Bright Scholar (BEDU)
Third Quarter 2019 Earnings Conference Call
Friday, July 19, 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:
Elsie Sheng, Morgan Stanley
Christine Cho, Goldman Sachs
Kevin Li, China Renaissance

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's 2019 third fiscal quarter 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 2019 third fiscal quarter ended May 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 July 18, 2019 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 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 net income attributable to Company or other consolidated statement 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 Executive Vice Chairman, Jerry He.

Jerry He: Thank you, Ruby. Thanks to everyone who's joining our call today to review our 2019 third fiscal quarter results.

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 website.

I will start today's call with an update on our recent acquisitions; then pass to Derek to highlight our business performance for the quarter and then share some of our key initiatives and developments. Dora will then provide a detailed financial review before we take your questions.

Please turn to Slide 11. We continue to make great progress in expanding our global footprint with two further overseas acquisitions. Following the completion of the Bournemouth Collegiate School (BCS) in November 2018, we have entered into agreements to acquire 100% equity interests in St. Michael's School, an established UK independent school, which offers day and boarding education for age 3 to 18; and Bosworth Independent College in England, which provides independent boarding education to students from UK and aboard from age 13 to 19; and CATS Colleges Holdings Limited, an international school network focused on the provision of quality education services to international students in their 7 campuses and 10 international languages schools across UK, U.S., Canada and China.

Over the course of the quarter, we have also completed 2 strategic investments in Sannew American Middle School and Shandong-based Qiqiaoban to expand our domestic network of international school and kindergartens.

Upon completion of these transactions, and in addition to our domestic network of 7 international schools, 15 bilingual schools and 55 kindergartens, we have 8 schools and 10 learning centers outside of China across UK, U.S. and Canada. And the potential revenue contributions of these acquired assets will structurally change our revenue mix. In fiscal year 2018, the combined revenue of these overseas schools, including BCS, was approximately GBP108 million or approximately RMB943 million compared to our fiscal 2018 revenue of RMB1.72 billion.

Our multiyear strategic investments are pivotal to scaling our business, expanding our global school network, enhancing education quality and broadening our educational service offerings that distinguishes Bright Scholar as a global premium education service provider.

We are proud of the progress we have made in building a balanced portfolio of businesses with an increasingly diversified revenue mix that creates sustainable value for our shareholders and stakeholders.

Let me turn the call over to Derek. Derek, please.

Derek Feng: Thank you, Jerry. Good morning and good evening. We are very pleased to raise our full year guidance on the continued strong momentum in both the acquisitive and organic growth of our businesses.

Let me start with the highlights of our business and operational performance in Slide 12. We have an outstanding performance of strong year-over-year growth across all of our businesses in third quarter. Factoring in the contributions from Sannew, Qiqiaoban, Chengdu Yinzhe (DBC), Hangzhou Impression, Bournemouth School and other acquired companies, the revenue for the quarter was RMB692.8 million. It represents a year-over-year increase of 28.1%.

The adjusted gross profit, adjusted operating income, adjusted EBITDA and adjusted net income increased by 37.9%, 13.8%, 17.7% and 10.8% year-over-year, respectively. For the 9-month period, revenue was RMB1,851.4 million, representing a 39.3% year-over-year increase, with 21.0% from organic growth and 18.3% from acquisitions.

The adjusted gross profit, adjusted operating income, adjusted EBITDA and adjusted net income increased by 48.2%, 32.6%, 30.4% and 38.0% year-over-year, respectively.

Slide 13 shows you the detailed breakdown by business segment. The top line growth of our respective business segments continued to increase for the quarter, with revenue of international schools, bilingual schools, kindergartens and complimentary services segment grew over 26.3%, 20.6%, 21.1% and 38.3% respectively. On a 9-month basis, they grew over 25.1%, 22.0%, 25.1% and 163.2% respectively.

In November 2018, we completed acquisition of our first overseas school, Bournemouth. We expect the revenue contribution from overseas segment will increase substantially upon completion of the respective transactions.

