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TEDU - Q3 2018 Tarena International Inc Earnings Call

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CORPORATE PARTICIPANTS

Lei Song

Shaoyun Han *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

Yuduo Yang *Tarena International, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Alex Xie *Crédit Suisse AG, Research Division - Analyst*

Kin Man Wong *Jefferies LLC, Research Division - Equity Analyst*

Mariana Kou *CLSA Limited, Research Division - Head of China Education and HK Consumer*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Tarena International, Inc. Third Quarter 2018 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, Mr. Lei Song, Tarena's Reporting Director.

Lei Song

Thank you, operator. Hello, everyone, and welcome to Tarena's third quarter 2018 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 Newswire 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 2018 and give guidance for the fourth quarter. 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 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.

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. - Founder, Chairman of the Board & CEO*

(foreign language)



Yuduo Yang - *Tarena International, Inc. - CFO*

Thank you, Lei. Welcome, everyone, to our third quarter 2018 earnings conference call.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

I'm very pleased to report that our net revenues in the third quarter increased year-over-year by 23.2% to reach RMB 700 million, meeting our previously issued guidance. During this quarter, for our adult education business, we saw a rapid year-over-year growth in student enrollment via our university partnerships, which contributed the recovery of our overall adult education business enrollment. Meanwhile, we focused on resources optimization and cost control, which led to improvement in many efficiency indicators.

In addition, our kid programming education business has once more achieved rapid growth in both student enrollment and tuition cash receipt. We enrolled 14,670 students during this quarter, and the total K-12 cash receipts of this quarter was approximately RMB 139 million, achieving a year-over-year increase of more than 300%.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

First of all, we're happy to see the exciting progress in our kid education business. We believe that kid technology education will become more and more widely known in China, forming a huge market with significant potential and high-speed growth. In this quarter, Tarena's kid education business delivered outstanding results in student enrollment, centers layout, course development, revenue contribution and profitability growth of older centers.

As I mentioned previously, student enrollment of kid education business continued a rapid growth, achieving a 309% year-over-year increase, reaching 14,670. The company will accelerate the investment in K-12 education business. We nearly built 25 centers for kid education in this quarter. By the end of the third quarter, kid education business reached 124 centers. On top of that, we also have 20 shared learning centers with other education business where we provide additional classrooms.

Our kid education business expanded to 46 cities by the end of this quarter. Tarena is continuously investing in course development, aiming to build a complete kid programming course system suitable for kids aged between 4 and 18. The course system will be adjusted and perfected with more and more practical class experiences. With its extensive application experience in IT area and solid talent reserves, we believe Tarena will be able to develop diverse courses to meet market demand to maintain its advantage with advanced course systems as well as to keep leading position in kid programming education market.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)



Yuduo Yang - *Tarena International, Inc. - CFO*

According to this quarter's financials, kid education business have made greater contributions to the group. On one hand, cash receipt from enrollment reached RMB 139 million, achieving 312% year-over-year growth and the development of approximately 20% of group's total cash receipt. On the other hand, this quarter net revenue under U.S. GAAP reached RMB 56.8 million, representing 8% of the group total net revenues. We believe the contribution from kid education business will continue to grow in the following quarters, and we expect it will gradually become one pillar of Tarena's business. In addition, the company's -- the standard kid business operation system has been productive with experiences accumulated through the past few years. Those have successful rate of opening new learning centers, and operational efficiency of older centers are significantly improved.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

We note the recent change in government regulation related in the K-12 education industry and believe that this will have positive impact on the quality-oriented courses, including children programming education. With the increasing importance of information technology and Artificial Intelligence skills, programming courses become more and more important in providing quality and capability training to young people. We believe this industry will experience high-speed growth. We expect that Tarena is able to achieve enrollment of more than 40,000 students and to achieve a cash receipt of more than RMB 400 million for the full year 2018 in kid education business.

