



# Xueda Education Group

First 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 May 15, 2014)

- 1 ADS = 2 ordinary shares
- Price: \$5.30
- 52-week Range: \$2.84 - \$7.70
- ADS Outstanding: 61.9 million
- Market Cap: ~\$328 million

## Selected First Quarter 2014 Financials

- Net Revenues: \$85.3 million, Up 1.6% Y-o-Y
- Sustained Gross Margin of 28.3%, despite opening net 22 new learning centers
- Non-GAAP Net Income: \$4.0 million, Up 30.2% Y-o-Y
- Cash, Cash Equivalents and Short-term Investments: \$220.5 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.**





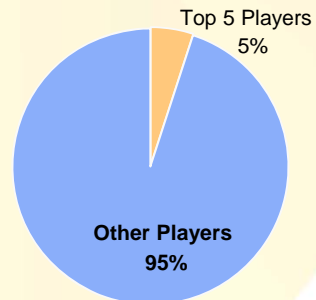
## Industry Overview

# Chinese Education Industry

## Large and Under-Invested Market



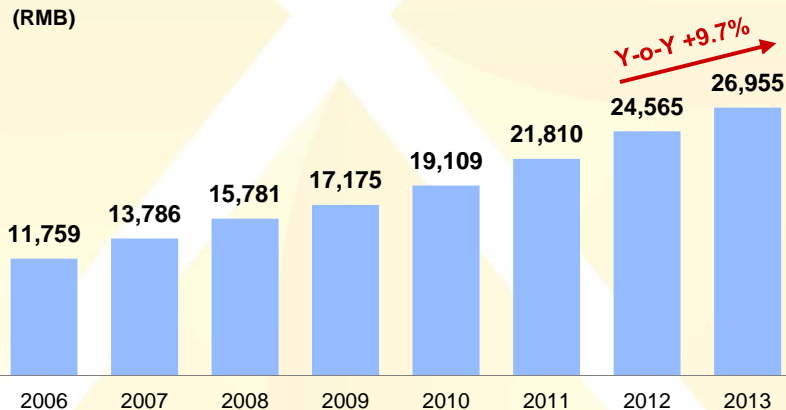
### Highly Fragmented Tutoring Market in China



Leaders best positioned for market share gains from:

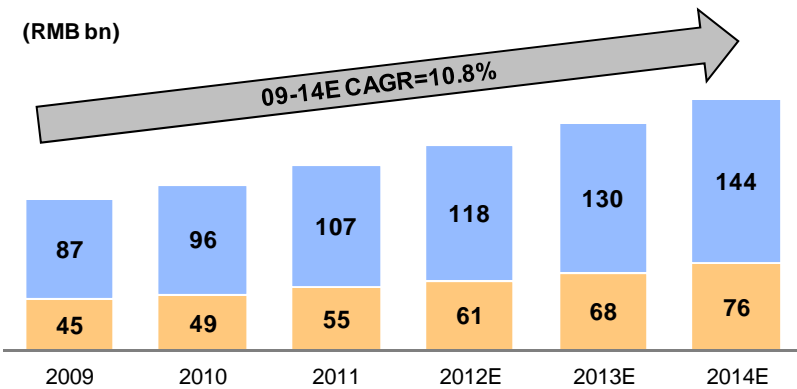
- Regional players
- Individual tutors

### China Per Capita Disposable Income of Urban Households



Source: China Statistical Yearbook 2013

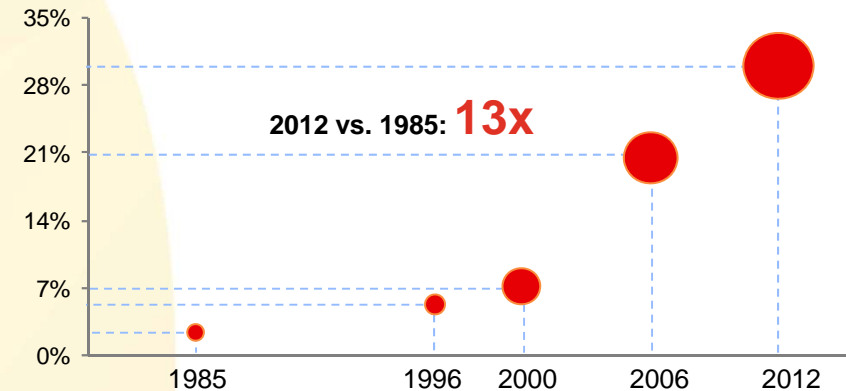
### China's Primary and Secondary Tutoring Market



Source: IDC

### Increasing Family Spending

#### Education Spending as a Percentage of Family Income



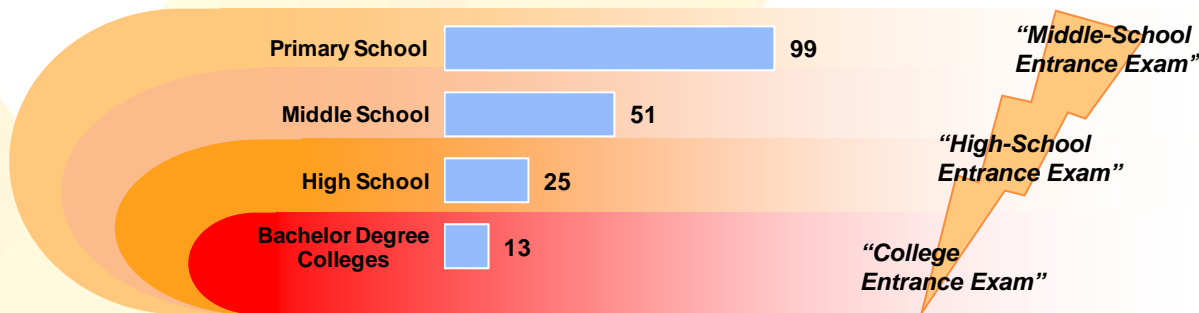
Source: Hexun.com (China Education and Research NetWork)/ People's Daily Online

# Chinese Education Industry

## Examination-Focused Education System Drives Demand

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

China Education Mechanism and Admission Exams

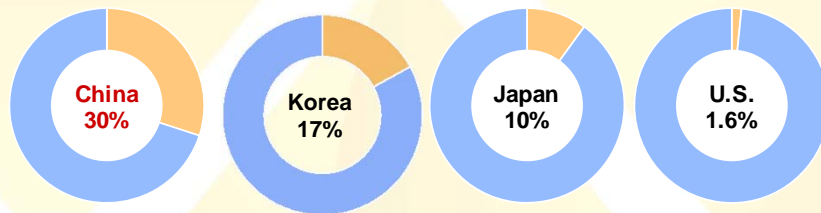


Source: Ministry of Education of the People's Republic of China

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

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

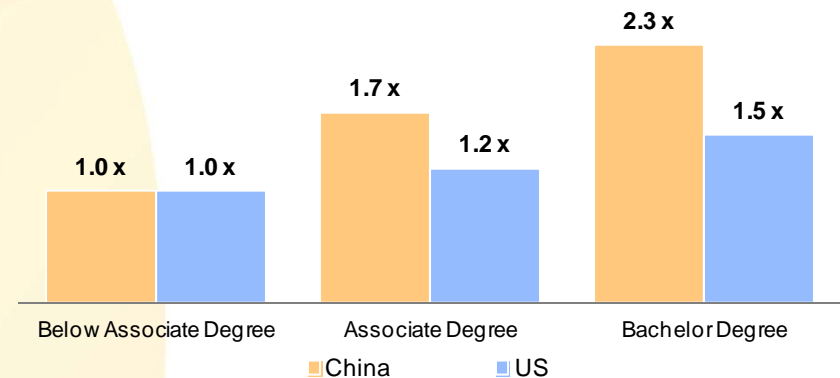
The highest education expenditure ratio in Asia



