

**First High-School Education Group Co., Ltd. [FHS]
First Half 2021 Earnings Conference Call
Tuesday, September 28, 2021 8:00 A.M. Eastern Time**

Executives:

Susie Wang, Director of The Blueshirt Group, Asia
Shaowei Zhang, Chairman and Chief Executive Officer
Lidong (Benjamin) Zhu, Director and Chief Financial Officer
Tommy Zhou, Joint Chief Financial Officer

Analysts

Long Lin, Unidentified Company
Unidentified Analyst, TF Securities
Unidentified Analyst, Huaxi Securities

Presentation

Operator: Good day, ladies and gentlemen. Thank you for standing by, and welcome to the First High-School Education Group First Half 2021 Earnings Conference Call. Currently, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. As a reminder, we are recording today's call. If you have any objections, you may disconnect at this time.

Now I will turn the call over to Susie Wang, Director of The Blueshirt Group. Ms. Wang, please proceed.

Susie Wang: Thank you, operator, and hello, everyone. Welcome to the First High-School Education Group first half 2021 earnings conference call. Joining us today are Mr. Shaowei Zhang, Chief Executive Officer, and Benjamin Zhu and Tommy Zhou, Joint Chief Financial Officer, Lilian Liu, Head of Investor Relations.

We released the results earlier today. The press release is available on the Company's IR website at ir.diyi.top, as well as from newswire services. A replay of this call will be also available in a few hours on our IR website.

Before we continue, please note that today's discussion will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's actual results may be materially different from the expectations expressed today. Further information regarding these and other risks and uncertainties is included in the Company's public filings with the SEC.

The Company does not assume any obligation to update any forward-looking statement, except as required under applicable law.

Also, please note that unless otherwise stated, all figures mentioned during the conference call are in Chinese Renminbi.

With that, let me now turn the call over to our CEO Mr. Zhang who will speak in Chinese, and then our Joint CFO Tommy Zhou will translate his comments to English. After that, our Joint CFO Mr. Benjamin Zhu will discuss our operations and financial highlights.

Please go ahead, Mr. Zhang.

Shaowei Zhang: (Speaking foreign language).

(Translated). Hello, everyone. Thank you for joining our earnings conference call today. In the first half of 2021, our improved number of student enrollments translated into healthy top line growth, with 24.8% year-over-year growth to RMB231.9 million for total revenue. Facing tough regulatory environment, we remain committed to driving rapid growth with further operation expansion while improving utilization rate for our existing schools.

During this period, we had 8 new school programs opened in multiple provinces, including 3 new high school programs, 3 new Gaokao repeaters school programs, 1 new public-school management service program, and 1 middle school program.

As of September 1, 2021, we are running 36 school programs with a total of over 35,000 students across Yunnan province, Guizhou province, Shanxi province, Shaanxi province, Inner Mongolia Autonomous Region, Sichuan province and Chongqing, with a utilization rate of 62.3%, compared to 55.3% as of December 31, 2020.

Therein, first, we are operating 17 high school programs with a total of over 18,500 students and school utilization rate of approximately 53.4%, and 7 Gaokao repeaters school programs with a total of over 1,600 students and school utilization rate of approximately 62%. We are cooperating with local governments in multiple provinces to provide management services for 4 public schools with a total of over 5,500 students. And thirdly, we are operating 8 middle school programs with a total of over 9,700 students and school utilization rate of approximately 82.7%.

Complying with relevant regulatory guidelines, we look forward to further solidify our leading position in China's private high school and Gaokao repeater school program sectors. We also aim to expand into new geographical markets with strong demands.

In addition to the 36 fully-operated school programs, we have also entered into agreements to secure more school openings next year. One particular case example highlighting is that in late September, we entered into an agreement to lease newly-constructed school premises and facilities to sponsor a high school with capacity for over 2,800 student beds in Sichuan province.

