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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the Tarena International, Incorporated Third Quarter 2015 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, Ms. Helen Song, Tarena's Investor Relations Manager.

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

Thank you, Operator. Hello, everyone. Welcome to Tarena's Third Quarter 2015 Earnings Conference Call.

The company's earnings results were released earlier today and are available on our IR website, [ir.tedu.cn](http://ir.tedu.cn), as well as on newswire services.

Today, you will hear opening remarks from Tarena's Founder, Chairman and CEO, Mr. Shaoyun Han; followed by our Chief Financial Officer, Suhai Ji, who will take you through the company's operational and financial results for the third quarter of 2015 and give guidance for the fourth quarter and full year 2015. After their prepared remarks, Mr. Han and Mr. Ji 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 U.S. 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 U.S. GAAP financial measures and information reconciling these non-GAAP financial measures to Tarena's financial results prepared in accordance with U.S. GAAP are included in Tarena's earnings release, which has been posted on the company's IR website at [ir.tedu.cn](http://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. Ji will translate.

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

(Interpreted) Thank you, Helen and welcome everyone to our Third Quarter 2015 Earnings Conference Call.

Given the seasonality of our business, third quarter has always been the strongest quarter of the year and this past third quarter was no exception. I am very pleased to report that we achieved another excellent third quarter with record top and bottom line results.

Our revenues in the third increased by more than 48% to reach \$59.7 million, another record high and exceeding the high-end of our previously issued guidance. We also delivered a record non-GAAP profit of \$15.2 million in the third quarter despite of our unexpected \$3.4 million in foreign exchange loss as a result of the sudden RMB depreciation that occurred in the quarter.

The strong 48% top-line revenue growth in the third quarter is mostly due to the strong student enrollment growth recorded in the first and the second quarter of this year and it is reflected in the course enrollment number for the third quarter.

As you may recall, we reported 38% and 43% student enrollment growth in the first and the second quarter, respectively, with most of the new student enrollment occurring in March for the first quarter. Given the way we recognized revenue, which has amortized over the [four] months of course duration, the new student enrollment in each month will only generate revenue in the following [four] months after they commence the class, with 25% of the tuition fee being recognized as revenue in each month.

Therefore, assuming newly recruited students all started class at the end of the month after they registered, the revenues in the third quarter are contributed by students recruited in the month of March, April, May, June, July and August. As a result, there is a timing delay between the student enrollment number and the revenue recognized. Student enrollment number is more often lead indicator for the near-term future revenues and is a key metric to measure the success on new student recruitment in the current quarter.

By contrast, the course enrollment number that we introduced, and have started disclosing from the second quarter this year, is better aligned with our revenue recognition.

As we explained before, course enrollment for period is the cumulative total number of courses enrolled in about our students during such period and a better accommodate with the revenue recognized in the quarter. For example, for student recruited and registered in September of the third quarter, he will be counted as one student enrollment in the third quarter, but zero course enrollment in third quarter as we usually commence new course at the end of each month and he will be attending classes for the following four months; October, November, December and January next year. Thus, he will be counted as 0.75 course enrollment for the fourth quarter of 2015 and another 0.25 course enrollment for the first quarter of 2016.

We hope that by now all of our investors can fully understand and appreciate this difference between students' enrollment and course enrollment and why we are disclosing both metrics. In the third quarter, our course enrollment totaled 23,912, an increase of 43% year-over-year and this is the primary factor contributing to our revenue growth of 48% in the quarter.

Our student enrollments defined as the number of new students recruited and registered took up their courses at the end of each month totaled 24,077 in the third quarter, an increase of 37% year-over-year and we think this is a very good growth number, given the strong enrollment number in the third quarter of last year.

Both IT and non-IT courses kept strong growth momentum in the third quarter. Total student enrollments for the 11 IT courses grew by 32% year-over-year while enrollments for the three non-IT courses grew by 46% year-over-year. IT courses together accounted for 59% of total student enrollment in the third quarter as compared to 56% in the previous quarter.



Among the three non-IT courses, digital arts remains the largest course overall and accounting was the number 5 course overall in terms of student enrollments in the third quarter.