The company will accelerate investment in the K-12 area in the next 2 to 3 years in terms of new course research and development, network expansion as well as talent recruitment. We expect to have a total of 150 kid education centers by the end of 2018, and we plan to open another 80 to 100 new centers in 2019. These initiatives require more investment and may affect margin levels in short-term as the new centers are still in a ramp-up period before they break even. However, given the broad market prospect and rapid business growth, the K-12 business will provide a strong foundation for the company to grow in the coming years.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

In addition to kid education business, Tarena's adult education business achieved RMB 643 million net revenues in the third quarter, representing a 15% year-over-year growth. Student enrollment growth is a primary factor contributing to revenue growth. Adult education market has gone through fluctuations during the past year, and education industry was adversely impacted by IT industry headwinds.

Our traditional retail business growth rates slowed down, at the same time, we closed or merged 26 adult nonperforming learning centers in the second and third quarters this year. Despite the impact, I am very happy to see that enrollment of adult education business during this quarter was 43,513, achieving a year-over-year growth of 20.1%. Enrollment through retail channel delivered [31,553] (corrected by company after the call) with year-over-year growth of 12%, while enrollment through university channel reached 11,960 with year-over-year growth of 49%.

The main driver of the growth in university channel is through partnership with universities. As we mentioned in previous calls, with this kind of enrollment model, we are able to record large amount of students through university partnership, which help us to expand student-acquiring ability in adult education business to ensure long-term growth, to enhance enrollment efficiency and to reduce student acquisition cost. Yearly courses last 2 to 4 years under this model, and the revenue recognition period is also lengthened accordingly. Such tuition with signed contracts is deferred to later years as education service is delivered in later years as well. Most of the students enrolled during this quarter, through university

channel participate multiple-year program. The higher-than-expected enrollment will only bring limited amount of revenue this year. Despite the temporary short-term impact to our net revenues with the business model of student enrollment through university partnership, the long-term cooperation with universities will bring us rapid growth in student enrollment in adult education market, which will lay the solid foundation for the company's adult education business in the future.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

In this quarter, we evaluated the growth rate of retail channel enrollment was lower than our expectation at the beginning of the year and we expect the tuition from the student enrolled under university partnership in the second half of the year will be deferred to later periods to recognize as a revenue. We believe that these 2 factors will impact this year's revenue. Therefore, the company re-evaluated the situation and revised the full year revenue guidance to a range of RMB 2,249 million to RMB 2,274 million.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

In terms of courses contribution in adult business, Python, Big data and Linux cloud computing courses have become increasingly popular, contributing a total of 8,230 students in this quarter or 19% of total student enrollment, which further improved from the last quarter. We expect that artificial intelligence-related courses will continue rapid growth in the future.

Tarena persists in the development of both IT and non-IT courses. This quarter, we launched 2 new courses, e-Commerce and Network engineering technology, to meet the fast-growing market demand of skill improving for professionals in this area. In addition to the newly launched courses, we have quite a few new courses under development or in the pilot class stage. We will also gradually launch courses -- module courses for part-time students focusing on career enhancement. Diversifying with more courses to target a broader group of students, Tarena's overall course structure will be better prepared to cope with the periodical fluctuation in education business brought by the IT business cycle. In this way, Tarena is able to achieve steady growth in its adult education business with its competitive edge in professional education area.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

During this quarter, in terms of adult education business operations, the company paid more attention to resources distribution, appropriateness of building new learning centers or adding more classrooms and seats. At the same time, we made efforts to optimize human resources to improve operational efficiency. In this quarter, the company closed or merged a total of 10 adult learning centers and opened Tarena centers in 2 new cities. By the end of this quarter, there are 191 adult learning centers covering 69 cities with 62,698 seats, which represents 8% year-over-year growth. By optimizing seat layout, the seat utilization rate improved to 73.9% as compared to the utilization of 73.7% in the same period last year.



