

Bright Scholar (BEDU)
First Quarter 2019 Earnings Conference Call
Friday, January 18, 2019 8:00AM ET

Company Representatives:

Ruby Yim; Investor Relations Counsel
Jerry He; Chief Executive Officer
Derek Feng; CEO-Elect
Dora Li; Chief Financial Officer

Analysts:

Christine Cho, Goldman Sachs
Sheng Zhong, Morgan Stanley
Joan Song, Industrial Securities
Jian Han, Blue Lotus
Alex Zhang, First Beijing Company

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's 2019 first fiscal quarter ended November 30, 2018 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. (Operator Instructions). Today's conference is being recorded. (Operator Instructions).

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 2019 first fiscal quarter ended November 30, 2018 earnings call.

Joining me today are Mr. Jerry He, our Chief Executive Officer; Mr. Derek Feng, who will succeed Jerry as CEO following this call officially on Monday; and Ms. Dora Li, our CFO.

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 January the 17th, 2019 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; and 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 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 the U.S. GAAP.

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

But first, I will turn the call over to our CEO, Jerry He. Jerry?

Jerry He: Thanks, Ruby. First and foremost, on behalf of Bright Scholar, we wish everyone every happiness, good health and prosperity in 2019. And thanks to everyone who's joining our call today to review 2019 first quarter results.

Before we start reporting on our performance, I would like to welcome Derek on board. He will succeed me as the CEO effectively on next Monday. As you may note from our press release yesterday, Derek has extensive experience in the education sector. I can think of no one better to lead Bright Scholar, and look forward to working with Derek through the transition process and to continue advancing our next phrase of organic and acquisitive growth.

Now, I would like to pass the call to Derek to say hello and make a few remarks. Derek?

Derek Feng: Thanks, Jerry. Good day, everyone, and Happy New Year. It is a privilege to have the confidence of the board and be selected as Bright Scholar's next CEO. Bright Scholar has a strong portfolio of businesses that distinguishes itself in the market by delivering increasing and

lasting value to students and stakeholders.

Jerry has been instrumental in driving the exponential growth of the Company, and his team has accomplished admirable achievements in the past few years.

As you know, private education is rapidly growing and is evolving impacted by recent regulations. Every time there are changes, there are opportunities. Bright Scholar is well positioned to continue the growth trajectory with its sound strategy, strong businesses and ample capital.

I am honored to assume this position and confident to continue unlock the vast potential from our portfolio of businesses. I look forward to contributing my experience to lead the Company's next phase of growth and to continue delivering superior value to our shareholders.

Let me take this opportunity to congratulate Jerry on his promotion to Executive Vice Chairman, and look forward to working closely with him and the talented team to maximize long-term value and together, to take Bright Scholar to greater level of success. And I look forward to speaking and meeting all of you as we continue to provide updates and discuss our opportunities ahead.

Without further delay, I turn the call back to Jerry. Jerry?

Jerry He: Derek, thank you for your kind words. Again, welcome aboard. 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 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 initiatives and developments before turning over the call to Dora for financial review. After remarks, we will take your questions.

Please turn to Slide 11. Bright Scholar continues to successfully execute against our strategies. In the first fiscal quarter, we delivered revenue of RMB649.9 million, which represented 39.7% year-over-year growth; adjusted gross profit, up 37.6%; adjusted operating income, up 39%; adjusted EBITDA, up 34.7%; and adjusted net income, up 39.9% for the quarter.

Our high growth is driven by increased traction in our core business and increased revenue contribution for our new business segment.

Let's look at the detailed breakdowns of respective segments on Slide 12. Our focus on ramping up our schools, optimizing returns from our acquired business, and delivering premium education service to our students is continuing to drive our strong performance.

The top line growth of our respective business segments continued to expand for the quarter, as international schools, bilingual schools and kindergartens grew over 25.2%, 24.7%, 29.7% respectively.

Our complementary business grew by 244.7% as a result of the strong performance and contribution from Can-Achieve.

Slide 13 shows more details of our school expansion and enrollment increase, as market demand for quality education continued to be very strong. As of November 30, 2018, we have an average student enrollment of 41,423, an increase of 22.1% as compared to the first fiscal quarter 2018.

Total school capacity was 58,619 with blended utilization at 70.9%. We also have 4,693 teachers and instructors across all business lines.

Turning to Slide 14, we continue to maintain a competitive pricing across our network and all business segments to optimize utilization and to drive organic growth of our business.

Moving on to Slide 15, our performance is a reflection of our commitment to quality education and to delivering the best academic results for our students.

As of the release date, which is still early in admission season, approximately 60% of students in the 2019 graduating class of our international schools have received 356 offers from global top 50 institutions, including 1 from the University of Chicago and 4 from Oxbridge. We expect that many more students will receive offers from these elite institutions as the admission cycle continues.

Our business and operational fronts, please refer to Slide 16. We continue to progress on important strategic initiatives to expedite pace of growth. And I would like to provide a few updates before hand over the call to Dora for details of our financial results.

To pursue organic growth is one of the key initiatives to build our business scale. As of January 17, 2019, with the opening of 3 kindergartens in Guangdong, Shandong, and Hunan, we have a total of 68 schools, including 6 international schools; 15 bilingual schools and 47 kindergartens, covering 9 provinces in China. It provides a total capacity of over 58,619 seats. The guidance to open 5 new kindergartens is still well on track.

