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CORPORATE PARTICIPANTS

Sisi Zhao *New Oriental Education & Technology Group Inc. - IR Director*

Zhihui Yang *New Oriental Education & Technology Group Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Felix Liu *UBS Investment Bank, Research Division - Analyst*

Hyun Jin Cho *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Hyungwook Choi *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*

James Weir *USS Investment Management Limited*

Joan Song *Industrial Securities (HK) Financial Holdings Limited, Research Division - Research Analyst*

Jin-Kyu Yoon *New Street Research LLP - Analyst*

John Wang *Macquarie Research - Analyst*

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

Lucy Yu *BofA Merrill Lynch, Research Division - Research Analyst*

Sheng Zhong *Morgan Stanley, Research Division - Associate*

Tallan Zhou *Deutsche Bank AG, Research Division - Research Analyst*

Thomas Chong *Crédit Suisse AG, Research Division - Regional Head of Internet*

Tianli Wen *Blue Lotus Research Institute - Founder & Head of Research*

Tianxiao Hou *T.H. Capital, LLC - Founder, CEO & Senior Analyst*

Charlotte Li *Citi*

Yue Wu *China International Capital Corporation Limited, Research Division - Analyst*

PRESENTATION

Operator

Good evening, and thank you for standing by for New Oriental's Second Fiscal 2019 Earnings Conference Call. (Operator Instructions)

I would now like to turn the meeting over to your host for today's conference Ms. Sisi Zhao.

Sisi Zhao - *New Oriental Education & Technology Group Inc. - IR Director*

Thank you. Hello, everyone, and welcome to New Oriental's Second Fiscal Quarter 2019 Earnings Conference Call. Our financial results for the period were released earlier today and are available on the company's website as well as on newswire services. Today, you will hear from Stephen Yang, Chief Financial Officer. After his prepared remarks, Stephen will be available to answer questions.

Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. A number of potential risks and uncertainties are outlined in our public filings with the SEC. New Oriental does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

As a reminder, this conference is being recorded. In addition, a webcast of this conference call will be available on New Oriental's Investor Relations website at investor.neworiental.org.

I would now turn the call over to Mr. Yang. Stephen, please go ahead.

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Thank you, Sisi. Hello, everyone, and thank you for joining us on the call. We are very pleased to see our overall business continue strong momentum and achieve top line growth of 27.8% in dollar terms or 33.6% in RMB terms, as we concluded the second quarter of fiscal year 2019. The positive growth was largely driven by the remarkable year-on-year revenue growth of 38% in dollar terms or 44% in RMB terms in our key business units, the K-12 all-subjects after-school tutoring business. This result reflects our solid high-quality product portfolio and sustained market demand. Total student enrollments in academic subjects tutoring and test prep courses increased by 23.6% year-over-year to approximately 2,320,800 for the second fiscal quarter of 2019. In addition, this was followed by a very strong enrollment and cash revenue momentum in the first several weeks of the first fiscal quarter.

In this quarter, our U-Can middle and high school all subjects after-school tutoring business grew by approximately 39% in dollar term or 46%, if computed in RMB, and POP Kids achieved a growth of approximately 35% in dollar term or 41% in RMB, which are hugely positive results. As we continue to implement our well-proven Optimize the Market strategy, we also made some progress in our capacity expansion plan in this quarter. We added a net of 24 learning centers in existing cities and opened a new training school in the city of Jinhua. Altogether, this increased the total square meters of classroom area by approximately 30% year-over-year and 5% quarter-over-quarter by the end of the quarter. We're steadily on track with our expansion plan and are pleased to see increased market penetration rates in the market we have expand into. With these program results, we will continue to implement our expansion plan guided by our long-term strategy.

Historically, the second quarter is the slowest quarter in the fiscal year. However, in this quarter, we continue to see the positive ramping up of new facilities we built in the previous fiscal year, which is highly encouraging. Our non-GAAP operating margin and utilization rates in the offline language training and test prep business remains flattish year-over-year in the second quarter. Going forward, we will remain focused on improving our operational efficiency and ensuring consistently high quality of education across all business lines through a standardized, modular and systematic approach. We believe that, altogether, this will enable us to leverage our existing capability to capture growth opportunities and generate sustainable long-term value for our customers and shareholders.