- 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 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 **430** learning centers, covering **79** cities as of March 31, 2014

## Our People

- Average approximately **8,400** full-time instructors, and **16,200** full-time employees during the first 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**

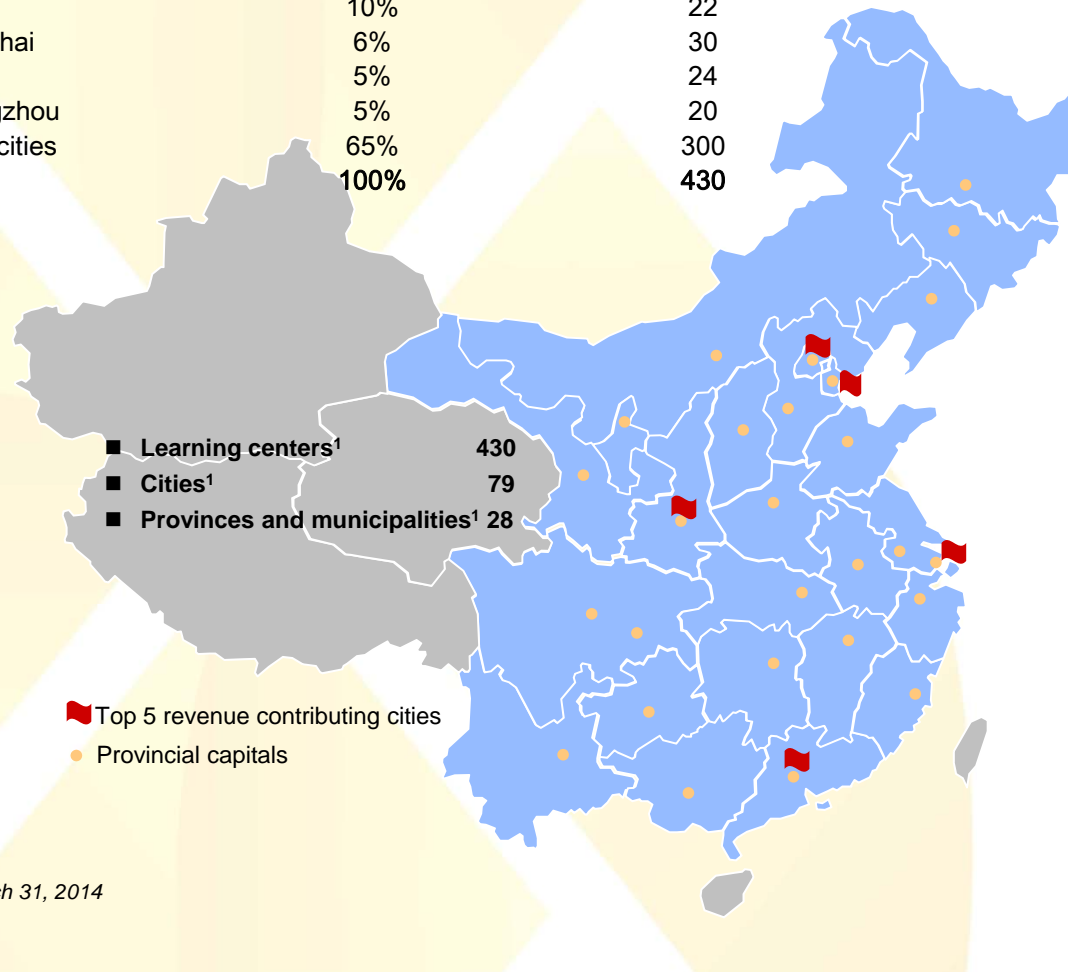
#1

# Extensive National Learning Center Network



## Well-Balanced Network

Top Revenue Contributing Cities	Contribution to Net Revenue in 1Q 2014	Number of Learning Centers
Beijing	10%	34
Xi'an	10%	22
Shanghai	6%	30
Tianjin	5%	24
Guangzhou	5%	20
Other cities	65%	300
<b>Total</b>	<b>100%</b>	<b>430</b>