Meanwhile, the company is adjusting its human resources structure to improve business operational efficiency while ensuring support of new business growth. This quarter, we further optimized marketing team and sales team and saw improvement of enrollment efficiency. For example, the student acquisition cost per student of adult education business were RMB 5,971. This is the lowest in the past 3 quarters. The improvement in seat utilization rate and sales per capita productivity mentioned above proved the effectiveness of center resources optimization strategy. We believe that this strategy will have positive impact to future profit recovery.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

Our non-GAAP operating loss in this quarter was RMB 27 million, lower than the non-GAAP operating profit of RMB 115 million in the same period last year. On one hand, in the past year's rapid expansion of kid education business, over 70 new centers were opened and 21 centers were added through acquisition. Many of these centers are not in a mature stage and currently loss-making, which led to the non-GAAP operating loss of RMB 104 million for kid business during this quarter. We believe that more kid education centers will start to make profit, along with the increases in the centers' active students.

On the other hand, there was non-GAAP operating income of RMB 76 million from adult education business. The reason for the year-over-year decrease of profit was due to a significant portion of revenue was deferred to later periods caused by increased number of students enrolled through university partnership, as well as additional marketing cost to achieve higher enrollment. In addition, influenced by market environment, average acquisition cost per student in -- average student acquisition cost in adult education business was higher than in the same period last year. And the positive impact from resources efficiency optimization from adult learning centers and human resources have not been fully realized yet in this quarter. CFO Dennis will elaborate on this further in his later remarks.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

To sum up, in terms of adult retail channel enrollment, adverse IT market environment resulted in a slower growth rate for retail channel. For our retail business segment, we will keep more focus on improving resources utilization to recover the profitability.

For university segment, apart from proactively expanding the enrollment in computer science-related universities, we also made exciting progress in enrollment from business management schools. For the full year 2018, our enrollment in accounting course through university partnership achieved 200% growth, representing [13%] (corrected by company after the call) of total enrollment from university partnership.) In the long term, we believe that the main drivers for the growth of adult education business will continue to exist, for example, the number of university graduates, the lack of skill development courses in current university curriculum and the fact of low job placement rate of university graduates. We are confident in the long-term growth in adult education business. The solid performance and the new business growth in both adult and the kid education business during this quarter and in the past 3 quarters ensure the company will meet its business target and lay the strong foundation for its long-term continuous growth.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

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

Thank you, Han Zong. Hello, everyone on the call. First of all, let me discuss a little more about full year net revenue guidance revision. As Han Zong mentioned, overall IT market brought negative impact to our retail channel business. Although retail channel enrollment recovered from 4% in the first quarter to 12% in the second quarter, retail channel enrollment growth didn't further improve in this quarter, which was still 12% year-over-year. This comes up within a gap from our initial enrollment growth forecast and will have adverse impact for the net revenues for the fourth quarter. In addition, out of 11,960 students we recruited from university channel, this quarter, 11,759 students were acquired under university partnership program and they participate in multiple-year courses, where part of revenue has to be deferred to future periods. We evaluated the above-mentioned factors' impact on the fourth quarter revenue and revised the net revenue guidance to be between RMB 2,249 million and RMB 2,274 million for the full year 2018.

In the third quarter, we saw robust enrollment growth in both adult and kid businesses and a solid improvement in our operational efficiency. Since you already have the detailed numbers in the press release, I'll only review financial results for this quarter briefly by only -- by focusing on some important areas.

Let's start with net revenues. For the third quarter, our net revenue increased by 23.2% year-over-year to RMB 700 million, which consists of RMB 643 million from adult education business and RMB 57 million from kid training programs, representing a year-over-year net revenue growth of 15% and 539% for adult and kid business, respectively.

Our adult business net revenue growth is driven by enrollment growth and ASP increase. In the third quarter, the total course enrollment increased by 7% year-over-year to 34,870. We observed the adult training student enrollment was 43,513 in the quarter, grew by 20% year-over-year, which was blended by 12% year-over-year growth from retail channel and 49% year-over-year increase from university channel. Our retail channel student enrollment growth has slowed down in the past year because of low IT market is adversely impacted by macroeconomic headwinds. Meanwhile, though it just started a year ago, the student acquisition through university partnership grew fast and contributed 11,759 students for the quarter, taking 27% of our total adult training enrollment.

