Bright Scholar Second Quarter Earnings Conference Call
Wednesday, April 25, 2018 8:00AM ET

Presentation

Operator: Good morning, and thank you for standing by for Bright Scholar's Second Fiscal Quarter 2018 Earnings Conference Call. [Operator Instructions] 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 second fiscal quarter ended February 28, 2018 earnings call. I'm Ruby Yim, and with me today on the call is Mr. Jerry He, our CEO, and Ms. Dora Li, our CFO.

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 the call. By now you should have received a copy of our press release that was distributed on April 24, 2018 after market close Eastern Time. If you haven't, 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 material 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 and 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 its 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 these and other risks is included in Bright Scholar's 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 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, Jerry He.

Jerry He: Thanks Ruby, and thanks to everyone who's joining our call today to review our 2018 second fiscal quarter results.

For those who are new to our company, we have included in our earnings presentation a brief corporate introduction from Slides 3 to 8, 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 second fiscal quarter 2018 and share some of our key initiatives and developments, then turn 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 10. Amid the rapid expansion with over 53% of our schools still at ramp-up stage, coupled with the seasonality impact of 2 operating months in second fiscal quarter, revenue for first half of 2018 was up 22%, with gross profit up 33.8%, operating income up 14% and non-GAAP net income up by 30.6%. I am pleased with the results, particularly given the high level of investment that we have been undertaking since IPO in enhancing education quality, building our premium brand and improving operation efficiency as well as domestic acquisitions and global partnerships to expand network, broaden service portfolio to scale up our business. Dora will shed light on our expense items in her section later, and you will note that some of the major expenses incurred were either one-off or mainly in investment in our business.

Let's look at the detailed breakdown for the respective segments on Slide 11. The top line growth of our respective business segments continued to expand for the first half of fiscal 2018, as international schools, bilingual schools, kindergartens and complementary education services grew over 16%, 30%, 20% and 26% respectively.

Slide 12 shows more details of network expansion and enrollment increase. We have added 11 new schools/kindergartens to our network since first half of fiscal 2018. With a total of 62 schools/kindergartens, the capacity increased by 22% to 58,671. The average student enrollment for the first half of fiscal 2018 has increased by 17.2%, with blended utilization at 60.4%. As of February 28, 2018, there were 35,412 students enrolled in our schools. The increase has exceeded our initial internal expectation and demonstrates the results of ongoing investment initiatives that are continuously enhancing our brand.

Turning to Slide 13. While we strive to optimize our pricing across our business segments, it is equally important, if not imperative, that we continue to maintain a competitive pricing across our network schools, especially during the ramp-up stage, to drive organic growth of our business.

Before I turn over to Dora to discuss the financial results of the quarter in more details, I would like to provide an update on the academic performance of our 2018 graduating class as well as on our recent strategic investment and initiatives that will further establish Bright Scholar as the leader in the global premium schools segment.

First and foremost, it's a very exciting time of the year for Bright Scholar as we celebrate the outstanding achievements of our students. On slide 14, as of April 15, 2018, 90% of our 2018 graduating class participating AP, A Level and DP programs have received over 700 offers from global top 50 institutions, with 3 from Oxford and Cambridge and 22 from U.S. top 30 institutions, including University of Chicago, Cornell, UC Berkley, UCLA, Vanderbilt, Rice and NYU.

We are unwavering in our commitment to support the aspirations of our students in achieving academic outcomes and ultimately admission to top institutions of their choice that best match their academic profile. In second fiscal quarter, we have made significant headway through 2 important strategic initiatives, as shown on slides 15.

First, we are pleased to announce that we have signed SPA to acquire 75% equity interests of Foundation Global Education to expand portfolio of complementary services. FGE is a thriving private global education consulting company with headquarters in Hong Kong and offices in Beijing, Shanghai and Shenzhen, covering broad national clients.The Company has a strong team of associates who implement a proven and unique approach that helps students from the ages of 3 to 18 to identify, apply to and gain admission into overseas boarding schools and universities that are the best possible matches for them. In the 2018 application season, the Foundation students received 170 offers from 115 overseas high schools, including many of the U.S. top 25 boarding schools.

And secondly, through Can-Achieve, Bright Scholar has entered into strategic partnership with Shorelight Education to broaden access to top U.S. universities for students from our international schools. Shorelight is a renowned education service provider based in Boston with partner universities including top 100 in the U.S. that cover over 1,000 programs. Our students only require taking an online test, "iTep," instead of TOEFL or IELTS, to gain admission to Shorelight's partner universities, and the online tests can be taken anytime at Bright Scholar's international schools. Just to fill you in a few more details on this, the partnership also includes scholarship schemes for students that may effectively translate into 20% to 100% of fee reduction for the first year of the university. Can-Achieve has secured 5 years of exclusivity as their sole recruitment agent in China. We are very excited about the opportunities this partnership can bring to our students, especially for those in second- and third-tier cities, and the synergy value it creates as part of our complementary service offerings.

