

Bright Scholar (BEDU)
Second Quarter 2019 Earnings Conference Call
Tuesday, April 23, 2019 8:00AM ET

Company Representatives:

Ruby Yim, Investor Relations Counsel
Derek Feng, Chief Executive Officer
Dora Li, Chief Financial Officer

Analysts:

Christine Cho, Goldman Sachs
Leslie Sangan, Morgan Stanley
Melissa Chen, China Renaissance

Presentation

Operator: Good morning, and thank you for standing by for the Bright Scholar 2019 second fiscal quarter earnings conference call. At this time, all participants will be in listen-only mode. After management's prepared remarks, there will be a question-and-answer session. 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 2019 second fiscal quarter ended February the 28th, 2019, earnings call.

Joining me today are Mr. Derek Feng, 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 this call.

By now you should have received a copy of our press release that was distributed on April the 22nd, 2019, after market close Eastern Time. If you haven't, it is available on our IR 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 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 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 and 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 all numbers are in RMB, and all comparisons refer to year-over-year comparisons unless otherwise stated.

With that, I will turn the call over to our CEO, Derek Feng. Derek?

Derek Feng: Thank you, Ruby. Thanks to everyone who is joining our call today to review 2019's second fiscal quarter results.

Now, let's get started. For those who are new to our Company, we have included in our earnings presentation a brief corporate introduction from Slides 3 to Slides 9, which you can download from our IR webpage. Again, all numbers are in RMB and all comparisons refer to year-over-year, unless otherwise stated.

I will start today's call with the performance highlights, then share some of our key strategic developments before turning over the call to Dora for financial review. After remarks, we will take your questions.

Please turn to Slide 11. Let me start by saying that we were extremely pleased with the outstanding results across all of our businesses and the investments we have made to accelerate our future growth. This in turn positions us very well to achieve the high end of our financial guidance range. Our revenue growth for the quarter was 57.5%, with 24.3% from organic growth and 33.2% from acquisitions.

Let's look at the detailed breakdown by business segment on S12. The top line growth of our respective business segments continued to increase for the quarter, with revenue of international schools, bilingual schools and kindergartens grew over 23.3%, 20.2% and 25.3% respectively.

Our complementary business in the quarter has expanded considerably, as we started to recognize revenue contributions from Foundation Global, Chengdu Yinzhe and Hangzhou Impression in addition to Can-Achieve.

A fast expanding school network, supported by strong enrollment growth, steady increase in ASP and utilization have been the main catalysts driving our organic growth. Please turn to Slides 13 and 14 for more details.

As of April 22, 2019, with the addition of Bournemouth School, we have a total of 69 schools including 6 international schools, 15 bilingual schools and 47 kindergartens, covering 9 provinces in China and 1 overseas school in UK. Our school portfolio has a total capacity of over 59,326 seats.

Our strategy to maintain a competitive pricing across all school segments to optimize utilization has been paying off. Compared to the first half of last fiscal year, the average student enrollment for the first half of fiscal 2019 has increased by 22.7% to 42,035 with blended utilization increased to 71.0% from 60.4%.

Improving academic outcomes remains the number one priority for Bright Scholar. I am proud to introduce this year's academic accomplishments.

Please turn to Slide 15. As of April 22, 2019, 89% of our 2019 graduating students participating in AP, A Level and DP programs, have received over 670 offers from the global top 50 institutions, including 4 from Oxbridge, and 2 from University of Chicago and 5 from UC Berkeley.

Over the years, we have consistently been able to deliver remarkable academic performance. Again, academic excellence represents the very essence of our brand as a premium education service company.

Continuing onto Slide 16 for the recent updates on our acquisitive growth initiatives. Strategic investments are pivotal to accelerate our business scale, expand our national and global footprints and broaden our educational service offerings.

We have achieved a great deal since becoming a public company with 7 completed acquisitions and 3 in progress, which has been an important period in Bright Scholar's development as the world's leading premium education company.

Most recently, we have entered into agreements to acquire 25% equity interest in Start Camp Education and 80% controlling interest in Sannew School. Start Camp provides one-stop solutions in camp layout and program design and has contributed to the opening of Bright Scholar's first outdoor camp this quarter.