Besides the enrollment growth, ASP increase is another driver of adult business net revenue growth. In this quarter, average revenue per student -- average revenue per course enrollment was RMB 18,443, which was 7% higher than the same period a year ago. Higher ASP resulted from increase of our standard tuition fees for selected courses and roll-out of advanced courses modules since 2017.

Continuing our standard resources optimization strategy from last quarter, the company closed or merged 10 non-performing learning centers and opened 3 new centers in the third quarter. By the end of this quarter, our adult business seat capacity was 62,698, which represented 8% year-over-year increase. Through seat capacity optimization, seat utilization rate improved in the quarter to 73.9%, as compared to 73.7% in the same period a year ago, and our adult business gross profit margin was 74%, which was at a similar level to the prior year.

Despite recovery of gross margin in adult business, gross margin declined by 580 basis points year-over-year to 66.4%. Such a decline in gross margin was mainly due to K-12 business margin drag and deferral of revenue for the adult training students taking multiple-year course through university partnership programs. Tarena has opened 80 K-12 learning centers and acquired 20 centers in the past 12 months. And by the end of this quarter, we have 124 K-12 learning centers in total. As most of those learning centers have not yet reached the mature stage, current K-12 business gross margin is significantly lower than our traditional adult training business.

And now let's move on to operating expenditures. First, let's talk about student acquisition cost. As we communicated in the past, it is cost-efficient to acquire new students through university partnership program mode as we recruited a greater proportion of total enrollment through that partnership program, continued to optimize student acquisition channel mix and kept improving sales team productivity in this quarter, which saw further improvement in total acquisition cost per student. Total acquisition cost per student, defined as the total selling and marketing expenses of adult business divided by total adult training student enrollment, was RMB 5,971 in the third quarter, as compared to RMB 4,965 in the same



quarter last year and RMB 6,134 in the second quarter of 2018. We noted approximately 20% year-over-year increase of average student acquisition cost. However, we also observed a 3% quarter-over-quarter improvement in student acquisition efficiency.

Now let's continue on G&A expenses. In this quarter, we recorded bad debt allowances for doubtful account receivables of RMB 19 million, which is a RMB 14 million quarter-over-quarter decrease. As we discussed last quarter, we made bad debt allowance mainly to reflect the difficulties in the collection of account receivables from 2017 students. As the company has stabilized the partnership with a group of loan providers, we believe that relatively high risk of account receivables from 2017 students is an isolated case, and that won't change the long-term outlook of bad debt provision levels in our adult business.

Third, let's discuss about R&D expenses. Non-GAAP R&D expenses increased by RMB 9 million year-over-year to RMB 35 million in the quarter. Such increase consists of RMB 7 million for adult business and RMB 2 million for kid business. In this quarter, we launched 2 new courses in adult training segment, which are e-Commerce and Network engineering technology. Besides, we'll also have other courses under development, and we believe this investment are crucial to make our courses meet market demand and maintain our competitiveness over other market players.

For K-12 business, we enrolled 14,670 students in the quarter. The total tuition cash receipt were RMB 139 million, and net revenue recorded were RMB 57 million. As we mentioned before, operating losses of K-12 business that rise from K-12 student acquisition cost incurs ahead of revenue recognition and center utilization has not yet reached to mature levels. By the end of the third quarter, about 2/3 of our K-12 learning center has been in operation less than 12 months, and those learning center are still loss-making. Non-GAAP operating losses from kid business was about RMB 104 million for the quarter. Although our K-12 sector operating loss is recently, we're confident that K-12 business will grow fast in the future couple of years to evolve into one of the important pillars for Tarena's business and become a profitable segment, along with the increasing number of active students.

Our non-GAAP operating losses for this quarter was RMB 27 million, as compared to an operating profit of RMB 115 million in the same quarter in 2017. Such decline in non-GAAP operating profitability in the quarter was a combination of increase in losses from K-12 business and a decrease in the process from other business due to deferral of revenue from university partnership programs to later period and higher student acquisition cost.

