

**[BEDU] - Bright Scholar 2017 Third Quarter Earnings Conference Call
Thursday, July 27, 2017, 8:00 AM Eastern**

Officers

Ruby Yim; IR Counsel

Jerry He; CEO

Dora Li; CFO

Operator: Good morning, and thank you for standing by for Bright Scholar's third quarter fiscal year 2017 earnings conference call. (Operator Instructions)

Today's conference is being recorded. I would now like to turn the meeting over to your host for today's conference, Ms. Ruby Yim, Investor Relations Counsel. Please go ahead.

Ruby Yim: Thank you, Operator. Good morning and good evening. Welcome to Bright Scholar's third quarter fiscal year 2017 earnings call for the period ended May 31st, 2017. With me today on the call is Mr. Jerry He, our Chief Executive Officer, and Ms. Dora Li, our Chief Financial Officer.

As a reminder, today's conference call is being broadcast live via webcast. In addition, a replay will be available on our website following the call. By now you should have received a copy of our press release that was distributed on July 26, 2017 after market close Eastern Time. If you haven't, it is available on the Investor Relations section of our website.

Before we get started, let me review the forward-looking statements regarding this conference call. That is, statements related to future, not past, events, often address expected future business and financial performance and financial condition and often contain words such as will, estimate, project, predict, believe, expect, anticipate, intend, potential, plan, or goal.

Bright Scholar may also make written or oral forward-looking statements in other reports, in presentations, in material delivered to shareholders and in press releases. In addition, Bright Scholar's representatives may make oral forward-looking statements. Forward-looking statements by their nature address matters that are to different degrees uncertain, such as statements about the Company's goals and strategies, its future business development, financial condition and results of operations, its ability to retain and grow its customer base and network of schools, the growth of and the trends in the markets for its services in China, the demand for and market acceptance of its brand and services, competition in its industry in China, relevant government policies and regulations relating to the corporate structure, business industry, fluctuations in general economic and business conditions in China.

Further information regarding this and other risks is included in Bright Scholar's filing with the Securities and Exchange Commission. Bright Scholar undertakes no duty to update any forward-looking statement, except as required under applicable law.

During this call, we'll be referring to GAAP and non-GAAP financial measures. We use certain non-GAAP measures as supplemental measures to review and assess our operating performance. These non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for net income attributable to Company or other consolidated statement of comprehensive income data prepared in accordance with U.S. GAAP.

Please note that all numbers are in RMB and all comparisons refer to year-over-year comparisons unless otherwise stated.

With that, I'll turn the call over to our CEO, Jerry He. Jerry?

Jerry He: Thank you, Ruby. Morning, and good evening to our investors calling for our 2017 third fiscal quarter earnings call. In this call, I will share with you highlights of the quarter, including our key accomplishments and the exciting developments since our IPO, before Dora provides you with details on financials. I will close with a recap of our future priorities, then we will take your questions.

For those who are new to our company, we have included in our earnings presentation a brief corporate introduction from Slide 3 to 6, which you can download from our IR website. Again, all numbers are in RMB and all comparisons refer to year-over-year, unless otherwise stated.

With our successful listing on NYSE back in May, our fiscal year 2017 has been a historical year for the Company and all of the employees. The successful IPO is a true testament to our capabilities as the market leader of international and bilingual schools in China's fast growing K-12 education market. It also reinforced our drive to offer world-class education to students in China who pursue education abroad and at home.

Before we turn to our financials, we are proud to report the academic achievements of our international schools as well as bilingual schools. For our international schools, all of the 216 graduates, high school graduates for the 2017 class were admitted to overseas universities, 96% of the students enrolled in DP, A-level, AP programs were admitted into global top 100 institutions, and 87% were admitted into global top 50 institutions, as ranked by either the QS World University Rankings or U.S. News, or world top 5 in their specialized fields.

For our bilingual schools, most also achieved historical new highs in performance in local Zhong Kao, with average scores significantly above other local schools. The academic achievements demonstrate the execution of our mission to deliver quality education to students

Now let's refer to Slide 8 for highlights of our financial performance. I'm very pleased to report that we recorded a very strong quarter with both top-line revenue and operating income grew over 28% and 66%, respectively. Our net income have significantly increased over the period, by 85.7%, supported by a strong margin expansion at 26.4%.

The most exciting trends are the significant increase of adjusted EBITDA and adjusted net income of 59.3% and 85.7% for the quarter, and 72.2% and 91.9% for the nine months period, respectively.

Our robust performance has underlined the successful execution of our business model and yielded solid growth across all of our business segments.