Furthermore, we have enhanced our enrollment marketing capabilities by acquiring 51.7% equity interests of Guangzhou Zangxing Network Technology Corporation, Limited to support our expanding network. Zangxing is a Guangzhou-based education technology company, and through its online platform and APP "Shangxue Bang," it provides consulting services on schools selection that matches students age 3 to 18 with schools in China. It also has an online enrollment marketing platform. As of date of this release, it has over 1.2 million registered users.

On the operational side on slide 16, we have also made significant progress across multiple fronts.

First, our partnership with Fettes College to build and operate an international school in China has been progressing well, with the location confirmed and construction scheduled to commence around June 2018. The tentative plan is to soft open the school as early as fiscal 2020 with an initial capacity accommodating over 1,800 students from age 3 to 18.

Second, we know the difference that great teachers make to a child's achievements at school. And with our expanding network, it is forever imperative to support our teachers' professional development so that they remain at the leading edge of their profession and, in return, provides premium education service to support our students. Bright Scholar has taken professional development of its staff extremely seriously.

In addition to the training program operated by UCL for headmasters and the management training seminars organized by top domestic institutions for key staff and teachers, we have planned further training initiatives for over 800 of our teaching staff to attend academic training seminars in summer of 2018. The training will be run by leading academic experts with focus on curriculum for bilingual and international schools.

Our investment in our schools, our brand, our students, our people, our service offerings and capacities is huge. The additional capacity from the successful follow-on offering earlier this year enables us to continue these investments, which are critical building blocks for accelerating business growth in fiscal 2018 and for establishing Bright Scholar as the leader in global premium school market. While continuing to invest in our future, we remain focused on the core financial disciplines, on supporting the success of our students and driving long term shareholder value.

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

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 release for detailed information of our comparative financial performance on a year-over-year basis.

Please turn to Slide 18. Our revenue for the quarter was RMB323.1 million, up 20.6%. On a 6-month basis, revenue was RMB788.3 million, up 22%.

Revenue from international schools for the quarter was RMB118.7 million, up 15.9%, as compared to RMB102.4 million in the same period last fiscal year. On a 6-month basis, revenue was RMB293.3 million, up 16.3%, as compared to RMB252.2 million in the same period of last fiscal year.

Revenue from bilingual schools for the quarter was RMB108.6 million, up 30.8%, as compared to RMB83.0 million in the same period last fiscal year. For 6 months, revenue was RMB264.1 million, up 29.8%, as compared to RMB203.4 million in the same period of last fiscal year.

Revenue from kindergartens for the quarter was RMB73.0 million, up 19.7%, as compared to RMB61.0 million in the same period last fiscal year. For the 6 months, revenue was RMB179.2 million, up 19.9%, as compared to RMB149.5 million for the same period of last fiscal year.

Revenue from complementary education services for the quarter was RMB22.8 million, up 5.6%, as compared to RMB21.6 million in the same period last fiscal year. For 6 months, revenue was RMB51.7 million, up 25.8%, as compared to RMB41.1 million in the same period of last fiscal year.

On slide 19, cost of revenue for the quarter accounted for 77.6% of total revenue, which is the same as last fiscal quarter for 2017. For 6-month basis, cost of revenue accounted for 63.3% of total revenue as compared to 66.6% in the same period last fiscal quarter.

Teaching staff cost, the primary cost contributor, was 56.8% of total revenue for the quarter as compared to 58.8% in the same period last fiscal year. On a 6-month basis, staff cost was at 45.6% of total revenue as compared to 48.3% in the same period last year. Average student-teacher ratio was 9.7 for February 28, 2018 as compared to 9.4 at the same period of last year.

On Slide 20, gross profit for the quarter was RMB72.2 million, up 20.3%; gross margin was flat at 22.4%. For the 6 months, gross profit was RMB289.0 million, up 33.8%; gross margin was 36.7%, up 3.3% as compared to 33.4% in the same period of last fiscal year.

For international schools, gross profit up 58.7% to RMB27.3 million for the quarter, with gross margin improved from 16.8% to 23%. On a 6-month basis, gross profit up 49.9% to RMB112.9 million, with margin improved from 29.9% to 38.5%.