I will now turn to pricing. Per program blended ASP, which is cash revenue divided by total student enrollments decreased by about 13% year-over-year in dollar terms or 9% in RMB terms. Please note that the lower-than-normal blended ASP is primarily due to the change in the tuition fee collections schedule for K-12 business courses. This year, we split the spring semester into 2 parts. The number of students recruited and amount of the fee collected during the quarter only cover the first half spring semester. Prior to the change, we start historically collect the full sum of the tuition fee for spring semester in the second quarter. Therefore, our blended ASP for the second quarter of 2019 appears to be lower. To provide a breakdown of hourly-blended ASP, the U-Can increased by 5%, POP Kids increased by 8% and overseas test prep program increased by 8% year-over-year in RMB terms.

Now let me move on to the second quarter performance across our individual business lines. As mentioned, our key revenue driver, K-12 after-school business achieved revenue growth of 38% growth in dollar terms or 44% in RMB terms year-over-year, driven by the solid performance in student enrollment, which saw year-over-year increase of about 26% in the quarter. Breaking down, the U-Can middle and high school all-subjects after-school tutoring business recorded a revenue increase of 39% in dollar terms or 46% in RMB terms for the quarter. Student enrollment grew approximately 34% year-over-year for the quarter. Our POP Kids program delivered remarkable results with revenue up significantly by about 35% in U.S. dollar terms or 41% in RMB terms for the quarter. Enrollments went up about 19% for the quarter. The lower-than-normal enrollment growth is due to the delayed registration for classes in certain cities in compliance with new industry regulation stating that tuition fees will not to be collected more than 3 months before the courses start. Our overseas test prep and consulting business together recorded revenue growth of about 8% year-over-year for the quarter. Finally, our VIP personalized class business recorded the cash revenue growth of about 17.6% year-over-year for the quarter.

Next, I will provide some update on the progress we are making with our "Optimize the Market" strategy. We have continued to focus on expansion of the capacity through constant refinement and leveraging our online and offline integrated education system and the K-12 business nationwide and our overseas test prep business in some larger cities in China. This continued to produce very encouraging results. Beginning with our core offline business, in the second quarter, we added a net of 24 learning centers in existing cities and opened a new training school in city of Jinhua. Altogether, the total square meters of classroom area by the end of the quarter increased approximately 30% year-over-year and 5% quarter-over-quarter. To further tap into the booming private education market and fully strengthen our leadership position, we started to pilot our new dual-teacher model in selected cities in July 2016. By the end of the second fiscal quarter 2019, we have tested adoption of the new model in 40 existing cities for POP Kids program, in 28 existing cities for U-Can program and in 10 new cities for both POP Kids and U-Can programs. We're happy to witness increasing market penetration and customer retention in this market we have tapped into. The scalability of the new model also continues to bear fruit. With these proven results, we will continue to deploy the strategy in the coming periods.

With respect to our online business, on the whole, we aim to extend New Oriental's traditional offline classroom teaching offerings to online education services with booming market and our advanced online and offline integrated product service, we're poised to gain more market share and strengthen our position going forward.

I will first provide an update on online and offline integrated center teaching system for our offline language training and test prep offerings. Starting from this fiscal year, we initiated a pilot program to standardize our teachers' teaching process by using our system to train teachers with modularised digital content and methodology in our U-Can middle and high school tutoring business. As a result, we saw remarkable increase of customer retention rates, which is the most important measurement of our teaching quality and effectiveness. With the proven positive result, we will spare no effort in leveraging standardized modular and systematic approach for whole operating process across all business lines. We invested $23.7 million in the second quarter to optimize and maintain our online and offline integrated education system, which was an area of focus since 2014. Most of the investments were reported under G&A expenses. We will continue our focus on improving overall operational efficiency and profitability by making full use of our strengths in technology and operational in teaching system to capture the new business opportunities.

Since the launching of the U-Can Visible Progress Teaching System in September 2014, the interactive education system has been implemented in all existing cities. We have to launch the newly revamped POP Kids in this program, Shuang You, in most cities by the end of second quarter in fiscal year 2019. At the same time, the interactive education system has been gradually used in an increasing number of cities. The interactive education system for overseas test prep program, including IELTS, TOEFL and SAT courses was rolled out and tested in most of the major cities by end of the second quarter of this year. At the same time, we also standardized product offerings across 14 cities. We also made some progress in the koolearn.com business line and other supplementary pure online education products. With the goal of capturing huge market opportunity in the pure online education space, we continue to invest more resources to executing new initiatives in our online K-12 after-school tutoring business in fiscal year 2019. These efforts include content development, teacher recruitment and training, R&D, sales and marketing and other cost expenses that are necessary to drive the growth of these new online programs. We these programs, we're able to reach more students in low-tier cities in an interactive and scalable approach to further strengthen our market share in the online education space and drive up our top line growth.