Let's look at the detailed breakdowns for the respective segments on Slide 9. Robust top-line growth across all segments as our business scale continued to expand. For reporting quarter, international schools, bilingual schools and the kindergartens grew over 24%, 29%, and 26%, respectively, all promising trends, with complementary education service also growing fast as we continue to enrich our offerings.

Slide 10, shows more details school expansion and enrollment increase. One of the key drivers for top-line growth, with the addition of one new kindergarten since IPO, we now have over 30,000 students and over 3,000 teachers in 52 schools as of May 31st, 2017, with total capacity increased by about 9% to over 48,000. The average student enrollment for nine-month period was 29,613, an increase of 15% as compared to the same period of last fiscal year. Average utilization enhanced to 61% as compared to 58% for year-ago period.

In Slide 11, in addition to continued network expansion and growing student enrollments, we were able to optimize our pricing all across business segments continuously to further drive our top-line growth.

Before I turn to Dora for the financials, I would like to take a moment to share with you some very exciting developments and our strategic priorities for the coming quarters on Slide 12.

First of all, I'm pleased to announce our investment in Can-achieve, Beijing Education Consultants Corporation Limited, which represents a major expansion of our footprint in college counseling, student recruitment for universities, test preparation, and summer-winter camps and other study camps.

In business since 2008, Can-achieve has operations in Beijing, Guangzhou, Zhengzhou, and Hong Kong, representing over 600 oversea universities for recruiting of Chinese students, including 273 universities in US and Canada, where Can-achieve has #1 market share in this segment, with 23 universities in the US top 50 QS 100 rankings.

We have invested RMB78.75 million into Can-achieve, and taking 21% equity stake in July 2017.

To further drive our top-line growth, we continue to deepen collaboration with Country Garden, and explore more partnerships with other third-party real estate developers. For fiscal 2018, we are on track to open 12 new schools, including 5 bilingual schools and 7 kindergartens, among which 2 schools and 2 kindergartens will be partnership with other developers, namely Hebei Changsheng Group and the Jiangsu Tianshan Group.

In addition to our new partnerships with third parties, we also have developed cooperation with world-class institutions, including scholarship programs, summer school programs, and the partnership to operate international school in China. All these initiatives will give our students immensely valuable exposure, top quality education services, and inspire them as they pursue their education overseas.

All these initiatives are building blocks to drive organic and acquisitive growth. For organic growth, we have laid down growth strategies to deliver long-term success, of which we will continue our endeavor to deepen collaboration with Country Garden to maintain momentum of school network expansion, and further expand strategic collaboration with third-party developer to expedite network expansion. Second, continue to enhance our complementary education service offering. Third, complement asset-light model with investment to self-develop international schools when opportunities are attractive. And fourth, continue to improve academic outcomes and enhance education quality through investment in R&D, teacher's training and recruiting. And then finally, we will selectively explore local and overseas acquisitions opportunities.

Supported by tremendous market potential from a large population base and a growing demand for K-12 private education in China, we are executing our mission to deliver world-class education to students in China and globally. With our proven partnership, acquisition, investment, development strategies, we are confident that we can maintain and extend our market leadership, and reward students and the shareholders alike with greater value.

With that, I'll hand over to our CFO, Dora, for the financials.

Dora Li: Thanks, Jerry. Please be reminded that all numbers are in RMB, and all comparisons refer to year-over-year comparisons, unless otherwise stated. Please also refer to our earnings press release for detailed information of our comparable financial performance on the year-over-year basis

Please turn to Slide 13. Our revenue for the quarter was RMB407 million, up 28.1%. On a nine months basis, revenue was RMB1,053 million, up 28.2%.

Revenue from international schools for the quarter was RMB158 million, up 24%, as compared to RMB127 million in the same period last fiscal year. On a nine months basis, revenue was RMB410 million, up 20%, as compared to RMB341 million in same period of last fiscal year.

For our bilingual schools, revenue for the quarter was RMB127 million, up 29%, as compared to RMB98 million in the same period last fiscal year. For the nine months, revenue was RMB330 million, up 27%, as compared to RMB260 million in same period of last year.

Revenue from our kindergartens for the quarter was RMB96 million, up 26%, as compared to RMB76 million in the same period last year. On the nine month basis, revenue for kindergarten was RMB246 million, up 24%, as compared to RMB199 million in the same period of last year.

For the complementary education services, revenue for the quarter was RMB26 million, up 61%, compared to RMB16 million in the same quarter last fiscal year. For the nine months, revenue was RMB67 million, up 218%, compared to RMB21 million in the same period last fiscal year. This was mainly due to revenue increase from Elan English training business. We acquired Elan in January 2016.