Looking forward to the fourth quarter of 2018, we expect that the total net revenue are between RMB 625 million and RMB 650 million.

So operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Mariana Kou from CLSA.

Mariana Kou - *CLSA Limited, Research Division - Head of China Education and HK Consumer*

I have 2 questions. The first one is about the gross profit margin for the adult business. I think Stephen -- sorry, Dennis just now is mentioning that the gross profit margin for the adult business was similar to last year, but at the same time, I think our utilization actually increased. So just wondering -- I know that, I guess, ASP was probably dragged down a little bit by the university channel. So just wondering, how should we think about the GP margin for the adult business going forward? And then my second question is just also on the margin for the kids business. I know we are definitely in investment phase for now. So how -- I guess, at one point should we expect to see a bit of a margin improvement for the kids business?

Yuduo Yang - *Tarena International, Inc. - CFO*

Mariana, let me address your 2 questions. Your first question is about adult gross profit margin. In this quarter, the third quarter of 2018, our seat utilization improved to 73.7%, which is a little -- slightly higher than the utilization a year ago. So this is -- we've got the unfavorable factor. And meanwhile, we also have another unfavorable factor, which is deferral of the revenue for the students recruited from university partnership because those students take a multiple-year program, which is -- if you compare the number of those students who've taken multiple-year program last year weren't that many. So the deferral of revenue will be an unfavorable factor. So we have 2 moving parts related to this gross profit margin. So in the end, the -- this quarter gross profit margin will be flat year-over-year. For the outlook for the future gross profit margin, I will say that in the future, a couple of quarters, we try to maintain a similar level of -- in last year, the same period last year but it likely have a slight expansion in terms of gross margin. Your second question is about the K-12 margin. Actually, in the -- currently, the K-12 is loss-making. As mentioned, the root cause is because we have majority of learning centers in K-12 business that operated less than 12 months. More new K-12 learning centers that will be greater losses will be shown up in the financials. This is my view. So it may take 1 or 2 years because we're still in a stage to drive the fast expansion in this vertical. So we -- as we mentioned -- we just mentioned in 2019, we're about to open 80 to 100 new K-12 learning centers. So 2019 is still, for our K-12 business, a loss-making year. And I think that the amount of -- the losses from K-12 will be comparable in that in 2018. So if I look at future years in 2020 or 2021, the losses from K-12 business were getting smaller and there's a huge -- very likely to reach to breakeven point, Mariana.

Mariana Kou - *CLSA Limited, Research Division - Head of China Education and HK Consumer*

Yes, sorry. Just a quick follow-up on the GP margin though. I think you just mentioned there will be a small improvement, but then I guess our Q4 kind of implied growth rate is quite weak. So just wondering that it's more improvement. Will that be coming more like next year that we talked about for the adult business?

Yuduo Yang - *Tarena International, Inc. - CFO*

I think adult business next year, I think utilization can further improve because we already mentioned that starting from the third quarter -- actually, from the last -- starting from last quarter, our retailing channel business is more focused on operational efficiency improvement. So with this -- so actually, we hold this kind of improvement strategy. I think the utilization through the quarters will be further improved.

Operator

Your next question comes from the line of Alex Xie from Credit Suisse.

Alex Xie - *Crédit Suisse AG, Research Division - Analyst*

So I have 2 questions. Firstly, I have to ask about the student acquisition cost from social channel and university channel -- university partnership channel, respectively. And particularly, what's the trend for the student acquisition cost from the social channel? And my second question is about the outlook in 2019. What is our expectation for the student enrollment and revenue growth in adult business and the kids business, respectively?

Yuduo Yang - *Tarena International, Inc. - CFO*

Alex, let me first address your first question. If you want separate the acquisition cost per students in retail channel and university channel, I'll just say the market condition is still not that ideal. So the student acquisition cost for retail channel pretty much flattish over the past quarters. So the improvement we saw this quarter for the average in student acquisition in adult business will be coming from low cost acquisition from university channel. So university channel actually have pretty low cost acquisition per student. That's my answer for -- to your first question.