Now let me walk you through the other key financial details for the second quarter. Operating cost and expenses for the quarter were $627.3 million, representing a 30.6% increase year-over-year. Non-GAAP operating cost and expenses for the quarter, which excludes share-based compensation expenses, were $613.7 million, representing a 30.3% increase year-over-year.

Cost of revenue increased by 32.1% year-over-year to $300.1 million, primarily attributable to the increase in teachers' compensation for more teaching hours and rental cost for increased number of the schools and learning centers in operation.

Selling and marketing expenses increased by 27.1% year-over-year to $91.6 million, primarily due to the increase in brand promotion expenses and selling and marketing staff's compensation.

General and administrative expenses for the quarter increased by 30.3% year-over-year to $235.6 million. Non-GAAP general and administrative expenses, which exclude share-based compensation expenses, were $222.0 million, representing a 29.4% increase year-over-year, primarily due to the increased headcount as the company expanded its network of schools and learning centers as well as the increase in R&D expenses and human resources expenses related to the development of our online and offline integrated education system.

Total share-based compensation expenses, which were allocated to related operating cost and expenses increased by 47% to $13.7 million in the second fiscal quarter of 2019.

Operating loss for the quarter was $28.6 million, an increase of 118.5% year-over-year. Non-GAAP operating loss for the quarter was $14.9 million, a 295.7% increase year-over-year. Operating margin for the quarter was negative 4.8% compared to negative 2.8% in the same period of prior fiscal year. Non-GAAP operating margin, which excludes share-based compensation expenses, for the quarter was negative 2.5% compared to negative 0.8% in the same period of prior fiscal year.

Loss from fair value change of long-term investments for the quarter was $35.1 million. Please note that this has resulted from the adoption of new financial instrument accounting standard starting from June 1, 2018.

Net loss attributable to New Oriental for the quarter was $25.8 million compared to an income of $4.3 million. Basic and diluted loss per ADS attributable to New Oriental were $0.16 and $0.16, respectively. Non-GAAP net income attributable to New Oriental for the quarter was $23.0 million, representing a 69.2% increase from the same period of prior fiscal year. Non-GAAP basic and diluted earnings per ADS to New Oriental were $0.14 and $0.14, respectively.

Net operating cash flow for the second fiscal quarter of 2019 was approximately [$125.3] million (corrected by company after the call). Capital expenditures for the quarter was $43.1 million, which were primarily attributable to the opening of 48 facility and renovations at existing learning centers.

Turning to the balance sheet. As of November 30, 2018, New Oriental had cash and cash equivalents of $842.9 million compared to $833.1 million as of August 31, 2018. In addition, the company had $94.6 million in term deposits, $1,700.7 million in short-term investments. The deferred revenue balance, which is cash collected from registered students for courses and recognized proportionally as revenue as the instructions are delivered at the end of the second quarter of 2019 was $1,250.3 million, an increase of 9.9% as compared to $1,137.3 million at the end of second quarter of fiscal year 2018. As mentioned earlier, the lower-than-normal growth is due to the change in our fee collection schedule, meaning that in this quarter, we only collected fees for the first half of spring semester.

Looking ahead into the next quarter and the rest of the fiscal year fiscal 2019, we will continue with our Optimize the Market strategy to build upon the success we have achieved through the approach.

I would also like to take a moment to reiterate our overarching goals and our strategy as well as the challenges and opportunities we anticipate in the future. First, we will continue to expand our offline business. We aim to add around 20% to 25% capacity, including new learning centers and expanding classroom area of some existing learning centers for K-12 business in existing cities. In addition, we will continue to rollout our dual-teacher model schools to a number of new low-tier cities in certain provinces for the whole year. Second, we will continue to leverage our investments in online, offline integrated standardized teaching system for our offline language training and test prep offerings, especially for our K-12 business and overseas test prep business. We will continue to make investments, and we believe that total spending in absolute dollar terms in fiscal year 2019 will increase moderately compared with the previous fiscal year. Furthermore, we will continue to invest and execute new initiatives, including product content development, teachers recruiting and training, R&D as well as sales and marketing in the pure online K-12 after-school tutoring business on our koolearn.com platform. Third, our top priority will remain as focus on optimizing utilization of facilities and controlling cost across the organization to drive continued margin expansion and improved operational efficiency.

