Bright Scholar (BEDU)
Second Quarter 2021 Earnings Conference Call
Thursday, April 22, 2021 8:00AM ET

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

Analysts:
Simyu Ruan, Goldman Sachs

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's FY2021 Second Fiscal Quarter Earnings Conference Call. (Operator Instructions). After management's prepared remarks, there will be a question-and-answer session. Today's conference is being recorded.

I'd 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 28, 2021 earnings call.

Joining me today are Mr. Jerry He, our Executive Vice Chairman; Mr. Andy Chen and Ms. Wanmei Li, our Co-CEOs; 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 21st, 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 the numbers in our management remarks are in RMB and all comparisons refer to year-over-year comparisons, unless otherwise stated.

And 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, which you can download from our IR webpage.

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 second fiscal quarter 2021 conference call. We appreciate your continued interest in following Bright Scholar.

On today’s call, and on behalf of the senior management team, the prepared remarks will cover our second fiscal quarter performance and the key trends in our business. Dora will then provide details on our respective business and financial performance. I will have a brief conclusion before we open the call for questions.

Let me begin by saying that we are pleased that our performance in the first half of fiscal year 2021 continued to demonstrate our strength, resilience and capacity to evolve, adapt and progress amid the threats from ongoing pandemic and the emerging variants. Through the years, we have built our network, strategy, operation and culture around staying focused on students’ needs, and this principle has guided us through the years of stellar growth and more so, a testament of our strength and resilience in times of pandemic crisis.

We have all the building blocks in place to be a global premier education service provider, and have taken this challenging time to build what we believe is a more effective organization for the future, through optimization to maximize returns from existing assets, integration to capture synergies from global network and enhancement of a competitive global cost structure while continue our investment in strategic areas. These actions, which we believe are going to lead our outstanding performance post-COVID and are critical to our long-term success.

Let’s turn to our earnings and start with Slide 13 of Section 2 for the highlights of our second fiscal quarter and first half with detailed breakdown by respective business in Slide 14 and 15.

In the quarter, ongoing COVID-19 pandemic continued to have adverse impact on our overseas businesses. Total revenue for the quarter was RMB809 million, down by 7.8% with gross profit and operating income down by 46.5% and 152.9%, respectively.

All of our domestic-related businesses recorded a strong recovery while the pandemic adversely impacted our overseas schools. Let us look more closely at our respective businesses.

Please refer to Slide 16 for the performance of our domestic K-12 business. Our domestic K-12 business continues to show firm recovery trajectory across all segments in second fiscal quarter. Revenue up 12.0% in the quarter and 11.3% for first half. The strong recovery was attributed to the substantial increase in enrollments which exceeded our internal expectation.

International schools, bilingual schools and kindergartens grew by 7.6%, 8.1% and 19.7%, respectively for the fiscal quarter.

Our consistent industry-leading academic performance reflects the strength of our brand, a key catalyst driving our enrollment growth as you can see in Slide 17. As of April 6, 2021, 94% of students in 2021 graduating class of our international schools in China have received offers from the global top-50 institutions, including 12 offers from Oxbridge, 3 from the University of Chicago, 2 from Cornell University, 2 from Vanderbilt University, 2 from UC Berkley, and 7 from New York University.

Furthermore, our deep collaboration with Country Garden and other partners continued to drive the expansion of our domestic school network and capacity. As of the release date, we have entered into agreements with Country Garden and other partners to operate a total of 10 schools and 65 kindergartens with a total capacity of approximately 40,000 students.

On Slide 19, our complementary education service business returns to profitable growth driven by significant improvements in income from domestic market in language training, camps, study tours, and others. In the quarter, revenue grew by 14.4%. Our margins have also started to recover with gross margin increased from 5.8% to 22.0%, and the operating margins improved from minus 19.8% to 3.5%. At the same time, we are continuing to experience the impacts of the pandemic on our overseas-related complementary businesses and are adjusting and adapting accordingly.

While the operating environment remains challenging, we are happy to see positive developments and trends continued through second quarter and most likely to accelerate through the second half of the year, including favorable government policies in education for all-around development for students. Responding to these opportunities, we plan to expand our offerings through investment in Golden Ballet Dance; broaden the scope of our camp business to offer more extra-curriculum activities and accelerate collaboration with our global network.

