

**Bright Scholar (BEDU)**  
**Third Quarter Earnings Conference Call**  
**Wednesday, July 25, 2018 8:00AM ET**

***Presentation***

**Operator:** Good morning, and thank you for standing by for Bright Scholar's Third Fiscal Quarter 2018 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.

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**Ruby Yim:** Thank you, Operator. Good morning, and good evening. Welcome to Bright Scholar's 2018 third fiscal quarter ended May 31, 2018 earnings call.

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 of the call 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 24, 2018 after market close Eastern Time. If you haven't, it is available on the 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 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 developments, financial condition and results of operations; its ability to retain and grow its customer base and network of schools; and growth of, trends in, the markets for its services in China; the demand for and market acceptance of its brand or services; competition in its industry in China; relevant government policies and regulations related to the corporate structure, business and industry; fluctuations in general economic and business conditions in China.

Further information regarding these 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 statements 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?

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**Jerry He:** Thanks Ruby, and thanks to everyone who's joining us today to review our 2018 third fiscal quarter results.

For those who are new to our Company, we have included in our earnings presentation a brief corporate introduction from Slide 3 to 8, 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 an update on our recent acquisitions before highlights our performance for the third fiscal quarter 2018, and share some of our key initiatives and developments. Then I'll turn over the call to Dora to provide a more detailed review before we take your questions.

So now, turning to Slide 10, we continue to strengthen our market-leading position through the execution of our growth strategies, as demonstrated by the recent completion of four acquisitions. The acquired five kindergartens from Xinqiao will join our expanding nationwide network, providing quality early year education to our youngest students.

In addition, we have completed the transaction of three strategic acquisitions to expand our service offerings in the complementary education service segment.

Bright Scholar now owns a 70% equity interest in Can-Achieve, a China-based education consulting business, which represents over 600 prestigious overseas universities in the U.S., Canada, and the UK; a 75% equity interest in Foundation Global Education, a Hong Kong-based education consulting company for overseas boarding schools and universities; as well as a 51.67% equity interest in Zangxing, an education technology company based in Guangzhou, China.

The transactions related to the Foundation and Zangxing were completed on June 1, 2018. We are delighted to welcome these companies to our expanding Bright Scholar family, and we are now working hard to integrate these businesses to capitalize the synergies with our existing schools.

Let's move on to the highlights of our business and operational performance in Slide 11. Factoring in the revenue contributions from the acquisition of Xinqiao and Can-Achieve, the revenue for the third fiscal quarter was RMB540.9 million, representing a year-over-year increase of 33%. And for the 9-month period, revenue was RMB1,329 million, representing a 26% year-over-year increase.

In light of these acquisitions, we have updated the financial guidance for the full fiscal year 2018 to include revenues from existing business and investments with new guidance representing a year-over-year growth of 26% to 28%."

Let's look at the detailed breakdowns for the respective segments in Slide 12. The top line growth for our respective business segments continued to expand for the quarter, with international schools, bilingual schools, kindergartens and complementary education services grew by 13%, 27%, 35%, and 172%, respectively. On a 9-months basis, they grew over 15%, 29%, 26% and 83% respectively.

Slide 13 shows more details of our network expansion and the enrollment increase. We have added a total of 15 new schools, including 5 kindergartens from Xinqiao, to our nationwide network for the first 9 months of fiscal 2018. With a total of 67 schools, the capacity increased by 25% to 60,551.

The average student enrollment for the first 9 months of fiscal 2018 has increased by 19.1% to 35,275, with blended utilization at 61.8%.

Turning to Slide 14, while we continue to prioritize ramp-up of existing schools with competitive pricing, I am pleased to report that the overall ASP has a modest increase of 9.1% for bilingual and 2.4% for our kindergartens, while ASP of international schools maintained at a similar level.

Before I turn over to Dora to discuss the financial results of the quarter in more details, I would like to provide an update on our Zhongkao exam performance and share with you a few exciting developments on the business fronts

First, on academic performance, please refer to slide 15 and 16. Our focus on delivering premium education enables students to achieve academic excellence, and the rate at which they are admitted to top universities and schools continue to grow beyond our expectation.

In addition to the outstanding achievements of the graduating class from our international schools with 90% of our students having received offers from global top-50 institutions, as shown in Slide 15, we recently received our students' 2018 Zhongkao -- which is China's high

school entrance exam -- results. And 80.3% of grade 9 graduates from our bilingual schools have been accepted into top public schools in their respective regions as shown on Slide 16.

Academic excellence represents very essence of our brand and our unwavering commitment to deliver premium education services to support the aspirations of our students and staff.

