

Transcript of
First High-School Education Group
Fiscal Year 2022 Unaudited Financial Results
April 17, 2023

Participants

Tommy Zhou - Chief Financial Officer, First High-School Education Group

Presentation

Operator

Good day, ladies and gentlemen, thank you for standing by. And welcome to the First High-School Education Group Fiscal Year 2022 Unaudited Financial Results 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 Mr. Tommy Zhou, Chief Financial Officer of the company. Mr. Zhou, please proceed.

Tommy Zhou - Chief Financial Officer, First High-School Education Group

Thank you, operator, and greeting investors and friends. Welcome to the First High-School Education Group fiscal year 2022 earnings conference call. This is Tommy speaking, Chief Financial Officer of the company and I will lead today's conference call. We released results earlier today prior to market open. The press release is available on the company's IR website at ir.diyi.top, as well as from AccessWire and OTC services. A replay of this call will also be 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 alternatives is included in the company's public filings with the SEC.

The company does not assume any obligations to update any forward-looking statements, except as required under applicable law. Also, please note that unless otherwise stated, all figures mentioned during the conference call are in Chinese Renminbi, RMB.

With that, thank you all again for joining us, I will briefly spend the next 20 minutes updating our fiscal year 2022 results. For today's earnings release all of our financial and operating data will be dated to December 31, 2022. We also expect to release our F-20 Annual Report near the end of the month. Our external auditor, are still working tirelessly to get it finished in time. As soon as it's finished, we will report it through the SEC channel.

2022 was the year of both ups and downs. Starting the year off, during the first quarters' earnings call, the company expressed that we shifted our strategy from outward focused to an inward focus. We wanted to make sure that before we go out and expand more schools, we should have a solid foundation first, that all of our existing schools will be operating in near-perfect conditions, that our operating efficiency, academic achievements can be consistent throughout the entire network. And the company did their best to do just that.

For the schools that we continuously operate, student admission and student numbers both increased to new heights of 25,823 students. And academic levels, graduation scores are more balanced between our schools, from large cities to small municipalities. In addition to building internally, we did also make three outward expansions. We signed two new schools in Yunnan province, and one new school in Hunan province. These schools are all located in either third or fourth tier cities in line with the Chinese government's rural revitalization initiatives.

The company will continue to serve the community at large, by ethically and sustainably develop our businesses. Throughout the year, we have also donated school supplies to villages. Many schools provide a free teacher services to them, and granted scholarships to students with difficult background. Seeing the success of our students, and the community at large, is the dream for every one of our employees.

Another positive note, it's our controlled short- and long-term borrowings. As outlined in our second quarter earnings call, the company set out to reduce our overall leverages just to be safer side of the operation. As of December 31, 2022, our short- and long-term combined loans totaled RMB79.1 million, which is 38% less than last year of the same period, which was RMB127.5 million. The reduced leverage will give us a larger margin of safety to operate in case for any economic turbulence.

Also, for 2022's loans, they are 100% credit based, all bank issued loans, compared with 2021, which some of our loans was issued by financial leasing companies, which had much higher interest rate. These pure credit based bank issued loans not only translate to a lower interest rate or lower cost for us to bear, but also a signal that banks, the strictest and most conservative financial institutions in China, especially towards private business, has full faith in our business and credibility.

On the flip side, notwithstanding, in 2022, the company did also experience some negatives in our operation. Our net income decreased compared to 2021. The decrease was primarily due to the cost associated with discontinuing three schools and limited recruitment of two other. For both regulatory changes and financial reasons, we had to discontinue schools in Inner Mongolia, Chongqing and Chengdu. In addition, two of our schools in Kunming, specifically Yunnan Hengshui Experimental Secondary School-Xishan School, and Yunnan Long-Spring Foreign Language Secondary School faced limited student admission quotas from the local governing authority.

Adjusting to these changes was not easy. The company had to deal with a large number of issues from rental fee disputes, to staff and relocations, to communication with the local authority. And ultimately, the termination and the adjustment costs associated with these changes had a negative

impact on our profitability, thus resulting in a lower net income number compared to last year. More details of our positive and negatives will be available in our upcoming F-20 Annual Report. For today, it is a snapshot of our unaudited earnings release.