The synergy with our overseas network offers tremendous opportunities in overseas counseling, camp and study tour businesses. The strategies and plans to capture these opportunities are already in place. We expect growth will resume and accelerate once the vaccination programs begin to take effect and subsequent travel restrictions are lifted.

Moving on to our overseas K-12 business performance in Slide 20. As anticipated, we experienced significantly lower revenues and substantial year-over-year decline this quarter due to the pandemic. In addition to fewer students on campus, our schools and language businesses were impacted by lockdowns for local students, travel restrictions for overseas students as well as cancellation of study tours and camp events.

In this quarter, we continued to focus on continuing the transition of overseas schools into the group through centralizing the support functions, streamlining our operation through consolidation of resources, enhancing academic performance and improving cost structure to partially offset the bottom line impact of the pandemic-related disruptions. These initiatives should provide operating leverage going forward as we rebuild our overseas revenue and enable us to re-emerge stronger and more efficient, leveraging on the competitive advantage of our global network of schools.

At the same time, we are encouraged by the positive upward trends in our students' academic performance and other operational progress. As of the release date, our 2021 graduating class has received 145 offers from top-10 universities with 4 from Oxbridge, 540 offers from Russell Group. In addition, 179 students in our Boston school are accepted into top-100 U.S. colleges. New student intake for September 2021 term is expected to increase by 44%.

With the vaccine program progress in the UK and the U.S., schools are either re-opened or expected to be opened soon. We expect our overseas schools to return to profitability and capture more market shares when life returns to normal.

Finally, on the performance of our education technology business, we are pleased with the progress across multiple fronts as shown in Slide 21. Revenue continues to grow, up by 35.6% in the quarter and 48.2% on the 6-month basis. 3i Global Academy, which offers online international classes and English tutoring, has been well received in China. Once the pandemic recedes, we plan to integrate 3i Global Academy into our global network of schools.

In addition, we see enormous opportunities for our offerings in domestic market. Our strategy is to help local governments to promote education equity and improve teaching efficiency at schools by sharing and offering high-quality educational resources, including online video classes and teaching materials through collaboration with top schools in each city across China.

Looking ahead to the second half of fiscal 2021, we are increasingly optimistic. We are confident that our business will have a strong longer-term recovery. Our major opportunities and priorities over the next years lie in the following areas. First, continue to organically grow our domestic K-12 business by improving utilization and efficiency. Second, rebuild our fair value revenue and return to profitability for overseas business post-COVID. Third, expand the breadth and depth of our complementary service offerings. Fourth, accelerate the growth and application of our EdTech business.

We will continue our focus on steady revenue and operating profit growth in K12 business, while building growth momentum in complementary education and EdTech.

With these priorities and the containment of the pandemic in sight, we expect our revenue and profitability growth in the next years will return to pre-COVID level. Our solid balance sheet and market positioning have enabled us to navigate through this challenging period, and at the same time, strengthening our capacities for greater success in the long term.

With this note, I turn the call over 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 24. Top line result for the quarter was down 7.8% to RMB809 million for the quarter and down 5.8% to RMB1,860.6 million on a 6-month basis primarily due to the impact of COVID-19 on our overseas schools and overseas-related complementary business.

Domestic K-12 schools that includes international schools, bilingual schools, and kindergartens show strong recovery. Revenue was up 12.0% for the quarter and 11.3% on a 6-month basis.

For international schools, revenue for the quarter up 10.6%, primarily due to 7.6% increase of student enrollment. On a 6-month basis, revenue was up 10.9% due to 8.6% increase in student enrollment.

Bilingual schools, revenue for the quarter up 17.2%, due to 8.1% increase in student enrollment. On a 6-month basis, revenue up 15.0% mainly attributable to 8% increase in student enrollments.

Kindergartens, revenue for the quarter was up 6.7% due to 19.7% increase in student number. On a 6-month basis, revenue was up 6.8% due to 18.5% increase in student number.

Revenue from overseas schools was down 49.3% for the quarter and 48.8% on a 6-month basis, primarily due to the impact of pandemic.

Revenue from education technology was up 35.6% for the quarter and up 48.2% on a 6-month basis primarily due to the acquisition of online academic Olympiad training business.