Staying on Slide 16, we recently announced that Bright Scholar has signed an agreement to acquire a 70% equity interest in a renowned Zhejiang-based art training institute for a total consideration of RMB70 million. The institution specializes in preparing students for college entrance exams relating to media and communication as well as music and performance studies.

Founded in 2009, the institution has 2 main campuses with over 600 students, delivering a revenue of RMB23.7 million and EBITDA of RMB9 million in 2017. We believe this strategic investment will further expand our service offerings and help more students enroll in their desired art colleges.

Our expanding network is crucial to accelerating our growth. With the addition of 5 new kindergartens from Xinqiao, we now have a total of 67 schools. Our goal is to expedite the expansion and our long-term collaboration with Country Garden provides a strong platform for growing our network.

I am very pleased to report that as of July 17, 2018, we have signed contracts to operate 12 kindergartens within Country Garden properties with a total capacity of 3,420 students. This impactful relationship provides us with a strong pipeline for expanding our nationwide network and allows a high visibility of revenue as we continue to build scale.

As for the partnership with the Fettes College, we have secured a site in Guangzhou for International School with a capacity of accommodating 2,500 students from age 3 to 18.

Back in May, we announced the partnership with Beijing Normal University. Ms. Huiyan Yang, the Chairlady of Bright Scholar, has made a personal donation of RMB80 million to Beijing Normal University Education Fund for the joint establishment of Huiyan International Education College, which aims to provide international education training for new and existing teachers.

Through the partnership, Bright Scholar and Beijing Normal University will jointly own the intellectual property of research in international education with Bright Scholar will provide internship opportunities for college students across its nationwide school networks and will have the priority to recruit top talents.

Furthermore, underscoring the confidence in the Company's prospects, the Board has approved a share buyback program of up to USD100 million on April 26, 2018. As of July 23, 2018, the Company has repurchased 195,276 shares with an average price of \$15.9 per share.

We are proud of the progress we have achieved, and the consecutive quarterly growth results continue to demonstrate our commitment to accelerating sustainable revenue growth. With

these recent acquisitions and the deepening of a partnership with Country Garden, we are ensuring our expanding network and portfolios of services create value for our students.

The Company remains committed to creating sustainable value for shareholders through operational performance, accretive strategic acquisitions, continued execution of our growth strategies and diligent share repurchases.

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

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**Dora Li:** Thank you, 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 release for detailed information of our comparative financial performance on a year-over-year basis

Please turn to Slide 18. Our revenue for the quarter was RMB540.9 million, up 33%. On a 9 month basis, revenue was RMB1,329.2 million, up 26.2%.

Revenue from international schools for the quarter was RMB178.9 million, up 13.4%, as compared to RMB157.8 million. On a 9-month basis, revenue for international schools was RMB472.2 million, up 15.1%, as compared to RMB410.1 million.

Revenue from bilingual schools for the quarter was RMB161.7 million, up 27.4%, as compared to RMB126.9 million. For the 9 months, revenue was RMB425.8 million, up 28.9%, as compared to RMB330.3 million.

Revenue from kindergartens for the quarter was RMB129.9 million, up 35.2%, as compared to RMB96.1 million. For the 9 months, revenue was RMB309.1 million, up 25.9%, as compared to RMB245.6 million. Xinqiao kindergartens contributed RMB12.7 million to revenue for the period.

Revenue from complementary education services for the quarter was RMB70.4 million, up 171.8%, as compared to RMB25.9 million. On a 9-months basis, revenue was RMB122.1 million, up 82.5%, as compared to RM66.9 million.

The revenue of élan English learning centers has increased by 2.5% to RMB24.7 million for the quarter and has increased 22.4% to RMB67.7 million for the 9-month period. Can-Achieve contributed RMB36.3 million to revenue for the period.

On Slide 19, cost of revenue for the quarter accounted for 57% of total revenue, as compared to 54.8% in the same period last year. On a 9-month basis, cost of revenue accounted for 60.8% of total revenue as compared to 62%.

Teaching staff cost, the primary cost contributor was 37.1% of total revenue for the quarter as compared to 37.7%. On the 9-month basis, staff cost was at 42.2% as compared to 44.2%.

Average student-teacher ratio was 9.9 for May 31, 2018, as compared to 9.6 at the same period of last fiscal year.

On Slide 20, gross profit for the quarter was RMB232.6 million, up 26.6%; gross margin down from 45.2% to 43%. The consolidated margin decrease was primarily due to the impact of new bilingual schools and dilution from élan English learning centers, camps and other business.

On a 9-month basis, gross profit was RMB521.6 million, up 30.5%. Gross margin was 39.2%, up from 38%.

