

Bright Scholar (BEDU)
Second Quarter FY2020 Earnings Conference Call
Wednesday, April 29, 2020 8:00AM ET

Company Representatives:

Ruby Yim, Investor Relations Counsel
Derek Feng, Chief Executive Officer
Dora Li, Chief Financial Officer

Analysts:

Christine Cho, Goldman Sachs
Elsie Sheng, Morgan Stanley

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's FY2020 second 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 second fiscal quarter ended February 29, 2020 earnings call.

Joining me today are 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 April the 28th, 2020, after market close U.S. 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 statements 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 statement prepared in accordance with 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 CEO, Derek Feng. Derek?

Derek Feng: Thank you, Ruby. Thank you, everyone, who's joining our call today to review 2020 second fiscal quarter results.

Before my remarks, a few words on the pandemic. The outbreak of COVID-19 is affecting millions of lives around the world and causing unprecedented disruption to education across all ages. Our hearts and thoughts go out to the people who have been affected by this unprecedented event, and we appreciate the healthcare workers, local communities, and governments around the world who are on the front line working to contain this coronavirus.

Let's begin. Again, for those who are new to Bright Scholar, we have included in our earnings presentation a brief corporate introduction from Slide 5 to Slide 13, which you can download from our IR website.

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

I will begin first before passing the call to Dora to provide a detailed financial review and an update on our guidance. We will keep the remarks brief to allow more time for Q&A.

Please turn to Slide 15 for the highlights of our second fiscal quarter and first half performance with detailed segment breakdown on Slide 16 and Slide 17. Following a strong start in our first fiscal quarter, we have delivered even better performance during the second fiscal quarter, which demonstrates the strength of our operation.

Compared to the second quarter of last fiscal year, the revenue grew by 72.4%; gross profit, net income and adjusted EBITDA increased by 104%, 683% and 209.4%, respectively. Driven by the operating initiatives started last fiscal year, the revenue, gross profit, net income and adjusted

EBITDA for the first half of this fiscal year increased by 70.5%, 74.6%, 49.7% and 89.3%, respectively.

In particular, the domestic K-12 segment delivered remarkable margin improvements. During the first half of this fiscal year, the adjusted gross margin and adjusted EBITDA margin increased by 4.2 and 7.2 percentage points, respectively.

In addition, our adjusted unallocated corporate expenses, which were mainly from our headquarter, in the second quarter and first half of this fiscal year, decreased by 9.4% and 16.2% respectively, despite of the increasing business scale and complexity.

Turning to Slide 18 and 19, our enrollment continues its solid traction driven by organic growth. The average student enrollment of first half of fiscal 2020 increased by 23.4% to 51,879 students, with blended utilization improved to 77.2% from 71%.

The academic accomplishments of our students are the shining stars of Bright Scholar as shown in Slide 20. As of April 2, 2020, 92.1% of students in 2020 graduating class of our international schools have received over 970 offers from the global top 50 institutions including 3 offers from Oxford, 3 offers from Cambridge, 4 offers from University of Chicago and 9 offers from UC Berkeley.

We entered second half fiscal year of 2020 with focus on implementing a number of exciting strategic initiatives to drive organic growth and achieve synergies with acquired businesses. Please turn to Slide 21 for the highlights. Fettes College Guangzhou, an ultra-elite international school, is on schedule to open this coming fall.

Our Online Merge Offline OMO initiatives was accelerated shortly after the outbreak of COVID-19 virus. The shared services center aimed to provide a central operational support function in UK is on schedule to be in operations by this summer. We expect these initiatives will allow us to increase value from acquired businesses.

Our deep collaboration with Country Garden has always been crucial to the expansion of our school network. As of the release date, we have entered into agreements with Country Garden to operate a total of 53 kindergartens and 7 schools with a total capacity of approximately 30,000 students.

There is little doubt that we are operating in an environment with an unprecedented level of uncertainty. While the full impact of this global pandemic remains uncertain, I am confident that our operational strength, healthy balance sheet and world-class teams will lead Bright Scholar to deal with the current challenges and emerge stronger.

We have taken measures mentioned in our earnings release and listed in Slide 22, and have vigorous action plans in place to minimize risk of infection in premises, as our schools gradually re-open in China, minimize disruption to our global operations and pursue innovative opportunities in challenging environment.

We're dealing with this period of uncertainty starting from a position of strength. And I am confident that we have the right strategy, the right service offerings, and financial resources to

navigate through this environment and emerge from this situation poised for more success in the future.

With this note, I turn the call over to 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 24. We have delivered another strong quarter with top line grow 72.4% to RMB877 million for the quarter, and up 70.5% to RMB1,975 million for the first half of fiscal year.

Domestic K-12 schools, including international schools, bilingual schools and kindergartens, all performed solid 20%-plus top line growth for the quarter and on a 6-month basis.

Our international schools' revenue increased 22.1% for the quarter, and this was primarily due to 19.3% increase of student enrolment. On a 6-month basis, revenue for international school was up 24% due to an 18.9% increase in student enrolment.