Revenue from complementary education was up 14.4% and 2.6% on a 6-month basis due to increase and strong recovery in language training, domestic camp and other trainings business.

On Slide 25, cost of revenue, our top priority is to continuously enhance our cost competitiveness. For the second fiscal quarter, total cost of revenue was RMB645 million, an increase of 13.0% and accounted for 79.7% of total revenue, compared to 65.0% last year. On a 6-month basis, total cost of revenue increased only 4.9% to RMB1,253.6 million and accounted for 67.4% of revenue, compared to 60.5% last year.

Teaching staff cost, the primary cost contributor, accounted for 45.8% of total revenue, up from 35.6% for the quarter. On a 6-month basis, teaching staff cost was 38.3% of total revenue, up from 32.2%.

Our domestic K-12 schools' average student-teacher ratio for the first half of fiscal year 2021 was 9.2, compared to 8.9 in the same period last fiscal year.

On Slide 26, our gross profit and margins, gross profit was down 46.5% for the quarter and 22.2% on a 6-month basis. Gross margin was down 14.7 percentage points to 20.3% for the quarter, and on a 6-month basis, gross margin was down 6.9 percentage points to 32.6%. The decrease in gross profit and gross profit margin was mainly due to, first, revenue decrease in overseas segment as a result of COVID-19 pandemic impact; second, loss from new opened school and kindergartens which are still in their ramp-up stage.

Continuing on Slide 27, adjusted SG&A expenses was RMB210.3 million, down 5.3% for the second fiscal quarter and accounted for 25.8% of total revenue compared to 25.3% in the same quarter last fiscal year. On a 6-month basis, adjusted SG&A was RMB431.6 million, only up 2.3% and accounted for 23.1% of total revenue compared to 21.4% last fiscal year. The overall expense reduction in adjusted SG&A was primarily due to the effective cost structure improvement in overseas segment to partially offset the bottom line impact.

To elaborate more on the adjusted SG&A expenses, please refer to our Slide 28.

Continuing on Slide 29, adjusted EBITDA for the quarter was RMB48.3 million, compared to RMB152.5 million. Adjusted EBITDA margin was 6.0% compared to 17.4%. On a 6-month basis, adjusted EBITDA was RMB369 million, compared to RMB505 million. And adjusted EBITDA margin was 19.8%, compared to 25.6%.

Adjusted net loss for the quarter was RMB36 million, as compared to adjusted net income of RMB59.4 million. Adjusted net margin was negative 4.4%, compared to 6.8%. On a 6-month basis adjusted net income was RMB161.2 million, compared to RMB282.4 million. Adjusted net margin was 8.7%, compared to 14.3%.

On Slide 30 shows our cash and bank balance. As of February 28, 2021, our cash and cash equivalents and restricted cash totaled RMB2,098.4 million, or US$324.2 million, as compared to RMB1,697.2 million as of November 30, 2020. We also have a short-term investment of RMB2,182 million as of February 28, 2021.

Moving on to Slide 32, our third share repurchase program announced in November 2020, the Company has bought back 236,973 shares for US$1.5 million as of April 19, 2021.

Continuing to Slide 33, we are reaffirming our revised 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 businesses 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. And beyond fiscal 2021, we have 10 schools and 65 kindergartens contracted for operation.

Please refer to the table in Slide 35 and 36 for the condensed income statement.

Slide 37 shows the reconciliation of SG&A, EBITDA and the net income on a GAAP to non-GAAP basis.

Slide 38 shows our balance sheet and cash flow statement. For the 6 months ended February 28, 2021, the Company's capital expenditure was approximately RMB91.9 million, up 12.5% compared to last fiscal year.

And on Slide 39, 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. We are very proud of our teams around the world in addressing the challenges amid the ongoing pandemic and the emergence of variants. We worked tirelessly to protect the health and safety of our students, staff and each other by setting and maintaining strict safety protocols across all our campuses and kept our students on their academic tracks.

We intend to pay careful attention to integration planning and implementation in order to unlock new revenue and cost synergies, and accelerating shared growth initiatives. At the same time, we remain focused on maintaining our organic enrollment momentum and delivering on our strategic priorities and various initiatives to enhance our offerings, rebuild and accelerate revenue growth and expand our operating margins for long-term value creation.

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