



Xueda Education Group

Fourth Quarter & Full-Year 2014



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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.

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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 March 4, 2015)

- 1 ADS = 2 ordinary shares
- Price: \$2.58
- 52-week Range: \$2.12 - \$5.93
- Diluted ADS Outstanding: 63 million
- Market Cap: ~\$163 million

Selected Full-Year 2014 Results

- Effective Student Count as of Dec. 31, 14: 64,570, Up 7.4% Y-o-Y;
- Net Revenues: \$338.3 million, Down 2.5% Y-o-Y; Gross Margin of 24.7%
- Non-GAAP Net Loss: \$3.8 million, and non-GAAP Net Loss/ADS of \$0.06
- Cash, Cash Equivalents and Short-term Investments: \$208.5 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.





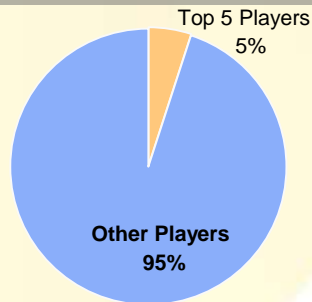
Industry Overview

Chinese Education Industry

Large and Under-Invested Market



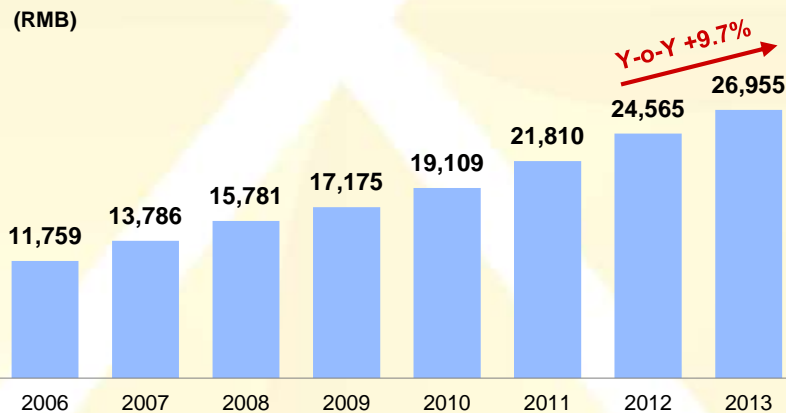
Highly Fragmented Tutoring Market in China



Leaders best positioned for market share gains from:

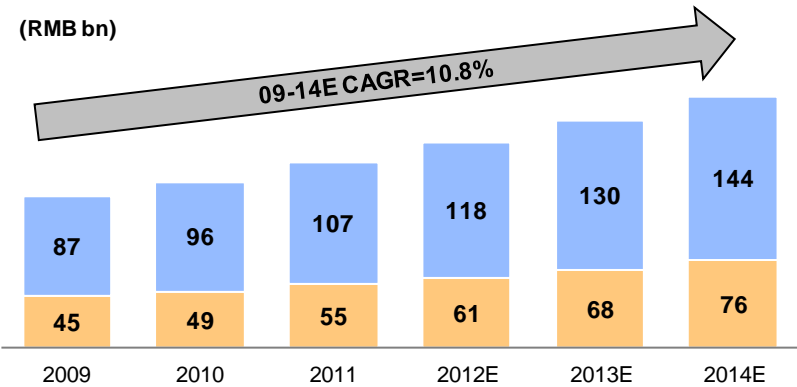
- Regional players
- Individual tutors

China Per Capita Disposable Income of Urban Households



Source: China Statistical Yearbook 2013

China's Primary and Secondary Tutoring Market

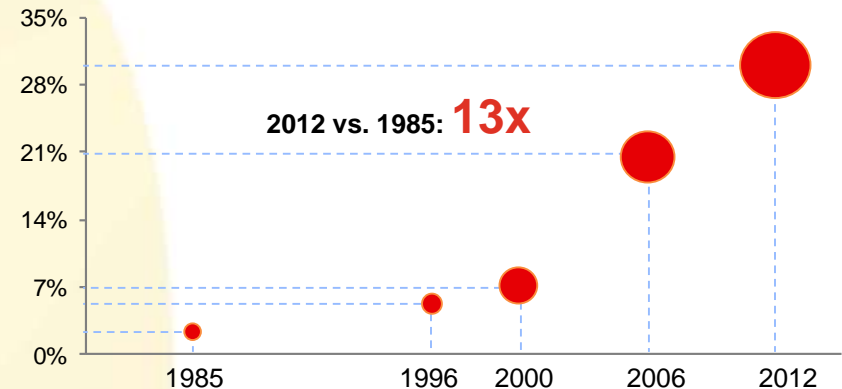


Source: IDC

Primary School Secondary School

Increasing Family Spending

Education Spending as a Percentage of Family Income



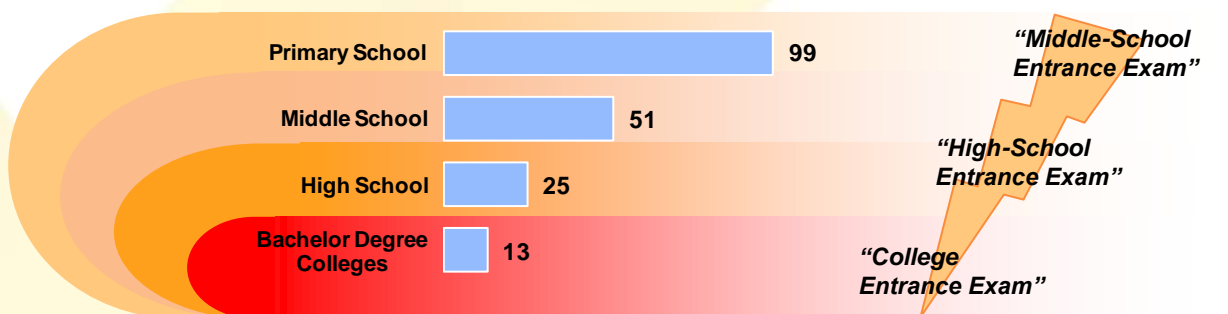
Source: Hexun.com (China Education and Research NetWork)/ People's Daily Online

Chinese Education Industry

Examination-Focused Education System Drives Demand

Why Private Education is so Important in China?