Sannew is the very first American-style private boarding school in Wuhan, and the proposed acquisition represents an excellent strategic fit with Bright Scholar's family of schools, building our prominence in central China. We expect to complete both transactions by May 2019 and continue to expand our business globally.

Staying on the slide for other updates, our close collaboration with Country Garden is crucial to the expansion of our school network. As of the release date, we have entered into agreements with Country Garden to operate a total of 25 kindergartens and 2 bilingual schools with a total capacity of approximately 11,000 students.

We are pleased with the continuous performance of our expanded portfolio in our overseas students consulting services. Foundation Global Education provides consulting services for students pursuing study in top-tier overseas boarding schools and universities.

In 2019 application season, 44.7% of students applying for U.S. boarding schools gained admission to leading boarding schools including Phillips Exeter Academy, St. Paul's School and Milton Academy. And 56% of its students applying for U.S. universities were accepted to the U.S. News Ranking's top-ranking institutions, including Yale, Connell and University of Chicago.

Can-Achieve now represents over 900 prestigious overseas universities in the U.S., Canada, UK, and Australia to recruit students from China. It helped over 6,000 Chinese students to pursue higher education overseas in 2018.

An update on our share repurchase program, as shown in Slide 17, we have been very active since the inception of this program in April 2018. As of April 17, 2019, the Company has repurchased approximately 6.48 million of its American depository shares for an aggregate purchase price of approximately US\$75.0 million.

In concluding my remarks, Bright Scholar delivered another strong quarter. I am proud of our team for maintaining its focus on students, improving their academic success, which in turn, contributing to the ongoing improvement of our financial results.

We will continue to execute on our organic and acquisitive growth strategy, optimize operating efficiency, drive synergies from acquisitions, and to reward our shareholders with a profitable growth business.

So at this point, I would like to turn the call over to Dora to discuss our financials, Dora.

Dora Li: Thank you, Derek. Let's turn back to our financials. 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 comparative financial performance on a year-over-year basis.

Please turn to Slide 19. Our revenue for the quarter was RMB508.8 million, up 57.5%. On a 6-month basis, our revenue was RMB1,158.6 million, up 47%.

Revenue from international schools for the quarter was RMB146.3 million, up 23.3%, as compared to RMB118.7 million. On a 6-month basis, revenue was RMB364.9 million, up 24.4%, as compared to RMB293.3 million.

Revenue from bilingual schools for the quarter was RMB130.6 million, up 20.2%, as compared to RMB108.6 million. On a 6-month basis, revenue was RMB324.5 million, up 22.9%, as

compared to RMB264.1 million.

Revenue from kindergartens for the quarter was RMB91.5 million, up 25.3%, as compared to RMB73.0 million. For 6 months, revenue was RMB229.2 million, up 27.9%, compared to RMB179.2 million.

Revenue for BCS, our first overseas school for the quarter, was RMB16.1 million and same for the 6 months.

Revenue from complementary education services for the quarter was RMB124.3 million, up 445.8%, as compared to RMB22.8 million. On a 6-month basis, revenue was RMB223.9 million, up 333.3%, as compared to RMB51.7 million.

Revenue contribution from acquired business, including Can-Achieve, Foundation, Hangzhou Impression and DBC was about RMB80.2 million for the quarter and RMB150.9 million on a 6-month basis.

On Slide 20, cost of revenue for the quarter accounted for 70.5% of total revenue, as compared to 77.6% in the same period last fiscal year. For 6 months, cost of revenue accounted for 61.4%, as compared to 63.3% in the same period last fiscal year.

Teaching staff cost, the primary cost contributor, was 47.8% of total revenue for the quarter as compared to 56.8%. On a 6-month basis, staff cost was 40.3% of total revenue as compared to 45.6%.

Average student-teacher ratio was 8.9 for February 28, 2019 as compared to 8.8 of same period last fiscal year.

On Slide 21, gross profit for the quarter was RMB150.3 million, up 108%. Gross margin improved from 22.4% to 29.5%. On a 6-month basis, gross profit was RMB446.8 million, up 54.6%. Gross margin was 38.6%, up from 36.7%.

For international schools, gross profit up 27.8% to RMB34.9 million for the quarter, with gross margin improved from 23% to 23.9%. On a 6-month basis, gross profit up 25.9% to RMB142.3 million, with gross margin improved from 38.5% to 39%.