In the previous fiscal year, we expanded our overall capacity by approximately 40% year-over-year with the expansion being more concentrated in the second half of last year. The new facilities built last year are being ramped up more efficiently than we expected. We expect our non-GAAP operating margin of the offline language training and test prep business to expand in the second half of this fiscal year, especially compared to the previous fiscal year. This improvement is expected to cover the margin pressure resulting from our online investments in the koolearn.com business line and other supplementary pure online education products. On the whole, we expect our overall non-GAAP operating margin to flatten year-over-year in the second half of the fiscal year compared to the year-over-year decline in the first half.

We continue to foresee a degree of uncertainty around the implementation of newly introduced policy relating to the after-school tutoring institutions. The current impact so far is in line with our expectations. And as the leading education service provider in China, our company is firmly supportive of these reforms, which will improve market standards and bolster a healthy growth of the industry. As always, we're committed to provide high-quality education service and contributing to creation of a sustainable market. At this stage, the reforms are currently being implemented on a city-by-city basis with our market-leading position and robust business foundation. We do not expect to see material negative impact on our growth opportunities nationwide, although, we do expect to see incremental administrative cost and expenses as a result of the implementation of the policies in certain cities.

Finally, the recent RMB depreciation against the U.S. dollar will also impact our earnings in dollar terms for the third fiscal quarter of 2019. Finally, I would like to emphasize we have great confidence in the fundamentals of our business, which we believe will remain strong. As we continue to optimize the market strategy, we're certain that New Oriental will continue to capture sustainable growth opportunities in the market and deliver long-term value for our shareholders and customers.

Regarding the near-term guidance for the third quarter of fiscal year 2019, we expect total revenue to be in the range of $769.9 million to $793.2 million, representing year-over-year growth in the range of 25% to 28% in dollar terms. If not, taking into consideration and the impact of the potential changes in exchange rates between RMB and U.S. dollar, the projected revenue growth rate is expected to be in the range of 32% to 36% for the third quarter of fiscal year 2019. I must mention that these expectations reflect New Oriental's current and preliminary view, which is subject to change.

At this point, I will take your questions. Operator, please open the call fort this.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Felix Liu from UBS.

Felix Liu - *UBS Investment Bank, Research Division - Analyst*

Just some bookkeeping questions from me. Could you provide a capacity guidance for the third quarter and the full year as well as the margin guidance for those periods? And just out of -- I noticed that in the recent 2 quarters, the growth of the POP Kids English program has slowed down relatively compared to the U-Can. Could management provide more color on that? That's it.

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. Yes, the capacity expansion, we opened -- the expansion of this quarter, quarter-on-quarter was 5%, so plus the 3% quarter-on-quarter in the first quarter, we got -- we opened 8% more in the first half of this fiscal year. And for the whole year, we keep the same guidance of the expansion plan as we guided before, 20% to 25% of the expansion plan. And the margin guidance, the overall non-GAAP operating margin of this quarter is down by 170 basis points year-over-year. Even though, the second quarter is a slower quarter in the fiscal year, actually our non-GAAP operating margin for the core offline business was flattish in this quarter, and don't forget, in the previous fiscal year, we opened more learning centers in the second half of the last fiscal year. In the last year, the total expansion was 40%. So I think, you will see more and more operating leverage in the second half of the -- this fiscal year. So that means, in Q3 and Q4, together, you will see the margin expansion for our core business. And I think it is expected to cover the margin pressure resulting from our online investment for koolearn.com and the other -- the online product. On the whole, the total -- the overall non-GAAP operating margin for the second half of the year will be flattish year-over-year, okay? This is my -- the -- margin guidance for the second half for this year. And going forward, I think, we will pay more attention on the -- as we focus on the optimized utilization facilities and control the cost expenses as we need it. And so, as for the long-term margin guidance, we'll keep the positive view of the margin expansion in next year and the year after, okay? And POP Kids, yes, you -- I think, the trend for the POP Kids program is good, and you have seen our guidance for the Q3. And we believe, you will see a very strong growth for POP Kids program in the Q3 and Q4 going forward, okay?

Operator

Your next question comes from the line of Thomas Chong from Crédit Suisse.