For international schools, gross profit up 19.7% to RMB80.2 million for the quarter, with gross margin improved from 42.5% to 44.8%. For the 9-month period, gross profit up 35.8% to RMB193.2 million, with gross margin improved from 34.7% to 40.9%.

For bilingual schools, gross profit up 22.5% to RMB68.6 million for the quarter; with gross margin decreased from 44.1% to 42.4%. For the 9 months, gross profit up 25.9% to RMB156.5 million, with gross margin at 36.8%, slightly down from 37.6%. The decrease in gross margin was primarily due to the impact from 5 new opened bilingual schools in fiscal 2018, and the gross margin dilution impact was somewhere around 1%.

For kindergartens, gross profit up 38.2% to RMB68.7 million for the quarter, with gross margin improved from 51.7% to 52.9%. On a 9-month basis, gross profit up 30% to RMB141 million, with gross margin improved from 44.2% to 45.6%.

For the 9 months of fiscal year 2018, we added 10 new kindergartens and the gross margin dilution from the new kindergartens for the 9 months of 2018 was somewhere around 0.5%.

For complementary education services, gross profit up 36% to RMB15.1 million for the quarter, with gross margin down from 42.9% to 21.4%. On a 9-month basis, gross profit up 25.6% to RMB30.9 million, with margin down from 36.8% to 25.3%. The reasons for the gross margin decrease were mainly due to dilution from élan's headcount increase; lower margins from camp business and other business; also, the impact from Can-Achieve.

Slide 21, adjusted SG&A expenses for the quarter accounted for 12.9% of total revenue, down from 16%.

On a 9-month basis, adjusted SG&A expenses accounted for 17.4%, up from 16.4%.

The increase in selling, general and administrative expenses was primarily due to the increase in the compensation and the benefits paid to additional general and administrative staff members, and employee stock ownership plan-related expenses to retain talent, as well as increase in marketing expenses for brand promotion, merger and acquisition and other professional services-related expense to support the growing business as a listed company.

Continuing on Slide 22, adjusted EBITDA for the quarter was RMB187.6 million, up 29.2%; adjusted EBITDA margin was 34.7%, down from 35.7%. On a 9-month basis, adjusted EBITDA was RMB373.9 million, up 26.1%. Adjusted EBITDA margin was 28.1% as compared to 28.2%.

Adjusted net income for the quarter was RMB142.1 million, up 32.2%. Adjusted net margin was 26.3% as compared to 26.4%. On a 9-month basis, adjusted net income was RMB257 million, up 31.5%. Adjusted net margin was 19.3%, up from 18.6%

We incurred about RMB4.1 million foreign exchange gain and RMB7.1 million foreign exchange loss on the books during the third quarter and the first 9 months of 2018, respectively. The accounting gain and the loss was due to moving U.S. dollar denominated currency from offshore company to PRC subsidiary.

If this accounting gain and loss was excluded from the adjusted net income, we would have a net income of RMB138 million or 28.3% increase for the third fiscal quarter, and RMB264.2 million or 35.1% increase for the first 9 months of fiscal 2018.

Please refer to the table in Slide 23 for the condensed income statement, and Slide 24 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 bank balance in Slide 25. As of May 31, 2018, the Company's cash and cash equivalents and restricted cash totalled RMB2,702.2 million, or USD421.6 million as compared to RMB1,906.8 million as of February 28, 2018.

In Slide 27, in conjunction with the completion of the four strategic acquisitions, the Company updates its financial guidance for fiscal 2018 to include revenue from existing business and the four strategic investments. The Company expects its revenue to be between approximately RMB1,674 million to RMB1,700 million, representing a year-over-year growth between 26% and 28%.

The Company guided for an organic revenue of RMB1,630 million to RMB1,660 million, representing a year-over-year growth between 23% to 25%.

The Company also raises its guidance on average student enrollment to be between approximately 35,000 and 36,000, representing a year-over-year increase between 18% and 21%. The Company previously average student enrollment to be between 34,300 to 35,000, representing a year-over-year increase between 15% to 18%.

The Company revises its guidance on new school openings and expects 10 new schools openings for fiscal year 2018. The previous guidance was 12 new schools for fiscal 2018.

This guidance is based on the current market conditions and reflects the Company's current and preliminary estimates of market and operating conditions and customer demand, which are all subject to change.

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

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**Jerry He:** Thank you, Dora. Looking ahead, we are focused on our key growth initiatives, including accelerating the velocity of scaling our business both organically and through strategic acquisitions.

Thanks to our overall growth and profitable track record, we are ideally positioned to capitalize on the robust pipeline of opportunities in front of us and remain focused on achieving our goal of establishing Bright Scholar as the provider of the premium education services.

That's all we have in the form of prepared remarks. And now we will turn it over to Q&A. Operator, please?