Reflecting the success of our efforts to diversify course offerings and expand beyond our course strength in IT, we now have seven courses with enrollments above 1,000 in the third quarter. They are in order of number of student enrollments for the quarter; digital arts, Java, iOS, front-end web development, accounting, Android and online sales and marketing. The success of the accounting and front-end web development courses, once again, proved our ability in identifying high-growth verticals and scaling up the new courses to drive sustained future growth.

In the third quarter, our student enrollments from the retail and the university channels were 86% and 14% of total student enrollments, respectively. This compared to 81% from retail and 19% from university channel in the same period a year ago and also in the previous quarter. Such change in channel mix also contributed to higher effective average selling price for our courses, which our CFO Suhai will further elaborate in his remarks.

In terms of course offerings, we had 14 courses in total in the third quarter of 2015, up from 11 in the same period a year ago and unchanged from the previous quarter. We launched our accounting course in the fourth quarter of 2014 and a new IT course front-end web development in the first quarter of 2015 and then one more IT course, Java Big Data, in the second quarter of 2015.

More recently this month, we also announced to launch two new courses in computer programming and digital arts for primary to high school students aged between 8 and 18 under the brand name of Tongcheng and Tongmei, respectively. This is another exciting initiative to leverage our core competency and existing resources to expand our course offerings and target demographics.

Similar to our online learning platform, TMOOC.CN, we believe Tongcheng and Tongmei will also further expand our target customer-base, broaden our market potential and bring additional growth opportunities for our company. We will provide the update on the progress of Tongcheng and Tongmei courses at our next earnings call.

In terms of new learning centers, we opened four in the third quarter of 2015; one each in Beijing, Tianjin, Hangzhou and Nanjing. We also merged one learning center each in Shanghai, Qingyang, Tianjin and Nanchang into an existing center. So, on a net-basis, the total number of learning centers remained at same at 128 with the previous quarter, but up from 105 in the same quarter a year ago.

In the third quarter, we also expanded these areas in a number of existing learning centers so that our total seat capacity increased by 31% to 41,557. As we discussed in second quarter's earnings call, we believe that seat capacity is a much better and more relevant measurement for our capacity expansion and this is the metric that investors should focus on instead of the number of learning centers, per se.

Our center utilization rate in the third quarter also reached an all-time at 80% compared with 77% in same period last year and 74% in the previous quarter. Given the already relatively high utilization rate and the continued roll out of new courses in the existing cities, we plan to open another 9 new learning centers in the fourth quarter of 2015 as well as continuing to expand the capacity at existing learning centers wherever possible.

In the third quarter, we are also particularly pleased to see the significant improvement of margins for our business. With the center utilization rate at 80% in the third quarter, we achieved another all-time high gross margin of 75.3% and our non-GAAP operating margin had also increased to 27% from 6.4% in the previous quarter, mostly due to the improvement in sales and marketing efficiency.

Average advertising spending per-student enrollment for the third quarter decreased to \$243 from \$265 in the same quarter a year-ago and from \$336 in the previous quarter. Our CFO Suhai will discuss the financial results in more details in his later remarks.

I also want to take a little time on this call to address the topic of third-party financing for our students. Since 2013, we have greatly increased the use of third-party lenders to help our students finance their Tarena education and they had certainly made it easier for our students to afford Tarena courses. This month, we, again, signed agreement with Bank of Beijing again to renew the relationship and we now have a total of six institutions providing financing options to our students.



Among them, Bank of China and the Bank of Beijing are two big commercial banks; CreditEase, Renrendai and Chuanbang, P2P lending companies, and Baidu Small Lending is a subsidiary of Baidu. For the first three quarters in 2015, about 52% of Tarena students borrowed from above institutions to pay for the Tarena courses, among which, CreditEase and Bank of China are the two largest lenders, each accounting for 56% and 38%, respectively. We believe this third-party financing helped reduce our accounts receivables under their related credit risks by enabling students to pay us cash up front.

Now, a quick update on the progress of our online learning platform TMOOC.CN, which was launched in March 2015. Since we last reported in August, the number of registered TMOOC users almost doubled from 72,000 to 140,000 to-date and our proprietary content library currently operates about 10,000 hours of video content. Through TMOOC.CN we also generated 9,300 VIP users to-date who have also become our paying customers.

