Bright Scholar (BEDU)
First Quarter 2021 Earnings Conference Call
Thursday, January 21, 2021 8:00AM ET

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

Analysts:
Timothy Zhao, Goldman Sachs

Presentation

Operator: Good day, and welcome to the Bright Scholar First Quarter 2021 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I'd now like to turn the meeting over to management. Please go ahead.

Ruby Yim: Thank you, operator. Good morning and good evening. Welcome to Bright Scholar first fiscal quarter ended November 30, 2020 earnings call.

Joining us today are Mr. Jerry He, our Executive Vice Chairman; Mr. Andy Chen, our Co-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 January the 20th, 2021, 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 or 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: Thanks, Ruby. Good morning and good evening. Thank you for joining us on our first fiscal quarter 2021 conference call. Again, we appreciate your continued interest in our Company.

The pandemic remains a significant disruption to the global economy and our global business, in particularly our overseas K-12 business. On today's call on behalf of the senior management team, I'll provide a little bit context for our fiscal 2021 first quarter performance and discuss key trends in our business. I will also highlight our strategic priorities for fiscal 2021 that will further enhance our market position for long-term growth. Dora will then provide details on our business and financial performance and an update on our guidance. I'll wrap up and then we'll take your questions.

For those who are new to our Company, we have included in our earnings presentation a brief corporate introduction in section 1 from Slide 5 to 11, of 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.

Let's start with Slide 13 for the highlights of our first fiscal quarter with detailed breakdown by respective businesses in Slide 14. In the quarter, the overall business performance was significantly affected by our overseas school and overseas-related complementary businesses, while all other business in China have shown major improvements in year-over-year revenue growth. The revenue for the first fiscal quarter was RMB1.052 billion, dropped by 4.2%.

The Company produced net income of RMB190.9 million, down by 6.6%.

On our domestic K-12 business, we are off to a very promising start and the momentum to our business clearly has picked up in the first fiscal quarter. As life in China continues to return to 'new' normal, demand for our K-12 grew. In the quarter, enrollment of international schools, bilingual schools and kindergartens up by 9.7%, 8.0% and 17.0% respectively as shown in Slide 15.

Average tuition fees of international school and bilingual school have also recorded an increase of 1.9% and 5.0%. In these challenging times, we could not be more pleased with the momentum across all of our domestic K-12 businesses. Our near-term priority is to drive enrollment growth, optimize utilization and improve operating efficiency.

The strength of our brand reflects our unwavering commitment to deliver quality education consistently. As of January 15, approximately 60.5% of students in the 2021 graduating class of our international schools have received over 400 offers from global top-50 institutions, with 6 conditional offers from Oxford, 2 from the University of Chicago, 2 from Cornell, 4 from New York University, and 1 from Northwestern University as shown in Slide 16. We expect more students will receive offers from these elite institutions, and the academic performance of our students will continue to improve across all age groups.

Our overseas business performance has been adversely impacted by devastating pandemic. In the UK, where most of our overseas school is based, the government continues to institute lockdown measures to control the spread of the virus and address the emergence of a new virus variant. The whole educational system continues to be upended by the ongoing health crisis, and schools faced daily challenges in meeting the needs of our students with none of the schools nor learning centers opened for in-person learning.

Although we have been able to help schools to overcome these obstacles with online solutions to turn around learning loss and the potential impact on student achievement, our top line was significantly impacted by the absence of traditional school-based activities. In the quarter, our overseas revenue dropped by 48.2%.

During the quarter, we remain intently focused on both supporting our schools, students, parents and teaching staff as they adapt to COVID-19 disruptions and delays, as well as managing the negative effect of COVID-19 on our student enrollment and financials.

As we continue to lower costs and increase efficiency, taking steps to reduce operating cost and optimize our operation and improve our IT infrastructure. The benefits realized from the cost cutting measures and the investments taken over the last two quarters should bring long-term improvements to the cost structure of our overseas business, as well as opportunities for significant gains in profitability once the operating environment resumes to normalcy. Again, our global network is of strategic importance in realizing long-term value with enormous market opportunities and synergies yet to be unlocked as shown in Slide 17.

Let's move on to Slide 18 for our complementary education service business. The recovery is evident, and the demand for our service remains strong in China. In the quarter, there was a solid uptake in domestic after-school training and camp businesses with revenues increased by 7.7% and 635% respectively. However, the ongoing pandemic in Europe and the rising U.S.-China tensions continued to have an adverse impact on our overseas-related complementary businesses, including overseas study counseling, whose revenue dropped by 49.4%, which in turn affected the overall business performance for the quarter, with total revenue decreased by 5.8%. In spite of the challenges from overseas-related business, there are growing opportunities with regulatory tailwinds beginning to build in areas of online courses, after-school training and study camp businesses.

Amid the macro headwinds, I am pleased to report that our EdTech business has been doing quite well with revenue up by 64.0% in the quarter, including the acquisition of Linstitute. Please turn to Slide 19 for our EdTech business. The COVID-19 pandemic has put a spotlight on the importance of education technology for learning. Digital adoption in home and school education continues to accelerate at a fast pace. We are gaining more traction for 3i Global Academy and other EdTech initiatives as we expand our blended traditional and digital learning solutions to meet the fast-evolving needs of students, parents, and teachers.

Looking forward, though we face continuing uncertainty in our overseas operations in the coming quarter, the strategic steps we're taking are providing benefits today, and more importantly, they're positioning us for continued success in a post-COVID-19 business environment.

