Bright Scholar (BEDU)
Fourth Fiscal Quarter and Fiscal Year 2020 Conference Call
Thursday, November 12, 2020 8:00AM ET

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

Analysts:
Elsie Sheng, Morgan Stanley
Timothy Zhao, Goldman Sachs
Leonard Law, Lucror Analytics

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's 2020 fourth fiscal quarter and fiscal year 2020 earnings conference call. (Operator Instructions). After management's prepared remarks, there will be a question-and-answer session. Please note this event is being recorded.

I would now like to turn the meeting over to your host, Ms. Ruby Yim, Investor Relations Counsel.

Ruby Yim: Thank you, operator. Good morning and good evening. Welcome to Bright Scholar's fourth fiscal quarter ended August 31, 2020, earnings call.

Joining me 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 November the 11th, 2020, 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/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. Thank you all for joining us today for our fourth fiscal quarter and the full year 2020 conference call. We appreciate your interest in our Company, and we look forward to sharing our results with you on this call.

I would like to start the call today by thanking our leadership team, academic and operational teams globally, for their extraordinary efforts during fiscal 2020. These past 9 months have been challenging for all of us. We have been confronted with cascading national and global crises, including an unprecedented pandemic and a historically significant global recession. We pivoted quickly to accommodate the operating changes that were necessary in order for us to continue operating safely and effectively in a very volatile market.

At the same time, we kept our focus on strategic priorities to strengthen our Company and build a global network of schools that embrace latest technologies. The operational and the financial results we announced this morning, as well as our full year results reflect the agility of our team, the strength of our culture and the resiliency of our diverse business.

On our call today, I'll go through the prepared remarks on behalf our senior management team, and provide an update on our initiatives to address evolving industry dynamics, and conclude with our outlook for fiscal 2021. Dora will then provide more detail on our business and financial performance and our guidance for fiscal 2021. I'll wrap up, and then we'll take your questions.

Let's begin our earnings report. For those who are new to our Company, we have included in our earnings presentation a brief corporate introduction from Slide 5 to 11, 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.

Please turn to Slide 13 for the highlights of our fourth fiscal quarter and full fiscal year performance with detailed breakdown by respective businesses in Slide 14 to 15. In fiscal 2020, our overall business performed very well and ahead of our plan in the first half of the fiscal year. However, the overall impact from COVID-19 in China and in particularly abroad caused substantial declines in our fourth quarter performance.

The revenue for the fourth quarter was RMB652.1 million, dropped by 8.4% year-over-year, with gross profit was down 29.5% and operating loss of RMB171.9 million. This was mainly due to the significant impact of the pandemic on all of our businesses, particularly, our overseas schools and overseas counseling businesses as a result of nationwide lockdown and the closure of school campuses.

Although the situation in China was greatly improved with government's success in containing the pandemic and eventually, re-opening of schools, there was still loss of income from meals and boarding for our domestic K-12 business that attributed to substantial decrease of operating income.

Amidst the significant challenges and the disruptions, Bright Scholar still delivered a solid full fiscal year with revenue growth of 31.3% and adjusted EBITDA growth of 36.5% for fiscal year 2020. The financial performance once again demonstrates the resiliency of our multi-facet growth strategy and the strength of our portfolio of businesses.

Let me walk you through the performance of our respective businesses, our domestic K-12 business, China's encouraging signs of steady economic recovery from the pandemic and its continuous efforts to minimize risks of resurgence, provides strong impetus to our business's recovery. Over 54,000 students have enrolled for the September 2020 school term in our domestic K-12 schools as of the reporting date.

The average number of students increased by 6.6% for the fourth fiscal quarter and 9.9% for the fiscal year compared to the same period in the prior fiscal year, as shown in Slide 16. All of our K-12 campuses in China have re-opened with safeguards in all our facilities to protect our students and staff, including increased frequency of cleaning and disinfecting facilities, social distancing practices and other measures to minimize potential risks of resurgence.

Turning to Slide 17, our uncompromising focus on helping our students to achieve outstanding academic performance has continued to strengthen our market leadership in premier education. Our students achieved remarkable results with 94% of our 2020 graduating class were admitted to global top-50 institutions and 98% were admitted to global top-100 institutions with 6 from Oxbridge, and 4 from University of Chicago, and 12 from UC Berkeley.

We are also pleased to report that Fettes Guangzhou School and the kindergarten opened as scheduled in September, and we will continue to optimize school expansion diligently and efficiently.

