], Suhai Ji, to discuss the fourth quarter financial results and outlook of first quarter and whole year, 2016.

Suhai Ji - Tarena International Inc - CFO

All right. Thank you, [Han Zong], and hello to everyone, on the call.

We are pleased with the strong results for fourth quarter and fiscal year 2015 with net revenues existing - exceeding the high end of our guidance.

Since you already have all the detail numbers in the press release, I will review all financial results briefly, and only focus on a few more important areas.

For the fourth quarter of 2015, we grew our net revenues by fifty-one percent year over year to 60 million. Total student enrollments in the quarter increased by forty-two percent year over year to 22,781.

Total course enrollment increase by thirty-seven percent year over year to 23,466, which, as [Han Zong] explained earlier, is the primary driver for the revenue [gross]. Average revenue per course enrollment in the fourth quarter, as defined by net revenues divided by course enrollment, was 2,555 compared to 2,311 in the same period last year.

The ten percent year over year increase was mainly due to the nominal tuition fee increase of RMB 1,000, and the higher than expected revenue from the university channel students, who deferred their enrollment as explained earlier.

Cost of revenues in the fourth quarter increased by forty percent year over year to 15 million mainly due to the higher personnel costs, by rental costs, and higher depreciating expenses. Course profit increased by fifty-six percent year over year for 45 million, and the gross margin increased from seventy-three percent to seventy-five percent year over year due to increased business scale, and the leverage we get from teaching and a rental cost as a percentage of the revenue.

Selling and the marketing expenses increased by thirty-six percent year over year to 17 million, mainly due to the higher personnel cost, and the higher advertising expenses. However, average advertising spending per student enrollment for fourth quarter decreased to \$290 from \$330 in the same quarter a year ago.

Advertising spending accounted for eleven percent of the total revenue in the fourth quarter, compared to 13.4 percent in the same period a year ago. As previously communicated with the investors, after a transitional second quarter, we had fully realized the benefit of the [bad debt] account migration, and further intent, our sales and marketing efficiency.

General and administrative expenses increased by twenty-nine percent year over year to 12 million, mainly due to higher compensation costs, higher bad debt allowance, and higher share based compensation expenses.

In the fourth quarter, we incurred 3.7 million in bad debt allowance compared to 3.2 million in the same period a year ago, and 3.9 million in the previous quarter. As explained to investors previously, that expenses result from the legacy issue of installment payment plans we extended to our students.

We have partnered up with third party financing providers, such as Bank of China, Credit East, and the Bank of Beijing in, I think, 2013 to greatly reduce the percentage of students on the installment payment plan extended by Tarena.

In addition, we have also implemented strengthened controls over credit and cash attraction to reduce the risk of our counts receivable becoming uncollectable.

In 2015, we took the conservative approach to accelerate a provisioning, a longer aged accounts receivable, and made a total bad debt allowance of 10.1 million. We're hopeful that we're finally turning the corner on this issue, and the bad debt expenses will start going down in 2016, often reaching its peak in 2015.

Research and the development expenses increased by forty-one percent year over year to two million, many due to the higher personnel costs as we expanded our course offerings and operations. As a result, our non-GAAP operating income for the fourth quarter was about 15 million, with a non-GAAP operating margin of twenty-six percent compared with about seven million and seventeen percent in the same period a year ago.

As you can see, after transitional second quarter, while we had lower than expected operating margins, we have delivered two consecutive strong quarters with solid margins.

Our net income for the fourth quarter was 14.5 million, and non-GAAP net income was 16 million. GAAP basic and the diluted net income for ADS was 27 cents and 25 cents, respectively. Non-GAAP basic and diluted net income per ADS was 29 cents and 27 cents, respectively, for fourth quarter.

In the fourth quarter, we generated almost 13 million in positive operating cashflow, and incurred 3.5 million in capital expenditures, mostly in the opening of new centers, and upgrade, and [dimension this] of the IT infrastructure.

For the fiscal year [of] 2015, we grew our net revenues by thirty-nine percent year over year for 189 million. Total student enrollments in 2015 increased by forty percent year over year to 84,041. For the course enrollments, increased by thirty-five percent year over year to 78,729, which is the primary driver for the revenue increase.