Please turn to Slide 14 for details on our rapid network expansion. As of May 31, 2019, with the addition of Sannew and Qiqiaoban kindergartens, we have a total of 78 schools including 7 international schools; 15 bilingual schools and 55 kindergartens covering 9 provinces in China and 1 overseas school in UK. The school portfolio has a total capacity of 62,446 seats.

Our deep collaboration with Country Garden and other partners is crucial to the expansion of our school network. As of the release date, we have entered into 37 agreements with Country Garden and other partners to operate and manage 33 kindergartens and 4 bilingual schools, with a total capacity of approximately 17,200 students.

The sales and marketing initiatives and investments in maintaining competitive pricing we made have generated substantial returns in student enrolments and a positive impact on utilization. Please turn to Slide 15 for details. In comparison to the first 9 months of the last fiscal year, the average student enrolment increased by 26.5% year-over-year to 44,632, with blended utilization rate significantly increased to 72.9% from 61.8%.

What unites our Company is a commitment to excellence across all business lines in helping our students to achieve academic success. On this score, I am very proud to report that our students consistently deliver remarkable academic results as shown in Slide 16. As of release date, 93.4% of our 2019 graduating students participating in AP, A Level and DP programs have received over 750 offers from the global top 50 institutions including 4 from Oxbridge, 3 from University of Chicago and 5 from UC Berkeley.

Over the last 6 months since I joined the Company, my appreciation has deepened for the powerful ways BEDU and our acquired business complement each other. We have a shared culture across the entire organization that values integrity, excellence and innovation with an unwavering commitment to provide premium educational experiences for our students. The consecutive quarters of strong performance demonstrate our execution capabilities and position us for continued future success as a global premium education service provider.

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 18. Our revenue for the quarter was RMB692.8 million, up 28.1%. On a 9-month basis, revenue was RMB1,851.4 million, up 39.3%.

Revenue from our international schools for the quarter was RMB225.9 million, up 26.3%, as compared to RMB178.9 million. For the 9 months, revenue for international schools was RMB590.7 million, up 25.1%, as compared to RMB472.2 million. Revenue contribution from Sannew for the quarter and for the 9 months was RMB5.6 million.

Revenue from bilingual schools for the quarter was RMB195.1 million, up 20.6%, as compared to RMB161.7 million. On a 9-month basis, revenue was RMB519.6 million, up 22.0%, as compared to RMB425.8 million.

Revenue for kindergartens for the quarter was RMB157.4 million, up 21.1%, as compared to RMB129.9 million. On a 9-month basis, revenue was RMB386.6 million, up 25.1%, as compared to RMB309.1 million.

Revenue contribution from Xinqiao and Qiqiaoban kindergartens was RMB20.0 million for the quarter and RMB38.1 million on a 9-month basis.

Revenue from BCS, our first overseas school, for the quarter was RMB17.2 million and on a 9-months basis, revenue was RMB33.3 million.

Revenue from complementary education services for the quarter was RMB97.2 million, up 38.3%, as compared to RMB70.4 million. On a 9-month basis, revenue was RMB321.2 million, up 163.2%, as compared to RMB122.1 million.

Revenue contribution from acquired business, including Can-Achieve, Foundation, Hangzhou Impression and DBC was about RMB58.2 million for the quarter and RMB209.1 million on a 9-month basis.

On Slide 19, cost of revenue for the quarter accounted for 54.1% of total revenue, as compared to 57.0% in the same period last fiscal year. On a 9-month basis, cost of revenue accounted for 58.7% of total revenue, as compared to 60.8% in the same period last fiscal year.

Teaching staff cost, the primary cost contributor, was 35.3% of total revenue for the quarter as compared to 37.1%. For the 9 months, staff cost was 38.4% of total revenue as compared to 42.2%.

Average student-teacher ratio was 8.8 for May 31, 2019 as compared to 8.5 of same period last fiscal year.