Lastly, on behalf of the company, I want to welcome Mr. Dennis Yang, who just came onboard as our Co-CFO alongside show Suhai Ji to help further enhance our accounting and financial reporting capabilities. Before joining Tarena, Dennis held senior financial positions at various companies. We trust Dennis will be a great addition to our senior management team.

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

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**Suhai Ji - Tarena International Inc. - CFO**

Thank you, Han, and hello to everyone on the call. Since you already have all the detailed numbers in the press release, I will review our financial results for third quarter briefly and only focus on a couple of more importantly areas.

For the third quarter of 2015, we grew our net revenues by 48% year-over-year to \$59.7 million. Total student enrollment in the quarter increased by 37% year-over-year to 24,077. Total course enrollments increased by 43% year-over-year to 23,912, which as Han explained earlier, is the primary driver for the revenue growth.

Average revenue per course enrollment in the third quarter as defined by net revenues divided by course enrollment was 2,497 compared to 2,410 in the same period a year ago. The 3.6% increase was mostly due to the nominal tuition fee increase of RMB1,000, the higher retail channel mix in the third quarter partially offset by RMB depreciation and the number of students selecting shorter-term, or modular courses.

The number of students enrolled in the modular courses curriculum during the third quarter was only 3.9% of the total student enrollment, much lower than the 10% average number in the first and second quarter and this was due to the fact that our priority is given to full-length courses students and when the center utilization is at very high level, such as the over 80% in the third quarter, we cannot accommodate many short-term course to students.

Now moving on to the cost of revenues and operating expenses. Cost of revenues in the third quarter increased by 41% year-over-year to \$15 million mainly due to higher personnel cost, higher rental cost and high depreciation expenses. Gross profit increased by 51% year-over-year to \$45 million. Given the high level of center utilization rate of 80%, gross margin also reached an all-time high at 75%.

Selling and marketing expenses increased by 45% year-over-year to \$16 million, mainly due to higher personnel cost and higher advertising expenses. However, as Han mentioned earlier, average advertising spending per student enrollment for the third quarter decreased to \$243 from \$265 in the same quarter a year ago and from \$336 in the previous quarter. Advertising spending accounted for 9.8% of total revenue in the third quarter compared to 11.5% in the same period a year ago and 17.9% in the previous quarter.

As we explained before, we incurred more sales and marketing expenses than usual in the second quarter due to the new course launch and the Baidu account migration. In the third quarter the Baidu account migration has been completed and we also saw increasing percentage of student referrals, both of which drove the student acquisition cost and the resulting sales and marketing expenses down significantly. As previously

communicated with investors, we are now also able to realize the higher rebate of Baidu in our search engine market efforts which should continue into 2016 fiscal year.

General and administrative expenses increased by 57% year-over-year to \$12 million, mainly due to higher compensation costs and higher bad debt expenses. In the third quarter, we incurred \$3.9 million in bad debt allowance as we accelerated the provisioning for longer age accounts receivable from students who have extended installment payment options in 2012 and 2013.

As we have explained before, most of the accounts receivables and their related bad debt expenses were created by so-called installment payment options extended by Tarena to its students and the percentage of such kind of students was only now at less than 15% for the first three quarters of 2015, which is significantly lower than the 35% or higher in 2012 and the years before.

Research and development expenses increased by 67% year-over-year to \$2 million mainly due to higher personnel cost as we expanded our course offerings and operations. As a result, our non-GAAP operating income for the third quarter was \$16 million with a non-GAAP operating margin of 27% compared with \$11 million and 27% in the same period a year ago.

Our net income for the third quarter was close to \$14 million and the non-GAAP net income was \$15 million. GAAP basic and diluted net-income per ADS was \$0.25 and \$0.24, respectively. Non-GAAP basic and diluted net-income per ADS was \$0.28 and \$0.26, respectively, for the third quarter.

In the third quarter, our operating cash flow remained very strong and we generated almost \$24 million in positive operating cash flow and incurred only \$5.5 million in capital expenditures, mostly in the opening of new centers and upgrades and maintenance of the IT infrastructure.