Average revenue per course enrollments in 2015, as defined by net revenues divided by course enrollments, was 2,403, compared to 2,338 in 2014. The 2.8 percent increase was mainly due to the nominal tuition fee increase of RMB 1,000, and the higher retail channel mix in 2015.

Cost of revenues in 2015 increased by thirty-seven percent year over year to 54 million, mainly due to the high personnel cost, high rental cost, and the high depreciation expenses.

Course profit increased by forty percent year over year to 136 million, and the gross margin increased slightly from 71.3 percent in 2014, to 71.7 percent in 2015. Selling and marketing expenses increased by forty-five percent year over year to 62 million, mainly due to higher personnel costs, and a higher advertising expenses.

General administrative expenses increased by thirty-five percent year over year to 40 million. The increase was mainly due to the high compensation cost, high bad debt allowance, and high share based compensation expenses. Research and development expenses increased by forth-nine percent year over year to eight million, many due to high personnel cost, as we extended our course offerings and operations.

As a result, our non-GAAP operate income for fiscal year 2015 was 31 million with a non-GAAP operating margin of sixteen percent compared to 23 million and at seventeen percent end for fiscal year 2014. So this lowered, non-GAAP operating margin was mostly caused by the - by the transitional quarter we experienced in the second quarter.

Our net income for 2015 was about twenty-nine million, and our non-GAAP net income was 34 million. GAAP basic and the diluted net income per ADS were 53 cents and 49 cents, respectively. Non-GAAP basic and diluted net income for ADS was 63 cents and 58 cents, respectively. In 2015, we generated almost 56 million in positive operating cashflow, and incurred 16 million in capital expenditures.

So, looking forward to the first quarter of 2016, if taking into consideration the recent significant change in RMB exchange rate against the U.S. dollar, total net revenues for the first quarter of 2016 are expected to be between 38.5 million and 39.5 million, representing an increase of thirty-seven percent to forty percent on a year over year basis.

If not [incurring] an impact from the recent depreciation of RMB against the U.S. dollar, the projected revenue gross rate is expected to be in the range of forth-three percent to forty-six percent on a year over year basis.

The company also expect its total net revenues for the full year of 2016 to be between 230 million and 236 million, representing an increase of twenty-two percent to twenty-five percent on a year over year basis. It's not including the impact from the recent depreciation of RMB against the U.S. dollar. The projected revenue gross rate is expected to be in the range of twenty-eight percent to thirty-one percent on the year over year basis for the fiscal year of 2016.

And, finally, the company's board of directors have approved and have declared a special cash dividend of fifteen cents per [ordinance this] year, or per ADS. The cash dividend would be paid on or around May 30, 2016, to shareholders of record as of the close of trading on April 6, 2016.

So this concludes handing the call over to the operator, and to open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Ji.



Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press the "star" followed by the number one on your telephone keypad, and wait for your name to be announced.

If you wish to cancel your request, please press the "star" followed by the number "two."

Our first question will come from Zoe Zhao with Credit Suisse. Please go ahead.

Zoe Zhao - *Credit Suisse - Analyst*

Hi, management, thank you for taking my question.

I actually have three questions. The first one is, why do we see, like, a higher gross margin when our utilization rate of this quarter is actually lower than last year?

And the second one is, I saw a difference revenue increase by twenty-one percent, but then this - there is a slight gap between our number versus our first quarter guidance. So, could you explain a little bit on why it's lower than our first quarter revenue guidance.

And the third question is, could you give us an update on how many students are turning on this [permanent] plan, and how much direct exposure do we have towards - on this students? Thank you, and congratulations on another strong quarter.

Suhai Ji - *Tarena International Inc - CFO*

Thanks, Zoe. Can you just ask your question in Chinese for ...

Zoe Zhao - *Credit Suisse - Analyst*

Yes.

Suhai Ji - *Tarena International Inc - CFO*

... [emphasis] of [Han Zong].

Zoe Zhao - *Credit Suisse - Analyst*

OK. [Speaking in Mandarin]

Suhai Ji - *Tarena International Inc - CFO*

I will address your third question first, and then, [Han Zong] may address the first two, a bit later.