Thomas Chong - *Crédit Suisse AG, Research Division - Regional Head of Internet*

I have a quick question regarding regulation. Can management provide us some general update about the regulations these days and how we should think about the outlook?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. Thanks, Thomas, it's a good question. In terms of the regulation, I'd say, we are fully -- firstly, I must mention that we are fully supportive of the government's reforms and in their implementations, and we're committed to doing our part in fostering the healthy growth market -- healthy growth in the whole sector. As newly introduced policy in the market are currently being carried out by city-by-city basis as mentioned in the prepared remarks. And we continue to foresee some certain degree of the possible changes and some incremental expenses in the short term. This impact is so far is in line with our expectations, and going forward, we expect the impact will be in line with our expectations. And 3 things I want to add to the regulation related things. The first one is teachers license. We're still in process of the -- we push all the teachers to pass the exams of the teacher license exam, and we're seeing the high passing rates for the last exam. And we're fully committed to our efforts to ensure all the teachers hold the qualifications as required. And the capacity, as we mentioned earlier, we keep the same guidance of the expansion plan 20% to 25% year-over-year in the whole year of fiscal year 2019. And -- but we do have the negative impact for the deferred revenue balance in the Q2, but it's -- because we changed the spring semester course into the 2 parts. So in this quarter, we recruited students and collected the tuition fee for the first part. And second, we changed the registration window in some cities, especially for POP Kids program were delayed from November originally to December. So that means, we moved some -- the cash revenue of POP Kids from Q2 to Q3. So therefore, you'll see the deferred revenue balance was only increased by 10%, but it's temporary. It's just the timing difference. And we have seen the very strong cash revenue and the enrollment growth in the first of 7 weeks of the third quarter. So I think the trend is very good, okay?

Operator

Your next question is from Tian Hou from T.H. Capital.

Tianxiao Hou - *T.H. Capital, LLC - Founder, CEO & Senior Analyst*

So I have one question related to your deferred revenue. So deferred revenue is -- was growing 10%. So I believe compared with the last quarter, couldn't be a straight quarter before, 40 something seems low. So is that really -- is that because the government policy prevent company from collecting fees more than 3 months before? So if so, on the pro forma base, what is the deferred revenue growth would be?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. Thanks, Tian. As mentioned, the student enrollment and the tuition fee collection in our spring courses are delayed due to the new regulations, that the tuition fees should not be collected more than 3 months ahead of the courses. So we changed 2 things. The first one, starting from this year, we divided spring semester into 2 parts. In Q2, we recruited students and collected tuition fee for the first part. Second, we moved some registration window for POP Kids program in some cities from Q2 to Q3. However -- so therefore, the deferred revenue for the quarter was affected and recorded the slower growth by 10%. However, when we look at the growth on a pro forma basis, as you asked, it's in line with the growth momentum because the pro forma -- as a pro forma basis, the deferred revenue increase is approximately 40%. This is a pro forma basis. So -- and going forward, I think the delayed effect will influence us for 1 year, especially for Q2 and Q3 -- Q2 and Q4. Therefore -- but I don't think it will impact our GAAP revenue, okay, and it's only for 1 year, okay?

Operator

(Operator Instructions) Your next question is Tianli Wen from Blue Lotus.

Tianli Wen - *Blue Lotus Research Institute - Founder & Head of Research*

One question here about low-tier city expansion. How many K-12 learning center opened in 2019 will be in the lower-tier city? And could management also provide more update on the lower-tier city penetration?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Yes. As I guided before, we keep the same -- the expansion guidance of the 20% to 25% in -- for overall the company. And actually, our strategy of the open more learning centers is the we -- firstly, we see the performance of last year, whether it's high tier or low tier, but we believe, we most -- we setup most of the learning centers in Tier 2 and Tier 3. And so for the low-tier cities, as I said, we will open more learning centers by the dual-teacher model in low-tier cities, okay? What I mean is, Tier 5 or -- Tier 5 cities, okay?

Operator

Your next question is from Jin Yoon from New Street Research.

Jin-Kyu Yoon - *New Street Research LLP - Analyst*

I guess, just on your -- just a quick question on your margins in the second half. I know, Stephen, you said that margins are going to be looking flattish in the second half of the year. And I'm just trying to kind of gauge what the upside opportunity is given the fact that online investments is largely front-end loaded. It looks like capacity expansion will start to significantly tail off in the second half of the year. And given the demand environment, why wouldn't we see -- and in that scenario, why wouldn't we see actually a positive margin upside rather than just a flat margin. So can you just kind of give us the drivers in terms of where we could see actual margins trending lower just outside of online investments as well as capacity expansion?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. Thanks, Jin, it's a good question. As with the margins, in the second half of the year, I think, we will see more and more operating leverage by the -- by filling more students into the learning centers we set up in the last fiscal year. So definitely, you will see the higher leverage rates for our core business, for the both the U-Can and overseas test prep, and -- so it is totally a margin expansion, but it will be offset to some extent by the online investment. So I think you will see more leverage on the offline business margin expansion. So we -- our guidance for the second half of this year, the margin will be flattish. So we hope the results will be better than we expected -- expectations currently, okay?

