

Bright Scholar (BEDU)
Fourth Quarter and Fiscal Year 2018 Earnings Conference Call
Thursday, November 8, 2018 8:00AM ET

Company Representatives:

Ruby Yim; Investor Relations Counsel
Jerry He; Chief Executive Officer
Dora Li; Chief Financial Officer

Analysts:

Sheng Zhong, Morgan Stanley
Terry Wang, Blue Lotus
Nicky Ge, China Renaissance
Alex Zhang, First Beijing Company
Robbie Lee, Generation Capital

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's Fourth Quarter and Fiscal Year 2018 Earnings Conference Call. (Operator Instructions). Today's conference is being recorded.

I would like to turn the meeting over to your host for today's conference, Ms. Ruby Yim, Investor Relations Counsel.

Ruby Yim: Thank you, Operator. Good morning, and good evening. Welcome to Bright Scholar's 2018 fourth quarter and fiscal year ended August 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 November the 2nd, 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 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 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 the net income attributable to the Company or other consolidated statements 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'll turn the call over to our CEO, Jerry He. Jerry?

Jerry He: Thank you Ruby. Good morning and good evening to our investors calling for our fourth fiscal quarter and the full fiscal year 2018 earnings call. For those who are new to our Company, we have included in our earnings presentation a brief corporate introduction from Slide 3 to 9, which you can download from our IR website. Again, all numbers are in RMB and all comparisons referred to year-over-year unless otherwise stated.

I will start today's call with the performance highlights, then update you on recent acquisitions, key initiatives and further priorities before turning the call to Dora for a financial review. After the remarks, we will take your questions.

Bright Scholar delivered a solid fourth quarter and 2018 growth exceeding our expectations.

Let's go to Slide 11 for our financial performance highlights. For the quarter, revenue grew by 41.5%, adjusted operating income up 101.9%, adjusted EBITDA up 270.8% and the adjusted net income up 672.2%.

For fiscal 2018, revenue grew by 24.4 -- sorry -- 29.4%, which exceeded the high end of our revised guidance. Adjusted operating income was up 40.1%; adjusted EBITDA up 33.6% and adjusted net income up 44.9%.

Next in Slide 12, you can see that our efforts in ramping up utilization and significant investment to expand our schools and work, and complementary business have paid off. The top line growth of this segment continues to expand off a large earning base for fiscal 2018, as international schools, bilingual schools and kindergartens grew over 16.6%, 29.2% and 28% respectively. Our complementary business grew by 101.3% as a result of the strong performance of summer camps, solid growth of Elan and the contribution from Can-Achieve.

Moving on to Slide 13, in addition to continuously broadening our service offering to enrich students' learning experience, we have expanded our school network and also intensified marketing initiatives to step up our enrollment efforts. As of August 31, 2018, we have a total of 65 schools with a total capacity for over 57,000 students. Our average student enrollment was strong, up 23.3% for the year, which also exceeded the top end of our guidance.

In addition, we maintained a steady increase in ASP for our bilingual schools and kindergartens is strong in Slide 14.

In Slide 15, you can see a recap of our remarkable outstanding performance in 2018. Bright Scholar provides our students with a premier education service that has consistently delivered excellent academic outcomes, with admissions to top domestic and global institutions. In China's high school entrance exam, the ZhongKao, 80.3% of grade 9 graduates from our bilingual schools were accepted into top public high schools in their respective regions. With international exam results, 92% of students from the 2018 graduating class were admitted to global top 50 institutions with 22 admitted to top 30 institutions in the US and 3 to Oxbridge.

Let's continue on to Slide 16. Let's continue on to S16. Our acquisitions and partnerships provide us with both the growth impetus and the operating platforms to expand our footprint & educational service offerings. Over the course of fiscal 2018, we completed **four acquisitions including** Xinqiao and Can-Achieve, Foundation Global Education and Shangxuebang, and expect to close the transaction on Zhejiang-based art training institution by the end of November 2018.

We continued our investment in 3 new targets in the first fiscal quarter of 2019. First, an 85% equity interest in a target company for a total consideration of RMB70.5 million. The company manages a chain of 8 kindergartens in Shandong province and it has a total capacity of 2,310 students, with a blended utilization rate of 66.7% as of June 30, 2018. Average student fees were around RMB18,000 per year in 2017.