On our overseas school business, as mentioned at the start of the call, the operation was mostly negatively affected amid the ongoing pandemic and lockdown in the UK. As shown in Slide 18, the near-term actions and initiatives to mitigate the financial impact that we have been executing to contain COVID-19 puts our overseas business segment on a stronger footing to ride through the significant and unprecedented challenges inherent in the global health crisis and the looming economic slowdown.

Our global education network is of strategic importance in enriching student lives and learning experience, enhancing academic performance through global recruitment and training, joint R&D collaboration between our overseas and domestic schools, as well as across different business units within Bright Scholar.

Talking about the future growth of Bright Scholar, both our complementary and edtech businesses will be driving our next phase of growth over the long term.

Please turn to Slide 19 for our complementary education service business. Despite the impact from COVID-19, revenue for fiscal 2020 grew by 9.1% as we seized the opportunity in the summer by launching new products and services to strengthen our market position. The acquisition of Leti Camp will further expand our capability to include hands-on inquiry-based learning that offers enormous potential and synergy, which will expedite the expansion of our outdoor camp business in the post COVID-19 period.

There are enormous market opportunities in expanding our portfolio of complementary education services, including after-school tutoring for K-12, study tours and camp activities. We plan to further leverage the collaboration with Country Garden to explore more opportunities in broadening our outdoor camp business within China, as well as acquisitions to extend our service offerings.

Moving onto Slide 20 for our edtech business, the COVID-19 crisis has been a major catalyst driving policymakers, service providers and more parents and families to explore online learning options. The increasing awareness and acceptance of online resources merging offline activities for optimal educational results, bodes well for us to drive academic excellence as we continued to expand investments in this space.

Our new education technology business comprises online career counseling, online Academic Olympiad training and online international school, the 3i Global Academy. The launch of online international school with online-merge-offline model in June represents a major milestone in utilizing technology to provide access to high-quality education for students around the globe. 3i Global Academy has enrolled more than 170 paying students as of November 7.

We recognize that the uncertainties our road ahead entails. Please turn to Slide 21 where we detailed the major challenges, as well as opportunities, to our business for fiscal 2021. Our domestic K-12 segment will face challenges to expand our network with increasingly tightened regulations on kindergartens, bilingual and international schools.

Our overseas school operations including K-12 schools, language centers and camp business will continue to suffer disruptions from nationwide lockdown and resurgence of pandemic crisis. Our overseas counseling business, English language centers and overseas camp business will be affected by the adverse operating environments in the UK and the U.S.

Notwithstanding the challenges mentioned throughout the call, we are excited by the combination of growth drivers coming into alignment for fiscal 2021. These growth drivers include the steady economic recovery from the pandemic in China, the improved service mix of our portfolio and the new exciting opportunities in complementary business and education technologies. Our outlook is indicative of the momentum we're carrying into the year, underpinned by the relevance of our growth strategy, the strength of our business, resilience of our team, our operational rigor and discipline, our ability to evolve rapidly to meet the fast changing needs of our students.

We are confident that our strategic initiatives will enable us to emerge from this crisis as a stronger Company that is well positioned for long-term growth and success.

Furthermore, to underscore the confidence in the Company's prospects, the Board has approved a new share repurchase plan of up to US$50 million on November 11, 2020.

With this note, I will turn the call to Dora.

Dora Li: Thank you, Jerry. 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 23. Top line result for fiscal year 2020 remained solid, with revenue up 31.3% to RMB3,366.5 million for the fiscal year. For the quarter, revenue was down 8.4% to RMB652.1 million.

Domestic K-12 schools, including international schools, bilingual schools, and kindergartens, revenue was up 5.8% for the quarter and 4.1% on a yearly basis.

For international schools, revenue for the quarter up 15%, primarily due to 11% increase of student enrollment. On a yearly basis, revenue was up 17.2% due to a 13.2% increase in student enrollment.

Bilingual schools revenue for the quarter up 14%, due to 10% increase in student enrollment. On a yearly basis, revenue up 11.1%, mainly attributed to 11.3% increase in student enrollments.

Kindergartens revenue for the quarter and fiscal year was down 17.3% and 24.6%, respectively, primarily due to decrease in tuition fees, meals and boarding fees as result of mandatory school closure.

Revenue from overseas schools, an important part of our global strategy, was RMB69.1 million for the quarter, down 53.4%, primarily due to closure of language learning centers under COVID-19. On a yearly basis, revenue was RMB835.9 million, grew 359.9% year-over-year, and accounted for 24.8% of total book revenue. The year-over-year growth in revenue was primarily due to inclusion of the acquired overseas schools during the comparable period.