On Slide 20, gross profit for the quarter was RMB318 million, up 36.8%. Gross margin improved from 43% to 45.9%. On a 9-month basis, gross profit was RMB764.9 million, up 46.6%. Gross margin was 41.3%, up from 39.2%

For international schools, gross profit up 37.0% to RMB109.9 million for the quarter, with gross margin improved from 44.8% to 48.7%. On a 9-month basis, gross profit up 30.5% to RMB252.2 million, with gross margin improved from 40.9% to 42.7%.

For bilingual schools, gross profit up 29.1% to RMB88.5 million for the quarter, with gross margin improved from 42.4% to 45.4%. On a 9-month basis, gross profit up 31.5% to RMB205.9 million, with gross margin improved from 36.8% to 39.6%.

For kindergartens, gross profit up 18.0% to RMB81.1 million for the quarter, with gross margin decreased from 52.9% to 51.5%. On a 9-month basis, gross profit up 24.0% to RMB175.0 million, with gross margin decreased from 45.6% to 45.3%. The dilution of margin was primarily due to the newly opened kindergartens.

For overseas schools, gross profit was RMB8.9 million for the quarter, with gross margin of 51.4%. On a 9-month basis, gross profit was RMB11.0 million, with gross margin of 32.9%.

For complementary education services, gross profit was up 97.5% to RMB29.6 million for the quarter, with gross margin improved from 21.4% to 30.5%. For the 9 months, gross profit was up 292.8% to RMB120.8 million, with gross margin improved from 25.4% to 37.6%. The increase in margin was primarily due to the margin improvement of Elan and the margin contribution from other acquired complementary business.

Slide 21, adjusted SG&A expenses for the quarter accounted for 19.5% of total revenue, up from 12.9%. On a 9-month basis, adjusted SG&A expenses accounted for 20.9% of total revenue, up from 17.4%. 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; ESOP-related expenses to retain talents; marketing expenses for brand promotion; and cost associated with acquisitions and other professional services to support the business expansion growth as a listed company, as well as the incremental SG&A expenses incurred from the acquired businesses.

Excluding M&A-related expenses, adjusted SG&A expenses for the quarter accounted for 18.7% of total revenue, and on a 9-month basis, it would be 19.7%.

Continuing to Slide 22, adjusted EBITDA for the quarter was RMB220.9 million, up 17.7%. Adjusted EBITDA margin was 31.9% compared to 34.7%. For the 9 months, adjusted EBITDA was RMB487.6 million, up 30.4%, and adjusted EBITDA margin was 26.3% compared to 28.1%.

Adjusted net income for the quarter was RMB160.2 million, up 10.8% from RMB144.6 million. Adjusted net margin was 23.1% as compared to 26.7%. On a 9-month basis, adjusted net income was RMB359.8 million, up 38.0% from RMB260.8 million, and adjusted net margin was 19.4% as compared to 19.6%.

Also, please refer to the table in Slide 23 for the condensed income statement and Slide 24 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 25. As of May 31, 2019, the Company's cash and cash equivalents and restricted cash totalled RMB2,057.1 million or equivalent of USD298 million, as compared to RMB2,522.9 million as of February 28, 2019. For the 9 months ended May 31, 2019, the Company's capital expenditure was approximately RMB105.0 million, up 52.8% from the same period of last fiscal year.

We are raising our guidance for 2019 fiscal year with a recap on Slide 27. For the fiscal year 2019 ending August 31, 2019, we expect our guidance for total revenue to be between RMB2,390 million and RMB2,460 million, representing a year-on-year grow between 39% and 43%.

We expect our average student enrollment to be between approximately 44,000 and 45,000, representing a year-over-year increase between 20% and 23%. We opened 3 new kindergartens during the 2019 fiscal year.

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

Derek Feng: Thank you, Dora. The consecutive quarterly and yearly growth results continue to demonstrate our commitment to generate sustainable revenue growth. Our businesses -- our students place great value in our pursuit of excellence in our performance, as we continue to accelerate the pace of scaling our business both organically and through strategic acquisitions.

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