Second, a 75% equity interest in Chengdu Yinzhe for a total consideration of RMB202.5million with an option to acquire an additional 15% of equity interest in the future. Chengdu Yinzhe primarily engages in providing online career and education mentoring services to overseas Chinese students under the brand name "Dreambigcareer". Since its establishment in 2015, it has successfully helped overseas Chinese students obtain over 4000 offers, including interviews, internships and full-time job offers across the globe. In the first half of 2018, the Company has a total revenue and net profit of 30million and 6.8million, respectively.

Third, Bournemouth Collegiate School ("BCS") in the United Kingdom. It is an established independent school, that offers day and boarding education to approximately 600 students from age 2 to 18, including local students and international boarders from more than a dozen countries. BCS will be our first school outside China as we seek to build a global network of schools.

Please turn to S17 for an update on our strategic partnership and collaborations, which are increasingly important in a dynamic education service industry. Our partnership with Country Garden allows us to grow our school network with an asset light model. We recently signed contracts to operate 12 kindergartens and one bilingual school with a total capacity of approximately 5,000 students. The collaboration with Fettes to build an international school in Guangzhou is progressing well with a tentative opening date of September 1, 2020. Beijing Normal University recently opened their campus for our recruitment event in October and the collaboration to build Huiyan International Education College is scheduled to open by September 2019.

Underscoring our confidence in the Company's prospects, we have been stepping our share repurchase since the announcement of the share repurchase program in April. Please refer to Slide 18 for a recap of recent announcements. As of October 31, 2018, the Company has repurchased about 3 million of American depository shares for an aggregate purchase price of approximately USD37 million.

We successfully raised USD190 million from the public offering earlier in the year, which put us in a very good strong financial position as we ended fiscal 2018 with USD463 million in cash. Going into fiscal 2019, we will continue to grow our kindergarten segment to build business skill, focus on light-asset model for strategic expansion in K-1 to K1-to-9 segments and expediting our global footprint in the complementary business. We are energized and confident that we will make further progress against our strategic priorities for fiscal 2019 and are fully

committed to creating sustainable value for our 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 give our financials. Dora, please?

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 press release for detailed information of our comparative financial performance on a year-over-year basis

Please turn to Slide 20. Our revenue for the quarter was RMB389.7 million, up 41.5%. On a fiscal year basis, revenue was RMB1,718.9 million, up 29.4%.

Revenue from international schools for the quarter was RMB117.4 million, up 22.9%, as compared to RMB95.5 million. On a fiscal year basis, revenue for international schools was RMB589.6 million, up 16.6%, as compared to RMB505.6 million.

For the reporting fiscal year, average student enrollment for international schools increased about 17%, with utilization rate improved from about 42% to around 49% for fiscal 2018.

Revenue for our bilingual schools for the quarter was RMB108.2 million, up 30.1%, as compared to RMB83.1 million. On the fiscal year basis, revenue for bilingual school was RMB534 million, up 29.2%, as compared to RMB413.4 million. For fiscal year 2018, average student enrollment for bilingual school increased about 18%, an ASP increase about 9%. Blended utilization for our bilingual schools was about 67% for fiscal year 2018.

Revenue from kindergartens for the quarter was RMB90.1 million, up 35.8%, as compared to RMB66.4 million. On a fiscal year basis, revenue was RMB399.2 million, up 28%, as compared to RMB312 million. Xinqiao kindergartens contributed RMB8.8 million of revenue for the quarter and RMB21.6 million for the reporting fiscal year. For the reporting fiscal year, average student enrolment for our kindergarten segment increased about 33% and the blended utilization for kindergarten was around 72%.

Revenue from complementary education services for the quarter was RMB74 million, up 143%, as compared to RMB30.5 million. On a fiscal year basis, revenue was RMB196.1 million, up 101.3%, as compared to RMB97.4 million.

The revenue for élan English learning centers has increased by 6.1% to RMB16.9 million for the quarter and increased 18.7% to RMB84.6 million for the fiscal year. Revenue from Can-Achieve contributed RMB26.2 million for the quarter and RMB62.5 million for the fiscal year. Revenue from our camps and study tour business contributed RMB10.4 million for the quarter and RMB11 million for the whole fiscal year; while revenue from Foundation Global Education contributed RMB6.7 million for the quarter and the fiscal year.

On Slide 21, cost of revenue for the quarter accounted for 72.6% of total revenue, as compared to 75.2% in the same period last fiscal year. On a fiscal year basis, cost of revenue accounted for 63.4% as compared to 64.8% in last fiscal year.

Teaching staff cost, the primary cost contributor was 49.5% of revenue for the quarter as compared to 55.5%. For the fiscal year basis, staff cost was 43.8% of total revenue compared to 46.5% for last fiscal year.