1. As of March 31, 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

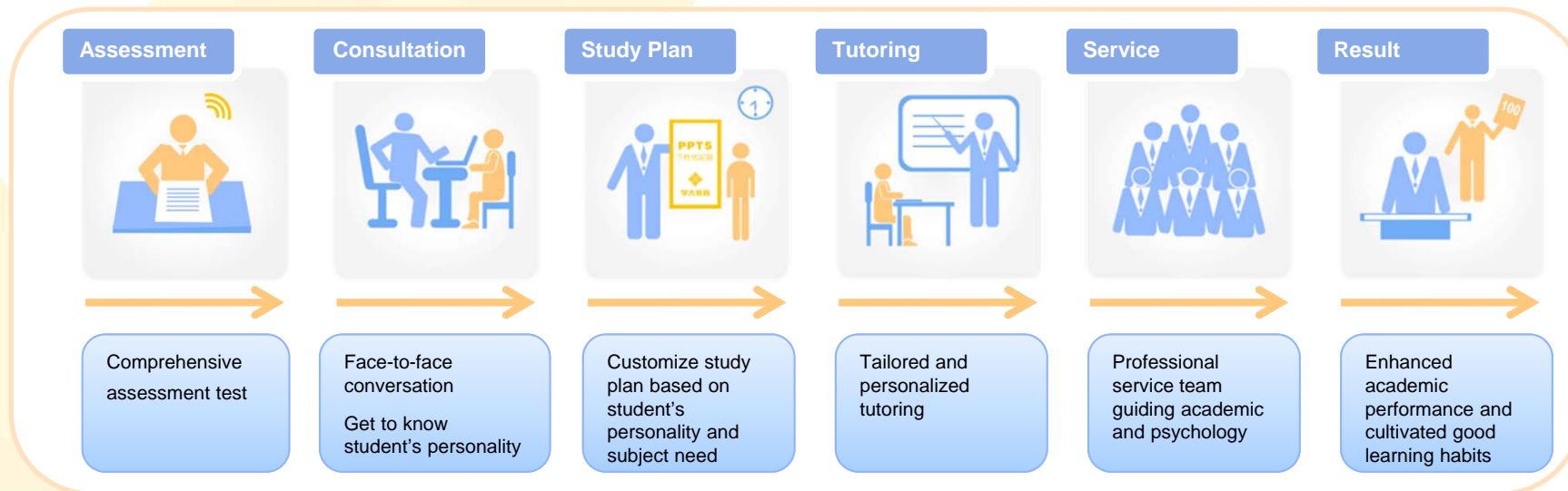


#3

# Differentiated, Personalized Service Model (Cont'd)



## Personalized Service Model



## Xueda's PPTS System





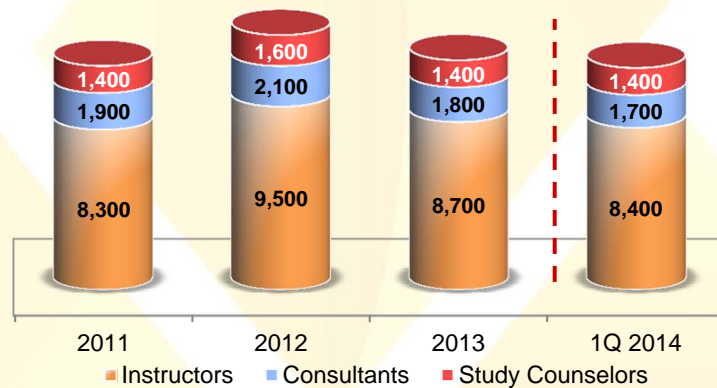
#4

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

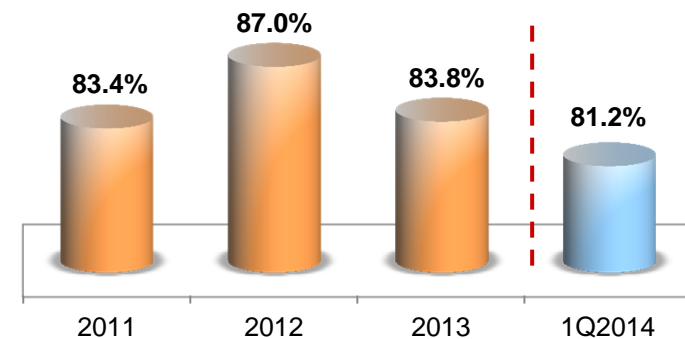


## Strong, Full-time Instructional Workforce

~Approx. 11,500 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

# Key Initiatives of 2014



## Supporting Healthy Growth & Sustained Profitability

### eXueda – New Cloud-based Platform

- The most sophisticated, advanced cloud-based tutoring platform in China ... Providing a superior tutoring experience with unrivaled benefits for students, parents and Instructors



### Expanded Service Offerings

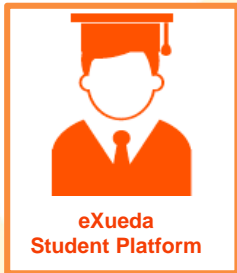
- Broadening suite of services to provide more choices, more alternatives and more benefits to our students



### Increased Instructional Quality

- Systematically rising the quality and consistency of excellent instructional delivery across our nationwide network of learning centers

# eXueda Cloud-based Tutoring Platform



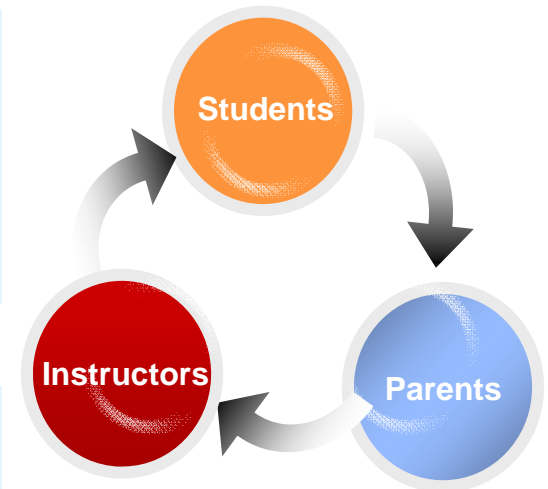
- Allows anywhere, anytime, anyplace study with any mobile Internet-enabled device
- Provides instant feedback to speed learning



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



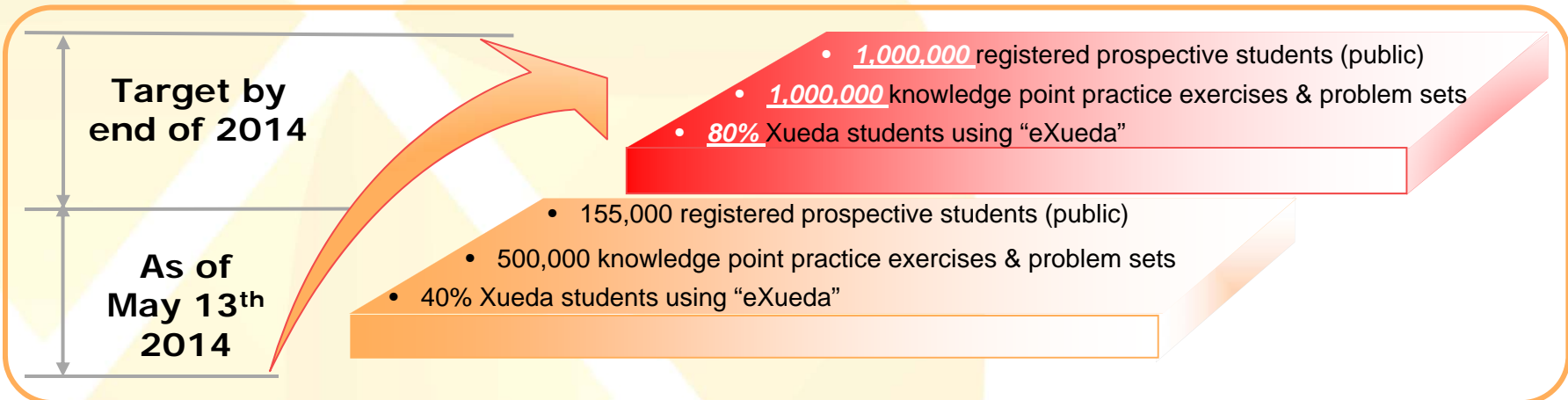
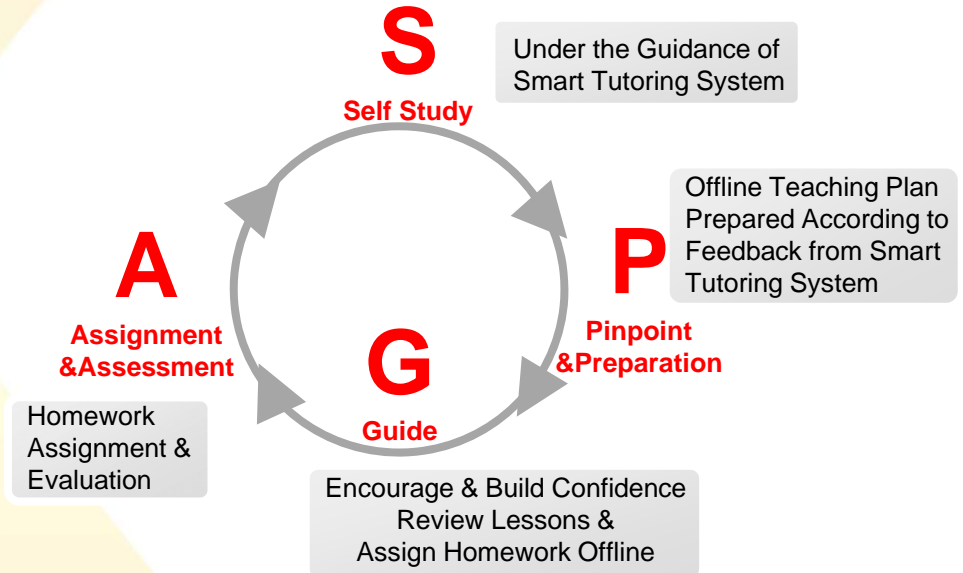
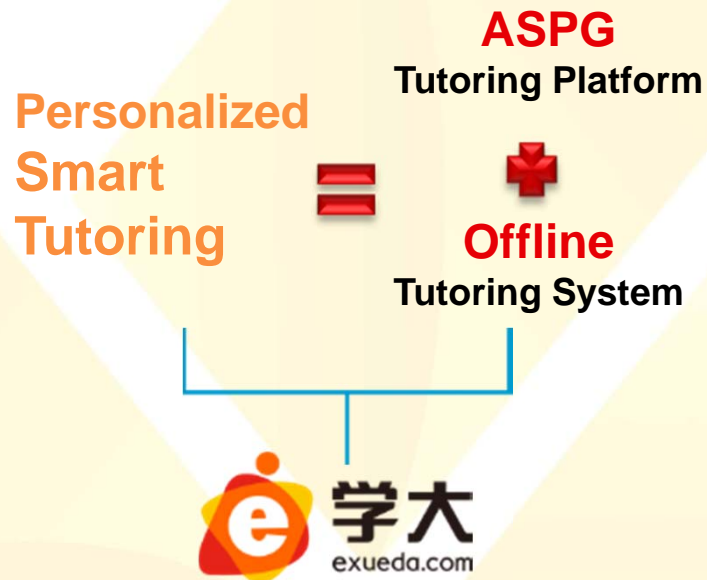
- Provides easy, convenient full-transparency into the tutoring process
- Allows greater parental engagement



