Peiyou in Decline

TAL: A Real Business With Fake Financials Part III

July 23, 2018

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Peiyou offline enrollments appear to be declining YoY

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Peiyou Q3 2018 Disclosures

- Total enrollment YoY +91.7%
- Total revenue YoY +62.4%
- Online ASPs ~40% lower than offline in quarter
- Offline ASPs experienced YoY “high single digit” growth

We use a common-size model to show how this data implies YoY offline enrollment decreases

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1. Common Size the Data

FY2017 Q3	
Total Peiyou (All of Which Was Offline in FY2017 Q3)	
Enrollment	100.0
ASP	100.0
Revenue (Enrollment x ASP)	10,000.0

FY2018 Q3	
Total Peiyou (All of Which Was Offline in FY2017 Q3)	
Enrollment	191.7
ASP	"high single digit" growth
Revenue (Enrollment x ASP)	16,240.0

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2. This Gives Us Two Equations

e_off + e_on = 191.7
*e_off * (100 + g_offASP) + e_on * ((100 + g_offASP) * .6) = 16,240*

e_off = Peiyou offline enrollment
e_on = Peiyou online enrollment
g_offASP = Peiyou offline growth rate percentage

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3. Insert a "High Single Digit" Offline ASP Growth Rate and Solve for e_off

- If g_offASP = 6.0%, then offline enrollment declined 4.5%
- If g_offASP = 7.5%, then offline enrollment declined 9.9%
- If g_offASP = 9.0%, then offline enrollment declined 15.1%

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Why Didn't TAL Disclose Online / Offline ASP Ratio on the Q4 Call?

- We think it's because our analyst sent a similar version of this model to TAL IR for comment prior to the Q4 call
- We never received a response
- Until that time, our and analyst and IR had been actively dialoguing

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Our next report will detail why we believe TAL has fabricated Peiyou results

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