So, for the last question you put forward, I think for fiscal year 2015, for the whole year, there were only fourteen percent of the total number of students who are still on this so-called installation insolvents payment options. And those are extended mostly to the students from the university channel because they cannot get third party financing. So, Tarena would extend credit to such - then number of students. So it's already much lower than what we, you know, previously did.



So for most of the students, they have to go through the third party financing providers to borrow, and pay us upfront. And that's about fifty percent of the total students in 2015. And then, the rest of about, you know, thirty-five percent, they will just pay us upfront out of - out of their own pocket. So, the fifty percent of students would borrow from third party financing providers.

That's the - does that answer your third question, Zoe?

Zoe Zhao - *Credit Suisse - Analyst*

Yes, it did, thank you.

Operator

We will now take your next questions ...

Suhai Ji - *Tarena International Inc - CFO*

Operator, we haven't finished answering all the other questions next. We still have ...

Operator

I'm sorry.

Suhai Ji - *Tarena International Inc - CFO*

... two more.

Operator

OK.

Zoe Zhao - *Credit Suisse - Analyst*

Yes. Yes, he answered my third question. What about the first one ...

Suhai Ji - *Tarena International Inc - CFO*

Yes, yes, yes, we're getting to it now, yes.

Shaoyun?

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]



Unidentified Participant

[Speaking in Mandarin]

Unidentified Participant

Oh, yes, yes, yes.

Unidentified Participant

[Speaking in Mandarin]

Unidentified Participant

So, you've got balance sheet data - then what?

Unidentified Participant

[Speaking in Mandarin]

Unidentified Participant

[Speaking in Mandarin]

Zoe Zhao - Credit Suisse - Analyst

[Speaking in Mandarin]

Unidentified Participant

[Speaking in Mandarin] ... deferred revenue ...

Zoe Zhao - Credit Suisse - Analyst

Yes.

Suhai Ji - Tarena International Inc - CFO

Does that ...

Zoe Zhao - Credit Suisse - Analyst

Yes?



Suhai Ji - *Tarena International Inc - CFO*

... does [this look OK]?

Zoe Zhao - *Credit Suisse - Analyst*

Yes, ...

Suhai Ji OK.

Zoe Zhao - *Credit Suisse - Analyst*

... [yes], the rest of my question.

Unidentified Company Representative

Maybe I [quickly] the - OK. Maybe I just quickly explain also the first and second question to other audience on the call.

The second question's really about the deferred revenue growth, it seems smaller than the first quarter revenue guidance. And we just explained because the first quarter 2015, the timing of the Chinese New Year is more favorable to Tarena because it falls at the beginning of the February.

So, we have commenced new courses at end of January, and also, end of February. So, first quarter of 2016, on a year over year basis, will be much better in terms of the student enrollments than the first quarter of 2015, when the Chinese New Year fall towards the latter part of the February.

So, we won't have new course commencing at the end of February. And, in January, we had very few students. So you'll see the very strong year over year gross, in terms of revenues, for first quarter in 2016 compared to the same quarter a year ago.

And, also, deferred revenues are the people who have already paid, but have not received their service yet. So, for first quarter students enrolled, after January 1st, you know, none of that will be considered the deferred revenue. So that's the reason for the - signaling, you know, a difference between the different revenue gross, and the - and the first quarter revenue guidance.

And the first question is really on the gross margin in the Q4 this year - last year, Q4 of 2015 is higher than the same quarter in 2014, but the [util centered] line - the centered utilization rate is lower. Why is that?

Actually, our utilization rate is a data at a certain point in time. It's the utilization rate at the end of the quarter. Because, in the fourth quarter, we also opened a new learning centers, and also expanded our feed capacity.

So by end of the fourth quarter, that number, you know, will be lower, but that does not necessarily mean our gross margin will be lower. Because throughout the quarter, you know, the utilization rate could be still quite high. And that's the, you know, reason for the discrepancy there as well.

Suhai Ji - *Tarena International Inc - CFO*

OK, Zoe, thank you for your questions.

And we will move on, Operator, to the next question.



Operator

Your next question comes from the line of Anne Shih with Brean Capital.

