

**First High-School Education Group Co., Ltd. [FHS]  
Q3 2022 Unaudited Financial Results Conference Call  
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Executives:

Tommy Zhou, Chief Financial Officer

Analysts

Hua Chen, HWF

**Presentation**

Operator: Good day, ladies and gentlemen. Thank you for standing by, and welcome to the First High-School Education Group Third Quarter 2022 Unaudited Financial Results Conference Call. (Operator Instructions). 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 do have any objections, you may disconnect at this time.

Now I'd like to turn the floor over to Mr. Tommy Zhou, Chief Financial Officer of the company. Mr. Zhou, please proceed.

Tommy Zhou: Yes, thank you, operator, and greetings, investors and friends. Welcome to the First High-School Group Education Group Third Quarter 2022 earnings conference call. My name is Tommy, the Chief Financial Officer, who will lead today's conference call.

So we released our results earlier today prior to market open. The press release is available on the company's IR website at [ir.diyi.top](http://ir.diyi.top), as well as from newswire services. A replay of this call will also be available in a few hours on our IR website.

So 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, again, thank you all for joining us. I will briefly spend the next 20-30 minute updating the third quarter results 9 months ended September 30, 2022.

For today's earning release, all of our financial data will be dated to September 30 of 2022. But operating data, such as number of enrollments and number of schools, will be dated as of October 30, for more precise and present understanding of our business.

The third quarter period starting from July, ending in September, is commonly known as "the quiet period" in our business. It's quiet because there are no school activities conducted during the summer months of July and August, meaning 2/3 of the 3-month period, the company will have no revenue recognition. Resulting from the quietness, our revenue only grew modestly compared with September revenue recognition last year.

But the company did perform extensive preparation work for the school opening in September. Our teachers' recruitment and training are our number one priority. Secondly, we did many constructions and repairs of school properties. And third, we also did -- or completed our student recruitment campaigns. Just to give a bit of highlight into these preparations, so for the class of 2022, we recruited approximately 200 new teachers this year. These teachers are mostly consisting of new graduates, or teachers with only 1 to 3 years of previous teaching experiences. Our model is to have our senior teachers watch over and apprenticeship these less experienced and young teachers, so they can quickly adapt and grow into our model.

We also did some major upgrades to two of our most well-operated campus in Kunming. We renovated these boarding rooms for students to have better lodging environment, which will also help in recruitment as well. Despite the recruitment and renovation, we were able to control our cost very effectively, meaning we actually had a growth in profitability despite with very little revenue recognized.

For the school year of 2022, we admitted 7,963 students into our campus. As of October 31, we have 27,777 students enrolled across 23 school programs across different regions in China. As mentioned during September's half-year earnings call, our newly-admitted students included more self-funded students, rather than government-funded students, reflecting our great education quality and strong brand recognition. It also means that more of our income will come directly from our customers, rather than getting the income from the government.

Also, out of the 7,963 newly-admitted students, 592 students were given various amounts of scholarships for their excellent grades coming into our high school, which means this is setting new potentials for their excellent graduating grades and receiving the top offers from top universities, which in turn will also help our recruitment and brand recognition in the future.

While we just finished the 2022 school year recruitment, we've already started planning and preliminary work for the 2023 school year recruitment for next year. Our mission is to balance education quality and operating metrics to deliver the best interest for all stakeholders.

Financially, as witnessed by the earning release, our profitability increased compared to last year of the same period. As I've already mentioned, in the past two earning release, the measures of, A) building a stricter and more scientific budget system; B) increasing horizontal comparison among school and business units; and C) tying compensation to performances in our staff, are yielding positive results now and will continue to do so in the future.

So last year, September marked the beginning of our major internal drive for efficiency, and one year later, I think the increased efficiency is evident in our increase in profitability. And this is rewarding to witness.

Beginning of the 2022 school year, like I mentioned earlier, despite having more students to teach and serve, we actually reduced about 10% of our overall headcount. So we have more teachers and less administrative staff as the composition. This is done by consolidating administrative duties and non-teaching staffs.

Currently, our teacher to student ratio is about 1:11. This is, in my experience, well below most of our competitors in the high-school sector. This is done to make sure we are balancing financial results, but also excellent teaching quality. We all know that with lower teacher to student ratio, usually it will deliver a better teaching quality. So, we want to effectively control costs and also deliver a great teaching and service quality.

So the measures we put in place are all scientifically designed to improve efficiency. All measures aim to deliver equal or improved results with less resources spent, and is never about just cutting cost.

Another good news is our loan level are at a controlled level. As evident by the earning release, our combined borrowing of long-term and short-term bank and also leasing company, is about RMB112 million. This is reduced from over RMB179 million last year, June 30. We are actually at a very comfortable level now and wish to keep roughly amount of leverage as of today because to make sure the company can grow, we need to have a degree of leverage. But also, as mentioned, I think, many times in previous – there are talk of recession and the company want to be a bit on the safer side, to be a bit on the more efficient side, we want to make sure to grow responsibly, not just wildly. So I think that our reduced leverage is also good news for us.

So like I said in the beginning of my remarks, the third quarter is more of a quiet preparation for the last quarter of the year. Both operationally and financially, we were able to witness the positive strategies and measures set in place. In addition to our high school operation, the company is also proactively developing new businesses in vocational schools and other education auxiliary products. We will discuss and disclose more details once those business yield actual operation and financial results. So I will not go too much in detail today.

That concludes the highlight remark section. And now I will take some time to go through our line-by-line financial highlights for the third quarter 2022. Again, 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 earning release, which is already available on our IR website and newswire services.

