



# Xueda Education Group

Second Quarter 2014



# Cautionary Note on Forward-Looking Statements and Disclaimer



This presentation contains statements that may constitute “forward-looking statements” (as defined in the U.S. Private Securities Litigation Reform Act of 1995), regarding the intent, belief or current expectations of Xueda and its management with respect to its financial condition and results of operations. In many cases but not all, these statements contain words such as “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “probability”, “risk”, “project”, “should”, “seek”, “target” and similar expressions. These forward-looking statements are based on a number of assumptions about the Company’s operations and other factors, and risks and uncertainties, many of which are beyond the Company’s control, and accordingly, actual results may differ materially from these forward-looking statements. Further information regarding these and other risks, uncertainties or factors is included in our filings with the U.S. Securities and Exchange Commission. Any forward-looking statements and projections made by others in this presentation are not adopted by the Company, and the Company is not responsible for the forward-looking statements and projections of others. Except as otherwise required by applicable securities laws, the Company has no obligation and does not undertake to update or revise any forward-looking statements to reflect future events or circumstances.

Information on the calculation of non-GAAP financial measures referred to in this presentation can be found in the company’s quarterly results press releases, which can be found in the investor relations section on our website: [www.xueda.com](http://www.xueda.com).

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# Overview



## Company

- Xueda Education Group (“Xueda”)
- Established in 2001
- Headquartered in Beijing, China

## Business

- A leading national provider of personalized tutoring services for primary and secondary school students in China

## Exchange / Ticker

- NYSE / “XUE” (Listed and Traded: November 2, 2010)

## Capital Structure (As of Aug. 22, 2014)

- 1 ADS = 2 ordinary shares
- Price: \$4.46
- 52-week Range: \$3.68 - \$7.70
- Diluted ADS Outstanding: 63.6 million
- Market Cap: ~\$284 million

## Selected Second Quarter 2014 Financials

- Net Revenues: \$120.8 million, Up 5.4% Y-o-Y
- Gross Margin of 34.5%, despite opening net 32 new learning centers
- Non-GAAP Net Income: \$16.7 million, and non-GAAP EPADS of \$0.27
- Cash, Cash Equivalents and Short-term Investments: \$198.7 million

# Value Proposition



**Xueda Education Group is the largest K-12 national provider of personalized tutoring services with most-diversified and widest geographic footprint in China.**







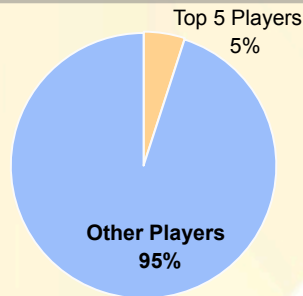
## Industry Overview

# Chinese Education Industry

## Large and Under-Invested Market



### Highly Fragmented Tutoring Market in China

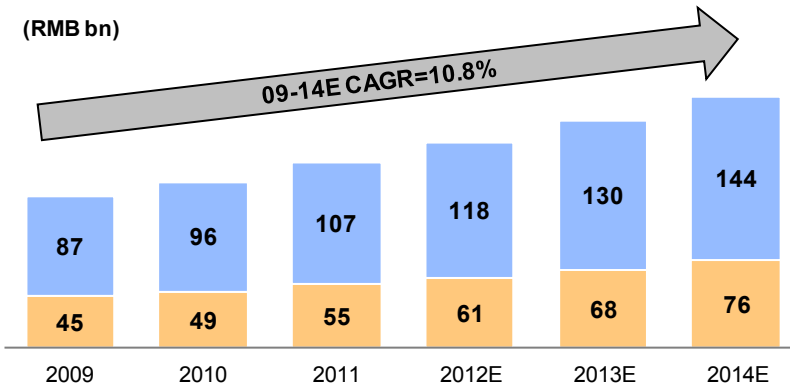


Leaders best positioned for market share gains from:

- Regional players
- Individual tutors

### China's Primary and Secondary Tutoring Market

(RMB bn)

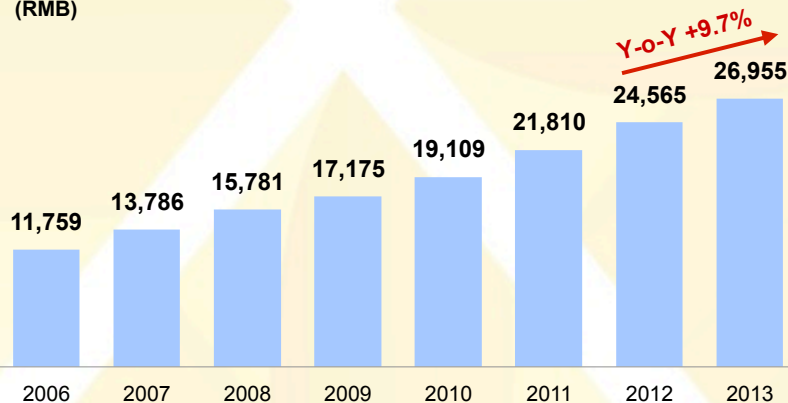


Source: IDC

Primary School Secondary School

### China Per Capita Disposable Income of Urban Households

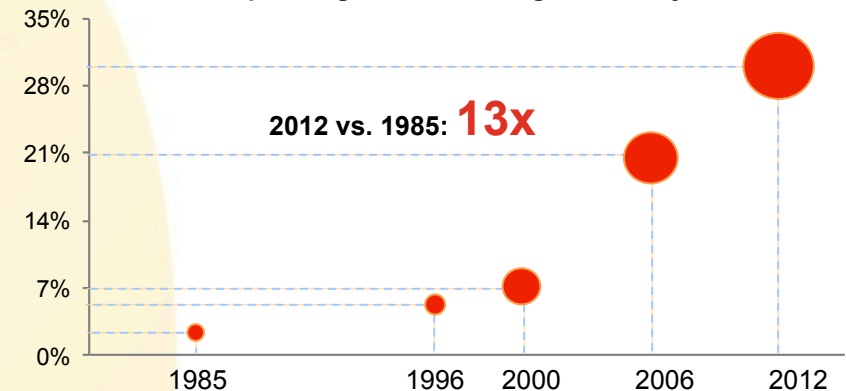
(RMB)



Source: China Statistical Yearbook 2013

### Increasing Family Spending

Education Spending as a Percentage of Family Income



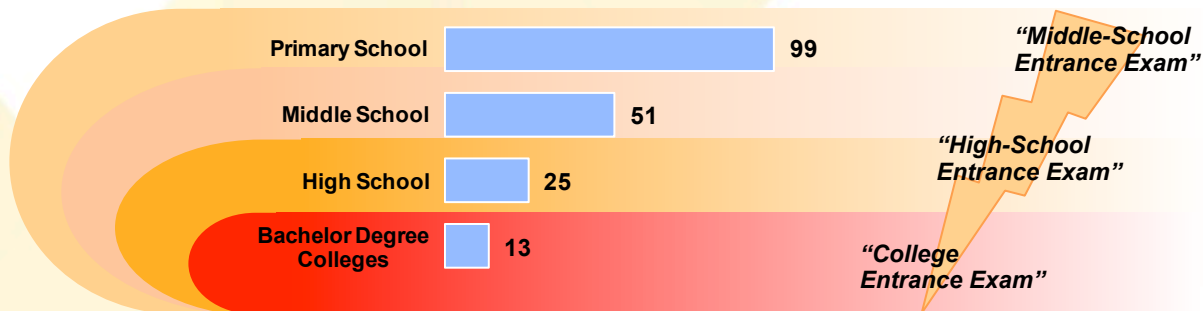
Source: Hexun.com (China Education and Research NetWork)/ People's Daily Online