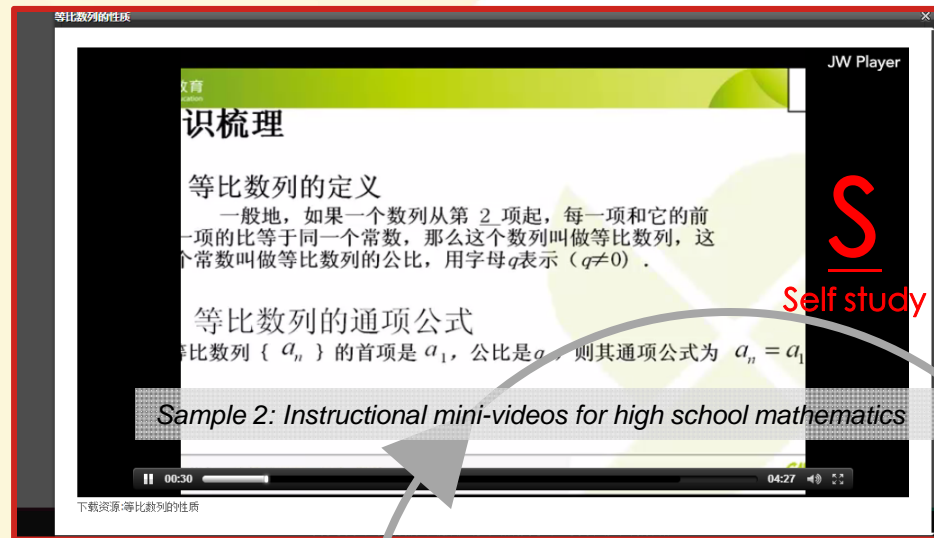
*Interactive platform*



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



# Demo of eXueda ASPG Learning Cycle



**S**  
Self study



**A**  
Assessment  
& Assignment

**P**  
Pinpoint  
& Preparation

**G**  
Guiding

# Demo of eXueda ASPG Learning Cycle (cont.)



S  
Self study

A  
Assignment  
& Assessment



G  
Guiding



学大 exueda.com 备课 上传草稿 笔记 查看自由备课 选题记录 孙亚男 | 教案录入人员 | 全屏 |

● 搜学生 ● 搜教案 请输入学生姓名 搜索

一个月内 历史记录 教师上课情况统计 日 周 月 列表

共 105 条结果

周三 2014.06.11

已上课 13:00 - 15:00 宋泊桥(150\*\*\*\*0999) | 初中四年级初中英语

教师: 教 例 评 课时 学生: 课时

周二 2014.06.10

19:00 - 21:00 孙亚男(138\*\*\*\*8802) | 初中四年级初中英语

Sample 4: Tutoring plan and record for instructors

学大 exueda.com 课程 学员分析 咨询师 二维码推广

梁志荣 高中一年级

牛值分析 学员分析 学习记录

2014 五月 21 8:03 高中语文

周海龙老师为学生梁志荣备课了  
周海龙老师给梁志荣布置了随堂练习  
周海龙老师给梁志荣布置了课后作业

五月 16 16:10 高中数学

Sample 5: Learning and assignment record for high school students



# 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



# 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



**Jinli ZHU**  
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

*First Quarter 2014*



# Management Discussion:



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

*“In the first quarter, we set in place key initiatives to achieve our goal of ‘Healthy Growth and Sustained Profitability’, and we are seeing visible progress in each. Most notably, we led the industry with the launch of our cloud-based Smart Tutoring System (“eXueda”) in March 2014 and gained significant momentum with our personalized small group offering.”*