China Education Mechanism and Admission Exams

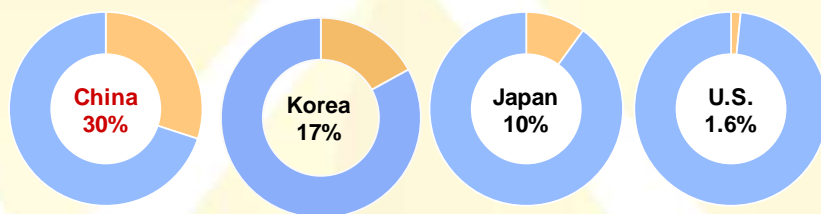


Source: Ministry of Education of the People's Republic of China

Education Expenditures as % of Household Income¹

30% - Nearly 1/3 of household income spent on education

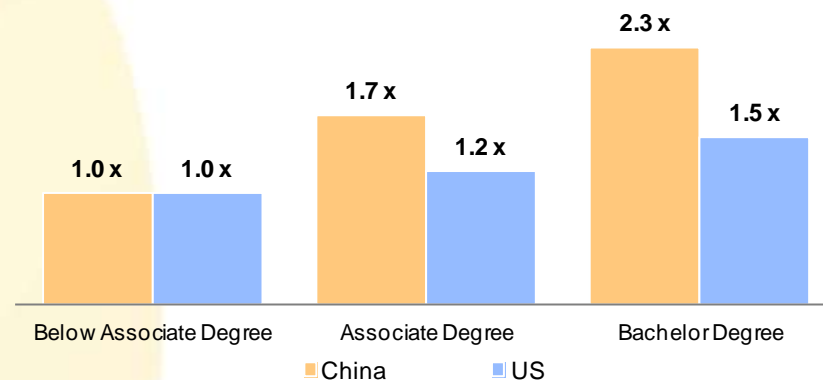
The highest education expenditure ratio in Asia



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

Higher Education = Higher Wage

Average Annual Salary Differentials by Education Degree²





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 in primary and secondary schools in China*
- China tutoring services market for primary and secondary school students estimated to be **\$105 billion***

Our Business

- Differentiated, personalized tutoring services
- **\$338.3 million** net revenues in 2014

Our Network

- **Organically** developed **nationwide** network
- Well-diversified; **467** learning centers, covering **85** cities as of December 31, 2014

Our People

- Average approximately **8,360** full-time instructors, and **16,540** full-time employees in 2014

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

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



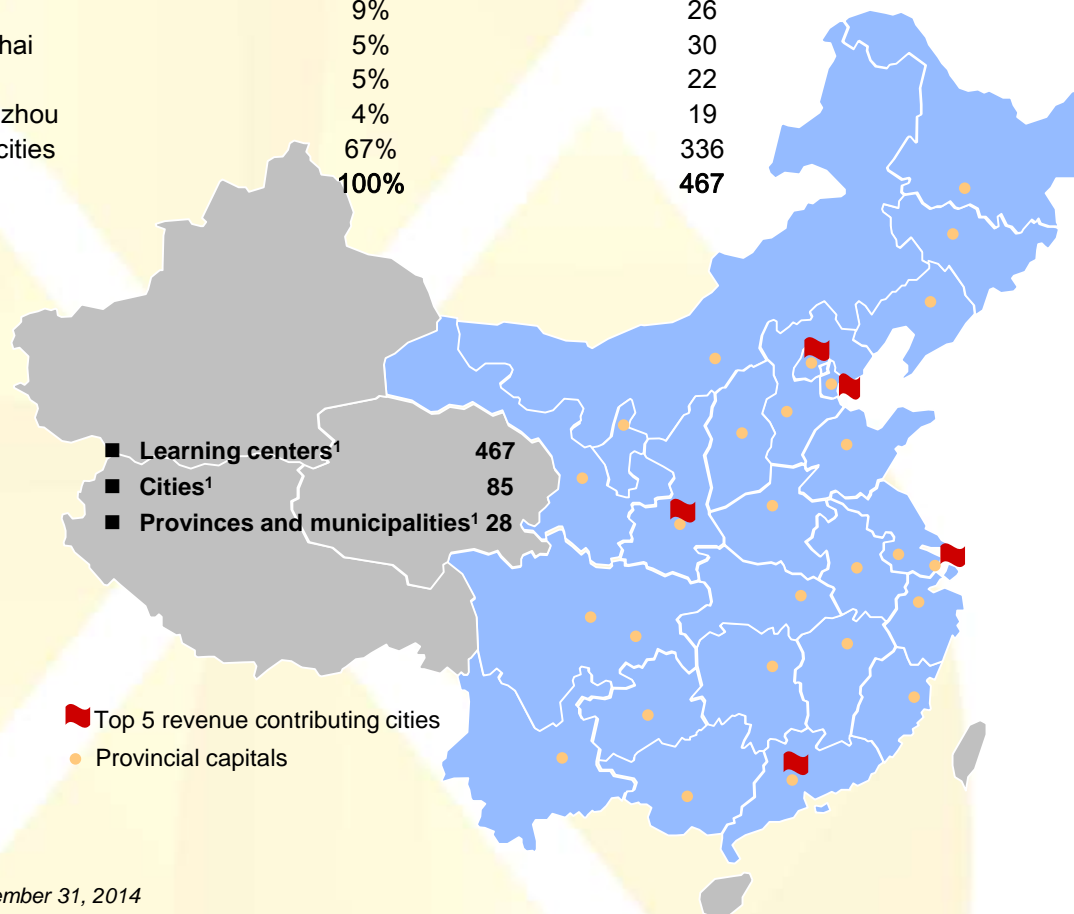
#1

Extensive National Learning Center Network



Well-Balanced Network

Top Revenue Contributing Cities	Contribution to Net Revenue in 2014	Number of Learning Centers
Beijing	10%	34
Xi'an	9%	26
Shanghai	5%	30
Tianjin	5%	22
Guangzhou	4%	19
Other cities	67%	336
Total	100%	467