Operator

Your next question is from Natalie Wu from CICC.

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Yue Wu - *China International Capital Corporation Limited, Research Division - Analyst*

My question is regarding the summer promotion. Actually, I saw the -- you have said there have been minimal hourly price limit for the -- some of the promotion program in some media report recently. So just curious, what's your consideration behind that? And will you cut the promotion scale accordingly? Would be great if you can share some of your thoughts behind that as well as your -- some of the promotion plan this year? Also, secondly, if I may, I [assume] how that some small institutions are forced to shut down in this round of the regulation. Just wondering, did you see some students coming from those institutions to join your program? And if yes, for this low order crowd out phenomenon, is it more prominent for the primary, middle or high school?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. The -- your first question is about summer promotion. So far, we haven't finished our work plan for this year's summer promotion. But in this year, we're quite sure that we care more about student retention rate from the summer promotion. So yes, as you said, we setup the new price strategy for the summer promotion last year, typically, we charged only RMB 50 to RMB 200 per course in last summer. And this year, we decided to increase the summer promotion courses price from like RMB 250 to RMB 400. And I think, it will help us to get higher student retention rate after the summer promotion. And we started the summer promotion since several years ago and the result have the -- it works, and going forward, I think, we will use the same strategy of the summer promotion, because we -- I think it's a good way to take more market share from the huge market. But going forward, even for this year, we'll care more and more about the student retention rate, okay? So that means -- yes, we care more about the healthy growth, okay? And the -- yes -- your second question is about the regulations, I think. Yes, we are seeing some small players were kicked out of the market by the new regulations, and we have seen certain students doing that because some students tell us. And I think, our job is to doing our job in a proper way. We'll provide the best-quality service to the parents and the students, and we're happy to see the higher student retention rates. I think, this is a very good results of the -- of our investment for last 2, 3 years. So the -- and I think, the market demand is always there, and we will do it in a proper way by ourselves. And our job is to provide the best service to the kids and to take more market share from the market, okay?

Yue Wu - *China International Capital Corporation Limited, Research Division - Analyst*

So for the chance of your -- for your guidance, is it probably just because of that?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

I think, it's because of 2 parts. First, the -- I think, we believe the retention rates will be higher going forward in Q3. And second, because we started a lot of learning centers in last fiscal year, and we're seeing the learning centers was filled by the students. So I think, the guidance is based on our current estimation, and I think, the trend is good, okay?

Operator

Your next question is from John Wang from Macquarie.

John Wang - *Macquarie Research - Analyst*

So as we're seeing a flattish sales and marketing cost as a percentage of revenue, can management show some colors on whether this trend will continue? And what are we are doing differently to improve the efficiencies on the sales and marketing expenditures?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. If you separate the sales and marketing expenses into 2 parts, offline and online, actually, we believe that we have more leverage on the offline business in terms of the selling, marketing expenses. So I think, you will see more and more leverage on the selling, marketing expenses for our core business. And for the online, we don't want to just be burning money away to take more market share. But for the online, online market is huge, so we have to spend little bit more than before on the marketing expenses. So overall, for the company, as the percent of the -- selling, marketing expenses as a percent of the revenue, I think, it will be flattish. I think, we will have a little bit more leverage on the selling, marketing expenses, okay?

Operator

Your next question is from Christine Cho from Goldman Sachs.

Hyun Jin Cho - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Quickly, I think, this quarter, you mentioned that the change in tuition collection, obviously, made the program blended ASP look lower than usual. But on a apple-to-apple basis, can you confirm the trends are actually quite similar or even on accelerating trend versus the last quarter? And also, could you just elaborate on the pricing potential going forward?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. Yes. This quarter we changed some of the tuition fee change. So that's why we suggest to your guys to see the hourly rates, and the hourly blended ASP of the U-Can was increased by 5%, POP Kids 8% increase and overseas test prep 8%. I think, it's in line with our price strategy as we guided the Street. And going forward, we'll use the same price strategy. We know, we have the price power in hand, but we don't want to increase price too aggressively, okay? I think, the 5% to 8% will be reasonable.

Operator

Your next question is from Lucy Yu from Bank of America Merrill Lynch.