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

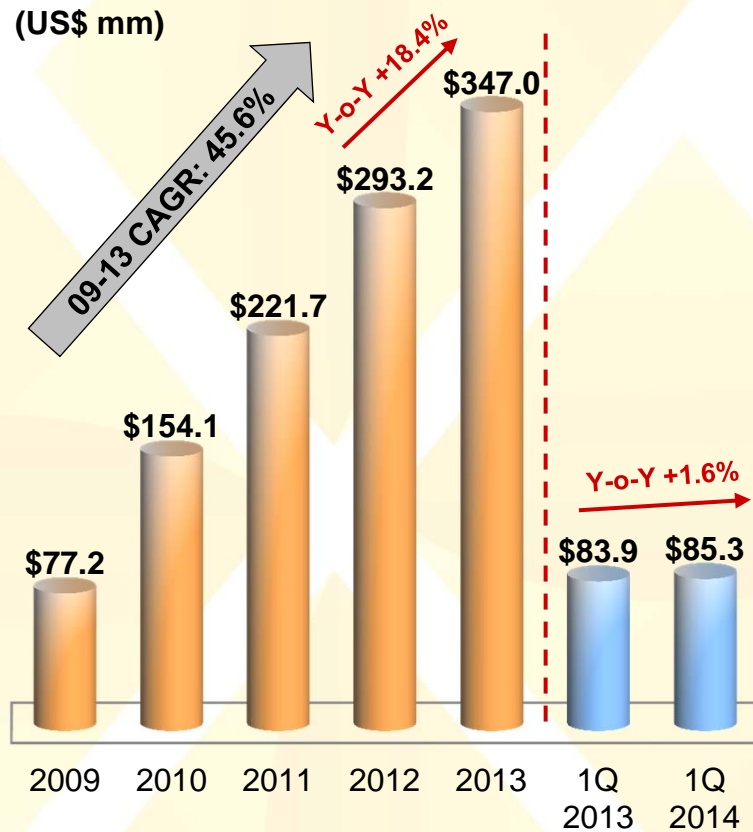
*“I believe we are well positioned to deliver on our growth targets for the year, fueled by rising new student sign-ups, improving retention rates, rapidly-growing personalized small group tutoring and our significantly expanded learning center network.”*



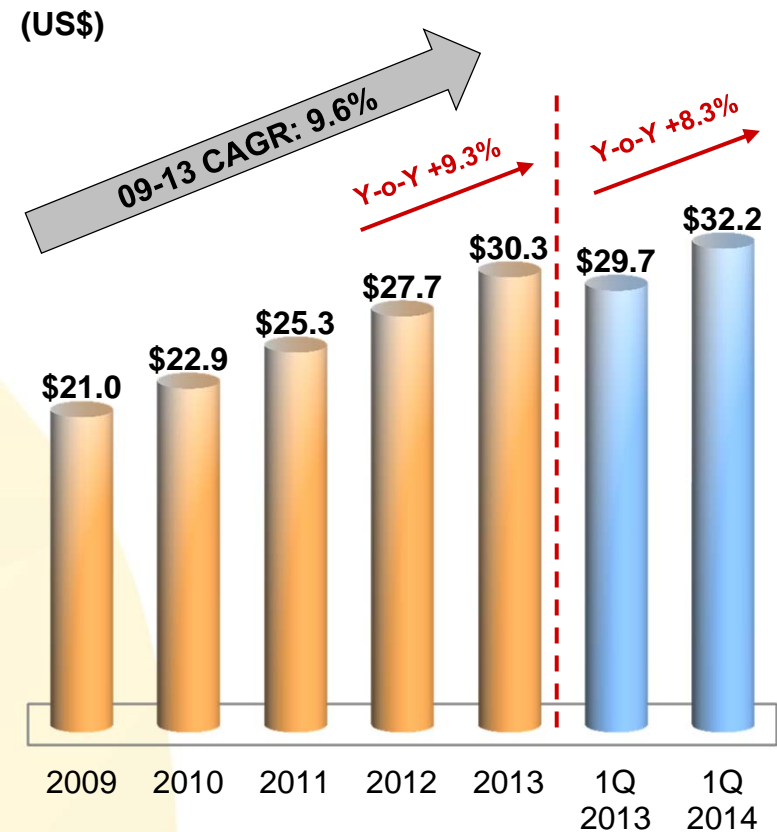
# Healthy Revenue Growth



## Healthy Revenue Growth



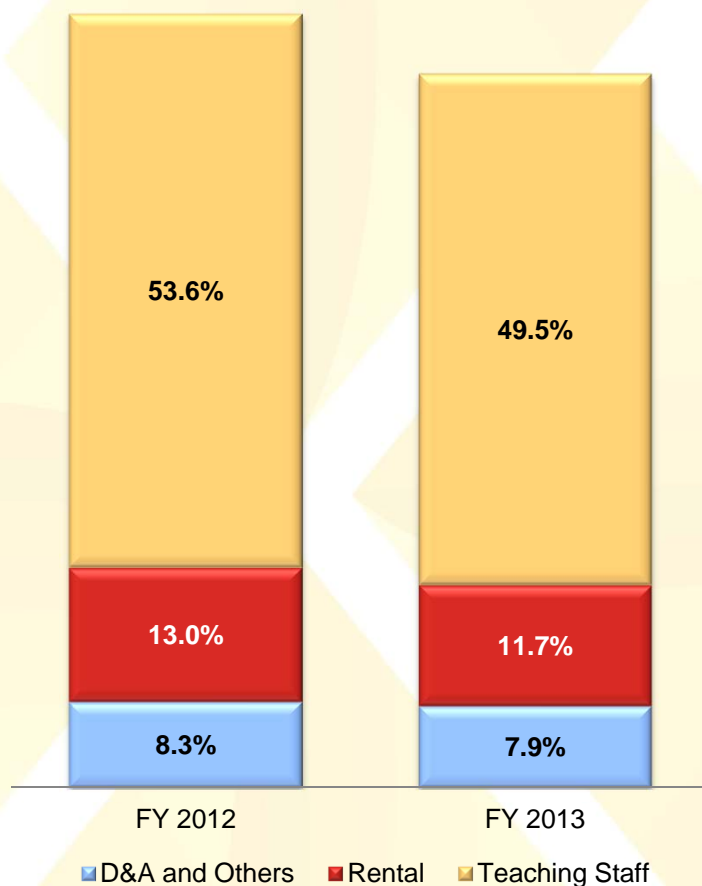
## Average Hourly Course Fee\*



\* One-on-one average hourly course fee

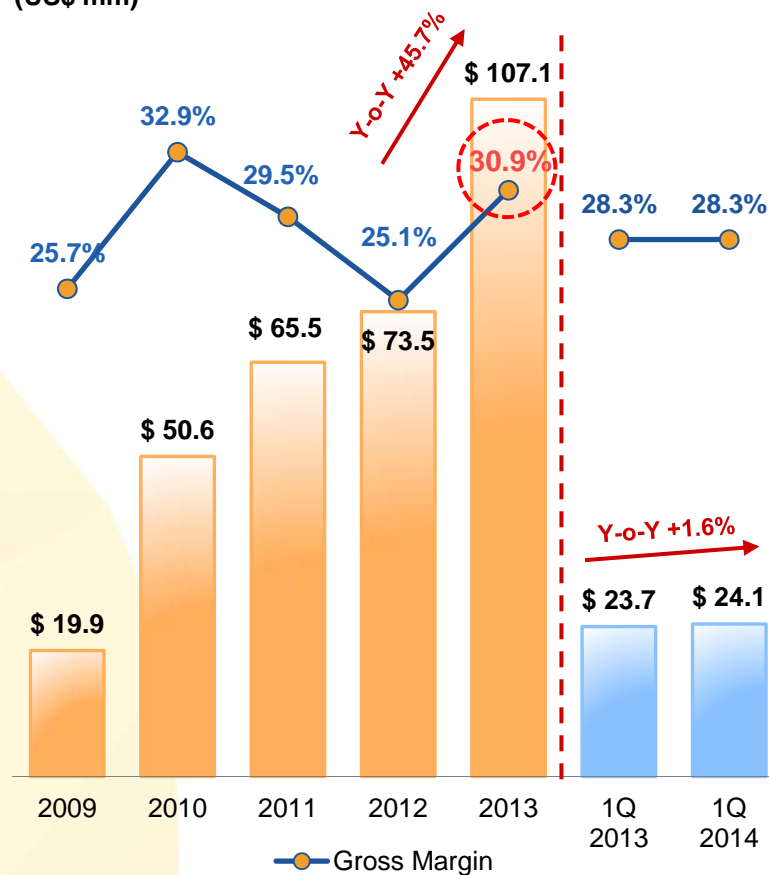
# Sustained Gross Margin While Expanding Learning Center Network