For bilingual schools, gross profit up 6.2% to RMG20.6 million for the quarter, with gross margin decreased from 23.4% to 19%. On a 6-month basis, gross profit up 28.7% to RMB87.9 million, with margin at 33.3% as compared to 33.6% in the same period last fiscal year. We opened 5 new bilingual schools in fiscal year of 2018, and the gross margin impact from the 5 new schools for first half 2018 was somewhere around 1.5%.

For kindergartens, gross profit up 21.7% to RMB19.6 million for the quarter, with gross margin improved from 26.4% to 26.8%. For the 6 months, gross profit up 22.9% to RMB72.4 million, with margin improved from 39.4% to 40.4%. During first half of fiscal 2018, we added 5 new kindergartens, and the gross margin impact from the 5 new kindergartens for first half 2018 was somewhere around 1%.

For complementary education services, gross profit down 35.6% to RMB4.7 million for the quarter, with gross margin fall from 33.8% to 20.6%. On a 6-month basis, gross profit up 17% to RMB15.8 million, with margin fall from 32.8% to 30.6%. This was primarily due to gross profit increase from Elan, our English training sector, being partially offset by the decline from camps and other income.

On Slide 21, adjusted SG&A expenses for the quarter accounted for 25% of total revenue as compared to 21.8% in the same quarter last fiscal year. The increase in SG&A expenses was primarily due to increase in the compensation and benefits paid to additional general and administrative staff members, as well as mergers and acquisitions related expenses to support business expansion. For second quarter fiscal 2018, if we backout RMB6 million one-off M&A-related expenses, SG&A as a percentage of revenue would have been 23%.

On a 6-month basis, adjusted SG&A expenses accounted for 20.5% of total revenue as compared to 16.7% in the same period last fiscal year. In addition to staff cost increase as a result of building team to support business growth, during first half of 2018, we also incurred one-off M&A-related expenses of RMB9.6 million. If we backout these one-off expenses, for the first half, SG&A expenses as a percentage of revenue would have been 19%.

Continuing on Slide 22, adjusted EBITDA for the quarter was RMB24.9 million, down 3.7%; adjusted EBITDA margin was 7.7% as compared to 9.6% in the same period of last fiscal year. For the 6 months, adjusted EBITDA was RMB186.3 million, up 23.1%; adjusted EBITDA margin was 23.6% as compared to 23.4% in the same period of last fiscal year.

Adjusted net loss for the quarter was RMB4.2 million, compared to adjusted net income of RMB4.1 million. Adjusted net margin was negative 1.3% as compared to 1.5% in the same quarter last fiscal year. For the 6 months, adjusted net income was RMB114.9 million, up 30.6%; adjusted net margin was 14.6% as compared to 13.6% in the same period last fiscal year.

We incurred about RMB11.3 million foreign exchange loss on the book during fiscal second quarter. This accounting loss was due to moving U.S. dollar denominated currency from offshore company to PRC subsidiary. If this accounting loss was excluded from the adjusted net loss, we would have a net income of RMB7.5 million or 3.2% increase for second quarter, and RMB127 million or almost 87% increase for the first half of 2018.

Please refer to the table in Slide 23 for the condensed income statement and Slide 24 for the reconciliation for SG&A, EBITDA and net income on a GAAP to non-GAAP basis.

A quick note on our cash and bank balances in Slide 25. As of February 28, 2018, the Company's cash and cash equivalents and restricted cash totaled 1,906.8 million, as compared to 1,618.5 million as of November 30, 2017.

In Slide 27, for the fiscal year 2018 ending August 31, 2018, we expect our total revenue to be between 1,630 million and 1,660 million, representing a year-on-year organic growth between 23% and 25%. We expect average student enrollment to be between approximately 34,300 and 35,000, representing a year-over-year increase between 15% to 18%. The Company also expects 12 new schools opening for fiscal year 2018.

This guidance is based on the current market condition 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 back to Jerry for his closing remarks.

Jerry He: Thank you, Dora.

We are committed to offering every student exceptional learning opportunities which inspire their ambitions and support them to achieve success in all aspects of their education. While our students' outstanding academic achievements serve as the strongest testimony, our recent acquisition of FGE and the continuous expansion of our service portfolio and training of our teaching staff is a reflection of this commitment.

We have continuously consolidated our leadership in the premium school market, and we are identifying higher numbers of opportunities for strategic investments, new schools, acquisitions and global partnerships to drive sustainable and profitable business growth.

We are proud of the progress we have achieved so far and look forward to continuing our ambitious approach to support the success of our students in the coming years. Going forward, we will continue to make progress towards expanding our schools networks, broadening our service offerings for K-12 and steering our strategic and operational priorities, which we expect will translate into accelerated top line and bottom line growth over the long term.

That's all we have in the form of prepared remarks, and we will now turn it over to Q&A.