

Bright Scholar (BEDU)
Fourth Quarter and Fiscal Year 2019 Earnings Conference Call
Friday, November 8, 2019 8:00AM ET

Company Representatives:

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

Analysts:

Christine Cho, Goldman Sachs
Tommy Wong, China Merchants Securities

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's fourth fiscal quarter and fiscal year 2019 earnings conference call. At this time, all participants are in a 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.

RubyYim: Thank you, Operator. Good morning and good evening. Welcome to Bright Scholar's fourth fiscal quarter ended August 31, 2019, earnings call.

Joining me today are Mr. Jerry He, our Executive Vice Chairman; 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 the call.

By now, you should have received a copy of our press release that was distributed on November 7, 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 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 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.

With that, I'll turn the call over to our Executive Vice Chairman, Jerry He. Jerry?

Jerry He: Thank you. Good morning and good evening to everyone who's joining our call today to review 2019 fourth fiscal quarter and the full fiscal year results.

You may notice that we have refined the design of our earnings presentation with substantiation across all sections including the Company overview. Do spare time to take a look. Again, for those who are new to our Company, we have included a corporate introduction from Slide 5 to 13, which you can download from our IR website.

I will start today's call with an update on our recent acquisitions, then turn the call to Derek to provide an annual review of our business and operational performance, and share with you our strategic initiatives in integration and optimization synergies from our fast-expanding portfolio of businesses. We will then pass the call to Dora for a detailed financial review before we take your questions.

Let's turn to Slide 15. Fiscal 2019 marks a transformational year as we heightened M&A activities to scale up our global business, expand our global footprint and broaden our service offerings. We have successfully expanded our global school network through organic and acquisitive growth; in particular, the acquisition of Bournemouth Collegiate School, St.

Michael's School, Bosworth Independent College and CATS Colleges, which firmly established our positions outside of China.

I am pleased to report that we have completed these transactions by September 2019, and as of November 7, 2019, we own 7 schools in the UK and 1 boarding school in the United States, with a total of more than 2,500 students enrolled.

The expansion into UK and U.S. markets represent merely a first step in our long-term goal of growing our footprint beyond China and capitalizing on global growth opportunities. As of this release date, we have a global network of 88 schools with a total student capacity of over 67,000 students.

As I mentioned in our fiscal third quarter earnings call, the financial impact of these transactions is significant, as it expands our revenue streams and structurally changes our revenue mix. The impact will be fully reflected in the revenue growth for fiscal 2020. And I will leave it to Dora to provide you with more details later.

As a Company with commitment to delivering academic excellence, we take great pride in our reputation as a trusted provider of premier education services. The strategic investments over the last 2 fiscal years are pivotal to accelerate the pace of building Bright Scholar into a global premier education service company. And our goal is to create the best learning experience for our students and substantial values for our stakeholders.

With this positive note, I turn the call over to Derek. Derek, please.

Derek Feng: Thank you, Jerry. Good morning and good evening. Bright Scholar delivered the third consecutive year of robust top line growth well ahead of expectations in fiscal 2019.

Let's turn to Slide 16 for our fiscal fourth quarter and full year results. Factoring in the contributions from CATS, the revenue for the quarter was RMB 711.6 million. It represents a year-over-year growth of 82.6%, of which RMB 121.8 million came from CATS.

Whilst the adjusted gross margin was up 102.3%, we incurred operating and net income loss as a result of seasonality impact from CATS and M&A-related costs incurred to drive long-term growth.

For fiscal 2019, the revenue growth exceeded top end of our revised guidance by 4.2 percentage points to 49.1%, with 31.3% from organic growth and 17.8% from acquisitions.

Adjusted gross profit, adjusted operating income, adjusted EBITDA and adjusted net income grew by 57.5%, 22%, 20.2% and 15.2% respectively.

As Jerry mentioned, fiscal 2019 marked a transformational year of Bright Scholar. For the Company, fiscal 2019 also represented a significant inflection point in our business scale, growing to RMB 2.563 billion, a 59.1% increase from RMB 1.719 billion in fiscal 2018, a 92.9% increase from RMB 1.328 billion in fiscal year 2017, the year of our IPO.

Furthermore, the growth of our overseas schools and complementary education segments have significantly expanded and diversified our business revenue streams as shown in Slide 17. The overseas schools and complementary education segments accounted for 26.2% of the total revenue for fiscal 2019 as compared to 11.4% of the total revenue for fiscal 2018. The revenue contributions from the 2 segments will be even more for fiscal 2020. I will leave it to Dora to share with you more details in her remarks.

You may also note that we have grouped our portfolio of businesses in 3 major segments, namely, domestic K-12 that includes international schools, bilingual schools, and kindergartens in China; overseas schools that include all our overseas schools such as Bournemouth, St. Michael's, Bosworth and CATS; and complementary education that includes language training, overseas study counseling, career counseling, camps and others.