For the third quarter, the 9 months ended in September 30, our continue operations, total revenues were RMB274.2 million, an increase of 0.5% from RMB272.7 million for the 9 months ended September. Revenue from customers were RMB238.3 million, a decrease of 1.6% from RMB242.1 million for the 9 months ended last September. The decrease was primarily driven by decreased and delayed collection of teaching and auxiliary material fees.

Revenues from government cooperative agreements were RMB36 million, an increase of 17.3% from RMB30.7 million for the 9 months ended September last year. The increase was primarily driven by the increased number of publicly-sponsored students we serve.

Cost of revenues were RMB149.5 million, a decrease of 14.7% from RMB175.4 million for the 9 months ended last September. The decrease was primarily due to the effective cost control measures, such as the stricter budget and the upper-management criteria.

Gross profit was RMB124.7 million, an increase of 28.1% from RMB97.3 million for the 9 months ended last year September 30. Gross margin was 45% compared with 35.7% of the same period last year. The increase was primarily driven by more effective cost control measures, improved school operating efficiency, tighter utility usage limits, stricter budget control and revised compensation structure for teachers and supporting staff.

Net operating expenses were RMB52.7 million, a decrease of 7.6% from RMB57 million for the 9 months ended September 30, 2021.

Selling and marketing expenses were RMB1.9 million, a decrease of 52.7% from RMB4 million last year. The decrease is because it's actually marginally smaller; it's only from RMB4 million to RMB2 million, it's not a big number. But it was primarily driven by just decrease of expenses in brand promotion and marketing.

General and administrative expenses were RMB51.7 million, a decrease of 6.6% from RMB55.4 million. The decrease was primarily due to overall improved cost control.

Government grants were RMB0.9 million, a decrease of 60% from RMB2.4 million of last year. The decrease was primarily due to the government's tight fiscal budget resulting in delayed payments made by the government.

Income from operations was RMB72 million, an increase of 78.6% from RMB40 million of last year.

Net income from our continuing operations was RMB61 million, an increase of 84% from RMB33.1 million of last year.

Net loss from discontinued operations was RMB10.1 million, an increase of 44% from RMB7 million last year.

Overall, the net income combined was RMB51.0 million, an increase of 95.3% from RMB26.1 million for the 9 months ended September 30, 2021.

Our non-GAAP adjusted net income is the same as our net income.

And business outlook, for the fiscal year of 2022, the company does not change our outlook, and expects a total revenue of continuing operations to be between RMB440 million to RMB460 million, representing a 10% to 15% increase on a year-over-year basis. The outlook reflects the company's current and preliminary view on the market and operational conditions. And the

outlook ranges for the fiscal year 2022 reflects a number of assumptions that are subject to the change based on uncertainties.

The above is my financial highlights briefing for the third quarter. Both the CEO Mr. Zhang and myself wishes to thank everyone for your time in participating.

Let's now open the call for questions. So operator, please go ahead and proceed to the Q&A part.

## **Questions and Answers**

Operator: (Operator Instructions). Hua Chen with HWF.

Hua Chen: (Speaking foreign language).

Tommy Zhou: So Mr. Chen said the company's operation metrics is comparatively increased from last year, and that we should have more cash on hand compared with last year also. Does the company consider itself to increase the share buyback program, and what is the management thought on that?

First of all, Mr. Zhang, CEO, is not with me today; he's actually on a business trip. So I will be answering for myself. So the board meetings of the company did discuss all efforts into raising our share price, right? That not only includes more buyback, but also maybe even perhaps Mr. Zhang buy more for himself with his own money. And so definitely, that is in discussion.

But as of today, the board only approved for me to release the earning release today, and did not approve for me to do any share buyback, or answer that yet. But what I can say is to have any share buyback, the company could do it during the window period, which is beginning after 2 days after your earning release, and before the quarter ends. So technically and legally speaking, we can only do it, I think, by Friday, I believe. I can check with the lawyer. It's at least 1 day, I believe 2 days.

That said, I think I can answer another question maybe many investors are thinking about. Given all the previous efforts, right, I think our financial metrics are looking brighter than before. I think we did some dividend payback, we did some share buyback. And yet, there's very little evidence of our share reclining back to, I guess, maybe even levels of half-a-year ago.

If the unfortunate delisting do happen, we aim to list on the OTC market. The OTC market is actually divided into several tiers, right, QX, QB, and Pink. If that we could not meet the New York Stock Exchange listing standards anymore, the company is -- at least from my personal opinion, we do wish to be listed on the OTC. And again, that is awaiting board approval and I do address the board on that already.

Hua Chen: Okay. Thank you. Thank you for management to taking my questions. Thank you.

Operator: (Operator Instructions). And sir, at this time, showing no additional questions, I'd like to turn the floor back over to you for any closing remarks.

Tommy Zhou: Yes, I mean, I think like I said earlier, from the company's operating perspective, we are very confident on continuing this business, doing what we do best. However, from a environment, macro environment, perspective, at least myself, I am also affected and concerned by our market cap. But I want to always say that myself, Mr. Zhang and the whole board, we want to and we wish to maximize shareholders' interests.

So we'd like to thank everyone again for participating on today's call. Some of the investors already did reach out to me, and perhaps we can host a Chinese session to answer more questions directly. And the company's management is willing to do that. So again, we appreciate everyone's interest in our company. Despite any hardship, we will work hard to continue to do what we do best. And hopefully, I look forward to reporting to all of you again next quarter on our progress. And thank you, again, operator.

Operator: And thank you. At this time, we've concluded today's conference. We thank everyone for joining. Have a great day. You may now disconnect your lines.