

**Bright Scholar (BEDU)**  
**Third Quarter 2020 Earnings Conference Call**  
**Thursday, July 23, 2020 8:00AM ET**

Company Representatives:

Ruby Yim, Investor Relations Counsel  
Jerry He, Executive Vice Chairman  
Dora Li, Chief Financial Officer

Analysts:

Sheng Zhong, Morgan Stanley  
Christine Cho, Goldman Sachs

**Presentation**

**Operator:** Good morning, and thank you for standing by for Bright Scholar's 2020 third fiscal quarter earnings conference call. At this time, all participants are 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.

**Ruby Yim:** Thank you, operator. Good morning and good evening. Welcome to Bright Scholar's third fiscal quarter ended May 31st, 2020, earnings call.

Joining me today are Mr. Jerry He, our Executive Vice Chairman; Ms. Wanmei Li, our Co-CEO; Mr. Andy (Zi) Chen, our Co-CEO; 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 22nd, 2020, after market close Eastern Time. If you have not, it is available on the IR section of our website.

Before we get started, let me remind you that today's call may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, the Company's business plans and development, which can be identified by terminology such as "may," "will," "expect," "anticipate," "aim," "estimate," "intend," "plan," "believe," "potential," "continue," "is/are likely to" or other similar expressions.

Such statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the Company's control, which may cause the Company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under 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 or 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 Executive Vice Chairman, Jerry He. Jerry?

**Jerry He:** Thank you, Ruby. Good morning and good evening. Welcome to Bright Scholar's third quarter fiscal 2020 earnings call.

During this difficult time, with the continuation and resurgence of COVID-19 around the world, our thoughts are with those affected by this unprecedented crisis. We extend our sympathies to those who are suffering personally from the impact of the pandemic, and our deepest gratitude to those helping fight the pandemic on the front line.

In face of so many challenges, I am incredibly proud of our teams around the globe showing exemplary dedication in ensuring our students' education journey to be least disrupted.

Let's begin our earnings report. For those who are new to our Company, we have included in our earnings presentation a brief corporate introduction from Slide 5 to 13, 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.

I will go through the prepared remarks on behalf of the senior management team, then turn the call over to Dora to provide more details to our financials before we take your questions.

Please turn to Slide 15 for the highlights of our third fiscal quarter and 9-month performance with detailed breakdown by respective businesses in Slide 16 and 17. Despite disruptions and short-term impact from COVID-19 pandemic, Bright Scholar's performance during the third fiscal quarter has demonstrated our continued progress in executing our growth strategy and highlighted the resilience of our underlying business.

The revenue for the quarter was RMB739.4 million, representing a year-over-year increase of 6.7%. Our net income was RMB68.0 million, which was negatively impacted by the mandatory closure of our schools, kindergartens and learning centers. For the 9-month period, the revenue was RMB2.714 billion, representing a year-over-year increase of 46.6%.

The adjusted gross profit, adjusted operating income, adjusted EBITDA increased by 41.9%, 23.9% and 37.3% year-over-year, respectively.

We are confident in the strength of our well-positioned growth platforms, namely, domestic K-12 schools, overseas schools, complementary education services and education technology. We are building good momentum as we accelerate the execution of our multi-facet growth strategy -- a brief update as follows.

First, on our Domestic K-12 Business, the demand for our K-12 educations has continuously been strong in spite of the pandemic, as shown in Slide 18. In comparison to the 9 months of last fiscal year, the average student enrollment increased by 10.6% year-over-year.

Underpinning the strong demand for our K-12 education services is our consistent industry-leading academic performance, as you may refer to in Slide 19. As of May 22, 2020, 93.6% of students in the 2020 graduating class of our international schools in China have received offers from the top 50 institutions, including 3 from Oxford, 3 from Cambridge, 4 from the University of Chicago and 12 from University of California, Berkeley.

One of our key growth strategies is to expand our nationwide network with an asset-light model through our strategic partnership and deep collaboration with Country Garden. As of the release date, we have entered agreements with Country Garden and other partners to add 61 kindergartens and 8 schools to our school network, with a total capacity of approximately 35,500 students in China.

Second, our Overseas Schools Business -- as with our education service providers, the business in the third quarter was impacted by COVID-19-related school closings mandated by governments, mainly with a refund of boarding and meals fees. While the full impact of this global pandemic remains uncertain for our overseas schools, we have taken measures to minimize disruptions and also put initiatives in place to reduce costs and to improve efficiency of the business during this challenging time and in anticipation of any potential resurgence for an extended period. Our global network of schools offers our students options to complete their study at different locations in the coming school year, along with our “virtual global school”.