On strategic investments, which underpin our plan to accelerate business growth, I am pleased to report that as of the release date, we have completed 3 strategic acquisitions, and each of them represents a major milestone as we expand our global footprint and further broaden our complementary service offerings. First, our very first overseas school, Bournemouth Collegiate School in the UK; second, the renowned Zhejiang-based art training institution, Hangzhou Impression; and finally, the overseas career counseling company, Chengdu Yinzhe, which owns the famous brand DreambigCareer.

We continued to foster new collaborations and entered into strategic co-operation with the Changchun Normal University; second, a collaboration following Beijing Normal University. Bright Scholar plans to provide approximately 200 internship positions and recruit about 300 teachers in the next few years.

The deep collaboration with Country Garden is crucial to fast expanding our networks in asset-light way. As of December 31, 2018, we have signed contracts to operate a total of 13 kindergartens and 2 bilingual schools with a total capacity of approximately 6,900 students.

On our share repurchase program as shown in Slide 17, we have been very active since the inception of the program in April 2018. As January 17, 2019, the Company has repurchased about 4.4 million of its American depository shares for an aggregate purchase price of approximately USD52.7 million.

In concluding my remarks, Bright Scholar has delivered another strong quarter with robust growth from our core business, and increasing contribution from acquired assets in complementary business. Acquisitions remain a strategic imperative as we accelerate investments to establish our global footprint and expand our domestic business. With organic growth momentum driven by strong traction across respective segments, we continue to make tremendous progress towards our business and financial goals that delivers sustainable long-term value to our shareholders.

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

Dora Li: Thank you, Jerry, and many congratulations on your promotion, and also welcome to Derek on board. I look forward to working with the excellent team as we progress to our next phase of growth.

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 RMB649.9 million, up 39.7%.

Revenue from international schools for the quarter was RMB218.6 million, up 25.2%, as compared to RMB174.6 million.

Revenue from bilingual schools for the quarter was RMB194 million, up 24.7%, compared to RMB155.5 million.

Revenue from our kindergartens for the quarter was RMB137.7 million, up 29.7%, compared to RMB106.2 million.

Revenue from our complementary education services for the quarter was RMB99.6 million, up 244.7%, compared to RMB28.9 million.

Can-Achieve contributed RMB62.4 million to our revenue for the quarter.

On Slide 20, cost of revenue for the quarter accounted for 54.4% of total revenue, as compared to 53.4% in the same period last fiscal year.

Teaching staff cost, the primary cost contributor, was 34.4% of total revenue as compared to 37.9% the same quarter last fiscal year.

Average student-teacher ratio was 9.0 for November 30, 2018 as compared to 8.7 of same period last fiscal year.

Slide 21, gross profit for the quarter was RMB296.6 million, up 36.8% and gross margin was 45.6% compared to 46.6% in the same period last fiscal year.

For international schools, gross profit up 25.3% to RMB107.3 million, with gross margin improved from 49% to 49.1%.

For our bilingual schools, gross profit up 29.7% to RMB87.4 million for the quarter, with gross margin improved from 43.3% to 45%.

Our kindergartens gross profit was up 32.3% to RMB69.7 million for the quarter, with gross margin improved from 49.6% to 50.6%.

Complementary education services, gross profit up 190.5% to RMB32.2 million. Gross margin was 32.3% compared to 38.4% of the same quarter last fiscal year. The decrease in margin for the complementary education service sector is mainly due to Elan's incremental staff cost for opening 2 new centers and also the increase in rental cost as to comply with the recent regulation.

Slide 22, adjusted SG&A expenses for the quarter accounted for 17.7%, up from 17.3%. The increase in selling, general and administrative expenses was primarily due to the increase in the compensation and benefits incurred from additional general and administrative staff members; employee stock ownership plan-related expenses to retain talents; also the increase in marketing expenses for brand promotion, and cost associated with the acquisition and other professional services cost to support the business growth as a listed company; meanwhile, the incremental SG&A expenses also incurred from the acquired businesses.

Continuing to Slide 23, the adjusted EBITDA for the quarter was RMB217.4 million, up 34.7% from RMB161.4 million in the same fiscal quarter last year. Adjusted EBITDA margin was 33.5% compared to 34.7% the last fiscal quarter.

Adjusted net income for the quarter was RMB167.5 million, up 39.9%. Adjusted net margin was 25.8% as compared to 25.7% in the same fiscal quarter last year.

Please refer to the table in Slide 24 for the condensed income statement, and also 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 balance in Slide 26. As of November 30, 2018, the Company's cash and cash equivalents and restricted cash totalled RMB2,428.3 million or USD349.1 million, as compared to RMB3,164.1 million as of August 31, 2018.

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

We also expect our average student enrollment to be approximately between 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 the call back to Jerry for closing remarks.

Jerry He: Thank you, Dora. Our continued performance is a result of a deep investment in expanding network, broadening education products and services that empower our students to achieve academic excellence.

Looking ahead, we expect to expedite our growth by executing along our two strategic pillars -- first, to pursue our organic growth initiatives in optimizing operation efficiency; improving utilization; broadening service offerings and capitalizing synergistic opportunities from our acquired businesses. Second, to pursue strategic domestic and overseas investments and acquisitions for the acceleration of our business scale.

Bright Scholar has the right strategies, service portfolio and people in place to spur the next phase of our growth, and we are fully committed to delivering sustainable long-term value for our students, employees, shareholders and other stakeholders.

Last but not least, I would like to take this opportunity to thank all of you for your continuing interests and support for Bright Scholar. Fiscal 2019 is off to an outstanding start, and we look forward to building on this momentum as I pass the torch to Derek to focus on driving the organic growth while I focus on accelerating the pace of pursuing investment opportunities in schools and complementary businesses both domestically and abroad.

Jerry He: All right. 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.

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