## Cost Structure Improvement



## Gross Profit and Gross Margin

(US\$ mm)

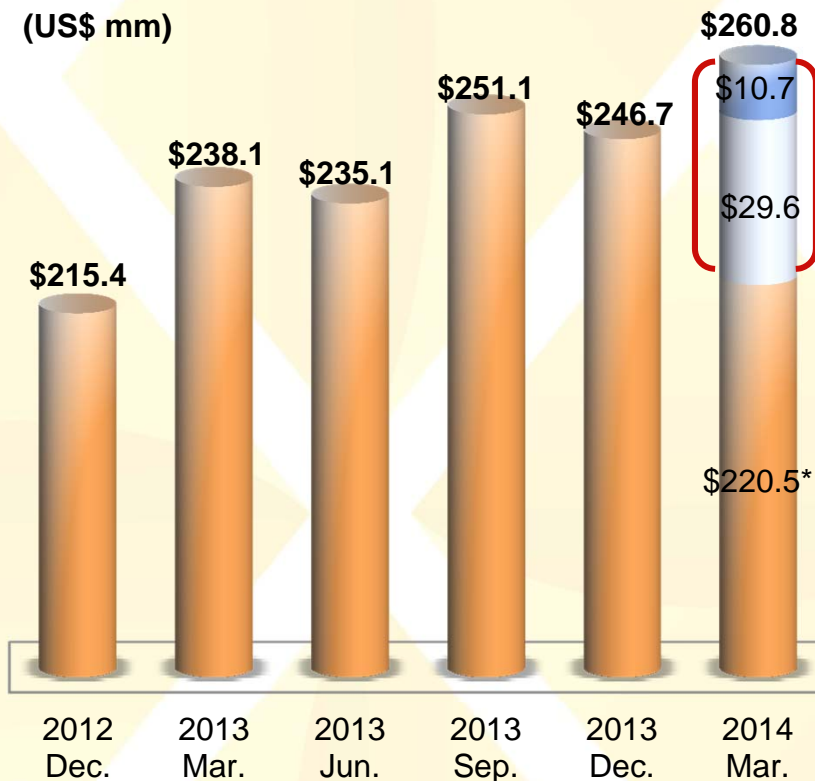


# Solid Cash Position & Returning Value to Shareholders



## Solid Cash Position

(US\$ mm)



\* Cash, Cash Equiv., ST investment, net of dividend payable

## Returning Value to Shareholders

### Regular Annual Dividend

- Board of Directors authorized and approved the Company's payment of a regular annual dividend of \$0.16 per ADS.
- Total cash payment of US\$10.7 million paid in May 2014 for 2013 annual dividend.

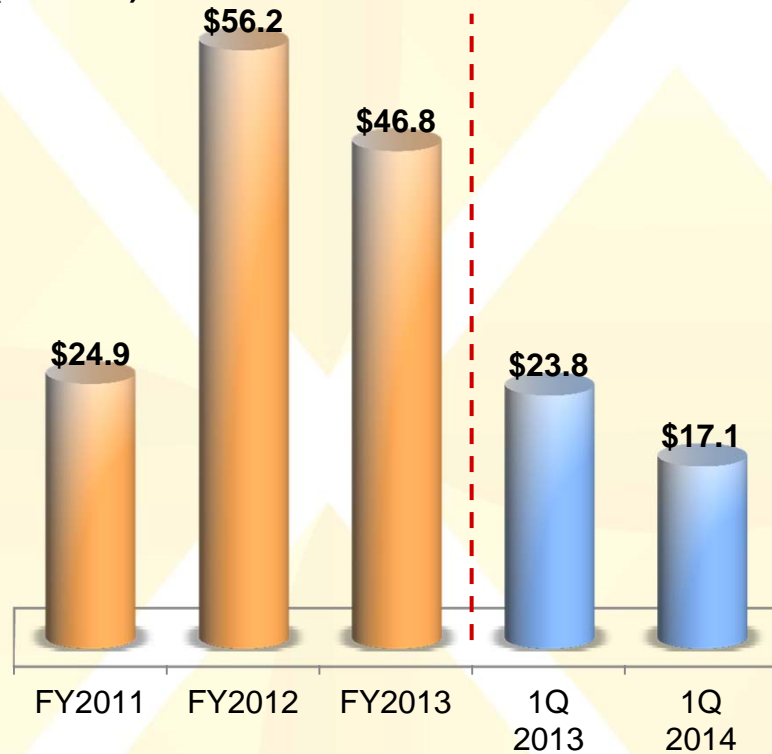
### Privately-Negotiated Share Repurchase

- In March 2014, the Company and senior management jointly offered to purchase:
  - ✓ The Company repurchased \$29.6 million, or 5.7 million ADSs.
  - ✓ Senior management purchased \$1.5 million, or 280,000 ADSs.

# Rich Free Cash Flow

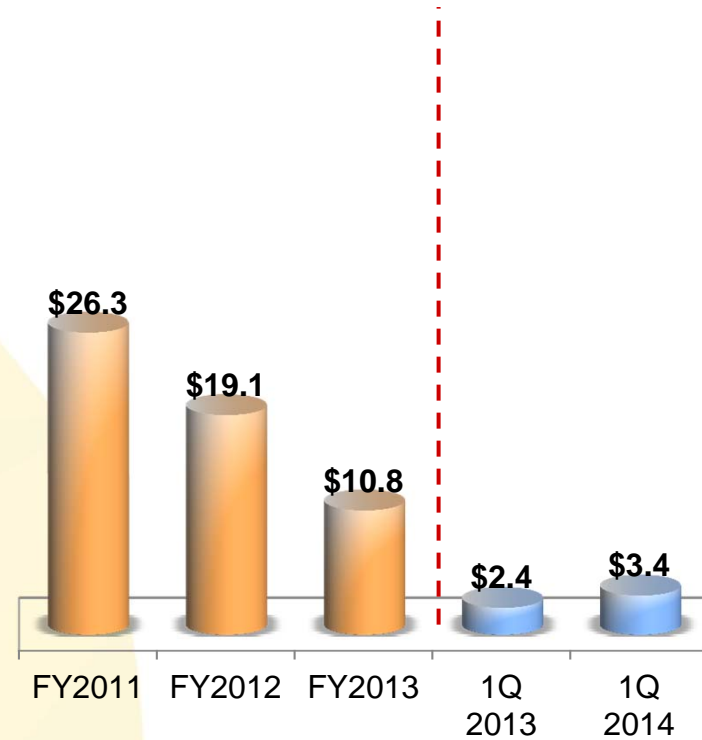
## Operating Cash Flow

(US\$ mm)