Our bilingual schools' revenue for the quarter, up 20.9%, and primarily due to a 12.1% increase in student enrolment. And for the 6 months, our bilingual school revenue, up 19.5%, and mainly attributed to 12.2% increase in student enrolments,

For our kindergartens, revenue for the quarter was up 21.3%, due to increase in student enrolment of 22%. And on a 6-month basis, revenue for kindergarten up 20.8%, and this was primarily due to 22.5% increase in student enrolment on a 6-month basis.

The blended ASP for kindergartens blended was down 1.4% on a 6-month basis basically due to the impact from Qiqiaoban Kindergarten. If we exclude Qiqiaoban Kindergarten, the average tuition fee for our other kindergartens would have increased 4.4% on a 6-month basis.

Overseas schools is an important part of our global strategy, due to the inclusion of St. Michael's School, Bosworth School and CATS, the second quarter revenue from overseas schools was RMB297.2 million, accounted for 33.9% of total revenue. On a 6-month basis, revenue was RMB556.4 million, accounted for 28.2% of total revenue.

Overseas schools contributed about 46.6% revenue growth and 48.4% gross profit growth in the first half of fiscal 2020. Average number of students was 3,300 for the quarter and 3,260 on a 6-month basis due to the inclusion of St. Michael's, Bosworth and CATS in the first half.

Our complementary education business, revenue was up 6.4% for the quarter and 34.6% for the 6-month basis.

Please turn to Slide 25. Cost of revenue for the quarter was 65% of total revenue, compared to 70.5% in the same quarter last fiscal year. On a 6-month basis, cost of revenue was 60.5%, compared to 61.4% in the same period of last fiscal year.

Teaching staff cost, the primary cost contributor, accounted for 35.6% of total revenue, down from 47.8% for the quarter. On a 6-month basis, teaching staff cost was 32.2%, down from 40.3%.

For our domestic K-12 schools, the average student-teacher ratio for the first half of fiscal 2020 was 8.9, compared to 9 in the same period last fiscal year.

On Slide 26, our gross profit and margins. Despite the COVID-19 impact on our complementary segment in February, strong top line growth and improved operation efficiency drive our gross profit growth and margin expansion. Gross profit was up 104% for the quarter and 74.6% for the first half. Gross margin was up 5.5 percentage points to 35%, for the quarter, and on 6-month basis, gross margin was up 0.9 percentage points to 39.5%.

Continuing on Slide 27, illustrate more on our operational discipline and improving operational leverage. For second fiscal quarter, adjusted SG&A as percentage of total revenue was down to 25.3% from 26.8% in the same quarter last fiscal year. On a 6-month basis, adjusted SG&A as percentage of total revenue was down to 21.4% compared to 21.7% in the same period last fiscal year.

Adjusted SG&A as percentage of revenue for our domestic K-12 for the quarter was 7.5% down from 13.5%. And on a 6-month basis, adjusted SG&A as percentage of revenue for domestic K-12 was 7.1%, down from 12%.

As percentage of group revenue, adjusted unallocated corporate expenses, mainly our headquarter expenses, for the quarter was 4.1%, down from 7.9%. On a 6-month basis, it was 3%, down from 6%. Adjusted unallocated corporate expenses for the quarter was RMB36.2 million compared to RMB40 million last year. On a 6-month basis, it was RMB58.6 million, down from RMB70 million.

And on Slide 28, it elaborates more on the adjusted SG&A expenses.

Please turn to Slide 29. Adjusted EBITDA for the quarter was up 209.4% to RMB152.5 million. Adjusted EBITDA margin was 17.4%, up from 9.7%. For the 6-month basis, adjusted EBITDA, up 89.3% to RMB505 million; adjusted EBITDA margin was 25.6%, up from 23%.

Our adjusted net income for the quarter, up 92.7% to RMB61.7 million. Adjusted net margin was 7%, up from 6.3%. For the first half, adjusted net income was up 43.9% to RMB287.1 million; and our adjusted net margin was 14.5% as compared to 17.2%.

Due to the uncertainties surrounding the impact of COVID-19, we are revising our guidance for fiscal year 2020, on Slide 31. 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 the 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%.

Meanwhile, as Derek mentioned in our earnings release, we are taking aggressive cost containment actions possible to minimize the impact from lowered revenue growth, and expect to achieve our targeted margin for the group of this fiscal year.

We are also in preparation to open 15 kindergartens, and 3 international/bilingual schools for fiscal 2021. Beyond fiscal 2021, we have 4 schools and 43 kindergartens contracted for operation.

Please refer to the table in Slide 33 and 34 for the condensed income statement. And Slide 35 shows the reconciliation for SG&A, EBITDA and net income on a GAAP to non-GAAP results.

A quick note on our cash and bank balances in Slide 36. As of February 29, 2020, the Company's cash and cash equivalents and restricted cash totalled RMB2,433.4 million or USD348.1 million, as compared to RMB2,426.6 million as of November 30, 2019.

For the 6 months ended February 29, 2020, the Company's capital expenditure was approximately RMB81.7 million, up 84.3% compared to the same period of last fiscal year, including new kindergarten openings and improvement and ramp-up CapEx for existing schools.

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

Derek Feng: Thank you, Dora. We look forward to building on the momentum experienced during first half of fiscal 2020, once the global environment begins to normalize, we believe that the market opportunities, our business fundamentals and the same factors that drove -- has been driving our growth trajectory this year-to-date, and in recent years, will help Bright Scholar to resume accelerated growth for the long term.

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