Dalian Wusi Square Learning Center



Learning Center 1-on-1 Interior View



Learning Center Small Group Scene



1. As of December 31, 2014

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

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

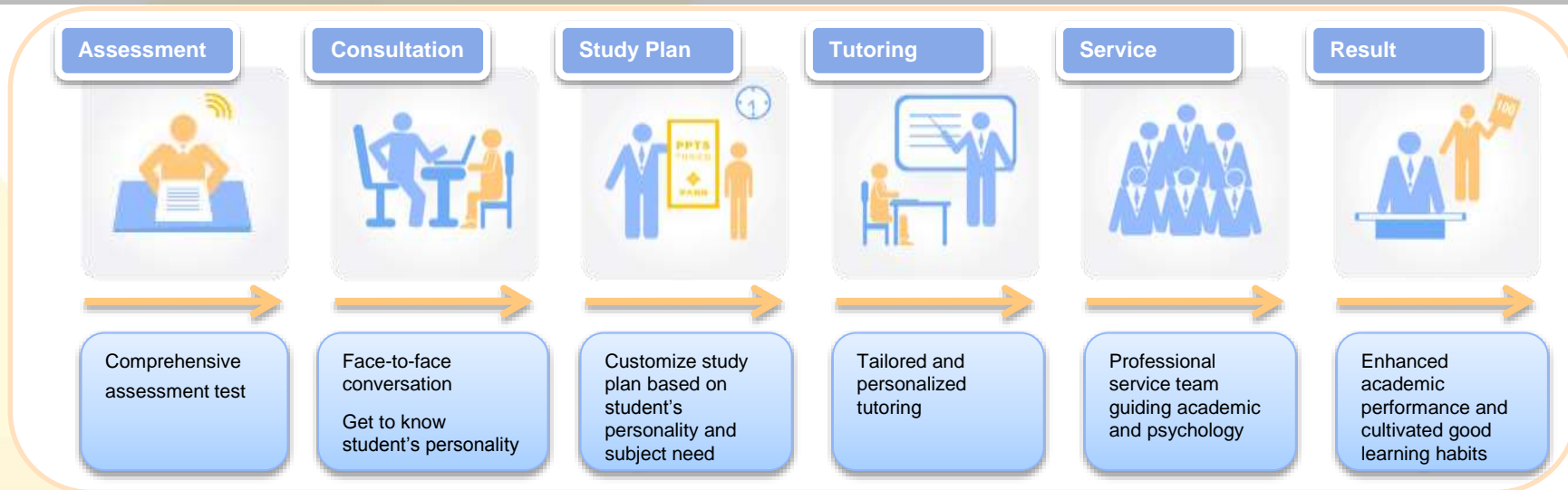


HOW WE DO IT

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



Personalized Service Model



Xueda's PPTS System



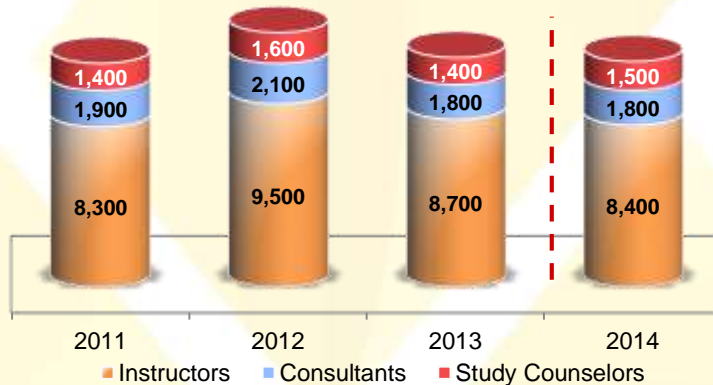
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Expertise in Building and Managing a Large Full-time Service Team