# Chinese Education Industry

## Examination-Focused Education System Drives Demand

### Why Private Education is so Important in China?

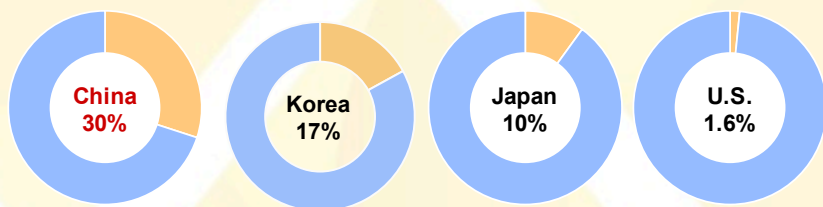
China Education Mechanism and Admission Exams



Source: Ministry of Education of the People's Republic of China

### Education Expenditures as % of Household Income<sup>1</sup>

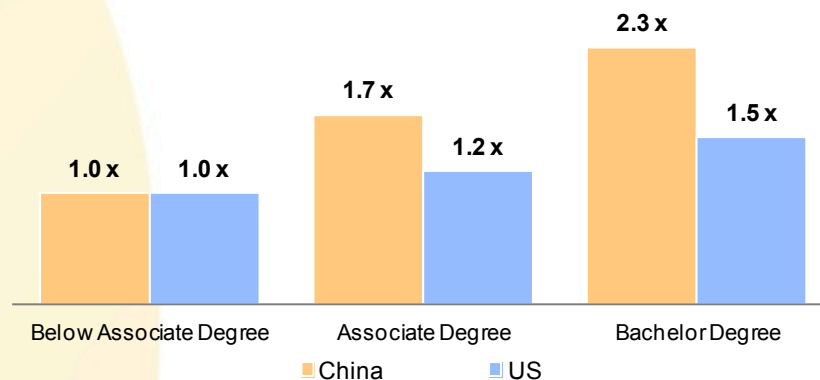
**30%** - Nearly 1/3 of household income spent on education  
The highest education expenditure ratio in Asia



1. Source: Hexun.com, China Education and Research Network, People.com.cn  
2. US Department of Labor, ChinaHR.com, US Census Bureau, Economist Intelligence Unit, IDC  
3. Statistics Korea

### Higher Education = Higher Wage

Average Annual Salary Differentials by Education Degree<sup>2</sup>





## Company Overview



# Who We Are



## Our Position

- **The largest provider** of tutoring services for primary and secondary school students in China, in terms of revenue and nation-wide network

## Our Market

- Targeting **210 million** students at primary and secondary schools in China as of 2013\*
- China tutoring services for primary and secondary school students market size of around **US\$105 billion** in 2014\*

## Our Business

- Differentiated, personalized tutoring services
- **US\$347.0 million** net revenues in 2013

## Our Network

- **Organically** developed **nationwide** network
- Well-diversified **462** learning centers, covering **81** cities as of June 30, 2014

## Our People

- Average approximately **8,600** full-time instructors, and **16,900** full-time employees during the second quarter of 2014

**Our philosophy of "teaching tailored to each student's aptitude" ensures holistic growth**

\* Source: China 2014 Elementary Education White Book

# Competitive Advantages



#1

**Extensive National Learning Center Network**

#2

**Scalable Operating Platform**

#3

**Differentiated, Personalized Service Model**

#4

**Expertise in Building and Managing a Large Full-time Service Team**

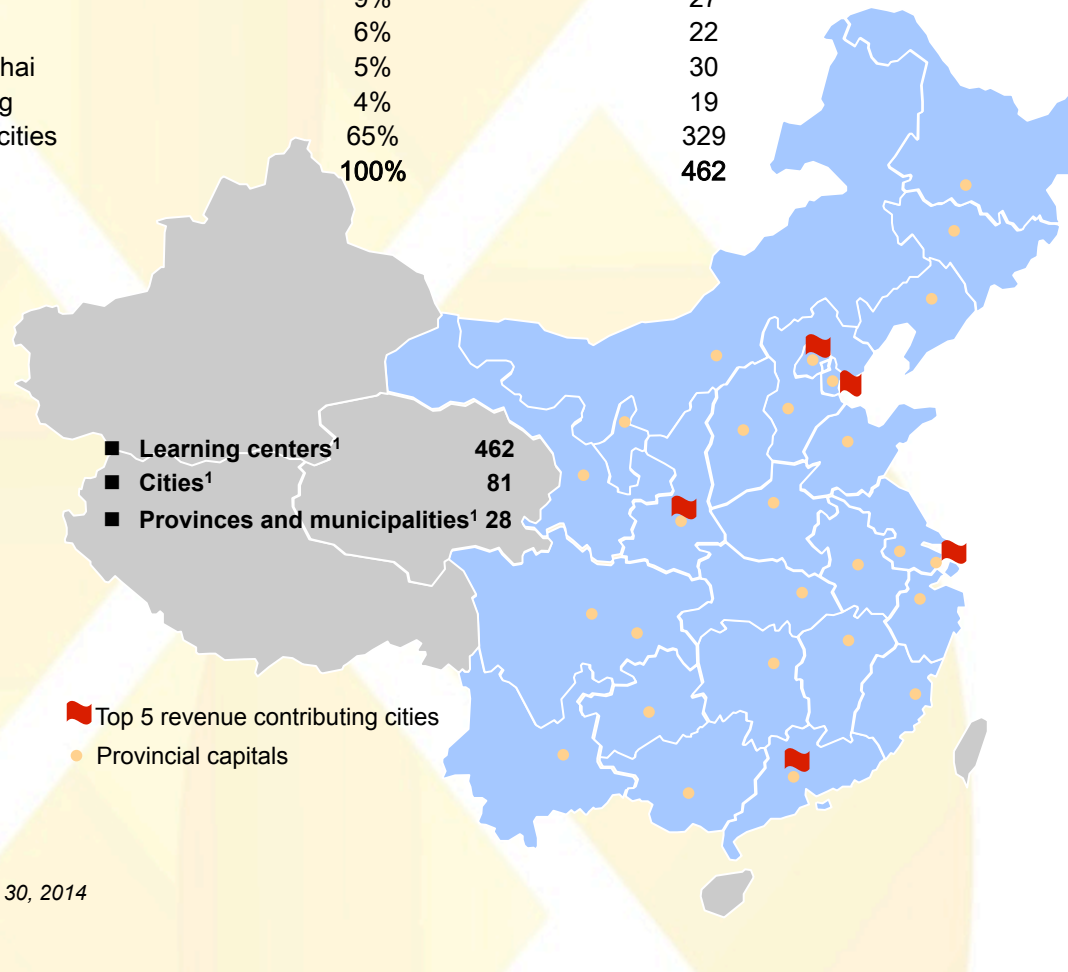
#1

# Extensive National Learning Center Network



## Well-Balanced Network

Top Revenue Contributing Cities	Contribution to Net Revenue in 2Q 2014	Number of Learning Centers
Beijing	11%	35
Xi'an	9%	27
Tianjin	6%	22
Shanghai	5%	30
Nanjing	4%	19
Other cities	65%	329
<b>Total</b>	<b>100%</b>	<b>462</b>