So, looking forward to the fourth quarter 2015, we expect total net revenues to be in the range of \$54 million to \$56 million, representing an increase of 36% to 41% on a year-over-year basis. As we expect to continue the strong student enrollment to largely offset the impact of our reported revenue figures in U.S. dollars from the R&B depreciation, we further revised our revenue guidance for the full year of 2015 to be between \$183.2 million and \$185.2 million, representing an increase of 35% to 36% on a year-over-year basis.

So, this concludes my remarks and I will now hand the call over to the operator and open the lines for questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) Your first question comes from the line of Anne Shih from Brean Capital. Please go ahead.

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### Anne Shih - Brean Capital - Analyst

Hi, good evening. Thanks for taking my questions. I have three. First, on enrollments; it looks like your IT segment grew more rapidly than non-IT. Was this driven by the two more recent IT launches and how do you see the growth in these two areas going forward? Separately, are there new courses in the pipeline for launch in 2016? And I have two more follow-ups.

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### Suhai Ji - Tarena International Inc. - CFO

Yes, so, Anne, I will take this question in English. Actually our non-IT courses, again, grew faster than the IT courses. The IT courses, in total 11 of them, grew by 32% year-over-year, but the non-IT courses grew by 46% year-over-year for the third quarter. So, in terms of percentage because the growth of the IT courses, so the IT courses accounted for a little bit more of the total student enrollment, so 59% in the third quarter compared to 56% in the previous quarter. And as we mentioned earlier, we launched two new IT courses this year, one in the first quarter, the front end web development.



So, that course has grown very rapidly to become in the third quarter did become the number four course overall. So that is one of the reason contributing to the total IT course enrollment, which had a higher growth in the third quarter even than in the second quarter.

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**Anne Shih** - *Brean Capital - Analyst*

And are there new courses in the pipeline for launch in 2016?

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**Suhai Ji** - *Tarena International Inc. - CFO*

Well, only this month we launched two new - well, those are IT courses or non-IT courses, however you call it. One is the computer programming, that is definitely the IT courses for primary to high school students between age of 8 and 18 and also digital art for the same group. So, those are the two new courses we launched targeting different demographics and that is being implemented in December.

We will roll it out, as we announced in the press release, to other cities. So, currently we think those new courses will bring additional growth that we need and, of course, we are always considering additional new courses as we see fit and as we see market demand.

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**Anne Shih** - *Brean Capital - Analyst*

Just a follow-up on that. Was this included in your guidance for the 4Q and could you share any sort of expectations for enrollment or revenue contribution from these two new courses for 2016?

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**Suhai Ji** - *Tarena International Inc. - CFO*

OK, first part is, no. Those two new courses, Tongcheng and Tongmei, the computer programming and digital art, they are not included in our Q4 guidance. And for the 2016, we will discuss the guidance for 2016 probably in the next earnings call. They are budgeted to a certain extent, but with a very conservative estimate.

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**Anne Shih** - *Brean Capital - Analyst*

OK, thank you. And so my last question is just on seat capacity. I think you mentioned nine new learning centers for 4Q and further existing center expansion. What will the net capacity growth look like for 4Q and any visibility into 2016?

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**Suhai Ji** - *Tarena International Inc. - CFO*

The growth for the seat capacity will be, again, above 30% in the fourth quarter.

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**Anne Shih** - *Brean Capital - Analyst*

OK, those are all my questions. Thank you so much.

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**Suhai Ji** - *Tarena International Inc. - CFO*

Thank you, Anne.



**Operator**

Your next question comes from the line of Fan Liu from Goldman Sachs. Please go ahead

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**Fan Liu - Goldman Sachs - Analyst**

Hi, Han, Suhai and Helen, thanks for taking my question and congratulations on the solid results. So, I just have two quick questions. Number one is just want to confirm with Suhai, so I apologize if I missed. So, you have said that there would be \$3.9 million impairment in the G&A expense line this quarter, and for the installment part we have a 15% student enrollment, less than 15% student for the installment payment option in this quarter, just want to confirm these two numbers.