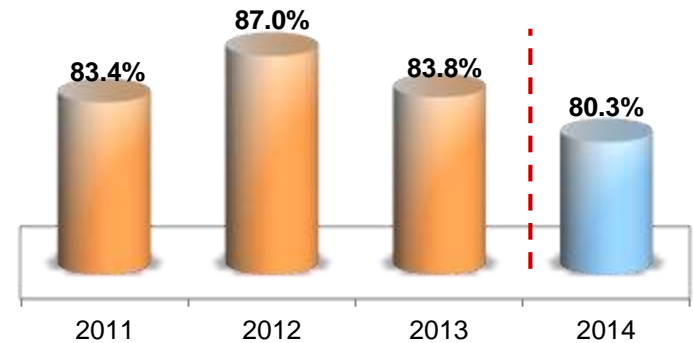


Strong, Full-time Instructional Workforce

~Approx. 11,670 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

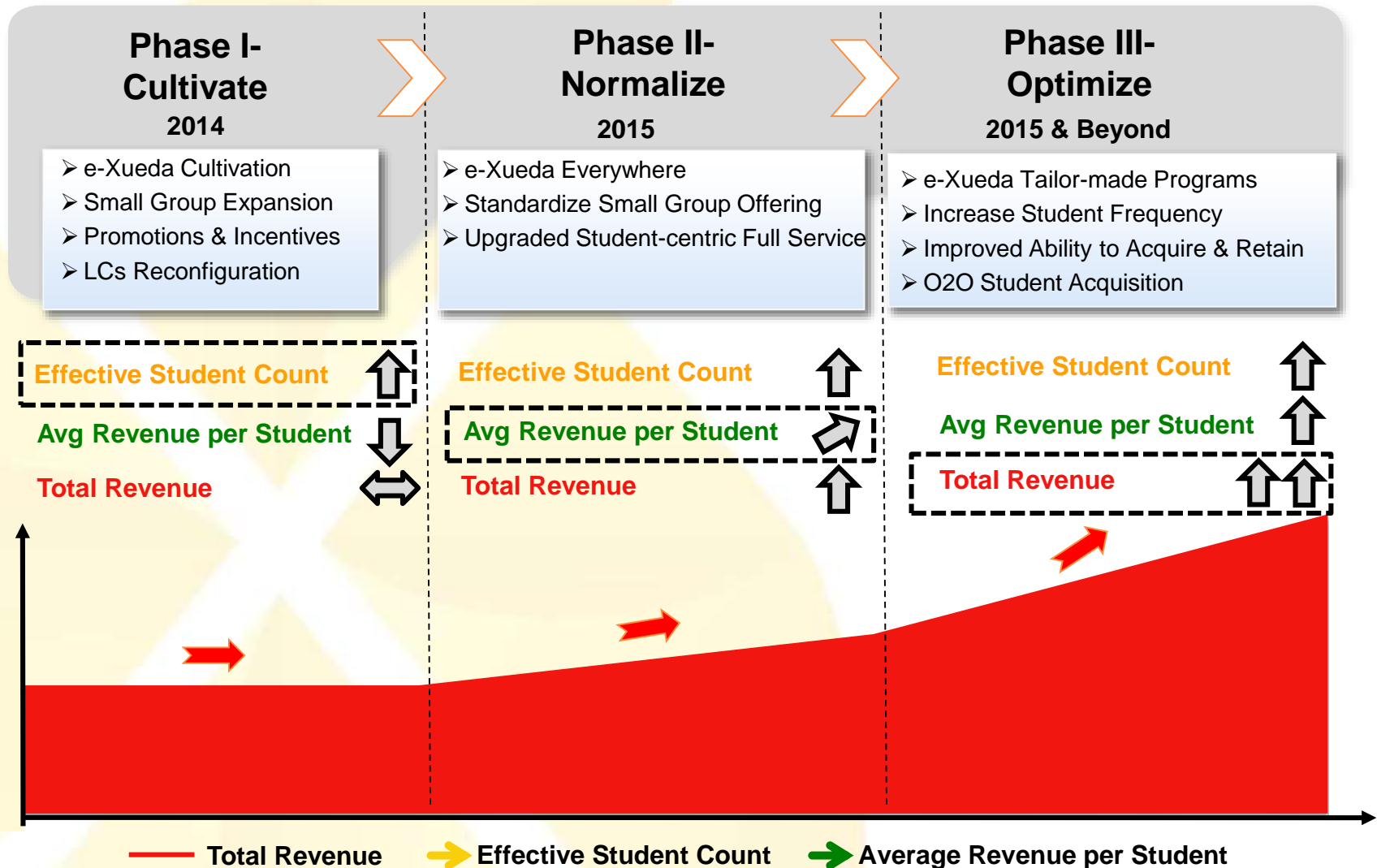
Career Development

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

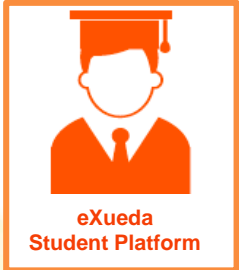
Compensation

- 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



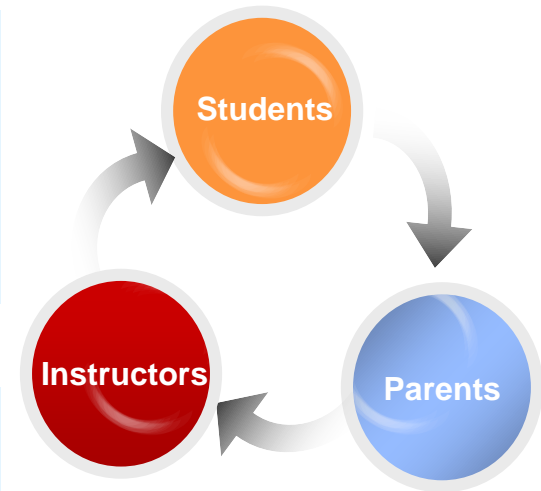
- Allows anywhere, anytime, anyplace study with any mobile Internet-enabled device
- Speeds learning with instant feedback



- Provides real-time 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

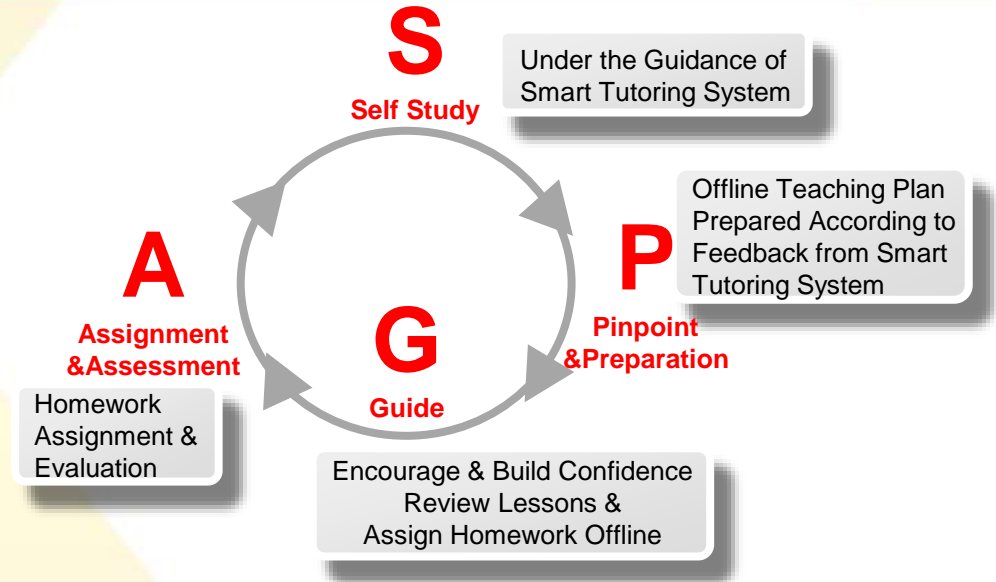


Interactive platform

eXueda Cloud-based Tutoring Platform



Personalized Smart Tutoring = **ASPG Tutoring Platform** + **Offline Tutoring System**



As of February 2015

- **93%** instructors using it plan lessons instruct and monitor student progress
- **40%** Xueda students using it to study & complete homework
- **777,000** registered prospective students (public)
- **39,000** instructional mini-videos in knowledge point system

As of Mid May 2014

- 74% instructors using it for course prep. & delivery; 72% to assign homework
- 155,000 registered prospective students (public)
- 18,000 instructional mini-videos in knowledge point system