1. As of June 30, 2014

Dalian Wusi Square Learning Center



Learning Center 1-on-1 Interior View



Learning Center Small Group Scene



#2

# Scalable Operating Platform (current)



- Advanced proprietary ERP system
- Real-time tracking of operational metrics
- In-depth data analysis to support managerial decision-making

## Robust Information Technology Support

## Disciplined Tutoring Process

- Personalized assessment by trained consultants
- Personalized study plan jointly crafted by education consultant, instructor and study counselor
- On-going communication with parents by study counselors

## Operating Platform

- Dedicated research and development team
- Comprehensive educational resource database
- Centralized course development

## Centralized Knowledge and Content Management

## Standardized Operational Support

- Systematic human resource management
- Centralized procurement and construction management
- Centralized cash collection management



ERP Sample 1: Contract Renewal Analysis



ERP Sample 2: New Contract Analysis



#3

# Differentiated, Personalized Service Model

## Helping Every Student to Obtain Their Highest Potential



### WHO WE SERVE

- Every student in primary to high schools
- Every student seeking personalized tutoring



### WHAT WE OFFER

- Personalized tutoring experience
- Dedicated service team
- On-going parental involvement
- Well-rounded approach



### HOW WE DO IT

- Consultation and Assessment
- Formulation of Customized Study Plan
- Personalized Tutoring
- Delivery of Support Services

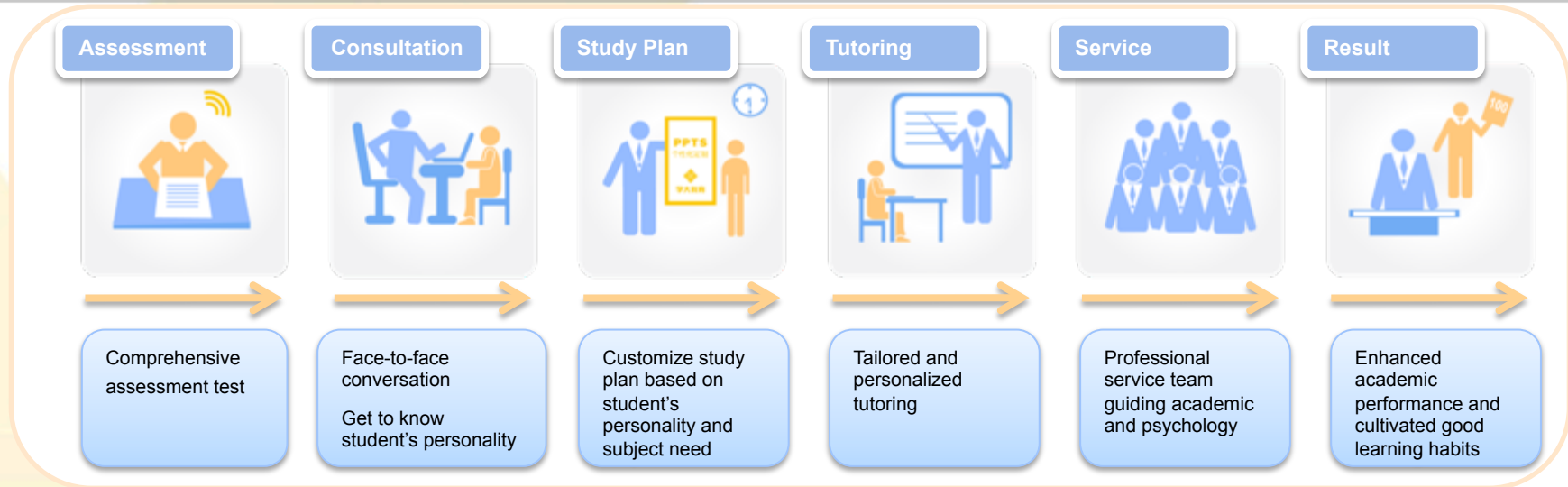


#3

# Differentiated, Personalized Service Model (Cont'd)



## Personalized Service Model



## Xueda's PPTS System



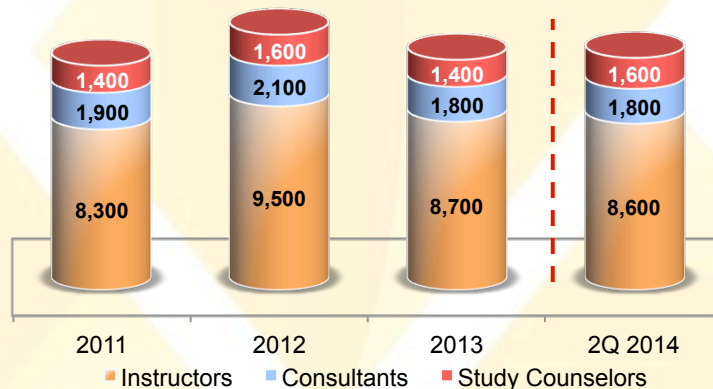
#4

# Expertise in Building and Managing a Large Full-time Service Team

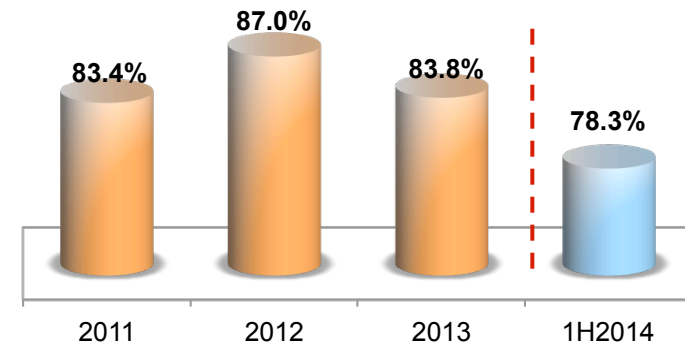


## Strong, Full-time Instructional Workforce

~Approx. 12,000 full-time teaching staff



Deliver significant majority of course hours



## Established HR System with Proven Track Record

### Recruiting

- Well-defined recruiting criteria
- Very selective process
- On-campus recruiting
  - SEED student scholarship
  - Training Program built in college curriculum
- Scalability of part-time workforce

### Training

- New-hire training
- Ongoing weekly training at all levels
  - National
  - Regional
  - Learning centers
- Regular teaching research
- Mentor for tutors