Moving on to Slide 18, as you can see from the charts, our business is highly scalable, and we have a successful track record of expanding our global school capacities. We have expanded our global network of schools by 27.7% to 83 schools in fiscal 2019 including 6 schools from overseas. Our capacity maintained a steady growth of 13.3% to a total capacity of 65,096 seats with 3,357 from overseas schools segment. We have strong enrolment growth of 27.4% for fiscal 2019, as our investment in marketing continued to yield returns.

Our unwavering commitment to provide very high-quality education services for our students has, in turn, attributed to our solid organic growth, underpinning strong enrolment and a steady increase in ASP as shown in Slide 19.

For fiscal 2019, across international schools, bilingual schools and kindergartens in our domestic K-12 segment, the average tuition fees per student continued to maintain healthy growth.

Turning to Slide 20, our ability to help students to achieve academic excellence consistently has further solidified our market leadership in the international and the bilingual school education space. Our students continued to achieve superb results with 93% of our 2019 graduating class were admitted to global top-50 institutions and 97% were admitted to global top-100 institutions.

Domestically, we have also achieved brilliant results in China Zhongkao with 82% of our grade 9 graduates from bilingual schools have been admitted into local top public high schools in 2019.

With our fast-growing portfolio of businesses, I'd like to share with you the near-term strategic initiatives I believe of paramount importance to effectively managing and continuously growing our global business. Please turn to Slide 21. The focus is on our 3 major business segments and on enhancing our capabilities.

Let's move on to Slide 22. We further advance operating synergies within the Group across 4 key business functions in areas of student recruiting with the leads-sharing programs and joint recruitment events to optimize referral and cross-sell opportunities; in the development of programs to optimize synergies between our UK schools and our summer camps & study tours; in teachers' training and recruitment by integrating CATS training model into ours and recruit foreign teachers through Can-Achieve and CATS; and in the area of IT by sharing part of DBC CRM/operating system with Bright Scholar businesses.

We are seeing tremendous opportunities from our growing portfolio, and integration is key to unfold these opportunities, in particular, our existing overseas schools. Driving integration of existing overseas business is one of our top strategic imperatives.

Please turn to Slide 23 for the broad framework of our initiatives. Our integration plan is proceeding well, and we have made measurable progress in a number of areas. We are developing a culture of collaboration among our portfolio companies at the same time as we integrate the overseas schools into the Bright Scholar family of companies. This collaboration will focus on near to mid-term opportunities across 7 supporting functions to maximize synergies and optimize operational efficiency.

In concluding my remarks, we are extremely proud of the tremendous progress our Bright Scholar team has made throughout the year, executing against our ambitious goal of building Bright Scholar into a global premier education service company. Our overarching strategy to expand our business portfolios, enhance academic performance, strengthen operational performance, optimize synergies from acquired businesses, broaden our service offerings and diversify our revenue streams will continue to deliver.

As fiscal 2020 gets underway, we are working from a strong position to vigorously pursue our exciting growth opportunities through 3 major business segments: domestic K-12, overseas schools and complementary education. Our teams remain focused on over-achieving our targets laid out last year and delivering sustainable 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, 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 25, Fiscal 2019 marks a transformational year of Bright Scholar; also represents a significant inflection point in our business scale. Our revenue grew 49.1% year-over-year to RMB 2.563 billion, exceeding our top line guidance by 4.2%. For the quarter, revenue was RMB 711.6 million, up 82.6%.

Revenue from domestic K-12 segment, including international schools, bilingual schools and kindergartens, maintained strong momentum, with revenue up 24.1% to RMB 1.89 billion for the year, and 24.6% to RMB 393.5 million for quarter.

We have completed CATS transaction in early July, and consolidated CATS for July and August, 2 months. CATS contributed RMB 121.8 million revenue for the quarter and the fiscal year.

Total revenue from our overseas schools, including Bournemouth School, for the quarter was RMB 148.5 million and RMB 181.8 million for the fiscal year. Overseas school revenue accounted for 20.9% and 7.1% of total revenue for the quarter and on a yearly basis.

We have successfully grown our complementary education through organic and acquisition. Revenue from complementary education for the quarter was RMB 169.6 million, up 129.3%, accounted for 23.8% as compared to 19%. On a yearly basis, revenue was RMB 490.8 million, up 150.4%, accounted for 19.1% of total revenue compared to 11.4% last fiscal year.

Revenue contribution from acquired businesses, including Can-Achieve, Foundation, Hangzhou Impression and DBC, was approximately RMB 285 million or 58% of the segment for the fiscal year.

On Slide 26, we remain focused on strengthening school operation efficiency, and improving our cost efficiency.

Cost of revenue for the quarter accounted for 70.2% for total revenue, down from 72.6%. On a yearly basis, cost of revenue was 61.9%, down from 63.4%.

Teaching staff cost, the primary cost contributor, accounted for 37.8% for the quarter, down from 49.5%. On a fiscal year basis, staff cost was 38.2%, down from 43.8%.

Our domestic K-12 average student-teacher ratio for fiscal year 2019 was consistent with last year at 8.8.