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

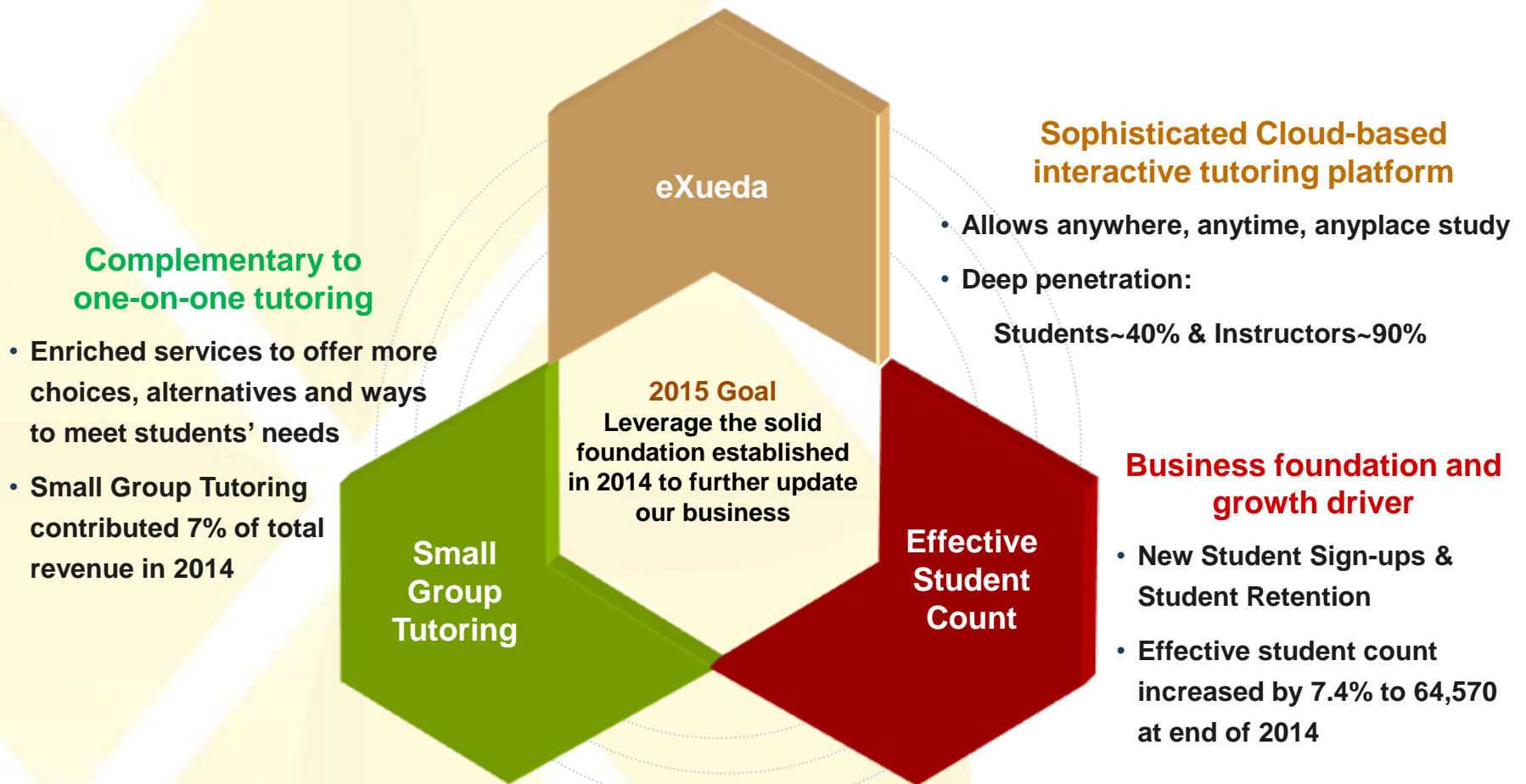


Improved Instructional Quality

- ✓ Central to Superior Tutoring



3 Key Initiatives in 2014 Significant Strides Forward



Seasoned Management with Proven Success



Industry Experienced and Professional Management Team



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

Sophisticated Sponsors with Proven Track Record



WARBURG PINCUS



Wei ZHANG
VP Customer Service
& Quality Control



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

Fourth Quarter & Full-Year 2014

Management Discussion



Xin Jin – Xueda Co-Founder & Chief Executive Officer



“In 2014, we made significant strides implementing key long-term initiatives, but also experienced growing pains negatively impacting our financial results.

We are convinced our 3-Phase Growth Road Map is correct. In 2015, we will build on what we learned in 2014 and continue to refine, sharpen and integrate our key initiatives deeper into our operations.”

Christine Lu-Wong – Xueda Chief Financial Officer



“Given that we are entering 2015 with a total effective student number that is 7.4% higher than that of 2014, if we can maintain or slightly raise the average revenue per student, we should be able to drive at least mid to high single-digit year-over-year revenue growth. As our revenue grows, we anticipate gross margin will quickly regain leverage and return to healthier levels.”