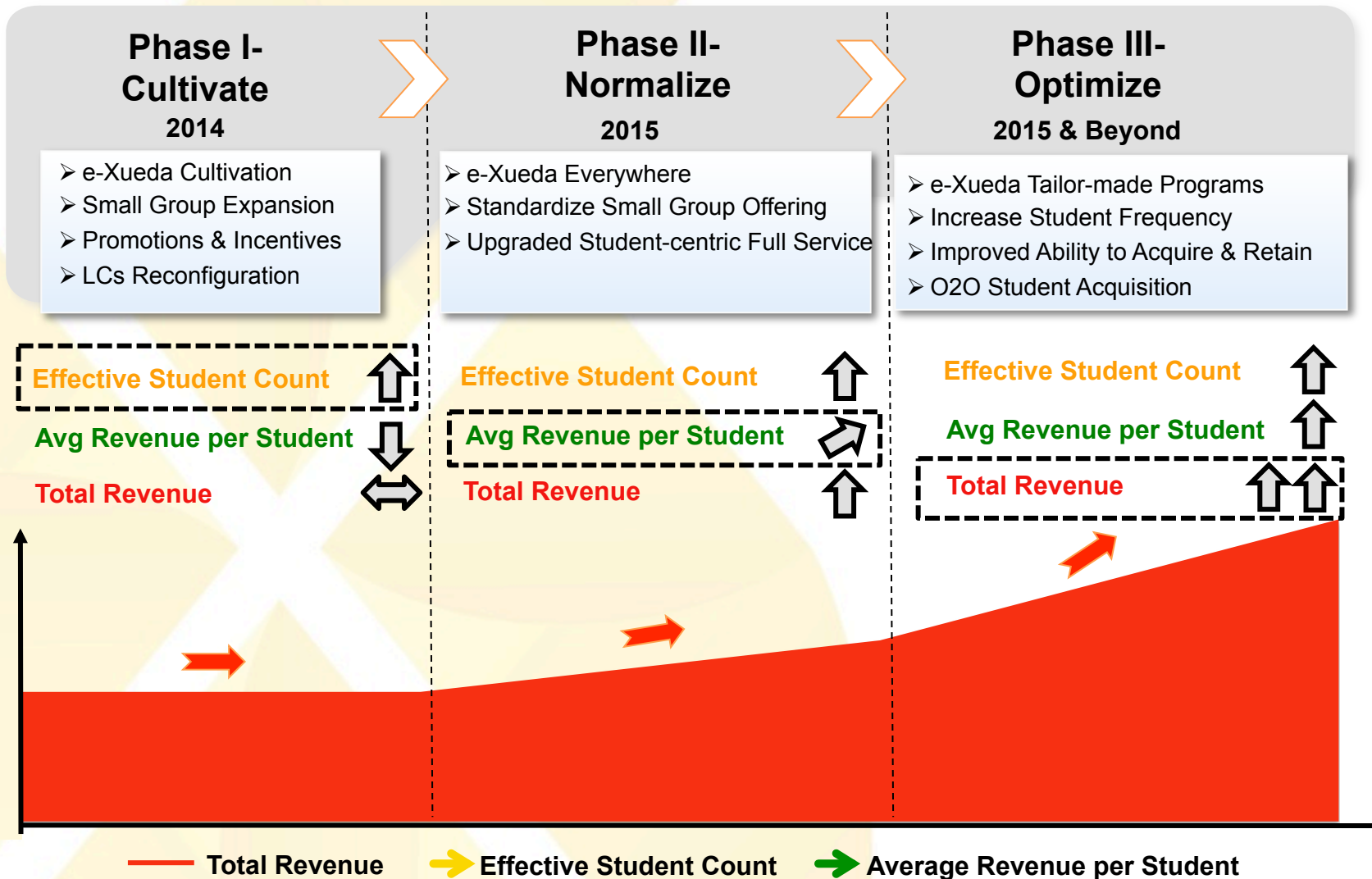
### Career Development

- Well designed career ladder
- Growth & transfer opportunities
- Customer satisfaction and quality of service oriented KPIs

### Compensation

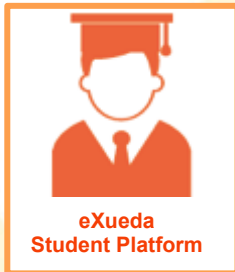
- Competitive compensation
  - Base + incentive structure
- Performance driven
  - Higher customer satisfaction rate/ student performance improvement reward
  - Higher student renewal and retention rates

# 3-Phase Roadmap





# eXueda Cloud-based Tutoring Platform



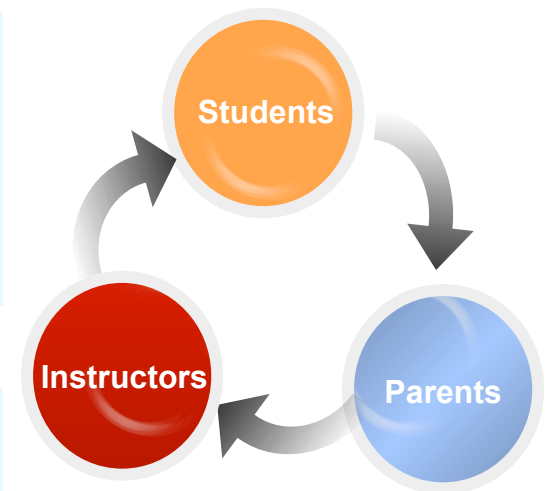
- Allows anywhere, anytime, anyplace study with any mobile Internet-enabled device
- Provides instant feedback to speed learning



- Provides instant recording and notification
- Allows pinpoint preparation and guidance to leverage each tutoring session for optimum learning efficiency