Continue to Slide 27. During the past fiscal year, we have successfully expanded our global school network through organic and acquisitive growth, and also through strategic investment to support our long-term growth, and some short-term impact from M&A and M&A-related cost.

For the 4th fiscal quarter, adjusted SG&A expenses as a percentage of revenue was 35.6%, up 7.9%, of which 4.9% was due to M&A and M&A-related expenses. For the fiscal year, adjusted SG&A, as percentage of revenue, was 25%, up 5.3% compared to that of last fiscal year, while M&A and M&A-related cost accounted 3.2% for the increase. Adjusted SG&A for existing or organic business as a whole was 20.7%, compared to 18.6% of last fiscal year.

Move to Slide 28. Slide 28 elaborates adjusted SG&A, as percentage of revenue, by expense type. The increase was primarily due to the increase in the compensation and the benefit incurred from additional general and administrative staff to support business expansion; marketing expenses to promote our brand; M&A-related cost, 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.

On Slide 29, Slide 29 shows our gross profit and the gross profit margin. Our gross profit and gross profit margin grew steadily across segments for the quarter and fiscal year. Gross profit was RMB 212.1 million for the quarter and RMB 977 million for the year, up 98.8% and up 55.5%, respectively. Gross margin was 29.8%, up from 27.4% for the quarter, and 38.1% for the year, up from 36.6%.

For domestic K-12 segment, including international schools, bilingual schools and kindergartens, gross profit for the quarter was RMB 122 million, up 38.1%, and RMB 755 million for the year, up 30.4%.

Gross margin for domestic K-12 was 31%, up from 28% for the quarter, and the gross margin was 39.9% for the year, up from 38%.

For our overseas schools, gross profit for the quarter was RMB 25.2 million with a gross margin of 17%. On a yearly basis, gross profit was RMB 36.3 million, with a gross margin of 19.9%.

For complementary education, gross profit for the quarter was RMB 64.9 million, up 254.5%, and RMB 185.7 million for the year, up 278.5%. Gross margin for complementary education was 38.3%, up from 24.8%. For fiscal year 2019, gross margin for complementary education was 37.8%, up from 25%.

Continuing on Slide 30, as mentioned before, CATS was consolidated for July and August and incurred a loss for the last 2 month. This was due to the seasonality impact, as most of overseas schools have minimal term revenue recognized in these 2 months. Therefore, the total adjusted EBITDA for the quarter was RMB 4 million, including loss of RMB 36.6 million from CATS, as compared to RMB 34.9 million in the fourth quarter last fiscal year.

Adjusted EBITDA margin was 0.6% compared to 8.9% last quarter. On a yearly basis, adjusted EBITDA was RMB 491.6 million as compared to RMB 408.8 million last year. Adjusted EBITDA margin was 19.2% compared to 23.8%.

Adjusted net loss for the quarter was RMB 32.1 million, also including net loss of RMB 39.1 million from CATS, compared to RMB 23.8 million income last fiscal quarter.

Adjusted net margin was (4.5%) as compared to 6.1%.

On a yearly basis, adjusted net income was RMB 327.7 million compared to RMB 284.6 million.

Adjusted net margin was 12.8% as compared to 16.6%.

Moving on to guidance, our guidance for fiscal 2020, please turn to Slide 32. For fiscal year ending August 31, 2020, we expect our total revenue in the range of RMB 4 billion to RMB 4.1 billion, representing a year-over-year growth of 56% to 60% based on existing businesses and without potential acquisitions.

We expect our average student enrollment to be between approximately 53,200 and 53,600, representing a year-over-year increase of 14% to 15%. We expect to open 7 new kindergartens during fiscal 2020.

We are also in preparation to open 11 kindergartens, 2 bilingual/international schools for 2021. Beyond 2021, we have 4 schools and 33 kindergartens contracted for operation.

Please refer to the table in Slide 34 and 35 for the condensed income statement.

And Slide 36 shows a reconciliation for SG&A, EBITDA and income on a GAAP to non-GAAP results,

A quick note on our cash and bank balance in Slide 37. As of August 31, 2019, the Company's cash and cash equivalents and restricted cash totalled RMB 3,265 billion or USD 446.4 million, as compared to RMB 2057 billion as of May 31, 2019.

For the fiscal year ended August 31, 2019, the Company's capital expenditure was approximately RMB 155 million, up 32% as compared to last fiscal year. The capex spending including capex for new kindergartens openings and improvement and ramp-up capex for our existing schools.

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

Derek Feng: Thank you, Dora. This past fiscal year has been a transformational one for us the expansion of our global network of schools; and the beginning of realizing some of the key benefits from the acquisitions made over the last few years have formed a strong foundation for our future success.

As we begin the new fiscal year, we see tremendous focus and energy throughout the Company as we execute our near and long-term strategy. This passion will be a tailwind as we drive to accelerate global business expansion, and delivering strong results in the quarters to come.

This concludes our prepared remarks and we'd like to open the call for questions. Operator?