## Capital Expenditures

(US\$ mm)

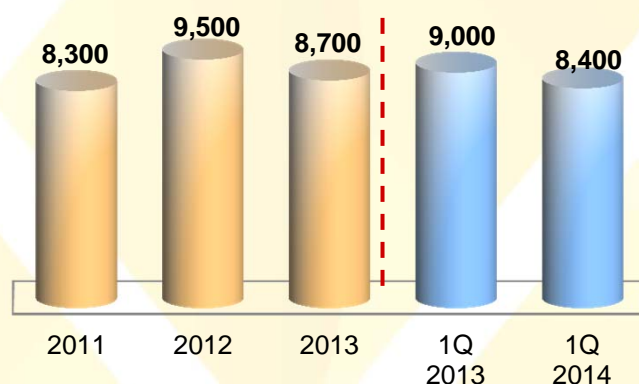




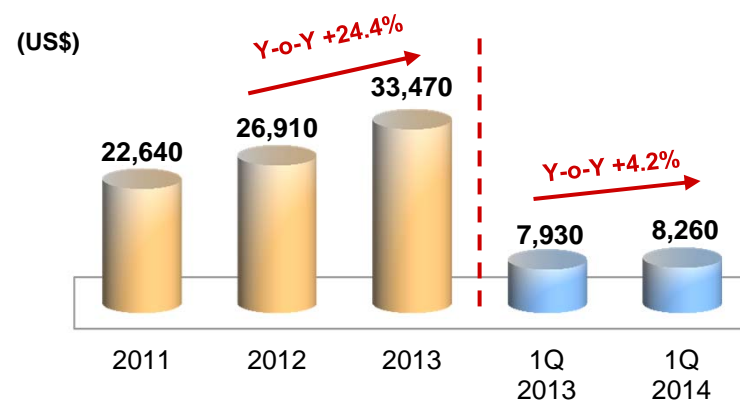
# Improved Labor and Space Utilization Efficiencies Continue to Drive Greater Profitability



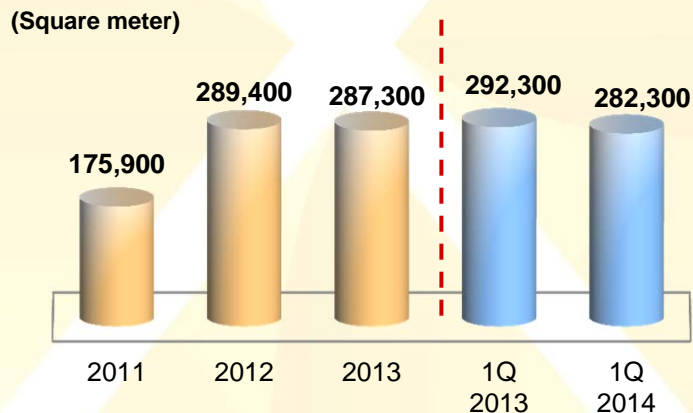
Average Full-time Instructor Headcount\*



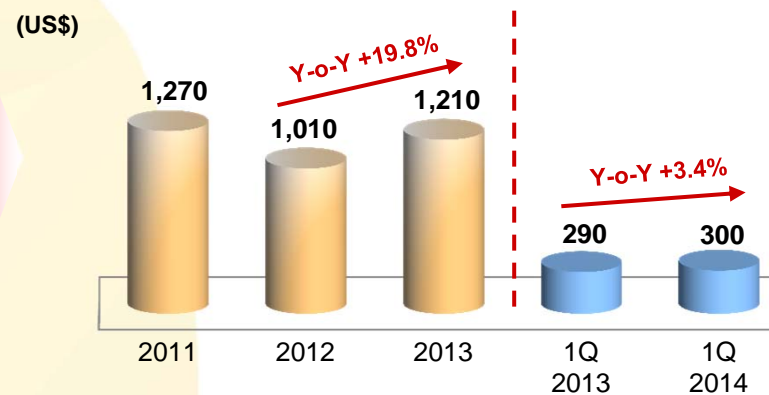
Net Revenue per Full-time Instructor



Total Average M<sup>2</sup> of LC\*



Net Revenue per M<sup>2</sup> of LC



\* Rounded

# Maintaining Operating Leverage

	FY 2012	FY 2013	1Q 2013	1Q 2014
Non-GAAP G&A Expense	\$43.1M	\$46.9M	\$12.4M	\$12.5M
As % of Total Net Revenue	14.7%	13.5%	14.7%	14.7%
Non-GAAP S&M Expense	\$31.3M	\$36.3M	\$8.7M	\$8.5M
As % of Total Net Revenue	10.7%	10.5%	10.3%	9.9%
Non-GAAP Operating Income	\$(0.9M)	\$20.5M	\$2.7M	\$3.1M
Non-GAAP Diluted Net Income per ADS	\$0.08	\$0.32	\$0.05	\$0.06



# Guidance

*Second Quarter and Full-Year 2014*

# Second Quarter and Full-Year 2014 Guidance



2Q 2014	Guidance	Y-o-Y Growth Rate
Net Revenues	At least \$120.4 million	At least 5.0%
Non-GAAP EPADS*	At least \$0.30	At least 7.1%

FY 2014	Guidance	Y-o-Y Growth Rate
Net Revenues	At least \$394.0 million	At least 13.5%
Non-GAAP EPADS*	At least \$0.42	At least 31.3%

\*Non-GAAP diluted net income per ADS estimate for 2Q 2014 assumes an effective income tax rate of 20% on non-GAAP income before income tax, based on the exchange rate of US\$1.00 = RMB6.23, and weighted average diluted ADSs of 67.6 million.

\*\*Non-GAAP diluted net income per ADS estimate for FY2014 assumes an effective income tax rate of 20% on non-GAAP income before income tax, and weighted average diluted ADSs of 67.9 million.