Lucy Yu - *BofA Merrill Lynch, Research Division - Research Analyst*

I remember you gave the full revenue guidance of 30% in RMB term. So if using the higher end of your third quarter guidance, which is around 36%, that implies fourth quarter, your RMB revenue will only grow at 24%, which is a significant slowing down from third quarter. So are you considering rising up your full year guidance on revenue growth?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Thanks, Lucy. Yes, I think, it's a nice question, okay. Yes. I think, for the whole year, our top line growth in RMB term year-over-year will be 30% plus, okay, in RMB term, year-over-year growth.

Lucy Yu - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. Also, second question is on the margin. You mentioned, second half margin will be largely flattish with offline improving offsetting online losses. Can you give us a bit more color on how much of offline margin expansion are you expecting in the second half?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

I think the offline business -- in the second half of the year, the offline business margin expansion will be higher than 100 basis point, okay? So it's a rough number, okay? And yes, that's it, okay.

Lucy Yu - *BofA Merrill Lynch, Research Division - Research Analyst*

100 basis point, right?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Yes. Margin expansion for offline business, okay.

Operator

Your next question is from John Choi from Daiwa Capital Market.

Hyungwook Choi - *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*

I have a couple questions here. First, on your -- because now you guys have changed the collection period, will that have a change in your deferred revenue and the seasonality going forward in the coming quarter? And then how should we think about it? That's my first. And second question is on your online business. Now I know, you have been investing a lot. When should we start seeing some inflection point? I know, like you said in the second half, offline is going to be more or less offsetting, but as we go into fiscal year '20, should we be expecting more of a acceleration from the scale we're seeing for offline margin expansion that should be offsetting more on the online? Or should we be continuing to expecting that online will have a further drag to the profitability?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. Yes, the deferred revenue, I think -- because of the delayed effect of the fee collection will influence the -- our deferred revenue for 1 year since this quarter, and especially, in Q2 and Q4. So I think, in the coming quarter, Q3, the deferred revenue will be negatively impacted a little bit, okay? And Q4, it will be negatively impacted in the -- at the end of the Q4, okay? This is the impact of the deferred revenue. But we will not -- I mean, it will not impact the GAAP revenue growth because it's just a timing difference, okay? And yes, the -- I think your second question is about the margins, yes. In the second half of the year, I think the top line growth will be very strong. And if you compare the top line growth with the expansion plan, you will see the leverage. And we do believe we will have more leverage on the selling, marketing expenses and G&A expenses for our business. Even though we spend more on the online platform or the other pure online product, but it will be offset by the online margin expansion, okay, on the core business margin expansion, okay?

Operator

Your next question is from Joan Song from Industrial Securities.

Joan Song - *Industrial Securities (HK) Financial Holdings Limited, Research Division - Research Analyst*

I have one question about, can you break down the number of the net new learning centers open this quarter, which is 25? How many are new opened and how many are closed? And there are some blacklisting learning centers in the second half of [2018] (corrected by company after the call). How long will this learning centers reopen after renovation?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. We opened 48 new learning centers in Q2 and closed down 23 learning centers. So the net increase was 25, okay? And I think, the most of the learning centers, which were closed down as the regular closedown, okay? For some like the leasing...

Joan Song - *Industrial Securities (HK) Financial Holdings Limited, Research Division - Research Analyst*

When will they be opened?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Yes, and we opened 48 and closed down 23. So we...

Joan Song - *Industrial Securities (HK) Financial Holdings Limited, Research Division - Research Analyst*

Will these ones reopen or just closed down forever?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Just closed down, 20...

Sisi Zhao - *New Oriental Education & Technology Group Inc. - IR Director*

Yes. It's typically replacement of some old learning centers that lease term expired, and we typically move around. So closed down the old one and opened a new one.

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Yes.

Operator

Your next question is from Johnny Wong from Jefferies.

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

Well, a lot of my questions have been answered, but can I -- just one from me. Can you please elaborate on the type of promotions that we are doing in terms of online business? What is working, what's not and whether or not we have some sort of target for acquisition cost per student?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Thanks, Johnny. I think, your question is about the student acquisition, okay? For our offline business, the student acquisition costs were low as a percentage of the revenue. Typically, the other target, selling, marketing expenses is just 4% of total revenue, and we just rely on the word-of-mouth because New Oriental is the best -- the household brand name in China, and we rely on the word-of-mouth, okay? Almost a lot of people in China, parents and kids know New Oriental's name. And for the online business, it's quite new and the market's huge. And I think, some students and parents, they don't know New Oriental is doing the online business. So we prefer to spend more on the selling, marketing expenses to acquire new students. But this -- I think, we will use this way by a reasonable way, okay? We don't like to burn the money to acquire new students. We care more about the teaching quality and content development rather than the marketing activities, okay?