And number two question is around macro, more macro question. So, just recently on both Internet giants, BAT, all three account for social recruiting side, so do you see any headwind on this front and how do you see the longer-term enrollment trend and also revenue growth in the longer term for your company? (Spoken in Mandarin)

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**Suhai Ji - Tarena International Inc. - CFO**

I will take your first question. Yes, within the G&A for the third quarter, as I mentioned earlier, there is \$3.9 million in bad debt allowance. Again, that is due to the accounts receivables. Each quarter based on the agent analysis of the accounts receivables and based on the situation of the cash collection, so we make appropriate allowance for bad debt, but most - again as we mentioned before, most of those accounts receivables are more of a legacy issue from the students who we extended installment payments options prior to 2013 or 2014. In 2013 that percentage was as high as 35% and from 2014 and 2013 and 2015, the percentage has come down significantly. And for the first three quarters of this year, it has been below 15% and we don't think we will go above 15%.

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

(Interpreted) So, there are two aspects of this second question regarding the impact from the macro economy, especially given the company's like Baidu, Alibaba or Tencent, they have had a hiring freeze. The first aspect is that Tarena's target students, they are actually mostly from Tier 2 and Tier 3 schools. They are not the target type of students that BAT companies would higher, because those companies typically hire the students from the best universities, and given the kind of demographics that our students have, the job placements is highly fragmented and they are mostly going to small and medium companies in the local cities where they received education.

So, even though the overall IT sector may apparently have somewhat kind of slowdown in terms of hiring, but the impact to Tarena is very limited, even the impact - actually the overall IT sector, the demand for qualified professionals still remains very high. And the second aspect is, when the economy is not so good, even the students from the Tier 1 schools they face more competition, so they may have a desire to increase their competitiveness by getting additional training, so that to a company like us is also a good thing and it actually increased our potential student-base. So, overall the impact we don't see it as being significant at all to Tarena.

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**Fan Liu - Goldman Sachs - Analyst**

Great. Thank you.

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**Suhai Ji - Tarena International Inc. - CFO**

Thank you.

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**Operator**

Your next question comes from the line of Jackie Yang from T. H. Capital. Please go ahead.

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**Jackie Yang - T. H. Capital - Analyst**

Hi, Han and Suhai. I have a question about the breakdown of growth of course enrollment ASP. I know that you had course enrollment increase 39.8% year-over-year while the ASP is about 3%. So, in terms of guidance, so what is the breakdown of growth of course enrollment and ASP associated with the guidance and what could be the trend of our plan for price increase in 2016? Thank you.

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**Suhai Ji - Tarena International Inc. - CFO**

Can you say your question in Chinese just for the benefit of our CEO?

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**Jackie Yang - T. H. Capital - Analyst**

OK. (Spoken in Mandarin)

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**Suhai Ji - Tarena International Inc. - CFO**

OK. I will address your question. Well, actually our revenue this quarter increased by 48% year-over-year and that has two big - essentially, that's the growth of the company has come from the enrollment and the tuition fee increase. And the course enrollment, as we mentioned earlier is a better measurement to be fully aligned with revenue and the course enrollment this quarter increased as I mentioned earlier 43%.

Out of 48%, 43% comes from the course enrollment and the ASP increase is 3.8%. So, that add up to be mostly the top line growth and the ASP increase, there are three factors impacting the ASP. One is a nominal tuition fee increase. As you asked, it's true that next year we plan to increase our nominal tuition fee again, mostly likely by another \$1,000 and that's one factor impacting.

And the number two factor impacting the ASP is the channel mix between the retail and the university channel, because this quarter the retail has a larger percentage, it's 86% this quarter. So, the higher percentage the retail channel is, the higher the ASP would be because for the university channel, we do offer discounts close to \$4,000 for the university channel students.

And third one is really the percentage of students who selected the short-term modular courses; is one month or two months or three months. So, for those students, obviously the price point would be lower because it's just a percentage of the total. So, those are the three factors, of course the fourth is the RMB depreciation when you translate from RMB into U.S. dollars, if the RMB depreciates, that would also have some kind of impact on the average selling price.