The leased school premises was previously designed for K-9 education, and was recently leased to us primarily due to the owner's operation difficulties amid the changing regulatory environment and importantly, our strong brand name in operating high schools. This agreement

marks our high school business entrance into Sichuan province, where we aim to explore and satisfy the large market demand with similar arrangements.

We also achieved meaningful progress in enhancing our education resources and services. On June 1, 2021, we announced our majority stake acquisition in Beijing Long-Spring Future Plus Education Technology Company, Ltd., or Beijing Long-Spring Future Plus. This company is a technology-driven education company providing premium full-time live AI online teaching services.

This combination will further improve the overall quality of our entire education system, especially for China's central and western regions, where there are strong demands for high-quality high school and Gaokao repeater school programs. This system will allow us to further empower our existing business in operating private high schools, school programs for Gaokao repeaters, and management services for all public schools' needs.

We are highly confident in the market opportunities for China's private high school and Gaokao repeater school programs. Therefore, in mid-September, we announced a strategic partnership with Sichuan Fuhang Capital, aiming to jointly set up an education growth fund dedicated to supporting the rapid expansion of our school network. We believe the above milestone will further strengthen our leading position and competitiveness in China's private high school and Gaokao repeaters school program sectors.

Looking ahead, the Company will continue investing in technology and education quality to provide premium and authentic educational services to satisfy each student and parent we serve. We believe that the education market in China will continue to see steady growth, and that the current education companies will play a very important role in the education sector. We are confident that our Company will reach potential beyond our responsibility and mission.

Okay. Now let me turn the call over to our CFO Benjamin, who will provide details on our business and financial performance. Thank you.

Lidong (Benjamin) Zhu: Thank you, Mr. Zhang, and thank you, everyone, for joining our call today. Before I go through our financial highlights for the first half of 2021, I would like to announce a new member to our executive team, Tommy Zhou. He will assume the position of Joint CFO. He will help myself in capital market matters. This arrangement can enable myself to focus on growth strategy.

Tommy Zhou: Hi, it is an honor to join First High-School Education. I am a long-time friend of the Company and the management team, as I fully participated in its entire IPO underwriting process. Prior to joining First High-School, I worked as an investment banker at Tianfeng Securities, investment director at China Innovative Capital, investment manager at Sunshine Insurance, also various accounting duties at Northwestern Mutual in the United States and Canada. I received my bachelor's degree from the University of British Columbia and an MBA from George Washington University.

As a team, I look forward to working closely with Mr. Zhu, and to further streamline First High-School's operations, and drive our top-line growth.

Lastly, we understand the importance of creating shareholder value, and I assure that everyone in our firm will be fully devoted to be doing just that.

Lidong (Benjamin) Zhu: Now please allow myself to go through our financial highlights for this first half of year. Before I go into details, please note that all numbers presented are in RMB, unless stated otherwise. All percentage changes are on a year-over-year basis, unless otherwise specified. Detailed analysis is contained in our earnings press release, which is available on our IR website.

As for total revenues, our total revenues were RMB232 million, increased by 25%, while the last same period, revenue was at RMB186million . Therein, revenues from customers were over RMB224 million, increased by 34%, while the last same period revenue was RMB168 million, and revenues from the government cooperative agreements were RMB8 million, a decrease about 59%, while the last same period was RMB18million.

This large decrease was primarily caused by the delayed payments from government for the relevant cooperative arrangements. In recent 2 years, we noted that some local governments are facing the serious finance income difficulties, and thus, the largely-delayed payments to us. For the conservative purpose, we did not recognize these delayed payments as our revenue on an accrual basis, instead, we accounted for them on a cash basis. Firstly, on September 26, we received such a delayed payment of RMB9 million.

Our total revenue increase was primarily driven by, one, greater student enrollment due to the opening of new schools and increased students enrolled in our existing schools; two, increased average tuition fee in most of our existing schools; three, higher boarding fees due to the increased number of our students.