Third, our Complementary Education Services has adapted its business strategy and taken actions to help mitigate any adverse impact on business and operation during the COVID-19 pandemic. We are pleased to report that classes resumed to close to 80% for some of the business units. In addition, we have realigned and redirected resources to domestic market, of which pandemic has been contained, to expand our business. We believe it is an opportune time to capitalize on the post-pandemic market opportunities with new products and services for the summer.

Fourth, Education Technology, our new business segment as shown in Slide 13. The adoption of emerging technology has profound impact on education industry. As a student-centered company, Bright Scholar has continuously been evolving to meet the changing needs of our students, as we

all navigate the unprecedented situation of COVID-19. While these changes present challenges in the short term, we are focused on the significant opportunities presented to us by new technology and learning behavior.

In the quarter, we advanced 2 strategic initiatives to capitalize on those opportunities. Early in May, we announced the acquisition of 51% equity interests in LInstitute. LInstitute provides high-quality and outcome-focused online training services, including Academic Olympiad, a comprehensive selection of academic courses, as well as other world-wide recognized international courses.

In June, we announced the launch of our virtual Future Global School with online-merge-offline (OMO) model, which will be in operation from the beginning of fiscal 2021. The virtual school will deliver high-quality international curriculum through an interactive and intelligent Learning Management System. It creates a new blended learning experience, combining the best of classroom and online education that offers human connection between teachers and students around the world.

The expansion of our service offerings in utilizing technology to enhance access to high-quality education will further strengthen our market leadership in the face of the pandemic as we usher a new age of learning.

While the pandemic is causing uncertainty and near-term impact, our revenue and profits continued to grow in the first 3 quarters, and our long-term goals and strategy remain unchanged. We expect most of our business will bounce back stronger post COVID-19. Key secular megatrends driving our business remain intact, and we remain committed to balancing operational discipline with continued investments in key strategic areas to drive long-term growth.

Our prudent financial management enabled us to have the financial flexibility to continue to invest in our business and return value to our shareholders. The Board of Directors has approved and declared a cash dividend of US\$0.12 per ADS, a 20% increase from the last fiscal year.

With that note, I turn the call over to Dora.

**Dora Li:** Thank you, Jerry. 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 21. Although heavily impacted by COVID-19, we still delivered solid result with top line up 6.7% to RMB739.4 million for the quarter, and up 46.6% to RMB2,714.4 million for the 9 months of fiscal 2020. The changes in revenue is primarily contributed by an increase in overseas schools revenue, which was acquired in July of 2019, partially offset by the decreased revenue in kindergartens due to the temporary mandatory closure of schools.

Domestic K-12 schools, include international schools, bilingual schools and kindergartens, was down 24.8% for the quarter and up 3.7% on a 9-month basis, as mentioned, primarily due to decrease in boarding and meal fees revenue for K1 to K12 schools and the tuition revenue decrease for kindergarten as a result of mandatory school closure impacted by COVID-19.

For our international schools, revenue for the quarter up 7.6%, primarily due to 12.9% increase of student enrollment. On a 9-month basis, revenue was up 17.7% due to a 13.9% increase in student enrollment.

Our bilingual schools' revenue for the quarter down 4.9%, due to decrease in meals and boarding fees. On a 9-month basis, revenue up 10.3%, mainly attributed to 11.8% increase in student enrollments.

Kindergartens' revenue for the quarter and the 9-month basis was down 96.0% and 26.7%, primarily due to decrease in tuition fees, meals and boarding fees, as result of mandatory school closure.

Overseas schools business is an important part of our global strategy. The revenue was RMB210.4 million for the quarter, accounted for 28.5% of total revenue. On a 9-month basis, revenue was RMB766.8 million, accounted for 28.2% of total revenue. Overseas schools grew 2,204% in revenue and 2,467% in gross profit in the 9-month basis for fiscal 2020.

Average number of students was 3,219 for the quarter and 3,246 for the 9-month basis.

The year-over-year growth in revenue and gross profit was primarily due to the inclusion of the acquired overseas schools during the comparable period.

Revenue from complementary education was down 3.2% for the quarter due to COVID-19 impact on training business, including Elan and Hangzhou Impression, as well as study tour and camps business. On a 9-month basis, revenue was up 23.1%.

On Slide 22, cost of revenue for the quarter was 60.5% of total revenue, compared to 54.1% in the same quarter of last fiscal year. On a 9-month basis, cost of revenue was 60.5% of total revenue, compared to 58.7% in the same period last fiscal year. The increase in cost of goods sold for the quarter and the 9 months was primarily due to the inclusion of the acquired overseas business on a comparable basis.