Revenue Model

Two Key Drivers

Effective Student Count

End of 4Q 2014: 64,570, Up 7.4% YoY

4Q 2014

New Student Sign-ups: 18,273, Flat YoY

of Retained Student: 46,297, Up 10.6% YoY



Average Revenue per Student

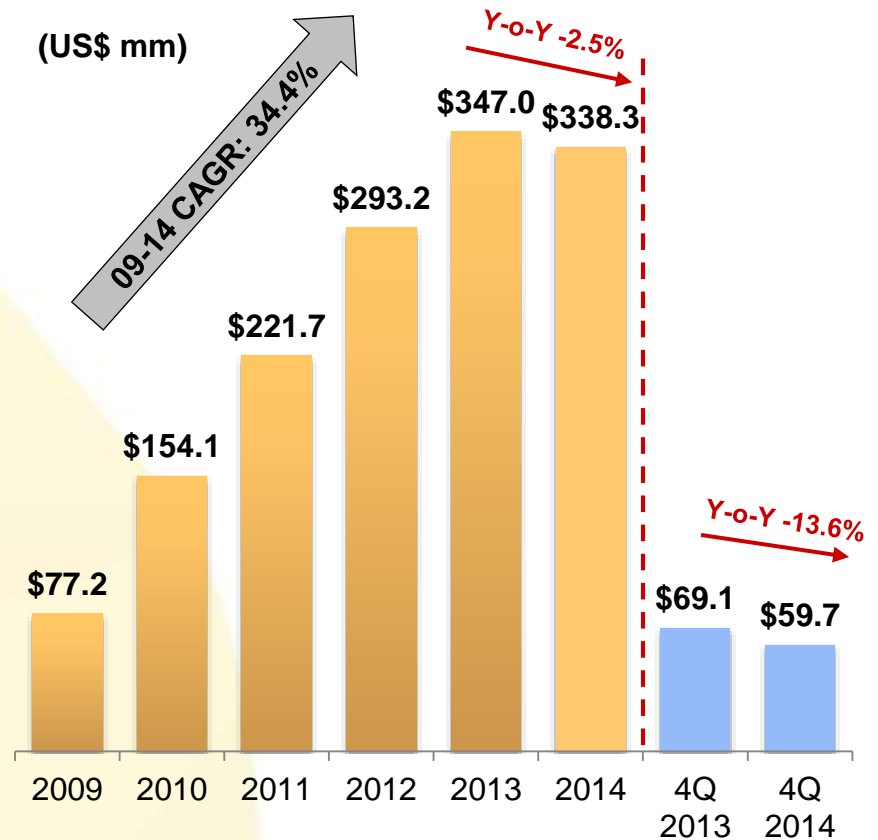
4Q 2014: \$916

Down 20.6% YoY

FY 2014: \$5,034

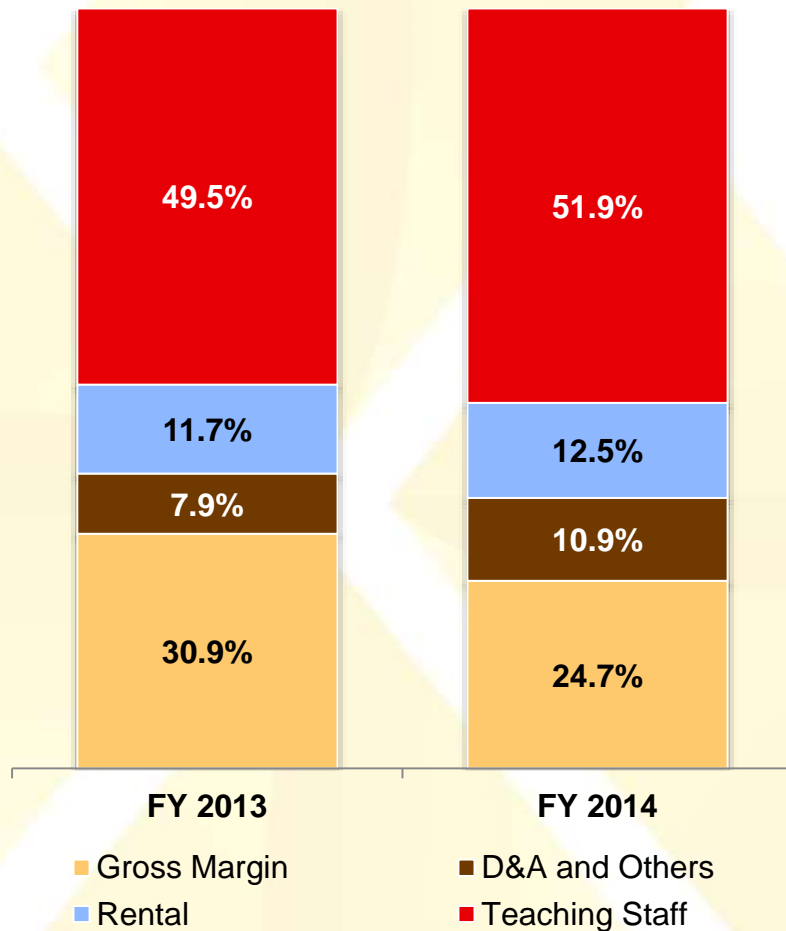
Down 14.1% YoY

Net Revenue

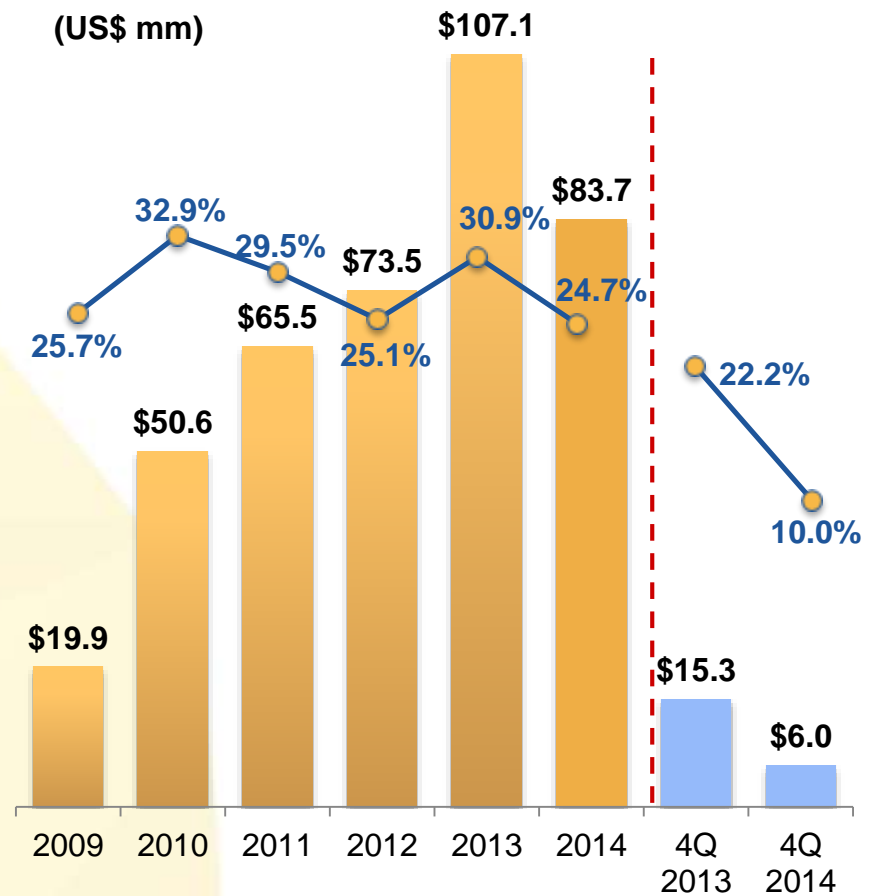


Gross Margin & Cost Structure Breakdown

Cost Structure



Gross Profit and Gross Margin



Operating Expenses

	FY 2014	FY 2013	Y-o-Y Chg.	4Q 2014	4Q 2013	Y-o-Y Chg.
Non-GAAP G&A Expense	\$53.9M	\$47.3M	+13.8%	\$16.2M	\$10.9M	+49.3%
As % of Total Net Revenue	15.9%	13.6%	+230 bps	27.2%	15.7%	+1150 bps
Non-GAAP S&M Expense	\$36.2M	\$36.3M	-0.3%	\$7.6M	\$7.9M	-2.8%
As % of Total Net Revenue	10.7%	10.5%	+20 bps	12.8%	11.4%	+140 bps
Non-GAAP Operating (Loss)/ Income	\$(6.0)M	\$20.5M	N.A.	\$(17.7)M	\$(6.8)M	N.A.
Non-GAAP Net (Loss)/ Income per ADS	\$(0.06)	\$0.32	N.A.	\$(0.25)	\$(0.04)	N.A.

Quick Review of Cash Position & Regular Annual Dividend

	FY2014	FY2013	YoY Change**
Cash, Cash Equiv., ST investment*	\$208.5M	\$246.7M	-15.5%
Estimated Cash per ADS	\$3.35	\$3.71	-9.7%

Returning Value to Shareholders

Board of Directors authorized and approved the Company's payment of a second annual dividend of \$0.16 per ADS, or \$0.08 per common share (each ADS represents two ordinary shares).