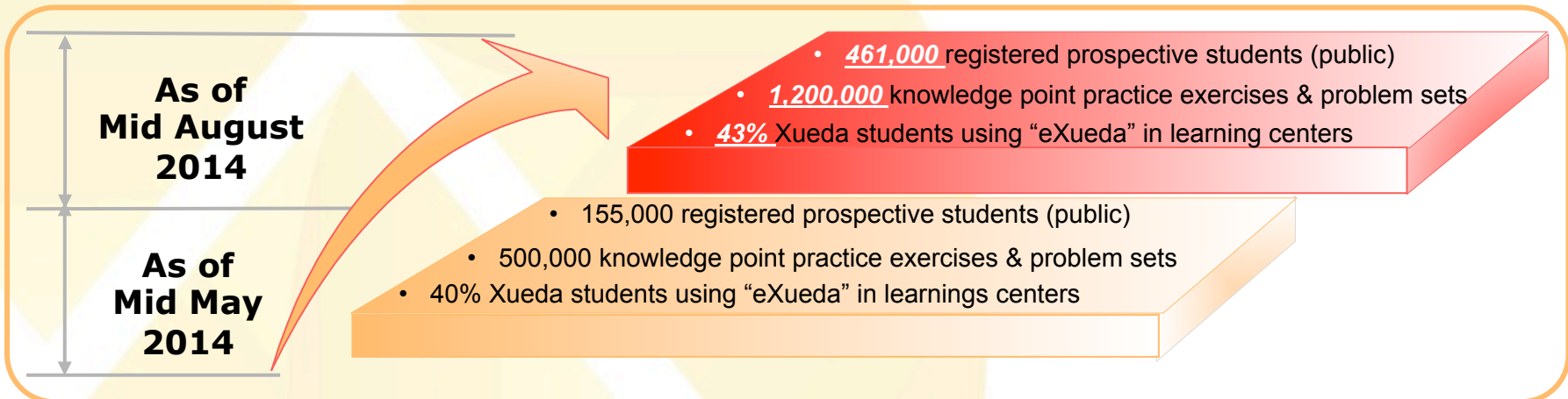
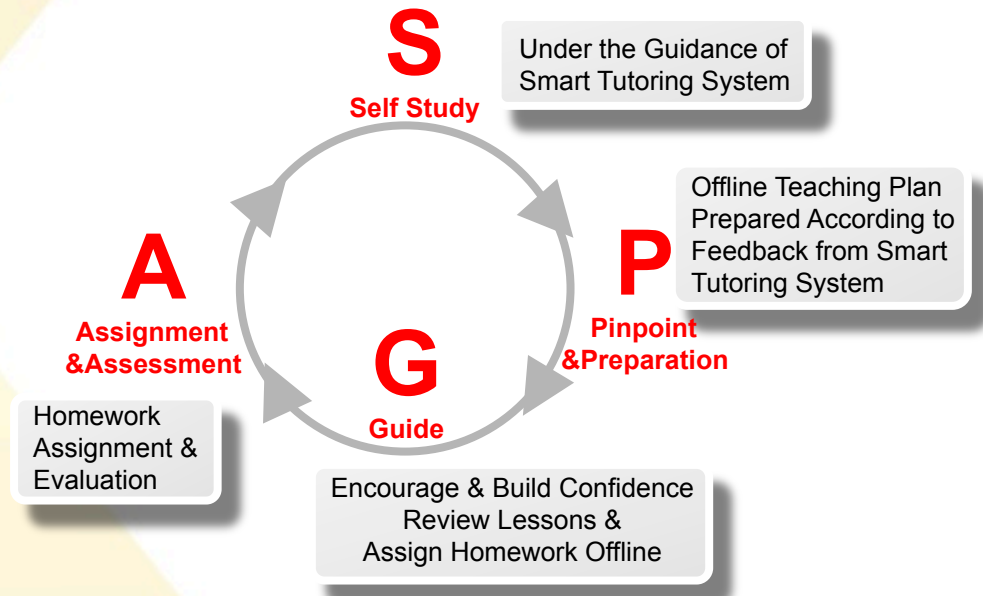
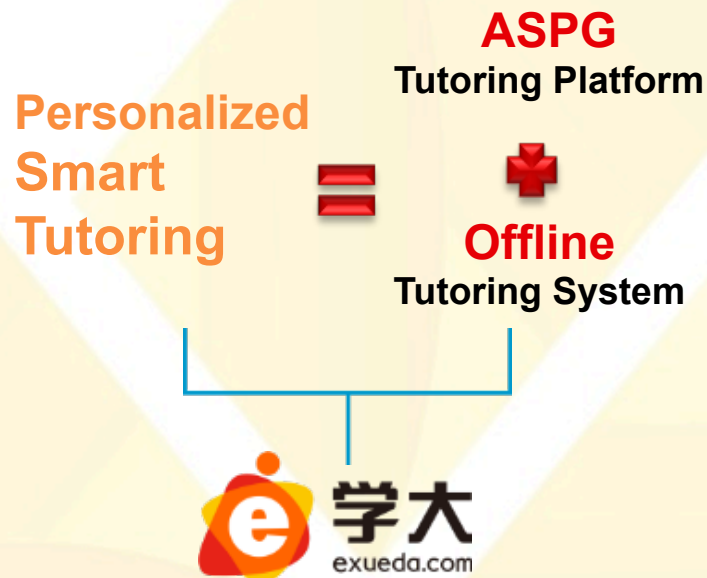


- Provides easy, convenient full-transparency into the tutoring process
- Allows greater parental engagement



*Interactive platform*

# eXueda Cloud-based Tutoring Platform (Cont'd)



# Expanded Service Offerings & Improved Instructional Quality



## Expanded Service Offerings & Improved Instructional Quality

### *More Options & Better Results*

#### Personalized Small Group Tutoring

- ✓ 1-10 students
- ✓ 1-3 months
- ✓ Set Schedules
- ✓ Full Subjects



#### Enrichment Offerings

- ✓ Wide Spectrum of Subjects
- ✓ Multiple Formats



#### Improved Instructional Quality

- ✓ Central to Superior Tutoring



# Fast Growing Student Base



## Effective Student Count

- 58,895 by the end of 2Q 2014
- +17.6% Year-over-year

## New Student Sign-ups

- 27,049 in 2Q 2014
- +5.3% YoY



## Student Retention

- 31,846 in 2Q 2014
- +30.5% YoY

***Collective efforts to attract and retain students are producing enrollment results!***



# Seasoned Management with Proven Success



## Industry Experienced and Professional Management Team

## Sophisticated Sponsors with Proven Track Record



**Xin JIN**  
CEO & Co-founder

- Served in various Company management positions since 2002, including General Manager and Co-President



**Christine LU-WONG**  
CFO

- CFO since November 2012
- 19 years of finance operation and management experience in multi-national companies in US and US-listed companies in China
- California CPA



WARBURG PINCUS



**Wei ZHANG**  
VP Customer Service  
& Quality Control



**Wenbin XU**  
Sr. Director, Tutoring  
Management & Academic  
Material R&D



**Junyi LI**  
VP Marketing



**Chun ZHANG**  
VP Sales



**Bin JIA**  
VP Human Resources

## Entrepreneurial, Results-Oriented Regional Management Team

- 30+ General Managers in charge of regional subsidiaries
- A young, home-grown management team with shared educational philosophy and core values



# Financial Overview

*Second Quarter 2014*

# Management Discussion:



**Xin Jin – Xueda Co-Founder & Chief Executive Officer**

***“In the second quarter, we made significant advances in our key initiatives of growing enrollment, broadening our tutoring mix and further solidifying eXueda into the DNA of our organization. Our efforts are working, we are cementing a broad-based foundation for the future.”***



**Christine Lu-Wong – Xueda Chief Financial Officer**

***“In addition to growing our student base, this quarter we aggressively invested in further expanding our learning center network and implementing eXueda. We added net 32 new learning centers and accelerated our investments in eXueda by seeding ownership of Internet-enabled tablets for our newly enrolled students. We believe these investments, although significantly increasing our cost of sales during the quarter, will build on the momentum and further accelerate the expansion of the tutoring platform.”***