Average student-teacher ratio was 8.8 for August 31, 2018, as compared to 9.4 for the same period last year.

Moving to Slide 22, gross profit for the quarter was RMB106.7 million, up 56.2%; gross margin up from 24.8% to 27.4%. On a fiscal year basis, gross profit was RMB628.3 million, up 34.2%, and the gross margin was 36.6%, up from 35.2%.

For international schools, gross profit up 618.5% to RMB23 million for the quarter. And margin increased from 3.4% to 19.6%. Also, the fiscal year, gross profit for international schools up 48.5% to RMB216.2 million, with margins improved from 28.8% to 36.7%. The reason for the increase in margins for international school is due to the quick ramp-up of international school, lead to the top line growth of 16.6% and improved operating efficiency with cost of revenue only grew by 3.7% on a year-over-year basis.

For our bilingual Schools, gross profit up 14% to RMB30.6 million for the quarter and the gross margin decreased from 32.3% to 28.3%. For the whole fiscal year, gross profit for bilingual schools, up 23.8% to RMB187.1 million, with margins decreased from 36.6% to 35%. The margin dilution for our bilingual school sector was mainly due to the impact from the first year newly-opened bilingual school.

For our kindergartens, gross profit up 40.7% to RMB34.8 million for the quarter, and the margin, gross margin, improved from 37.2% to 38.6%. For the whole fiscal year, gross profit for kindergartens, up 32% to RMB175.8 million and gross margin improved from 42.7% to 44%.

Our complementary education services, gross profit up 35.2% to RMB18.3 million for the quarter, with margins, gross margins, decreased from 44.5% to 24.8%. On a fiscal year basis, gross profit for complementary education services, up 28.8% to RMB49.2 million, with margins decreased from 39.1% to 25%. The decrease in gross margin for complementary education services is mainly due to first schools margin decrease of our Elan business and also the impact of Can-Achieve.

On Slide 23, the adjusted SG&A expenses for the quarter accounted for 27.7% of total revenue, down from 32.3%. On a fiscal year basis, adjusted SG&A expenses accounted for 19.7% of total revenue, same as last year. The increase in selling, general and administrative expenses was primarily due to the increase in the compensation and 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, expenses related to

merger and acquisition and other professional services to support the growing business as a listed company.

Continuing to Slide 24, adjusted EBITDA for the quarter was RMB34.9 million, up 270.8% from RMB9.4 million in the same fiscal quarter last year. Adjusted EBITDA margin was 8.9%, up from 3.4%. For the reporting fiscal year, adjusted EBITDA was RMB408.8 million, up 33.6% from RMB305.9 million. Adjusted EBITDA margin was 23.8%, up from 23% in last fiscal year.

Adjusted net income for the quarter was RMB20.9 million, up 672.2%. Adjusted net margin was 5.4% as compared to a loss of 1.3% in the same period of last fiscal year. For fiscal year 2018, adjusted net income was RMB278 million, up 44.9% from RMB191.2 million, and adjusted net margin was 16.2%, up from 14.4%.

Please refer to the table in Slide 25 for the condensed income statement, and Slide 26 for the reconciliation for SG&A, EBITDA, and net income on a GAAP to non-GAAP basis.

Also, a quick note on our cash and bank balance in Slide 27. As of August 31, 2018, the Company's cash and cash equivalents and also restricted cash totalled USD463.3 million as compared to USD213.7 million for August 31, 2017.

For our guidance for fiscal 2019, please turn to Slide 29. For fiscal year 2019 ending August 31, 2019, we expect our total revenue to be between approximately RMB2,300 million and RMB2,350 million, representing a year-over-year growth between 34% to 37%.

We expect average student enrollment to be between approximately 41,600 to 42,000, representing a year-over-year increase between 13% to 15%.

We also currently expect to open 5 new kindergartens during fiscal year 2019.

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

Jerry He: Thank you, Dora. I am very pleased that we have consistently & consecutively delivered strong results year over year that even exceeded our internal expectations. We ended the year on a high note with a strong quarter on multiple front and very strong financially, positioning us extremely well for the future. We enter fiscal 2019 with a focus on our core business while expanding our portfolio of services, increasing the utilization of our schools, empowering our students and teachers, and delivering superior academic outcomes. I am confident that with our collaborative and inspired colleagues across Bright Scholar's networks and family of companies, unique and expanding broad-based business, focused strategic investments in educational services, we are well positioned for success today and into the future.