2014 Dividend:

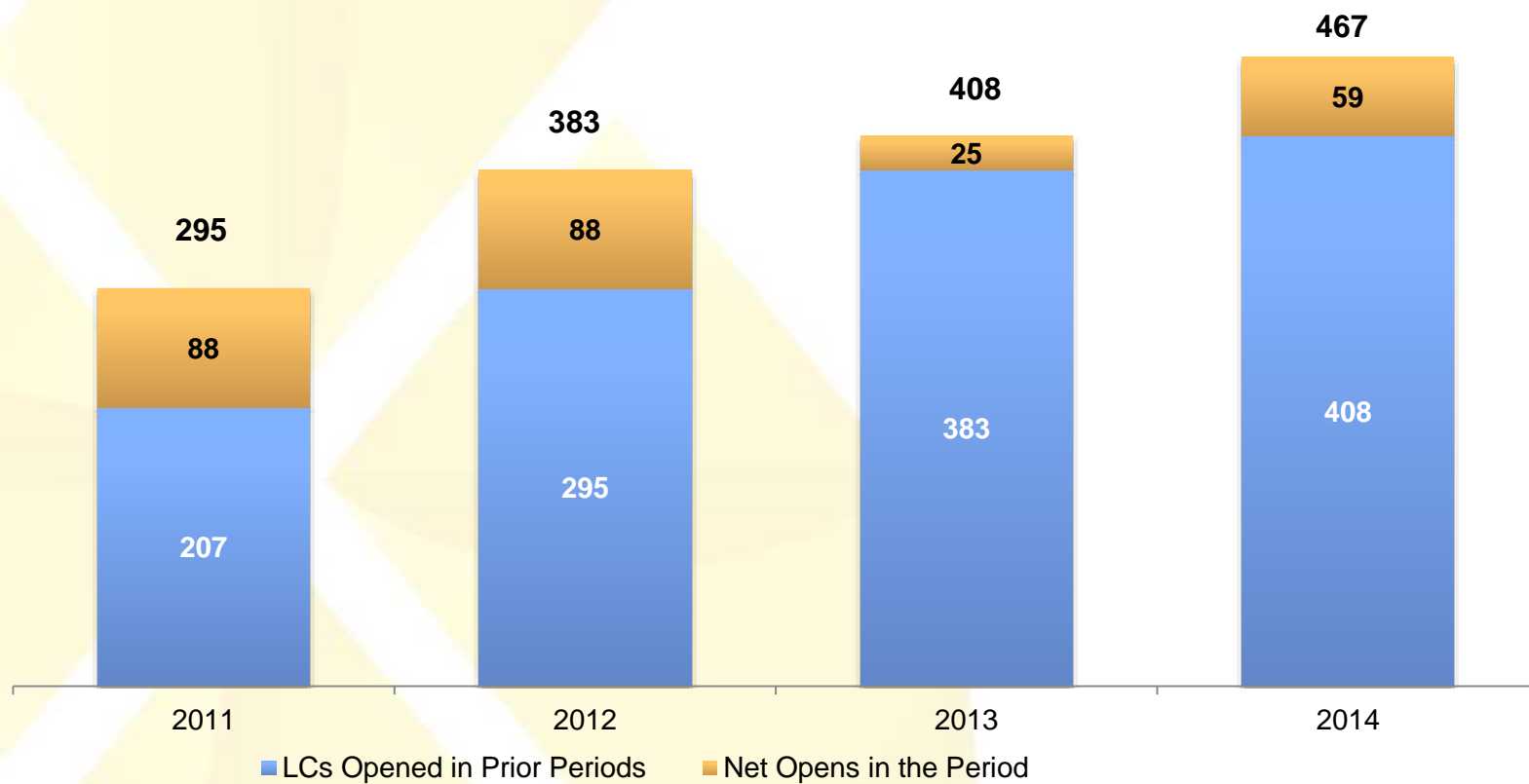
- Dividend: \$0.16 per ADS, or \$0.08 per common share
- Total cash payment: approximately \$10 million
- Date of record: March 16, 2015
- Payment date: on or about April 16, 2016
- Estimated yield: 6.2%***

*Net of dividends payable

**The decrease was mainly due to a \$9.9 million dividend payment, \$29.6 million for share repurchases and \$11.3 million in capital expenditures.

***Based on adjusted share closing price of \$2.57 on March 4, 2015

Learning Center Network



Guidance

1Q 2015

Guidance

Net Revenues	\$80.8~ \$83.8 million
Non-GAAP EPADS	Breakeven*

**This estimate assumes average diluted ADSs of 63.0 million*





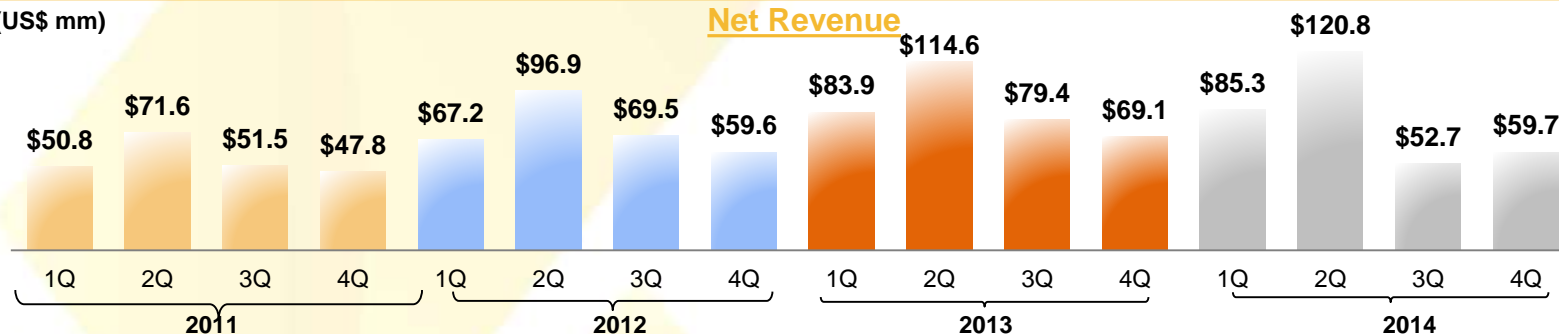
Appendix

Inherent Seasonality in Education-Related Business

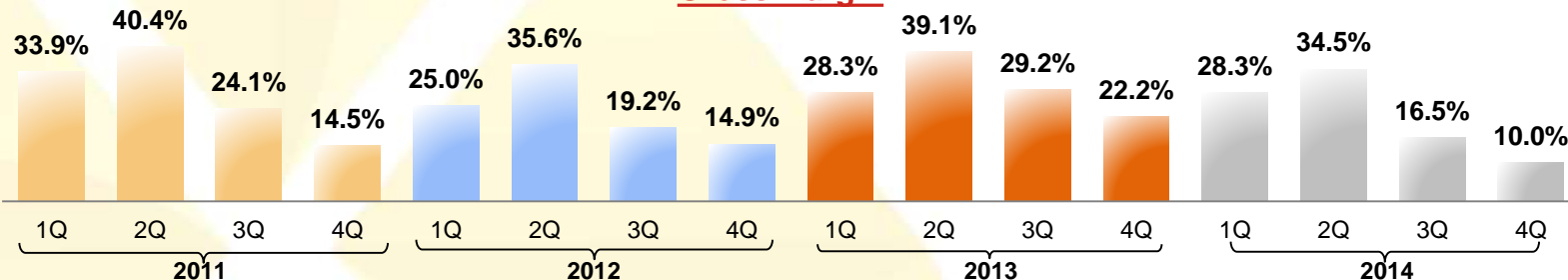


(US\$ mm)

