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Informatics learning to walk again

BY JOAN NG

Informatics Education's new CEO Val Ortega is turning away paying customers even as the company continues to lose money.

A questionable strategy, some might think, but Ortega says it's about time the company addresses more than just its bottom line. So before embarking on a student recruitment drive, Ortega is working on getting his product right. Profits, he believes, will follow.

"Many people do not understand the education business," says Ortega. "A lot of the time, you must relinquish the short-term gains, such as taking as many students as possible, for the long-term gain of giving quality students a quality education. I always tell my people, this is a balancing act that we have to do on a day-to-day basis."



He says Informatics turns down about 20% of the applications. Ortega and his team have come to understand that taking on a student is like getting married to him or her. "You are stuck with that student for three or four years and have to deliver what you promised," he explains. "So it is important to make sure you select the right type of student." By being picky, Ortega hopes to be able to improve the quality of education at Informatics' 132 centres worldwide and repair the company's tarnished reputation among students and investors.

But reputations are difficult things to mend. It has been more than two years since Informatics stunned the market with an announcement that it had found a significant overstatement of revenue and profit in its accounts. This revelation sent the stock crashing and, since then, it has never really recovered. It closed at 6.5 cents last Thursday, a far cry from the \$1.30 high it traded at in May 2002. Although then CEO Michael Teng, who took over after the scandal, promised investors a turnaround, Informatics has yet to turn in a profit.

Analysts who used to cover the stock have since dropped it, with one asking: "Is the company making money yet? Because if there are no profits, then what is the point of investing in it?" Things took a turn for the worse in the middle of last year when Indonesian-born tycoon Oei Hong Leong sold the entire 12.7% stake that he bought in 2004, leaving Malaysian tycoon Vincent Tan as the largest shareholder, currently holding 33.49%. Investors took this move to be a sign of a loss of confidence, especially since it was preceded by financial year 2005 results that showed a loss of \$70.26 million, more than the \$42.49 million reported in the previous year.

Ortega, who became CEO in August this year, seems like the best man for the job. Armed with 25 years' experience in the industry that ranges from teaching and developing curriculum to assessment and administration, he is confident that he "knows what to fix". "We are in the process of a re-branding exercise and investors will be able to look forward to a new brand logo shortly, which will be followed by a series of marketing campaigns," he says. Ortega refuses to divulge more details other than that there is going to be a slight difference in the colour of the logo and

the changes will be "just noticeable". With the new branding campaign, the company probably hopes to shed its image as the college with the accounting scandal and become what it has always claimed to be: "A leading international provider of quality lifelong learning services."

Ortega realises it will take more than just a new logo to convince investors and the public that the company has a new business direction. One hindrance to growth has been lack of funds. Although both Oei and Tan, the current chairman, poured almost \$20 million into the company in the months after the blow-up, it continues to struggle financially. "We have to be cautious in our moves because of constraints of resources," says Ortega.

The company is in the process of raising funds and is contemplating a rights issue or a private placement. For now, Ortega says the main objective is to bring down the negative NTA (net tangible assets) by keeping costs low and operating efficiency at an optimum level. "This means proper utilisation of resources such as classrooms, lecturers and service staff to deliver our programmes," he explains. In Malaysia, for example, the company has worked to streamline its operations and improve efficiency by closing down smaller, unprofitable centres in various parts of the country and consolidating its operations in strategic areas.

Unfortunately, the rationalisation exercises in Malaysia have not been too successful and growth at Informatics' Singapore and Hong Kong operations has been negated by declines in Malaysia. Still, Ortega says the company will not be looking to pull out of the country. "Malaysia also has a position as a regional education hub, so there is great potential in that market," he says. "Also, costs are lower there, so it makes sense to stay in that market." Rather than closing down operations there, Ortega has made some drastic changes — from staff cuts to the replacement of senior management.

Since Ortega took over as acting CEO in April, he has been doing a lot of spring-cleaning. Informatics' courses have been spruced up to ensure they are relevant, some unprofitable businesses have been cut away and new IT systems have been integrated into management.

These baby steps are slowly helping the company move forward. Last month, Informatics announced that net loss for second-quarter 2007 had been slashed by 68% to \$1.24 million, from \$3.83 million in the year-earlier period. Asked how long he thinks it will take to become profitable, Ortega gives an apprehensive smile. "We are near," is all he will say. "There are no short-cuts to a recovery. We want to make sure we come back on the right footing with long-term and sustainable prospects."

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