Before I turn the call to Dora, I would like to share with you the key strategic priorities as shown in Slide 20. In the 2021 fiscal year, our strategy will continue to build upon our 4 strategic pillars. First, focus on maintaining organic growth in our domestic K-12 business, which provides the cash flow to fuel the new growth initiatives and acquisitions. Second, focus on cost management to lower our cost base and improve our long-term operating leverage and profit margin. Third, optimize integration planning to unlock new revenue and cost synergies, and expand complimentary education offerings. Finally, continue to invest in education technology and complementary education services, and deploy capital in strategic acquisitions for long-term growth.

Due to the uncertainties associated with COVID-19 and the macroeconomic headwinds, our overseas management team has analyzed several scenarios that are contingent on the depth and duration of the COVID-19 pandemic and the resulting impact on our overseas businesses. We have taken the most conservative approach that forms the basis for our revised guidance, of which I will leave it to Dora for the details.

With this note, I turn the call to Dora.

Dora Li: Thank you, Jerry. Let's turn back to our financials. Please also 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 22, revenue for the quarter. Overall, the revenue was down 4.2% to RMB1,051.5 million. Revenue for our domestic K-12 schools, including international schools, bilingual schools, and kindergartens, was up 10.9% for the quarter to RMB742.4 million, accounted for 70.6% of total revenue as compared to 60.9%.

For international schools, revenue was up 11.1% to RMB304.3 million, primarily due to the 9.7% increase of student enrollment and a 1.9% increase in average tuition fees.

Our bilingual schools, revenue was up 13.5% to RMB260.8 million, due to the 8.0% increase in student enrollment and the 5.0% increase in average tuition fees.

For our kindergartens, revenue was up 6.8% to RMB177.3 million, primarily due to 17.0% increase in student enrollment.

Revenue from our overseas K-12 schools was down 48.2% to RMB134.2 million, primarily due to the impact of COVID-19.

Revenue for our education technology segment was up 64.0% to RMB36.7 million, primarily due to the acquisition of Linstitute.

Revenue from complementary education was down 5.8% to RMB138.2 million, due to the impact of overseas-related complementary businesses.

On Slide 23, cost of revenue for the quarter was 57.9% of total revenue, compared to 56.9% in the same quarter of last fiscal year.

Teaching staff cost, the primary cost contributor, accounted for 32.6% of total revenue, up from 29.5% for the same quarter last year.

Our domestic K-12 schools' average student-teacher ratio for this fiscal quarter was 9.2, compared to 8.9 in the same period last fiscal year.

On Slide 24, the gross profit and margins, gross profit was down 6.5% to RMB442.8 million for the quarter. And gross margin was 42.1% compared to 43.1%.

Continued on Slide 25, adjusted SG&A expenses, as percentage of total revenue, was 21.0%, up from 18.2% in the same quarter last fiscal year. The increase in SG&A expenses was primarily due to the incremental SG&A expenses associated with newly-established international school and kindergartens and also the acquisition of new business on a comparable basis. To elaborate more on the adjusted SG&A expenses, please refer to our Slide 26.

Continue to Slide 27. Adjusted EBITDA for the quarter was RMB320.6 million, compared to RMB352.5 million. And adjusted EBITDA margin was 30.5% compared to 32.1%.

Adjusted net income for the quarter was RMB197.1 million, compared to RMB223.0 million. And adjusted net margin was 18.7%, compared to 20.3%.

On Slide 28 shows our cash and the bank balance. As of November 30, 2020, our cash and cash equivalents and restricted cash totalled RMB1,697 million, or US$258.1 million, as compared to RMB4,424 million on August 31, 2020. We also have a short-term investment of RMB2,175 million as of November 30, 2020.

Moving to Slide 30, in November 2020, the Board approved the Third Share Repurchase Program of the Company of up to US$50 million. As of January 15, 2021, the Company has bought back 61,620 shares for US$0.4 million.

Continue to Slide 31. We are revising our guidance for the fiscal year ending August 31, 2021. We expect our total revenue in the range of RMB3.59 billion and RMB3.69 billion, representing a growth of 7% to 10% based on existing business and without any potential acquisitions.

We also expect average student enrollment in our domestic and overseas schools to be between approximately 56,000 and 57,000, representing an increase of 8% to 10%.

We also expect to open 19 kindergartens for fiscal 2021, and also beyond fiscal 2021, we have 7 schools and 39 kindergartens contracted for operation.

Please refer to the table in Slide 33 and 34 for the condensed income statement.

Slide 35 shows the reconciliation for SG&A expenses, EBITDA and net income on a GAAP to non-GAAP result.

Slide 36 shows our balance sheet and cash flow statement. For the fiscal year ended -- for the fiscal quarter ended November 30, 2020, the Company's capital expenditure was approximately RMB45.2 million, down 25.8% compared to the same period of last fiscal year.

Also on Slide 37 shows our average student enrollment and average tuition fee across our network.

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

Jerry He: Thank you, Dora. I am very pleased with the way our Company has adapted to the continuing challenges associated with COVID-19. With deep conviction and strong resilience, we constantly looking for new ways of enriching the learning experience of our students at school and at home, finding new streams of revenue, while enhancing our competitive cost base to protect our operating income and case positions.

We remain certain of our value propositions of providing premier education services to be supported by our global network of schools and powered by technologies. We remain certain of our addressable market with enormous market opportunities and synergies yet to be unlocked. We are most certain that Bright Scholar is well-positioned to weather the storm and to capitalize on these opportunities for years to come. We remain confident in our ability to deliver on our targets and the sustainable shareholder value through this unprecedented period of pandemic uncertainty.

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