Lastly, the company has already put these unfavorable events in the past and dealt with them already. What is important that company is confident on the road ahead. We will continue to operate our schools with high quality and solid academic results. Concurrently, the company will always explore, innovate and expand. We thrive for any opportunity that will grow the business and the community, and we aspire to become a stronger player in the industry. So that concludes the highlight section.

And now I will go through our line-by-line financial highlights for fiscal year 2022. Again, please know that all numbers presented are in RMB unless otherwise stated, I'll present his changes are on a year-over-year basis unless otherwise specified. Detailed analysis is contained in our earnings press release, which is already available on our IR website and AccessWire services.

For fiscal year 2022 for continuing operations, total revenue were RMB342.5 million, an increase of 1.5% from RMB337.3 million in 2021. The increase was primarily due to a mix of factors including recruitment and discontinuance and limited operation of some schools in our network.

Revenues from customers were RMB300.4 million, an increase of 0.1% from RMB300.1 million in 2021. Again, the increase was primarily due to a mix of factors including recruitment and discontinuance and limited operation of some schools.

Revenue from government cooperative agreements was RMB42.1 million, an increase of 13.1% from RMB37.2 million in 2021. The increase was primarily due to an increased number of publicly-sponsored students we're currently served.

Cost of revenues was RMB213.6 million, an increase of 2.9% from RMB207.6 million in 2021. The increase is primarily due to undertaking a greater portion of publicly-sponsored teachers' compensation.

Gross profit was RMB128.9 million, a decrease of 0.6% from RMB129.7 million in 2021. Gross margin was 37.6% compared with 38.5% in 2021. The slight decrease was due to fluctuations in: first, school operating efficiency, such as utility usage and budget control; and two, number of staffs and their compensation levels.

Net operating expenses were RMB55.7 million, an increase of 8.8% from RMB51.1 million in 2021. Of which, selling and marketing expense was RMB3.1 million, a decrease of 51.8% from RMB6.4 million in 2021. The decrease was primarily due to the decreased expense in brand promotion and marketing activities for our relatively mature school operation.

General and administrative expense was RMB54.6 million, an increase of 14.5% from RMB47.7 million in 2021. The increase was primarily due to discontinuance and limited operation of some

schools in our network, and partially also because of the expenses related with new business expansions.

Government grants were RMB2 million, a decrease of 31.4% from RMB3 million in 2021. The decrease was primarily due to the government's tight fiscal budget, resulting delayed payments made by the government.

Income from operations was RMB73.2 million, a decrease of 6.8% from RMB78.5 million in 2021. Net income from continuing operations was RMB46.1 million, a decrease of 20.2% from RMB57.8 million in 2021. And net loss from discontinued operations was RMB7.7 million, compared with a loss of RMB5.1 million in 2011. Net income was RMB38.4 million, a decrease of 27.1% from RMB52.7 million in 2021. Adjusted net income non-GAAP measure was RMB38.4 million, a decrease of 27.1% from RMB52.7 million in 2021.

And the above is my financial highlights briefing. Like I said previously, we do expect our F-20 Annual Report to be filed soon and more details will be available. Both the CEO Mr. Zhang and myself, wish to thank everyone for your time in participating today. And let's open the call for questions. Operator, please go ahead and proceed to the Q&A.

Operator

Thank you, Tommy. At this time, we will now be conducting our question-and-answer session. [Operator Instructions] Okay, we don't appear to have any questions in the queue as yet. I will now hand back over to Tommy for any closing remarks.

Tommy Zhou - Chief Financial Officer, First High-School Education Group

Yeah. It's okay. I mean, if anyone have any questions they can send to us privately through our e-mail, which is also listed on our website. Again, thank you, operator, and thank everyone again for participating on today's call for your further support. We appreciate everyone's interest in the company and greatly look forward to reporting to you again next quarter on our progress. Thank you.

Operator

Thank you, all, again, this does conclude the call. You may now disconnect.