BEDU - Bright Scholar's First Quarter and Fiscal Year 2018 Earnings Conference Call

Wednesday, January 24, 2018 8:00 a.m. ET

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar’s Fiscal First Quarter 2018 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.

Ruby Yim: Thank you, operator. Good morning and good evening. Welcome to Bright Scholar’s 2018 fiscal first quarter ended November 30, 2017 earnings call. With me today on the call is Mr. Jerry He, 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 of the call will be available on our website following this earnings call.

By now you should have received a copy of our press release that was distributed on January 23, 2018 after market close Eastern Time. If you have not, it is available on the Investor Relations 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 materials 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, 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 this 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 this and other risks is included in the Bright Scholar 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 the U.S. GAAP.

Please note that all numbers are in RMB and all comparisons refer to year-over-year comparisons unless otherwise stated.

And with that, I'll turn the call over to our CEO, Jerry He. Jerry?

Jerry He: Thanks, Ruby, and thanks to everyone who's joining us today to review our 2018 first fiscal quarter results. I would like to take today this opportunity to wish everyone a happy new year filled with happiness, health and success.

For those who are new to our Company, we have included in our earnings presentation a brief corporate introduction from Slides 3 to 6 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.

I will start today's call with the highlights of our performance for the first fiscal quarter 2018, then share some of the key initiatives and developments before turning over the call to Dora to provide a more detailed review before we take your questions.

So now, turning to the highlights of our performance in Slide 8, Bright Scholar began fiscal 2018 with another quarter of exceptional growth at both the top and bottom line. Compared to the first fiscal quarter of 2017, revenue up 23%, while operating income grew over 27.6%, adjusted EBITDA increased by 28.6%, adjusted net income up 42%. EPS, earnings per share, increased 67% and margins further expanded in the first quarter of 2018.

Let's look at the detailed breakdowns for the respective segments on Slide 9. The top line growth of our respective business segments continued to expand for the quarter, as international schools, bilingual schools and kindergartens grew over 16.5%, 29.2% and 20% respectively. Complementary education services also grew rapidly at 49%.

Slide 10, shows more details of our schools' operation and enrollment increase as market demand for a quality education remains exceedingly strong. As of November 30, 2017, we have 34,163 students, 3,533 teachers in 60 schools, with total capacity increased by about 20% year-over-year to [27,887]. The average student enrollment for the first fiscal quarter of 2018 was 33,916, an increase of 16.3% as compared to the first fiscal quarter 2017, with blended utilization at 29%.

Turning to Slide 11, pricing across all our business segments further optimized to deliver a solid top line growth in the fiscal first quarter. We will maintain a competitive pricing across our network of schools to further drive organic growth of our business.

On the business and the operational fronts, we continue to progress our important strategic initiatives to expedite expansion and drive profitable growth. And I would like to update you before handing over to Dora to discuss the financial results of the quarter in more details.

First, the rapid expansion of network has never been more critical to our business success. We currently expect to open 12 new schools during fiscal 2018, with 8 commenced operations during the fiscal quarter.

In December 2017, we had entered into an agreement to acquire 75% equity interest in 5 kindergartens to further strengthen our foothold in Hubei Province of China. We currently expect to complete the acquisition by the end of second the fiscal quarter.

As of January 23, 2018, we have a total of 60 schools including 6 international schools, 16 bilingual schools and 38 kindergartens covering 8 provinces in China. It also provides a total capacity of over 27,800 seats.

The guidance to open 12 new schools are well on track, with the remaining 4 kindergartens scheduled to open around 2nd and 3rd fiscal quarter. Upon completion, it will further expand our capacity to about 29,500 seats by end of fiscal 2018.

Secondly, our continued success and ability to deliver high levels of organic growth is based upon providing our students with the best possible education and the support to help them pursue top university admission. As of the release today, 51% of students in the 2018 graduating class of our international school have received over 350 offers from global top 50 institutions including 2 from the University of Chicago and 3 from Oxford and Cambridge. We anticipate a growing proportion of our student body receiving offers from these elite institutions and continuous improvement in student grades across all age groups in this academic year.

Third, we could not have furthered our success without the support of our senior business and academic leaders and ongoing recruitment and retention of top talents, which are critical building blocks to our long term and sustainable business growth.

On December 15, 2017, the Board has approved 2017 ESOP plan. We granted share options to purchase approximately 900,000 Class A ordinary shares of the Company, or 17% of the total reserved under our current share incentive plan, to school principals and management team members with a vesting period varying from 3 to 5 years. Total dilution impact is less than 1% on a fully converted basis.

Additionally, we are making pleasing progress on training initiatives for our headmasters and teachers. Since last quarter, 39 headmasters from our schools have attended Principals Management Program operated by UCL, and 150 key staff and teachers attended management training seminars conducted by leading domestic institutions.