# Student Count-driven Revenue Model



## Two Key Drivers

### Effective Student Count

By 2Q 2014: 58,895

Up 17.6% YoY

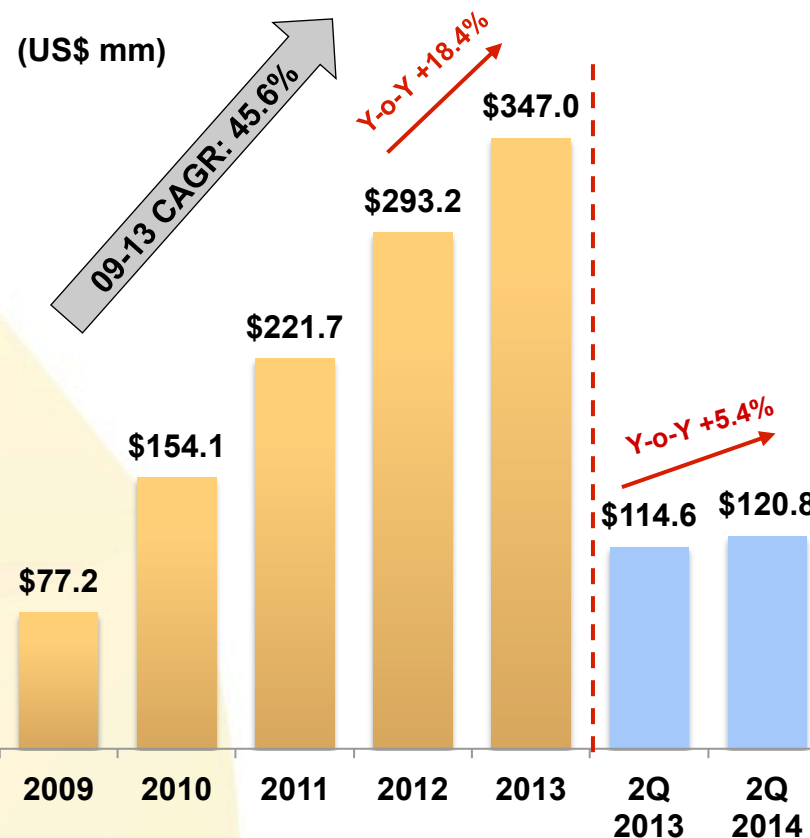


### Average Revenue per Student

2Q 2014: \$1,881

Down 4.7% YoY

## Net Revenue

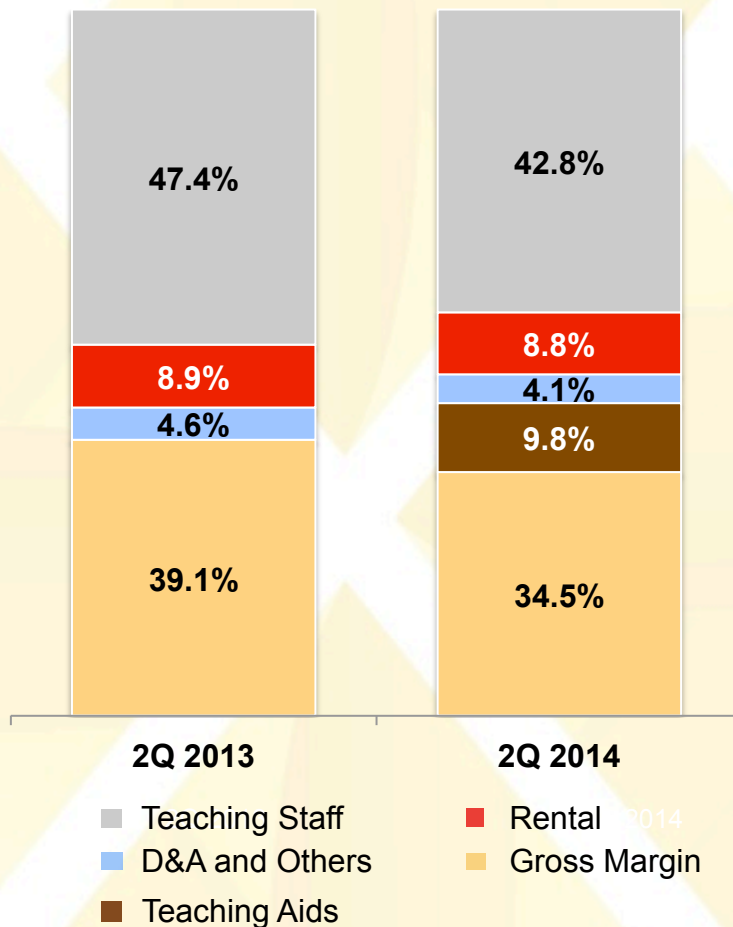




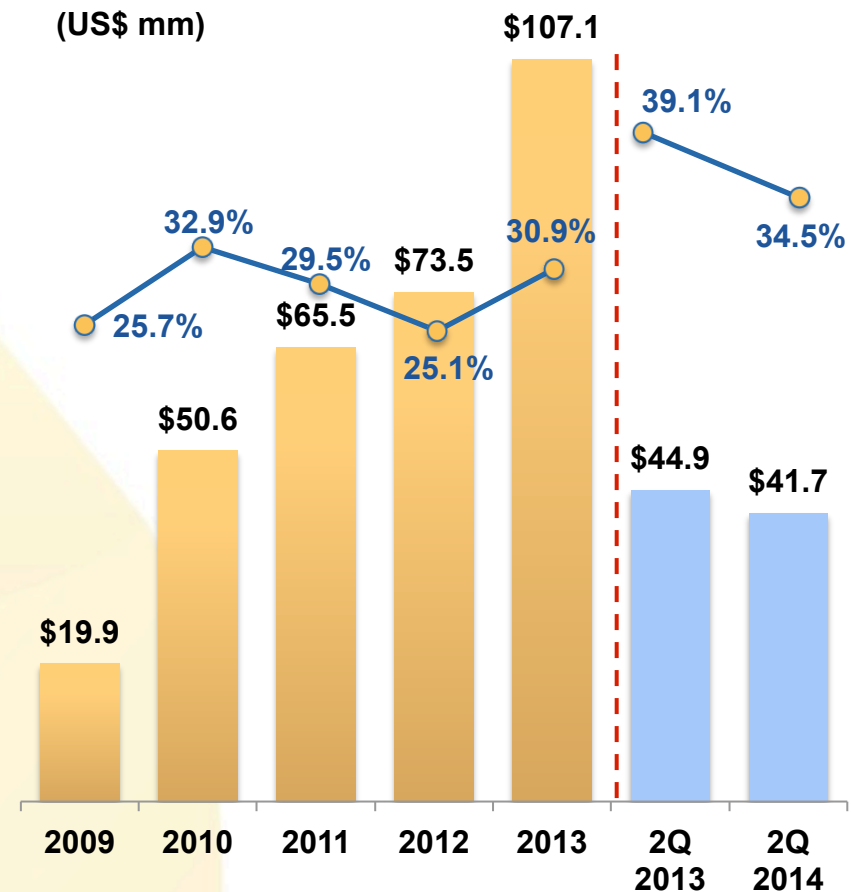
# Gross Margin & Cost Structure Breakdown