Anne Shih - Brean Capital - Analyst

Hi, [Han Zong], Suhai, [Dennis] thanks for taking my questions. I have two.

First, could you share with the contribution from [Tensen Tomai] were in the fourth quarter, and how this is factoring into perhaps you one queue and full year guidance? And, also, could you just share what the profitability of what this business looks like?

My second question is related to the pricing. In 4Q, we saw that university channel accounted for a very slightly higher percentage of enrollment. But the implied pricing, just based on the course enrollment, increased pretty substantially - almost eleven percent year over year.

So, just wondering what contributed to the strong pricing growth. And also wondering, kind of, looking forward, are you planning to implement another price increase this March? And is the level still about RMB 1,000?

And then, you mentioned during the remarks that the five courses are being separated between basic and advanced. Just wondering what the pricing difference is between basic and advanced. Thank you.

Unidentified Company Representative

OK, thanks, Anne. We'll address your questions.

First, on [Tensen Tomai]. We actually only launched this in December. So, for the fourth quarter - and only in Beijing. So, for the fourth quarter, in total, we only had, you know, flags were over 100 - 128 students enrolled in this program.

So, the contribution, in terms of revenue, is relatively immaterial. And, you know, as we report their earning for first quarter, we will give you a more detailed update on the progress of the course as we, you know, starting, you know, to roll it out to other cities in China.

And, so, even for the whole year, the revenue contribution from this course would be relatively small. And for the course enrollment and the student enrollment data we disclosed in the fourth quarter and full year 2015, actually, they do not include the enrollment from this, you know, children or kids' IT training program. We will disclose them separately in the future, you know, when the number gets bigger. OK?

Anne Shih - Brean Capital - Analyst

Thank you.

Unidentified Company Representative

So is - ...

Anne Shih - Brean Capital - Analyst

Yes?

[Han Zong] ... your first question.

And the third - sorry what's your second question? Can you repeat it again?

Anne Shih - *Brean Capital - Analyst*

It's related to the pricing. Just, in fourth quarter, we saw that the implied pricing from in - ...

Unidentified Company Representative

Yes.

Anne Shih - *Brean Capital - Analyst*

... course enrollment ...

Unidentified Company Representative

Yes, yes, yes.

Anne Shih - *Brean Capital - Analyst*

... has increased substantially.

Unidentified Company Representative

Yes, that's a good question, and, actually, its the one that - yes, at first saw it, it may look a bit strange. But if you look the average pricing for whole year of 2015, it only went up by 2.8 percent.

It was only in the fourth quarter. And the n, the quarter also went up, you know, quite a bit - far less than five percent.

And there are a couple of reasons for that. One is, as we explained earlier, you know, we had a higher than expected revenue in the fourth quarter is because we had some additional revenue coming from the students through the university channel were deferred during enrollment. So, they're registered - they were counted as a student enrollment number.

And as we advertised them over the, you know, four month - so they were already accounted for the course enrollment in the previous quarter. But then, when they generate their revenue, they contribute their revenue. So their revenue would be larger than expected, but the course enrollment did not factor in. You know, they were already counted before.

So the denominator is smaller, and the numerator is bigger. So when you divide those two, that will make the number, you know, much higher. So that the reason for the signaling much higher, you know, average pricing of our courses is because a certain disproportion cost by [eight] on the - on the revenue, and, also, on the cost enrollment number.

So, in the future, we try to give even more average course enrollment number instead of deriving it from the student enrollment number by simply advertising them. But, you know, we recognize on a real time basis, i.e., if the student is in class, we recognize it. If he defers the enrollment, then he would be not counted as part of the course enrollment.



Because the number you get, that pricing is really a derived number using the net revenues divided by the course enrollment number. And if there's some, you know, discrepancy on both numbers, that will cause, you know, some confusion.

Anne Shih - *Brean Capital - Analyst*

I see.

Unidentified Company Representative

Is that more or less clear to you?

Anne Shih - *Brean Capital - Analyst*

Yes, that makes sense.

And then, just for pricing going forward?

Unidentified Company Representative

Oh, yes, we continue to plan to increase the price in March of this year, but not in all cities. In certain cities, tier 1 cities, we'll increase by 1,000, but in some other lower tier cities, we may keep the pricing the same, you know, for certain courses.