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**Jackie Yang - T. H. Capital - Analyst**

So, I have a follow-up about the overall pricing strategy of the new programming Tongcheng and Tongmei, would that be significantly higher or just associated with our current pricing strategy?

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**Suhai Ji - Tarena International Inc. - CFO**

Yes. That's a good question. Tongcheng and Tongmei have completely different pricing schemes as what we kind of offering for the 11 IT and 3 non-IT courses. So, those prices actually are based by hour, because those kids, they only come to school once a week and each time for three hours. And so, they only come on weekends or in the evening, so they are basically utilizing the spare capacity of our classrooms.

That's why we are saying we are leveraging really the existing resources and all other courses, it's on a full-time basis; 1 in 1,000 course hours. So for those Tongcheng and Tongmei, there are four different levels and each level only teaches about three hours on a per-week basis, so they are paying by hours, so it's more like a tutoring kind of - and for each hour, we charge RMB128 per hour.

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**Jackie Yang** - *T. H. Capital - Analyst*

Thank you. That's all for my question.

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**Suhai Ji** - *Tarena International Inc. - CFO*

Thank you.

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**Operator**

Your next question comes from the line of Jialong Shi Credit Suisse. Please go ahead.

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**Jialong Shi** - *Credit Suisse - Analyst*

Hi, management. Congratulations on a strong quarter and sorry about the technical just now. So, I have two questions. First one is, could you provide an update on your joint major programs with the universities, because we noticed that the enrollment from the University channel actually dropped this quarter after the ramp up in our initiative on this front.

And the second one is, how do we tie up the numbers between the seat utilization rate versus the course enrollment number? Because if we look at the utilization ratio at 80% and apply that on our number of seats, that actually exceeds the number of our course enrollment. Is that a function of absence rate? That's a very basic question. So, I'll translate my questions. (Spoken in Mandarin)

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**Suhai Ji** - *Tarena International Inc. - CFO*

Thank you. I will address your second question first and Han Shaoyun will address your first question. The second question is a good question. Actually, the utilization rate and the seat capacity, if you times the two, is actually the number of students at school. (Spoken in Mandarin) So, this is additional metrics, but you can calculate it off yourself.

So, first metric we disclose is the number of students who are recruited each month, because every month we have new students registered and recruited and number two is the course enrollment, which is the derived metric from the student enrollment; we basically amortize them over the four-month duration and the third metric is actually the number of students at school, which is definitely higher because we have four months, we essentially we have four different grades, just like in the University.

You have new student coming each fall, but at the University at any given time, there are four different grades of students at the university. So, that number is higher. So, if you use the total seat capacity times the 80% utilization, this comes out to be close to 32,000 students, so those are the number of students, at the end of quarter if you count all our classrooms or the number of students, those are the total number of students who are there. Does that make sense?

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**Jialong Shi** - *Credit Suisse - Analyst*

Yes, that's very clear. Thank you.

**Suhai Ji** - *Tarena International Inc. - CFO*

So, Han Shaoyun will address the first question.

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

(Interpreted) Second question, because the third quarter consists of July, August and September, and our University Channel is more of an off-line campus recruiting channel. So, in the month of August, no one is really at school. So, we only do it in part of July and also September, so that's the reason contributing to the slower growth in the University Channel than the retail and also because students are out of school in August, so they tend to just go to our learning Centre or do it online, search online, so that's also the reason for the higher percentage of the retail channel the third quarter.

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**Jialong Shi** - *Credit Suisse - Analyst*

Right. Sorry, if I may follow up on that, can you share a little bit on the revenue sharing model of the joint major program? (Spoken in Mandarin)

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

(Interpreted) So, for the joint major, it's actually a revenue share on a yearly basis. Each year, if the University give us 2,000 to 3,000, so over the full year, there will be about RMB8,000 to RMB12,000 that we collect from the university.

And also, two types; for some schools, students would just pay us directly and some other schools, the school will collect them first and then the school will pay us. So, we will collect it from the school.

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**Jialong Shi** - *Credit Suisse - Analyst*

Thank you very much.

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**Suhai Ji** - *Tarena International Inc. - CFO*

OK. Thank you.

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**Operator**

Your next question comes from the line of Toni Yang from Feng Yi Jin Guang. Your line is open. Please go ahead.