## Appendix

# Inherent Seasonality in Education-Related Business

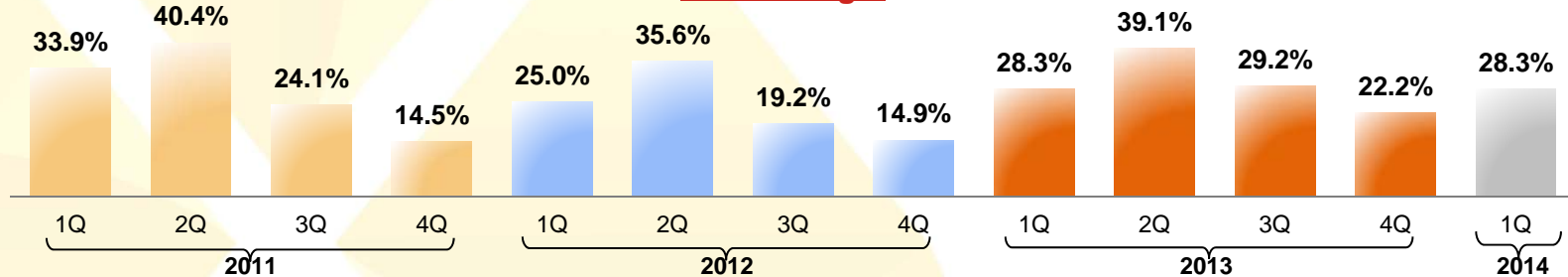


(US\$ mm)

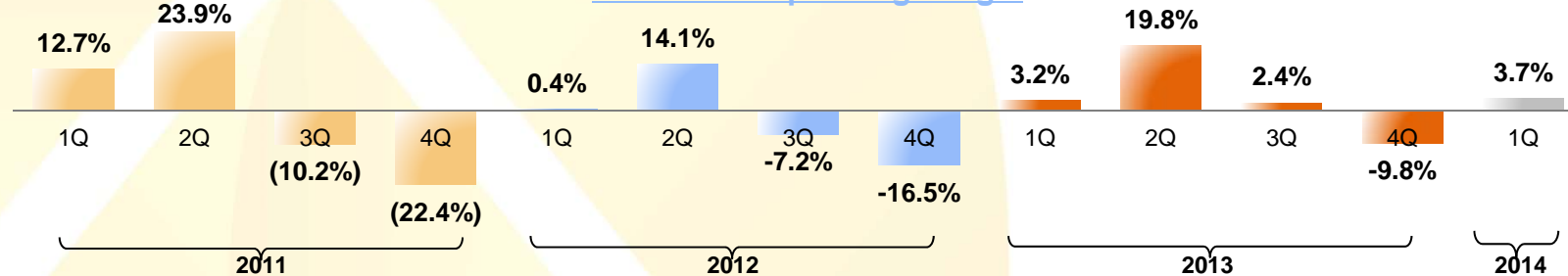
## Net Revenue



## Gross Margin



## Non-GAAP Operating Margin



# Shareholder List



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

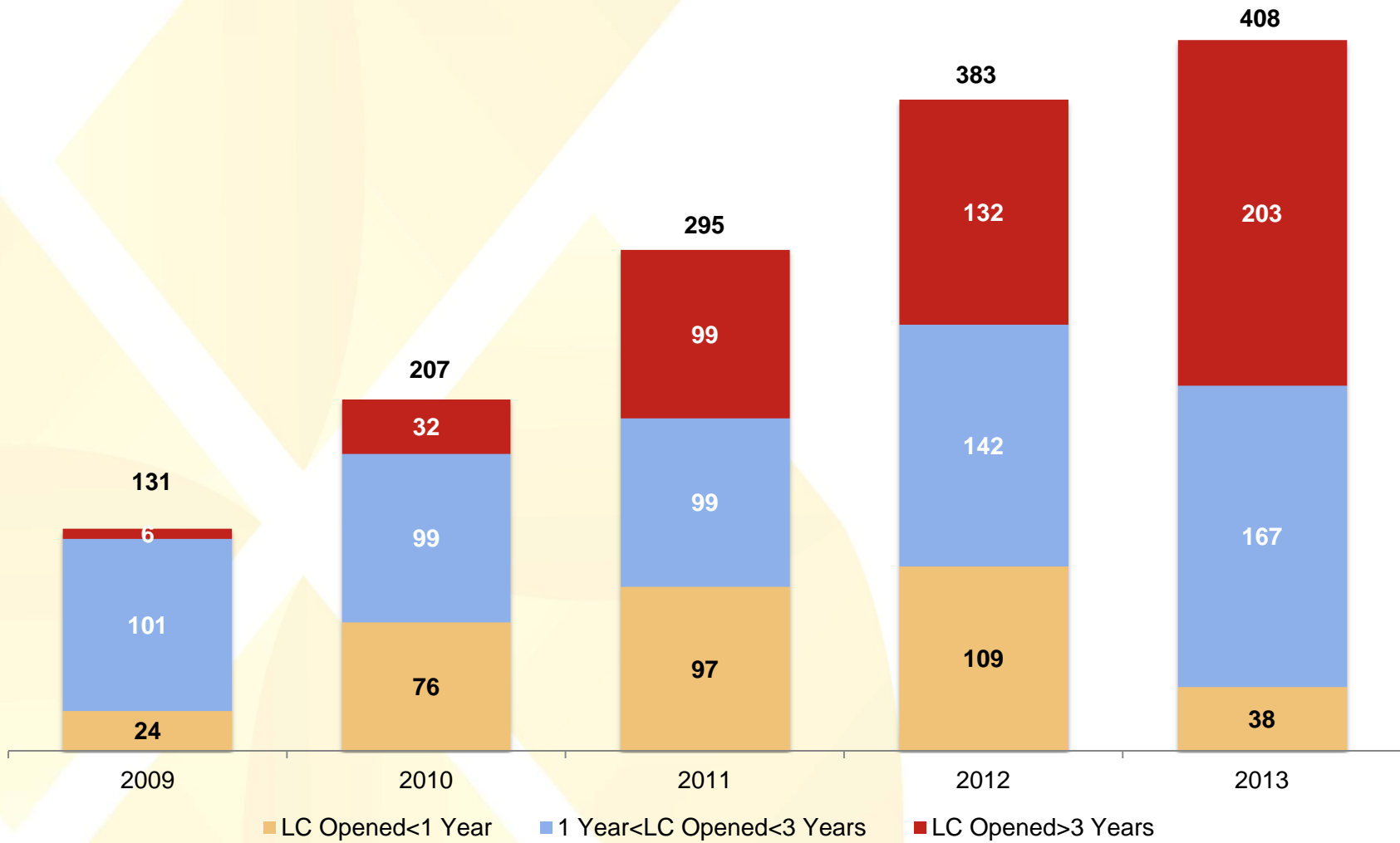
<b>Co-founders</b>	<b>49.0%</b>
Xin Jin	22.9%
Rubin Li	17.2%
Jinbo Yao	8.9%
<b>Other Management</b>	<b>2.8%</b>
<b>Pre-IPO investors</b>	<b>18.7%</b>
CDH Xueda Limited	11.7%
Warburg Pincus, LLC	7.0%
<b>Total</b>	<b>70.5%</b>

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

Fidelity Management & Research Company	5.7%
First Manhattan Co. Asset Management <sup>3</sup>	2.4%
O'Shaughnessy Asset MGMT, LLC	1.3%
Wellington Management Company, LLP	1.3%
Weatherbie M A & Co., Inc.	0.7%
<b>Total</b>	<b>11.4%</b>

1. Post the Company repurchase and management purchase on March 25, 2014, 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 March 31, 2014, from Bloomberg
3. As of December 31, 2013, from Bloomberg

# Learning Centers Expansion Roadmap







**Thank you!**

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