Operator

Your next question is from Sheng Zhong from Morgan Stanley.

Sheng Zhong - *Morgan Stanley, Research Division - Associate*

So I have 2 questions. One is about the enrollment. We know that there were some collection fee period change. So if we look at the enrollment, what's the guidance for next quarter and second half? And secondly is, you are executing the share repurchase plan. So can you give some update on this?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Okay. Enrollments, the -- as I said, the lower-than-normal enrollments in this quarter is due to the delayed registration for -- in some cities from Q2 to Q3 is that from the November through December and -- because of the new regulations, and it's that the tuition fee will not be collected from the -- more than 3 months ahead of the class start. And third, we have seen a very, very strong enrollment growth and the cash revenue growth in the first of 7 weeks of the third fiscal quarter. So I don't know --- I don't want to give the guidance of the enrollment growth. It's very hard for me, but we do believe, in the second half of the fiscal year, the enrollment growth will be better as well, okay? And your second question is about the share repurchase plan. Yes, we announced the $200 million share repurchase, and we were still in process. We're buying the shares in the open market and it's still in process, okay? It will be ended -- plan to be ended at the end of this fiscal year, May 31, okay?

Operator

Your next question is from Tallan Zhou from Deutsche Bank.

Tallan Zhou - *Deutsche Bank AG, Research Division - Research Analyst*

I've got 2. The first is, it seems you've mentioned about not going aggressively on online investment. So do you have a target of like online enrollment or online revenue as a percentage of total? And second question, on the margin, it seems like you're quite bullish on the second half margin. So on the offline business, is it because of the retention rate in the new learning centers are gradually going up?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

I would like to start -- your first question about the enrollment growth of the online platform. Sorry, I can't talk much about the enrollment growth because we filed A1 for our koolearn.com in Hong Kong markets. So I can't say too much detail in the numbers, but I can say that the enrollment growth is very strong, okay? And the margin guidance of the second half year, the overall margin guidance for the second half of the year for the whole company is flattish, actually it's not bullish, just flattish compared to the first half year margin dilution, it's just flattish, okay? So I think, this is reasonable because last year, we opened 40% new learning centers, and this year, we bear fruit. And going forward, even for the next year, you will see more leverage on the margins for the new year -- next year, okay?

Operator

Your next question is Charlotte Li from Citi.

Charlotte Li - *Citi*

I'm asking questions on behalf of Mark Li. I have 2 small questions. First is, can you give us the revenue growth in top 5 cities and in large tier cities in the last quarter? And also, may I know the current share for you in top cities? And do you have a target to achieve more shares in, say, midterm or long term?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Yes. I think the top 5 cities, the revenue growth of the K-12 business in last trailing 12 months is 31% to 32% in RMB terms, okay? That's our disclosure. And actually, I think, you saw the great -- the very good momentum of the K-12 business. Actually, we are taking more market share in the most of the cities, whether it's high tier or low tier, okay.?

Operator

The next question is from James Weir from USS.

James Weir - *USS Investment Management Limited*

I wonder if you could comment just again on regulation, particularly as it relates to the Internet and the online learning. It seems that we've been picking up signals that the government was looking at increasing regulation on that side, now that they have dealt with offline. And the second question was just on wage costs. We've seen this kind of licensing program come in place. I wonder, is that putting additional upward pressure on wage costs now that the license -- the teachers have the license, so they -- are they asking for higher wages?

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Thanks, James. We haven't -- we have not seen the new regulations for the online education. So yes, it's what it is, okay? There is no new regulation on the online education sector. And the wages inflation, yes, as I mentioned, I think, New Oriental, we provide the highest level of the wages to teachers in the market, and typically, our -- the teachers' inflation every year is 8% to 9%. So we don't need to pay too much or too more wages inflation in terms of the new regulations, okay? And our wages inflation strategy will be stabilized, okay?

Operator

We are now approaching at the end of the conference call. I will now turn the call over to New Oriental's CFO, Stephen Yang, for his closing remarks.

Zhihui Yang - *New Oriental Education & Technology Group Inc. - CFO*

Again, thank you for joining us today. If you have any further questions, please do not hesitate to contact me or any of our Investor Relations representatives. Thank you.