Anne Shih - *Brean Capital - Analyst*

I see. And the difference between the basic and advanced courses?

Unidentified Participant

Oh, 2,000 difference.

Unidentified Company Representative

There's a 2,000 RMB difference. The more advanced course it would cost 2,000 only more.

Anne Shih - *Brean Capital - Analyst*

I see. Thank you.

Suhai Ji - *Tarena International Inc - CFO*

All right, thank you.

Operator, next question, please?



Operator

Your next question will come from the line of Cynthia Meng with Jefferies.

Please go ahead.

Cynthia Meng - Jefferies - Analyst

Thank you, management, and congratulations for strong results.

I have two questions. Number one is about your recent announcement for the partnership with [ADNEDEN]. Because management gives them more of, kind of, how this - how you expect this [spreadsheet] partnership will help Tarena, in terms of your training course development.

My second question is, your outlook for the future course mix. Your course mix in the future, what other new or new IT courses do you expect in the - for the NY '16 and '17? Is there any emerging, new areas that you see that has a strong potential for a - from a supply and demand from the employer point of view? Thank you.

Suhai Ji - Tarena International Inc - CFO

Yes, Cynthia, OK, just say your questions in Chinese for [Han Zong], please?

Cynthia Meng - Jefferies - Analyst

Yes, yes, OK. [Speaking in Mandarin]

Shaoyun Han - Tarena International Inc - Sponsor and Chairman

[Speaking in Mandarin]

Unidentified Company Representative

[translated] OK, just a quick summary in English for the answer to the first question.

The corporation with - [our] leaving, most will be centered on the training for cloud computing and the big data. And they will be actually integrated into five different courses that we offer, you know, including Java. And [our] leaving, actually, will provide the training platform for our students, and also, certification serve as far as students.

And most of those as view free at current space offer to our students. But the corporation we believe will attract more and more students to Tarena to enhance our reputation and our brand. And, you know, and to support our future growth.

Shaoyun Han - Tarena International Inc - Sponsor and Chairman

[Speaking in Mandarin]

Unidentified Company Representative

[translated] So, in terms of - on your second question, in terms of outlook for the future of course mix, you know, obviously the focus for 2016 in a couple ways - you know, we just launched [Tensen Tomai], the children or kids' programming IT training courses in December. So 2016 and also '17 will be the year we try to expand the presence in this area.

And the - secondly, as we mentioned earlier in the earlier remarks, we are launching the strategy of teaching at appropriate levels.

So, basically, for five existing courses, we will, you know, split them into, you know, a more basic one, and a more advanced one. So that's as if we already have five new courses. And so, that's, you know, the area we'll be focusing on. In terms of new course, usually, we would start something at the end of the, you know, fourth quarter each year.

We are currently still exploring that new subject, and we will announce it as they, you know, materialize. But we believe all these, you know, [Tensen Tomai], and also the advance and basic courses, that will provide the sufficient enough course engine for our company, at least in the foreseeable future towards 2016 and 2017.

Cynthia Meng - Jefferies - Analyst

Thank you very much.

Suhai Ji - Tarena International Inc - CFO

OK, thanks, Cynthia.

Cynthia Meng - Jefferies - Analyst

Yes.

Suhai Ji - Tarena International Inc - CFO

Operator, next question, please?

Operator

Your next question comes from the line of Sun Li with Goldman Sachs.

Please go ahead.

Sun Li - Goldman Sachs - Analyst

Hello. Hi, [Han Zong], and [she joined], Helen, thank you for taking my questions.

So, I have two questions. Number one is found your learning center and capacity extension plan for 2016. And, also, I noticed that in 2016, the goals is to actually, the meet point, is already getting down to the lowest of [pin print] by thirty percent long year goals. So how should we see the longer term gross outlook for our company?

And the second question is about our intention in the lower tiers with you.



So, this quarter, we enter three new share strength entities. So, may I know how you evaluate the market demand before you enter a new city, especially a lower tier city, given that a 17.8,000 of the courses tend not to be affordable pricing for most of the students in the loan business.