As for Cost of Revenue, our cost of revenues were RMB170 million, increased by 40% year-over-year. This increase was primarily due to the overstaffing our opened school networks and idle leased premises and facilities. At the beginning of this year, we planned for an aggressive school networks expansion plan, but China local education authorities casted tough K9 education regulation environment and such authorities slowed down the approvals on our high school and Gaokao repeater school opening-ups. Our delayed new school openings caused the above overstaffing and idle leased premises and facilities.

As for Gross profit, our gross profit was RMB62million, decreased by 4% from the last same period's RMB65 million.

Our gross margin for this first half of year was 27%, compared with 35% in the last same period. The decreased gross margin rate was primarily due to the higher cost of revenues resulted from, one, increased staff costs described as above; two, increased school operating expenses, especially for the new schools with relatively lower cost efficiency than our existing schools.

As for our General and Administrative Expenses, general and administrative expenses were RMB60 million, increased by 109% from the last same period's RMB29 million. This increase was mainly incurred by, one, we caused one-off expenses of RMB25 million. This amount includes IPO-related expense of RMB10 million, and warrant-related fair value expenses of

RMB15 million; and two, additional expenses of RMB6 million deriving from the acquired entities, which not happened in the last same period.

As for the Selling and Marketing Expenses, our selling and marketing expenses were RMB3 million, increased by 98% from the last same period's RMB1 million. This increase was primarily due to the marketing activities in relation to the aggressive school opening plan made at the beginning of this year.

As for the Government Grants, our government grants were RMB5 million, increased by 196% from the last same period's RMB2 million. This increase was due to, one, the earlier distribution process made by some governments this year, as such government grants in previous years were usually distributed in the second half of the year; two, the increase in government subsidies in line with the increase of our student enrollments and our new schools opened.

As for Interest expense, our interest expense was RMB9 million, increased by 800% from the last same period's RMB1 million. Such a huge increase was incurred by the borrowing under financing arrangement with original loan amounting RMB100 million, which was used for the purchase-back of EQT equity interest prior to our public listing, and the related interest expense amounted to RMB6 million.

The last item is our Net Loss. Net loss was RMB4million, compared to net income of RMB32 million in the last same period. Such loss was mainly incurred by one-off expense amounting RMB25 million and other expenses amounting to RMB11 million, both which not happened in the last same period. Also, September 26, we received delayed payments from government amounting to RMB9 million that was not accrual. If we add back these expenses, and the received payment, the comparable net income of this first half of year will be net income of RMB42 million, increased by 33% compared with the last same period.

The above is my presentation to you, and thank you for your time.

That concludes our prepared remarks. Let's now open the call for questions. Operator, please go ahead.

Question-and-Answer Session

Operator: Thank you. (Operator Instructions). We will take our first question from Long Lin.

Long Lin: So my first question is about the implications of the recent regulations on the company. How would that impact the company's business strategy and the growth outlook, especially on the tutorial school part in second half of 2021 and beyond? So it seems like the regulation said the high-school education or after-school education should also follow the similar guidelines.

So just wondering how that impacts the tutorial school? It seems like that your capacity expansion for the school openings for the after-school -- for the high-school tutor school seems slower than expected in the first half. Just wondering what's your -- if there's any strategy change or any change in the capacity expansion plan for the second half? That's my first question.

Tommy Zhou: Okay. The Chairman will answer the question and I'll help translate.

Shaowei Zhang: (Speaking foreign language).

(Translated). So the current regulations will not impact senior high-school, and also does not have material impact on the Gaokao repeater schools. For some provinces, the proportion of private degree has been clarified. The proportion at provincial level for private schools is controlled at 5% and district and counties is controlled at 15%. Therefore, in some provinces, such as Hunnan, for example, current privatization is up 30%, which is affected, but in many provinces it's lower than 10%, some 9%, some 15%. And these provinces are not much impacted by the current regulation. Thank you.

So due to the regulation we spoke -- which is the promoting private education of PRC, and also the 2-minus regulation. The approval process for schools' authorization license is a lot lower, but moreover, the approval for K9 education is virtually stopped. And that's the answer for this question. Thank you.