On Slide 14, cost of revenue for the quarter accounted for 54.9% of total revenue, as compared to 61.9% in the same period last fiscal year. On a nine months basis, cost of revenue accounted for 62.1%, as compared to 68.6% in the same period.

Teaching staff cost, the primary cost contributor, was 37.7% of total revenue as compared to 42.7% for the quarter, in the same period of last year. On a nine months basis, staff cost were at 44.2% of total revenue as compared to 47.6% in the same period last fiscal year.

The average student-teacher ratio was 9.6 at May 31, 2017 as compared to 9.1 at the same period of last year.

On Slide 15, Gross profit for the quarter was RMB184 million, up 51.5%; gross margin at 45.2% as compared to 38.2% in the same quarter of last fiscal year. On a nine months basis, gross profit was RMB400 million, up 55.1%; gross margin was 38.0% as compared to 31.4% in the same period of last fiscal year.

With top line growth and improved operating efficiency, gross profit increased substantially and gross margin expanded at a healthy speed across our business segment.

For international schools, gross profit up 42% to RMB67 million for the quarter, with gross margin improved by 5.3% to 42.4%. On a nine months basis, gross profit up 34.4% to RMB142 million, with margin improved by 3.7% to 34.7%.

For bilingual schools, gross profit up 56% to RMB56 million for the quarter; with gross margin improved by 7.6% to 44.1%. For the nine months basis, gross profit up 65% to RMB124, with gross margin improved by 8.6% to 37.6%.

For our kindergartens, gross profit up 52% to RMB50 million for the quarter, with gross margin improved by 8.9% to 51.7%. For the nine months basis, gross profit up 58% to RMB109, with gross margin improved by 9.3% to 44.2%.

For complementary education services, gross profit up 93% to RMB11 million for the quarter, mainly due to increase from Elan English training business, gross margin was improved by 7.7% to 42.9%. On a nine months basis, gross profit up 247% to RMB25 million, with gross margin improved by 3.1% to 36.7%.

On Slide 16, adjusted SG&A expenses for the quarter accounted for 16% of total revenue as compared to 15.5% in the quarter last year. On the nine months basis, adjust SG&A expenses accounted for 16.4% of total revenue, compared to 16.8% in the same period last fiscal year.

Staff cost and other expenses are the primary cost contributor of our adjusted SG&A expenses at 7.5% and 6.6% of revenue for the quarter, as compared to 9% and 4.4% in the same period last year.

For the third quarter 2017, we incurred approximately RMB10 million IPO-related expenses.

On a nine months basis, staff cost and other expenses accounted for 8.6% and 5.6% of total revenue as compared to 9.3% and 5.5% in the same quarter last year. For the nine month 2017, total IPO-related expenses was RMB16.6 million.

Continuing on Slide 17, adjusted EBITDA for the quarter was RMB145 million, up 59.3%. Adjusted EBITDA margin was 35.7%, compared to 28.7% in the same period in last year.

On the nine month basis, adjusted EBITDA was RMB297 million, up 72.2%. Adjusted EBITDA margin was 28.2%, compared to 21% in the same period of last fiscal year.

For adjusted net income for the quarter was RMB107 million, up 85.7%, and adjusted net margin was 26.4%, compared to 18.2% in the same period of last year.

For the nine months, adjusted net income was RMB195 million, up 91.9%, and adjusted net margin was 18.6%, compared to 12.4% in the same period of last fiscal year.

Also, please refer to table on Slide 18 for the condensed income state and the Slide 19 for the reconciliation for SG&A, EBITDA and the net income on a GAAP to non-GAAP basis.

A quick note on our cash and cash balances in Slide 20. As of May 31st, 2017, the Company's cash and cash equivalents and restricted cash totaled RMB1,455.5 million, or \$213.7 million, as compared to RMB644.1 million or \$93.8 million as of February 28, 2017.

Before I turn it back to Jerry, I would like to briefly explain the seasonality of our business in Slide 21. Revenue is recognized over the course of each semester. Over the fall semester, which runs from September 1st to January 31st, revenue will be recognized for 3 months in fiscal first fiscal quarter and two months in the second fiscal quarter. After one month winter break, we'll start the spring semester that runs from March 1st to July 31st, of which revenue will be recognized for three months in the third fiscal quarter and the two months in the fourth quarter.

This concludes my financial update. Now I will turn back to Jerry for his closing remarks.

Jerry He: Thank you, Dora. Driven by robust economic growth, an emerging middle class and surging demand for quality education, the K-12 private education segment presents enormous opportunities to us.

We'll continue to focus on executing our growth strategies, expand our market leadership, and reward our students and shareholders with greater value.