Revenue from education technology segment was up 14% for the quarter and up 47.7% on a yearly basis primarily due to inclusion of acquired online Academic Olympiad training business in the fourth quarter.

Revenue from complementary education was down 4.7% for the quarter due to pandemic impact on overseas study counseling business and study tour and camp business. On a yearly basis, revenue was up 9.1%.

On Slide 24, cost of revenue for the quarter was 77.1% of total revenue, compared to 70.2% in the same quarter of last fiscal year. On a yearly basis, cost of revenue was 63.7% of total revenue, compared to 61.9% last fiscal year.

Teaching staff cost, the primary cost contributor, accounted for 43.8% of total revenue, up from 37.8% for the quarter. On a yearly basis, teaching staff cost was 34.9%, down from 38.2%.

Our domestic K-12 schools' average student-teacher ratio for the fiscal year was 8.9, compared to 8.8.

On Slide 25, our gross profit and margins, gross profit was down 29.5% for the quarter and up 25% on a whole year basis. Gross margin was down 6.9 percentage points to 22.9% for the quarter, and on a yearly basis, gross margin was down 1.8 percentage points to 36.3%.

Continuing on Slide 26, for the fourth fiscal quarter, adjusted SG&A as a percentage of total revenue, was 40.1%, up from 35.6% for the same quarter last fiscal year. On a yearly basis, adjusted SG&A, as a percentage of total revenue, was 26.2%, compared to 25% last fiscal year. The increase in SG&A expenses for the fiscal year was primarily due to inclusion of acquired business.

Adjusted SG&A, as a percentage of revenue, for our domestic K-12 schools for the quarter was 13.5%, up from 12.6%. On a yearly basis, adjusted SG&A, as a percentage of revenue for the domestic K-12 schools, was 8.8%, down from 11.2% of last year.

As a percentage of group revenue, adjusted unallocated corporate expenses, mainly headquarter expenses, for the quarter was 8.1% down from 10.1%. On a yearly basis, it was 4.5%, down from 7%. Adjusted unallocated corporate expenses for the quarter was RMB52.3 million compared to RMB71.1 million last year. For the whole year, it was RMB151.2 million compared to RMB178.1 million.

To elaborate more for the adjusted SG&A expenses, please look into the detail on Slide 27.

Continue to Slide 28, adjusted EBITDA for the quarter was RMB1.4 million, compared to RMB4 million. Adjusted EBITDA margin was 0.2%, compared to 0.6%. On a whole year basis, adjusted EBITDA up 36.5% to RMB670.8 million. Adjusted EBITDA margin was 19.9%, up from 19.2%.

Adjusted net loss for the quarter was up 72.9% to RMB59 million. Adjusted net margin was negative 9.1%, compared to negative 4.8%. For the whole year, adjusted net income was

RMB267.7 million, compared to RMB322.6 million. Adjusted net margin was 8.0%, compared to 12.6%.

On Slide 29, our cash and bank balance, as of August 31, 2020, our cash and cash equivalents and restricted cash totaled RMB4,423.9 million, or US$646 million, as compared to RMB2,092 million in May 31, 2020. We also have a short-term investment of RMB13.7 million as of August 31, 2020.

Moving on to Slide 31, the Board has approved a new share repurchase program of up to US$50 million within the next 12 months recently. This is the third share repurchase program of the Company.

Continue to Slide 32. For the fiscal year ending August 31, 2021, we expect our total revenue in the range of RMB3.77 billion and RMB3.87 billion, representing a growth of 12% to 15% based on the existing business and without 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. Beyond fiscal 2021, we have 7 schools and 39 kindergartens contracted for operation.

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

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

Slide 37 shows our balance sheet and cash flow statement. For the fiscal year ended August 31, 2020, the Company's capital expenditure was approximately RMB149.8 million, down 3.5% compared to last fiscal year.

And on Slide 38, shows our average student enrollment and average tuition fee across our network.

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

Jerry He: Thank you, Dora. We have a strong balance sheet to pursue organic and acquisitive growth opportunities, a terrific portfolio of assets that drives long-term growth. We are very confident that the strategic initiatives will enable us to emerge from the crisis as a stronger Company that is well positioned for long-term growth and success.

I'd particularly like to thank our all staff for their strength and commitment during this really difficult year. And I'd also like to express our gratitude to our students, parents, business partners and investors for their ongoing trust they put in Bright Scholar.

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