Cost Structure Improvement



Gross Profit and Gross Margin

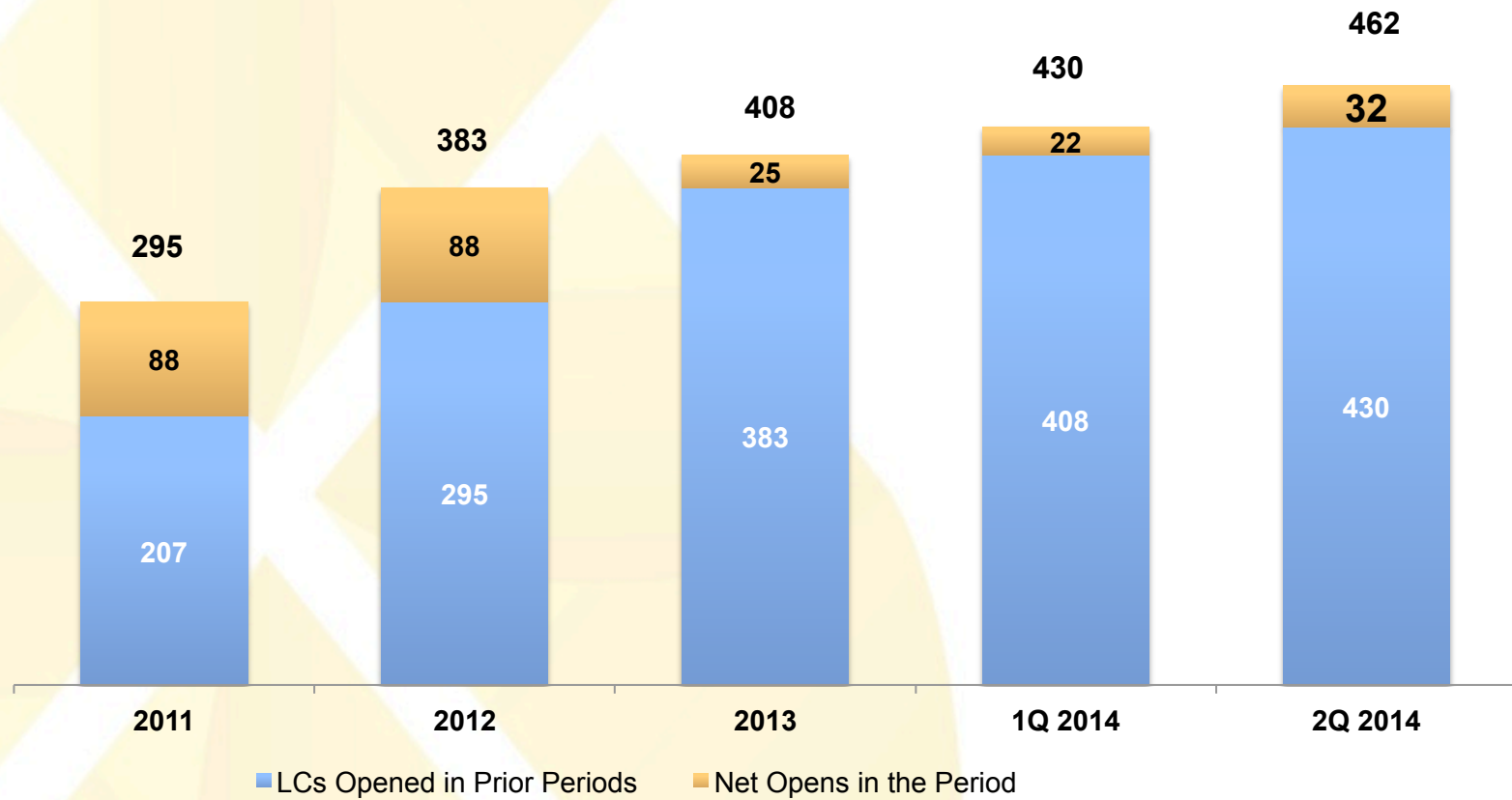


# Optimizing Operating Leverage



	2Q 2014	2Q 2013	Y-o-Y Change Percentage
<b>Non-GAAP G&amp;A Expense</b>	<b>\$11.7M</b>	<b>\$12.7M</b>	<b>-7.4%</b>
As % of Total Net Revenue	9.7%	11.0%	-130 bps
<b>Non-GAAP S&amp;M Expense</b>	<b>\$10.1M</b>	<b>\$9.5M</b>	<b>+6.0%</b>
As % of Total Net Revenue	8.4%	8.3%	+10 bps
<b>Non-GAAP Operating Income</b>	<b>\$19.8M</b>	<b>\$22.7M</b>	<b>-12.5%</b>
<b>Non-GAAP Diluted Net Income per ADS</b>	<b>\$0.27</b>	<b>\$0.28</b>	<b>-3.6%</b>

# Learning Centers Expansion Roadmap





# Guidance

*Third Quarter and Full-Year 2014*



# Third Quarter and Full-Year 2014 Guidance



3Q 2014	Guidance	Y-o-Y Change
Net Revenues	At least \$73.0 million	<i>Approx. -8%</i>
Non-GAAP EPADS*	Approx. -\$0.08	<i>N/A</i>

FY 2014	Guidance	Y-o-Y Change
Net Revenues	At least \$347.5 million	<i>Flat</i>
Non-GAAP EPADS**	At least \$0.16	<i>Approx. -50%</i>

\*Non-GAAP diluted net income per ADS estimate for 3Q 2014 assumes a full-year effective income tax rate of 27% on non-GAAP income before income tax and weighted average basic ADSs of 62.2 million.

\*\*Non-GAAP diluted net income per ADS estimate for FY2014 assumes an effective income tax rate of 27% on non-GAAP income before income tax, and weighted average diluted ADSs of 65.1 million.



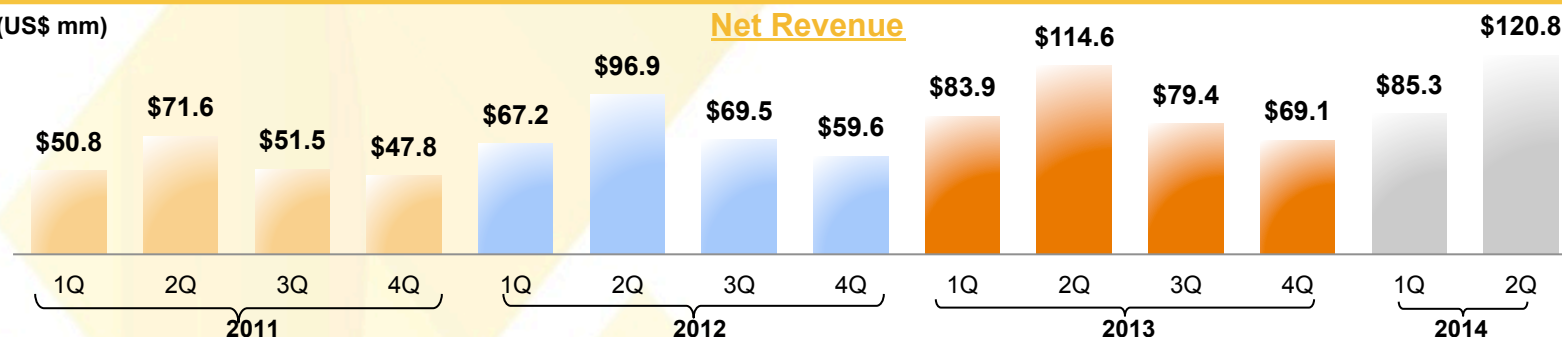
## Appendix

# Inherent Seasonality in Education-Related Business

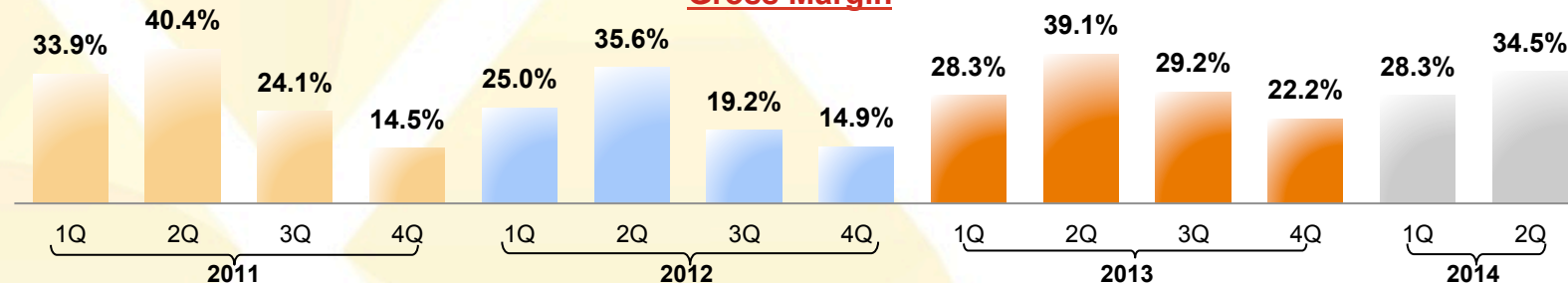


(US\$ mm)