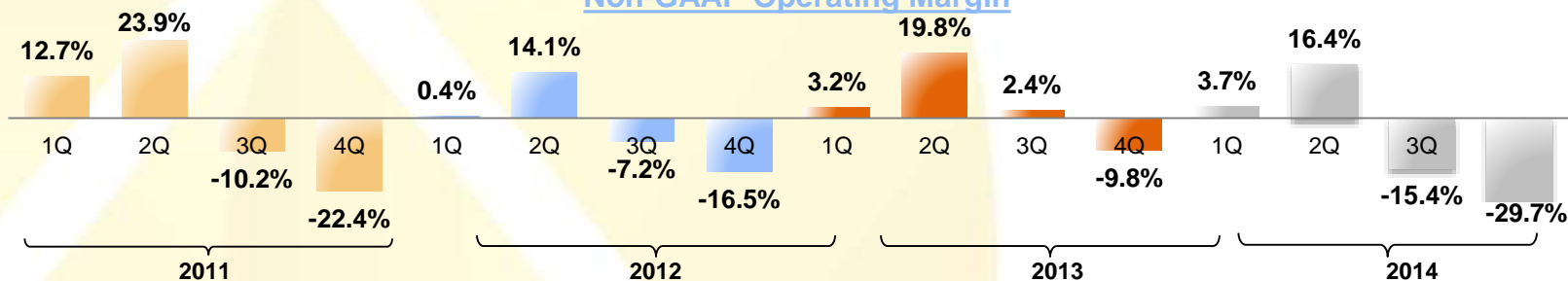
Net Revenue



Gross Margin



Non-GAAP Operating Margin



Shareholder List



Founders & Management

Co-founders	59.1%
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Xin Jin ¹	33.0%
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Rubin Li ²	17.2%
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Jinbo Yao ³	8.9%
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Other Management²	2.8%
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Total	61.9%
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Other Top 5 Investors

New Super Group Limited ¹	8.1%
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First Manhattan Co. Asset Management ⁴	4.0%
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Wellington Management Company, LLP ⁴	1.2%
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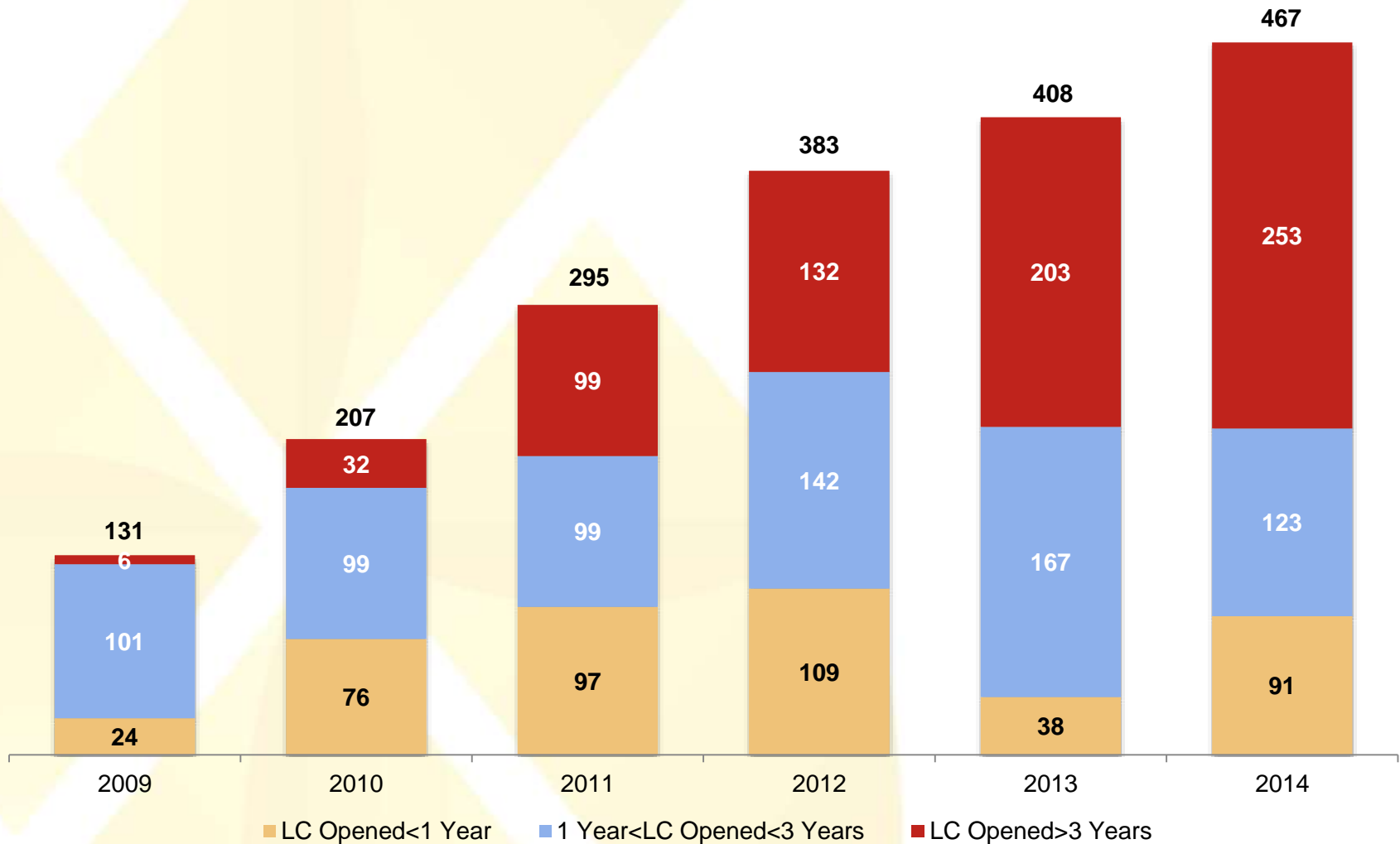
Weatherbie Capital LLC ⁴	1.1%
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TCS Capital Management, LLC ⁴	0.7%
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Total	15.1%
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1. As of March 18, 2015, following Xin Jin's and New Super Group Limited's purchase from pre-IPO investors.
2. As of March 28, 2014, from Xueda's annual report filed on SEC Form 20-F
3. As of December 31, 2014, from SEC Form 13G/A
4. As of December 31, 2014, from Bloomberg

Learning Centers Expansion Roadmap by Maturity





Thank you!

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