Long Lin: Thank you. So I just have follow-up on that. So does it mean like since the company thinks there's no material impact on your business, doesn't mean your revenue guidance for the full year 2021 of 73% to 84% year-over-year growth remains unchanged?

Also, what about your capacity expansion plan? Like you opened about 8 new schools in the first half. So just wondering what's your expansion plans for the second half of the year, especially on the high-school tutoring school, tutorial school? What's the plan? How many schools do you plan to open in the second half? That's my follow up.

Lidong (Benjamin) Zhu: From our measurement viewpoint, we think for this year, our newly-opened the schools number decreased compared with our original plan. For this reason, we think for this school year, we think the total revenue will be little bit decreased than our original forecast, but we also actively seek the potential acquisition targets. So hopefully, we think by this, that is the second half of year, if we succeed in the acquisition target, we think we can keep the strong revenue growth year-over-year. This is my answer.

Long Lin: Thank you. So my second question is about your revenue growth of 24.8% in the first half. What percentage of that growth comes from student enrollment? And what percentage comes from the tuition increase, the part of growth come from the tuition increase? What is your average tuition per student in the second half -- in the first half of the year, compared with the first half of 2020?

Lidong (Benjamin) Zhu: Our total revenue increased, mainly derived from students' enrollment, and the tuition fee increase and boarding fees. As for our current statistics, as you know, our student enrollment increased by over 32 percentage. As for the tuition fee, which we discussed for the last year financial report, we think for this new school year, our tuition fee increase rate is

approximately 15%. Certainly, with the large increase in student enrollment, our revenues increased. Our boarding fee kept the same percentage increase also. That is my answer.

Long Lin: Okay. Thank you. So when you talk about like M&A to make up your revenue growth in the second half, does it include the revenue contribution from the acquisition, the new acquisition, that you recently made, like the acquisition of Beijing Tomorrow Future Plus Education Technology, or do you plan to acquire more companies?

Lidong (Benjamin) Zhu: As disclosed in our earnings press release, actually, in this first half year, we completed 3 companies' acquisition. Besides this, we actually are seeking other potential acquisition targets. So hopefully, in this second-half of year, we can complete the other acquisition high-school networks. As for this purpose, in the mid-September, we set up the partnership with Fuhang Equity Capital to raise the Education Growth Bond to fuel our potential acquisition.

Long Lin: Okay. So for your acquisitions, what kind of company do look for? How are those -- your new companies will supplement or complement your company's existing business?

Shaowei Zhang: (Speaking foreign language).

(Translated). So during the acquisition process, we really look for the technology factor. For example, for the Beijing Future Plus, the company can provide service to our entire network, that is teaching and classroom service. This kind of online service can help increase the quality of our teaching, and also reduce the teacher shortage or similar issues in our schools across the board and also help to reduce cost. So from the school's actual usage level, technology is able to provide better resources and also save human capital.

From the national level, currently, the regulators gave a lot of promotion to using technology to enhance physical schools, and provided a few examples in how technology is being used and developed in actual schools. So, we also believe in the same fashion where technology is able to provide actual use and improvements for our schools. So another example is our 3-teacher classroom process, which helped us a lot in the human resource sector. We were able to recruit and allow teachers, excellent teachers, from Beijing and broadcast their teachings across all provinces and all our schools. Thank you. That answers the question.

Long Lin: Thank you. That's very helpful. That's all my questions, and I will get back to the queue.

Operator: (Operator Instructions). TF Securities.

Unidentified Analyst: (Speaking foreign language).

Shaowei Zhang: (Speaking foreign language).

Operator: (Operator Instructions). [Huaxi] Securities.

Unidentified Analyst: (Speaking foreign language).

Shaowei Zhang: (Speaking foreign language).

Operator: There are no further questions in the queue. I will now hand the call back to Susie.

Tommy Zhou: Well, thank you, operator, and thank you everyone for participating in the call and for your support. We appreciate your interest and look forward to reporting to you again next period on our progress. Thank you, operator.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.