For bilingual schools, gross profit up 45.9% to RMB30 million for the quarter, with gross margin improved from 19% to 23%. On a 6-month basis, gross profit up 33.5% to RMB117.3 million, with gross margin improved from 33.3% to 36.2%.

For kindergartens, gross profit up 23.2% to RMB24.2 million for the quarter, with gross margin decreased slightly from 26.8% to 26.5%. On a 6-month basis, gross profit up 29.8% to RMB93.9 million, with gross margin improved from 40.4% to 41%.

For overseas schools, gross profit was RMB2.1 million, with a gross margin of 13.2%, for the quarter and 6-month basis.

Complementary education services, gross profit up 1,171.2% to RMB59.1 million for the

quarter, with gross margin improved from 20.6% to 47.4%. For 6 months, gross profit up 479.7% to RMB91.2 million, with gross margin improved from 30.6% to 40.7%.

The increase was primarily due to contribution from acquired business, including Can-Achieve, Foundation, Hangzhou Impression and DBC of RMB42.8 million for the quarter and RMB 72.0 million on a 6-month basis.

Moving to Slide 22, adjusted SG&A expenses for the quarter accounted for 26.8% of total revenue, up from 25%. For 6 months, adjusted SG&A expenses accounted for 21.7% of total revenue, up from 20.5%.

The increase in selling, general and administrative expenses was primarily due to the increase in the compensation and benefits incurred for additional general and administrative staff members; employee stock ownership plan-related expenses to retain talents; and increase in marketing expenses for brand promotion; also the cost associated with acquisitions and other professional services to support the business growth as a listed company, as well as the incremental SG&A expenses incurred from acquired businesses.

Continuing on Slide 23, adjusted EBITDA for the quarter was RMB49.3 million, up 98% from RMB24.9 million. Adjusted EBITDA margin was 9.7%, up from 7.7% in the same period last fiscal year. On a 6-month basis, adjusted EBITDA was RMB266.7 million, up 43.1% from RMB186.3 million. Adjusted EBITDA margin was 23% compared to 23.6% in the same period last year.

Adjusted net income for the quarter was RMB32 million, up 991.2%. Adjusted net margin was 6.3% compared to loss of 1.1% in the same period last year. On a 6-month basis, adjusted net income was RMB199.6 million, up 71.8% from RMB116.2 million. And adjusted net margin was 17.2% compared to 14.7% in the same period last year.

Please refer to Slide 24 for the condensed income statement and Slide 25 for the reconciliation for SG&A, EBITDA and net income on a GAAP to non-GAAP basis.

A quick note on our cash and bank balances in Slide 26. As of February 28, 2019, the Company's cash and cash equivalents and restricted cash totalled RMB2,522.9 million or US\$377 million, as compared to RMB2,428.3 million as of November 30, 2018.

We are reaffirming our guidance for fiscal year 2019 with a recap on Slide 28. For fiscal year 2019 ending August 31, 2019, we expect our guidance for the total revenue to be between RMB2,300 million and RMB2,350 million, representing a year-over-year grow between 34% and 37%.

We expect our average student enrollment to be between approximately 41,600 and 42,000, representing a year-over-year increase between 13% and 15%. We also expect 5 new kindergartens openings for fiscal year 2019.

This concludes my financial updates. Now, I will turn to Derek for his closing remarks.

Derek Feng: Thank you, Dora. Looking ahead to the remainder of fiscal 2019, we are

encouraged by the strong growth this year in every part of our business, and are pleased to provide a very positive outlook in growth.

Underpinning the strength of the business is commitment and efforts of our talented and dedicated employees who have worked hard to increase utilization, optimize our cost structure, and leverage our competencies to improve the performance of our fast-expanding business portfolio. This success, combined with our strategic investments, position us well for the future.

Last, but not least, our unwavering commitment to make substantial investments in the recruitment and development of our teachers, broadening the service offerings, improving processes and operational infrastructure to meet our students' aspiration for academic excellence.

Derek Feng: Thank you very much for joining this conference call. Please feel free to contact us if you have any further questions. We wish everyone a good day or good evening, whatever the case might be. Thank you.

Operator: The conference has now concluded. Thank you for attending today presentation. You may now disconnect your lines.