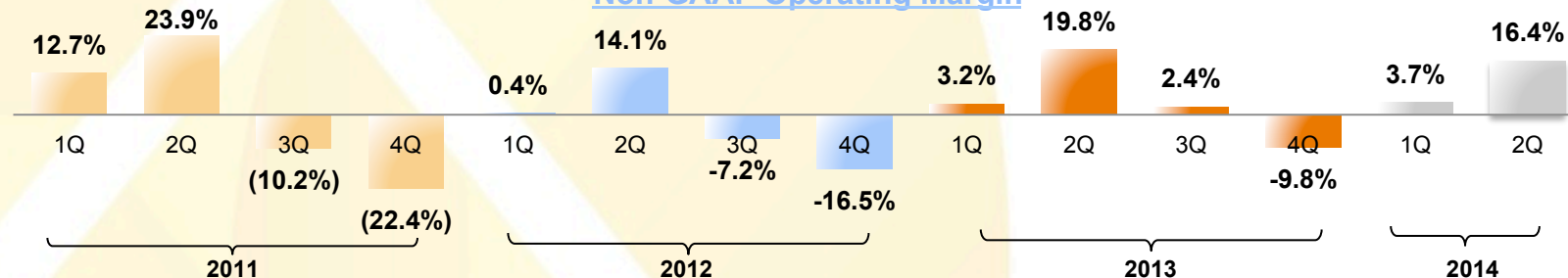
## Net Revenue



## Gross Margin



## Non-GAAP Operating Margin



# Shareholder List



## Founders, Management & Pre-IPO Investors<sup>1</sup>

<b>Co-founders</b>	<b>49.0%</b>
Xin Jin	22.9%
Rubin Li	17.2%
Jinbo Yao	8.9%
<b>Other Management</b>	<b>2.8%</b>
<b>Pre-IPO investors</b>	<b>18.2%</b>
CDH Xueda Limited	11.7%
Warburg Pincus, LLC <sup>2</sup>	6.5%
<b>Total</b>	<b>70.0%</b>

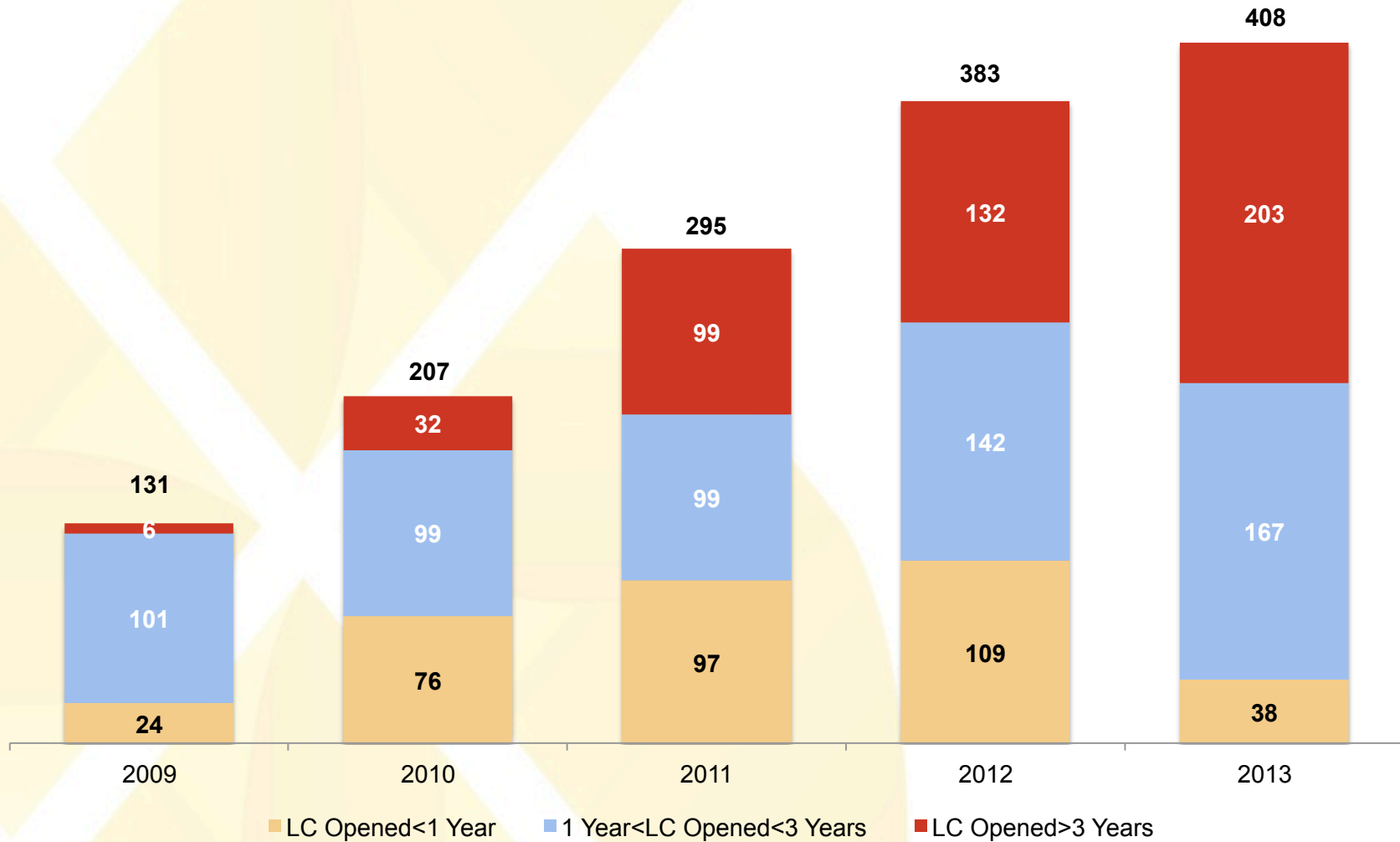
## Top 5 Institutional Investors<sup>2</sup>

Fidelity Management & Research Company	5.9%
First Manhattan Co. Asset Management	3.5%
Wellington Management Company, LLP	1.3%
O'Shaughnessy Asset MGMT, LLC	1.2%
TCS Capital Management, LLC	0.9%
<b>Total</b>	<b>12.8%</b>

1. Based on Xueda's annual report on Form 20-F for the period ended March 28, 2014, filed with the SEC on March 31, 2014

2. As of June 30, 2014, from Bloomberg

# Learning Centers Expansion Roadmap







**Thank you!**

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