As for acquisitions, in addition to recent acquisition of kindergartens, we are actively engaged in pursuing investment opportunities in schools, college counseling, test preparation and extracurricular activities, and hope to be in a position to share the exciting developments throughout the fiscal year of 2018. Acquisitions are an important element of our growth. We have not seen any changes in the overall acquisition environment and remain confident in our ability to generate significant additional growth through this strategy.

So at this point, I would like to turn the call over to Dora to discuss our financials. Dora, please.

Dora Li: Thank you, Jerry. 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 14. Our revenue for the quarter was 465.2 million, up 23%. Revenue from international schools for the quarter was 174.6 million, up 16.5%, as compared to 149.9 million in the same period last fiscal year. Revenue from bilingual schools for the quarter was 155.5 million, up 29.2%, as compared to 120.4 million in the same quarter last fiscal year.

Revenue from kindergartens for the quarter was 106.2 million, up 20%, as compared to 88.5 million in the same period last fiscal year. Revenue from our complementary education services for the quarter was 28.9 million, up 49%, as compared to 19.4 million in the same period last fiscal year.

On Slide 15, cost of revenue for the quarter accounted for 53.4% of total revenue, as compared to 58.8% in the same quarter last fiscal year. Teaching staff cost, the primary cost contributor, was 37.9% of total revenue for this quarter as compared to 40.8% in the same period last fiscal year.

Average student-teacher ratio was 9.6 for November 30, 2017 as compared to 9.4 at the same period of last year.

On Slide 16, gross profit for the quarter was 216.8 million, up 39%; gross margin at 46.6% as compared to 41.2% in the same quarter of last year.

For international schools, gross profit up 47.1% to 85.6 million for the quarter, with gross margin improved from 38.8% to 49%. For bilingual schools, gross profit up 37.8% to 67.4 million for the quarter, with gross margin improved from 40.6% to 43.3%.

For kindergartens, gross profit up 23.4% to 52.7 million for the quarter, with gross margin improved from 48.2% to 49.6%. For our complementary education services, gross profit up 79% to 11.1 million for the quarter, with gross margin improved from 32% to 38.4%.

On Slide 17, adjusted SG&A expenses for the quarter accounted for 17.3% of total revenue as compared to 13% in the same quarter last year. The increase in SG&A expenses was primarily due to the increase in compensation and benefits paid to additional general and administrative staff to support our business expansion after our IPO and the increase in marketing fees for promotions and professional services to support the growing business as a listed company.

Continuing on Slide 18, adjusted EBITDA for the quarter was 161.4 million, up 28.6%. Adjusted EBITDA margin was 34.7% as compared to 33.2% in the same quarter of last year.

Adjusted net income for the quarter was 119.1 million, up 42%. Adjusted net margin was 25.6% as compared to 22.2% in the same period of last year.

Please refer to the table in Slide 19 for the condensed income statement and Slide 20 for the reconciliation for SG&A, EBITDA and net income on a GAAP to a non-GAAP basis.

A quick note on our cash and bank balance in Slide 21. As of November 30, 2017, the Company's cash and cash equivalents and restricted cash totaled 1,618.5 million or USD244.9 million, as compared to 1,896.7 million or USD287.9 million as of August 31, 2017.

With the positive industry trends, encouraging regulatory environments and full year outlook for the business, we are reaffirming our guidance for fiscal year 2018 with a recap in Slide 24 for the fiscal year 2018 ending August 31, 2018. Again, the guidance is on revenue from organic growth and not from acquisition. We expect our total revenue to be between 1,630 million and 1,660 million, representing a year-over-year organic growth between 23% and 25%.

We also expect average student enrollment to be between approximately 34,300 and 35,000, representing a year-over-year increase between 15% and 18%.

The Company also expects 12 new schools openings for fiscal year 2018.

The attributable revenue from acquisition of the 5 new kindergartens will be disclosed upon completion of the transaction around the end of second fiscal quarter 2018.

Again, the guidance is based on the current market conditions and reflects the Company's current and preliminary estimates of market and operating conditions and customer demand, which are all subject to change.

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

Jerry He: Thank you, Dora. I am pleased to start out fiscal 2018 with a strong first quarter and the significant progress made across our business and operational initiatives.

Over the coming quarters, we will continue executing on the components of our strategic plan -- investing in substantial school capacity and service offerings expansion to capitalize on demand; providing market-leading and academic outcome-driven education services; innovative and premium-quality service that we hope will continuously meet, if not exceed, customer expectations; and maintain our focus on operational efficiency improvements and cost management disciplines.

With a strong conviction, an imminent and a differentiated roadmap for K-12 education, and a growing diverse executive team, I'm pleased -- very much looking forward to continuing our strong performance in the remainder of fiscal 2018 and deliver substantial long-term growth and returns to our shareholders.

This ends our presentation. We would like to now open the call to your questions. Operator, please?