So, how should you deal with the market demand end at that level? [Speaking in Mandarin]

Helen Song - *Tarena International Inc - Manager of IR*

[Speaking in Mandarin]

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] Yes, the first question, in terms of our capacity expenditure and the longer term growth outlook, could, at least for the next three years, we want to keep a - you know, annual compound growth rate above twenty - between twenty to twenty-five percent for the next three years. And we're quite confident in our ability to drive those kind of growth, you know, from both the existing courses, and the newer courses that the - we're going to launch.

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Unidentified Company Representative

[translated] Yes. Regarding your question on the penetration to the lower tier cities, in fact we, you know, we also mentioned this in previous earnings calls. We have had, you know, some good success in entering those tier 3 cities before.

For example, in Yantai, we found Dongguan and [Negwa], those four cities we entered previously actually because, you know, they have been doing quite well. And about sixty to seventy percent of the students who actually studied in those cities, they will end up working outside of the city.

They would go to the, you know, capital city of their province, or even go to, you know, Beijing, Shanghai, [Guang]. Those are the tier 1 city to work. Only about thirty to forty percent of the students who remain, you know, in those lower tier cities work locally.

But even that, you know, under - at a local level, they accelerate - you know, it's about 3 to 4,000, average. So they can, you know, make their money back of the payback period is probably around six months, which is still pretty good return for those students. So we're not as concerned about the potential of those third tier - of those lower tier cities, given there are so many number of them in China. And, also, we have had a good, you know, success story in penetrating into those tier 3 cities.

Suhai Ji - *Tarena International Inc - CFO*

OK?



Sun Li - *Goldman Sachs - Analyst*

Great.

Suhai Ji - *Tarena International Inc - CFO*

All right, thank you.

All right, next question, operator?

Operator

Our next question comes as a followup question from Zoe Zhao [Would you present it, please?]

Zoe Zhao - *Credit Suisse - Analyst*

Hi, management, I'm sorry, I just have a followup question on our 2016 revenue guidance.

Since that our, you know, percentage students on this - on [this current plan] has stepped down a bit from, like, seventy percent to sixty-five percent, in that regard, since we're depending on credit, do we see that impact on our revenue [gross] process? [Speaking in Mandarin]

Shaoyun Han - *Tarena International Inc - Sponsor and Chairman*

[Speaking in Mandarin]

Zoe Zhao - *Credit Suisse - Analyst*

[Speaking in Mandarin]

Unidentified Participant

[Speaking in Mandarin]

Unidentified Company Representative

OK. [Speaking in Mandarin]

Zoe Zhao - *Credit Suisse - Analyst*

[Speaking in Mandarin]

Unidentified Company Representative

OK, a quick summary of the question - answer to Zoe's question.



So, typically, there's three ways for students pay for their Tarena education. In 2015, about half, fifty percent of the student would take loans from third party and - third party financing providers. They would borrow and [then] pay us up front.

So those students do not create any credit risk to Tarena. We get our cash upfront.

And another roughly fifteen percent of students would - thirty-five percent of students, sorry, would pay out of their own pocket. So there's no credit risk for those students as well. Then, only about fourteen, fifteen percent of students who are extended, you know, so-called installment payment options extended by Tarena.

So, those students are the ones who [would've] create the accounts receivable, and the potential credit risk. So we enhance our credit control, you know, for those type of students to ensure that, in the future, we have less of accounts receivable problem, and also lower bad debt.

And so, it's to reduce the way, as I mentioned earlier in my remarks, you know, we believe the bad debt expenses will start coming down in 20, you know, 16 after we have digested most of the, you know, the legacy issues from these installment payment plans that we extended to students.

OK? That - any other questions from - operator?

Operator

Thank you. I will now revert the call to Ms. Helen Song, Tarena's investment relations manager.

Helen Song - *Tarena International Inc - Manager of IR*

Thank you, operator.

If there are no further questions at present, we'd like to conclude there. Thank you, everyone, for joining us on the call.

We will [come you] to reach out to us directly by e-mailing [ir.\[i\]tedu.cn](mailto:ir@tedu.cn). Should you have any questions or requests for additional information, I encourage you to visit our investors relation site at ir.tedu.cn.

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

Operator

That does conclude our conference for today.

Thank you for participating. You may now disconnect.

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