Alex Xie - *Crédit Suisse AG, Research Division - Analyst*

Yes, yes. Then what about the...

Yuduo Yang - *Tarena International, Inc. - CFO*

With regard to your second question about the enrollment growth outlook and revenue outlook, in terms of adult business, overall speaking, the enrollment growth will be low teens. I think this is our outlook. So the -- as more students -- again, as more students will -- may come from university partnerships, the revenue growth will be also around low teens, in the low teens. This is our outlook for adult business. And for K-12 business, net revenue next year, in 2019, we believe, can exceed RMB 500 million. So it is about 200% year-over-year growth next year. In terms of enrollment, we target 100% -- more than 100% year-over-year growth for the double enrollment in 2019. This is our outlook -- current outlook for the enrollment and net revenues next year.

Operator

Your next question comes from the line of Johnny Wong from Jefferies.

Kin Man Wong - *Jefferies LLC, Research Division - Equity Analyst*

My question relates to the adult business. We see that the trend is slowing. Aside from adding new courses, what are we planning to do to try to increase the number of enrollment through retail? That's my first question. And second question is in regards to the university mix. We're increasing our enrollment there, but it does seem like there is a larger deferral of students than we expected. If I recall properly, we have been expecting the revenue in that portion to be increasing for the third quarter. Can we see -- let us know -- can you let us know what we see in that sense? Would there be -- continue to be more deferrals over the next quarter and prior -- into next year?

Yuduo Yang - *Tarena International, Inc. - CFO*

Okay. Johnny, your first question is about how we can improve our enrollment in retail channel. Apart of new courses, we entered investment we're -- to be launched, we do [come on say as the first] we try to improve conversion. Every month, we've got a quite -- a very big number of [sales people]. We try to improve conversion, which we can have more students. And the second, well, we can -- quite other channels to acquire new students, which were some new, our traditional channel for retailing, our search engine, recruitment website and student referral. We also tried social media and feeds in the past 1 year. So we tried new channels to acquire new -- to acquire students for retail channel.

Shaoyun Han - *Tarena International, Inc. - Founder, Chairman of the Board & CEO*

(foreign language)

Yuduo Yang - *Tarena International, Inc. - CFO*

Yes. Han-zong added that we also tried to step into a new market that delivered trainings to the students on the job. They -- we provide modular courses to them to take a part on training to have them to have a better career advancement. Johnny, the second question about deferral revenue for student from university partnership, I think next quarter, we still have new recruitment of students from university partnership. But again, let me remind such business model. This business model, wherein the students would take 2- to 3-year program -- so majority of the revenue, we'll recognize in the final year, the second -- late in the second year or -- either late or third academic year. So for -- within 3 years, 100% of revenue will be recognized. So this is kind of deferral. Let me cite we recruited more than 5,000 students last year. So those -- the revenue for -- from those students were recognized in -- late in 2019 or early 2020. So this will be a gap -- I think a 2-year gap from the start of such a business model to a gap in the normalized business or normalized financial results. So this was due in a 2-year gap or 3-year gap right now. So you will see, in this period,



more deferrals but no deferred -- the more revenue recognized in our financials. So this is my view. So in 2020 latest, you will see that our financials were getting -- gradually getting normalized.

Kin Man Wong - *Jefferies LLC, Research Division - Equity Analyst*

All right. Can I just have one follow-up question? What is our current conversion rate of the retail adults?

Yuduo Yang - *Tarena International, Inc. - CFO*

Currently, our current retailing conversion rate, about 7% in the first 3 quarters this year.

Operator

There are no questions at this time. And now I will revert the call to Ms. Lei Song, Tarena's Reporting Director.

Lei Song

Thank you, operator. If there are no further questions at present, we would like to conclude by thanking everyone for joining our conference call. We welcome you to reach out to us directly by e-mailing at 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. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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