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**Toni Yang** - *Feng Yi Jin Guang - Analyst*

(Spoken in Mandarin) I have a question on the trial program courses, it's no longer job oriented, but it's more like a parent oriented business. So, how are we going to promote and how do you do that advertisement and where does the cost going to take place and is there any cooperation with our cooperating partners such as schools and governments? Thank you.

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

(Interpreted) In terms of the promotion of our K12 or primary to high school student courses; computer programming and digital art, there are similarities between that and our existing customer. For example, for the University Channel, the equipment would be -- we target those primary or high schools to work with those schools to promote our courses to their students. And that's one.

And two is on the retail site similar to other K12 tutoring companies, we probably do some selective advertising through search engine as well and in addition, something that's new would be more like a more traditional kind of -- the grant. Basically, you go to the malls or places where a lot of parents gather and the students gather and you give them the pamphlets or the brochures that's advertising your courses, so that is the method that we will be adopting to promote those two new courses.

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**Toni Yang** - Feng Yi Jin Guang - Analyst

OK. Thank you. I have a follow-up on the advertising expense, since as we see on this quarter, the advertising strategy is still increasing faster than the revenue, so the [unclear count] for the promotion for the new program, or in the long run, in the Q4 or next year, is that the promotion for the new program since it's using the different ways, or how are we going to see the advertising expense in the future? (Spoken in Mandarin)

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

(Interpreted) We actually tried some search engine marketing. It's actually, the cost is lower than the other students. We're targeting the IT and non-IT courses that we have for the college students. So, we will do that selectively next year and we will expand it to other cities, but we do believe the increase of the advertising expenses will be lower than the student enrollment or the revenue growth. In fact, actually, Q3 advertising expenses only increased by 26%. I think the 45, the total sales and marketing expenses increased by 45%. It's actually below the 48% revenue growth.

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**Toni Yang** - Feng Yi Jin Guang - Analyst

OK, thank you.

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**Operator**

Your next question comes from the line of Cynthia Meng from Jefferies. Please go ahead.

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**Cynthia Meng** - Jefferies - Analyst

Thank you, management. I have two questions. First question is regarding your newly launched computer programming and digital art courses for the primary to high school students. What is the company's strategy in K12 sectors and will the company plan to launch other non-IT courses to K12 students?

And the second question is, since Tarena is now enjoining the key account discount with Baidu, should we expect sales and marketing expenses to sales ratio in the fourth quarter to decrease on a year-over-year basis? (Spoken in Mandarin)

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

(Interpreted) So, we currently do not have plans for other courses targeted at K12 segment. Those two courses are really stemming from the core competency that we have, especially on the IT and also digital arts area. We basically just extended verticals for the customer-base. So, we're not planning to expand to other courses for the K12 part.

**Suhai Ji** - *Tarena International Inc. - CFO*

Your second question about sales and marketing; in the fourth quarter, the sales and marketing expense will increase more, because as we mentioned earlier, we will setup new centers, nine centers. Actually, there will be four new cities, so we will spend more as we expand to additional cities.

In terms of absolute dollar amount, it would definitely increase, and in terms of percentage, we think it will be comfortable and we always target the growth of the expenses slower than the revenue growth, but for certain new courses or the new cities we first enter, the spending will have to occur ahead of the enrollment ramp. So we don't provide precise guidance for the exact percentage, but we try to target the margins at comfortable levels.

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**Cynthia Meng** - *Jefferies - Analyst*

OK. Thank you very much.

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**Suhai Ji** - *Tarena International Inc. - CFO*

Thank you.

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## PRESENTATION

**Operator**

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

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

Thank you, operator. If there are no further questions at present, we would like to conclude and thank you everyone for joining us on the call. We welcome you to reach out to us directly by emailing [ir@tedu.cn](mailto:ir@tedu.cn) should you have any questions or requests for additional information. We encourage you to visit our Investor Relations site at [ir.tedu.cn](http://ir.tedu.cn). This concludes Tarena's earnings conference call. Thank you.

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**Operator**

That does conclude our conference for today. Thank you for your participation, you may all disconnect.

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**Editor**

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring the event.

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