Teaching staff cost, the primary cost contributor, accounted for 34.3% of total revenue, down from 35.3% for the quarter. On a 9-month basis, teaching staff cost was 32.8%, down from 38.4%.

Our domestic K-12 schools' average student-teacher ratio for the 9 months of fiscal 2020 was 9.0 compared to 8.9 in the same period of last fiscal year.

On Slide 23, our gross profit and margins, gross profit was down 8.2% for the quarter and up 40.2% on a 9-month basis. And gross margin was down 6.4 percentage points to 39.5% for the quarter, and on a 9-month basis, gross margin was down 1.8 percentage points to 39.5%.

Continuing on Slide 24, for third fiscal quarter, adjusted SG&A as percentage of total revenue, was up to 26.9% from 19.5% in the same quarter last fiscal year. On a 9-month basis, adjusted SG&A as percentage of total revenue, was 22.8%, compared to 20.9% in the same period of last fiscal year. The increase in SG&A expenses for the quarter and 9 months was primarily due to the inclusion of the acquired overseas business on a comparable basis.

Adjusted SG&A as percentage of revenue for domestic K-12 schools for the quarter was up 9.4% from 8.4% in the same quarter last year, primarily due to the pre-opening expenses for the new international school planned to open in the coming school year. On a 9-month basis, adjusted SG&A as percentage of revenue for domestic K-12 schools was 7.7%, down from 10.7% in the same period of last fiscal year.

As percentage of group revenue, adjusted unallocated corporate expenses, mainly headquarter expenses, for the quarter was 5.5%, up from 3.7%. On a 9-month basis, it was 3.6%, down from 5.1%. Adjusted unallocated corporate expenses for the quarter was RMB40.4 million compared to RMB24.9 million last year due to a one-time option expenses adjustment. On a 9-month basis, it was RMB99.0 million compared to RMB94.8 in the same period last fiscal year. To elaborate more on the adjusted SG&A expenses, please refer to Slide 25.

Continuing to Slide 26, adjusted EBITDA for the quarter, down 25.5% to RMB164.5 million. Adjusted EBITDA margin was 22.2%, compared to from 31.9%. On a 9-month basis, adjusted EBITDA up 37.3% to RMB669.4 million. Adjusted EBITDA margin was 24.7%, compared to 26.3%.

Adjusted net income for the quarter, down 70.9% to RMB46.6 million. Adjusted net margin was 6.3%, compared to 23.1%. On a 9-month basis, adjusted net income down 7.3% to RMB333.6 million. Adjusted net margin was 12.3%, compared to 19.4%.

On Slide 27, our cash and bank balance, as of May 31, 2020, our cash and cash equivalents and restricted cash totalled RMB2,092 million, as compared to RMB2,433 million in February 29, 2020. We also have a short-term investment of RMB1,966 million as of May 31, 2020.

Moving on to Slide 29, underscoring the strong confidence in the Company's future prospects, the Company continues to execute its Second Share Repurchase Program. And the recent Insider Purchases have been made from the open market by our Chairlady, Executive Vice Chairman and Independent Director. Following the cash dividend of US\$0.10 per ADS in September of 2019, the Board of Director has declared a second cash dividend for US\$0.12 per ADS.

Continuing to Slide 30, we are reaffirming our revised guidance for fiscal year 2020. For the fiscal year ending August 31, 2020, we expect our total revenue in the range of RMB3.37 billion and RMB3.47 billion, representing a growth of 31% to 35% based on existing business and without potential acquisitions.

We also expect average student enrollment to be between approximately 51,800 and 52,800, representing an increase of 11% to 13%.

We are also in preparation to open 17 kindergartens and 1 international school for fiscal 2021. Beyond fiscal 2021, we have 7 schools and 44 kindergartens contracted for operation.

Please refer to the table in Slide 32 and 33 for the condensed income statement.

Slide 34 shows the reconciliation for SG&A, EBITDA and net income on GAAP to non-GAAP results.

Slide 35 shows our balance sheet and cash flow statement. For the 9 months ended May 31, 2020, the Company's capital expenditure was approximately RMB107.3 million, up 2.1% compared to the same period of last fiscal year.

And on Slide 36, shows our average student enrollment and average tuition fee across our network.

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

**Jerry He:** Thank you, Dora. Our transformative business model, multi-facet growth strategy, global school network, diversified portfolio, technology-enabled OMO offerings, and most importantly, our exceptional group of employees will enable us to fulfill our mission with distinction and position us well into the future.

We look forward to keep you apprised of our continued progress as we execute on our growth strategy to enhance value for both students and stakeholders.

This concludes our prepared remarks and we would like to open the call for questions. Operator, please.