

Global Cord Blood Corporation Fiscal 2020 2Q Conference Call Script

Company Executives

Ting ZHENG (Tina) – Chairperson and CEO

Albert CHEN – CFO

Cathy BAI – VP, Corporate Finance

Operator

[Standard Script] Welcome everyone to Global Cord Blood Corporation's earnings conference call for the fiscal 2020 second quarter. All participants' lines will be placed on mute during the presentation, after which there will be a question-and-answer session. To allow everyone a chance to ask a question during the Q&A session, please limit yourself to one question at a time. Now, I would like to introduce Ms. Cathy BAI, VP of Corporate Finance, to begin the presentation.

Cathy BAI

Good morning, everyone. Welcome to our fiscal 2020 second quarter earnings conference call. A press release discussing our financial results has already been published and a copy is available on our company's website.

During the call, our management team will summarize corporate developments and financial highlights for the quarter. A question-and-answer session will follow.

Before we begin, please note that today's discussion will contain forward-looking statements that are subject to certain risks and uncertainties and actual results could be materially different from these forward-looking statements. Kindly refer to our SEC filings for detailed discussions of potential risks.

In the interest of time, we will begin with our CEO's remarks, followed by a detailed report of our fiscal 2020 second quarter financials given by our CFO Mr. Albert Chen. Our management will be available to answer questions during the Q&A session. In view of recent developments, we understand investors and shareholders have various questions to ask. To give everyone a chance to ask questions, we'd appreciate it if you could ask one question at a time.

Today, on behalf of our CEO Tina, I will read her prepared remarks. Let's begin our presentation.

Tina ZHENG – CEO’s statement (English)

Good morning, ladies and gentlemen, welcome to our fiscal 2020 second quarter earnings conference call.

During the second fiscal quarter, consumer sentiment and behavior remained cautious under the pressure of slower economic growth in China as well as US China trade tensions. Despite this headwind, we managed to recruit 21,551 new subscribers, staying on track with our annual target. The growth was mainly derived from our Guangdong operation. By the end of the reporting quarter, our accumulated subscriber had surpassed 791,000.

In addition to enhancing sales activities and educating markets, we continued to solidify our leading position through improving operations and services in the second quarter. During the reporting quarter, Zhejiang received the American Association of Blood Banks (or, “AABB”) accreditation. Hence, all of our facilities are now accredited by AABB, in line with international standards.

Recently, the Regulation of the People's Republic of China on the Administration of Human Genetic Resources came into effect. The Regulation covers a large scope of companies that are in possession of substances containing human genes, such as organs and cells, as well as information about human genes. As announced last week, we are in the process of evaluating the implications of the Regulation, and we intend to keep investors informed of any new developments.

Looking ahead, we will continue to explore opportunities and channels to broaden our revenue sources. We will also closely monitor the impact of the macro economic environment on consumer demand of preventive healthcare services. We remain alert on any new regulatory developments in our operating markets and are ready to adjust our overall strategy and market positioning based on any potential changes. Bearing all these in mind, we remain committed to our fiscal 2020 new subscriber target, which is between 80,000 and 85,000.

This concludes my remarks regarding our fiscal 2020 second quarter results. Thank you for your ongoing support of Global Cord Blood Corporation. I will now turn the call over to our CFO, Mr. Albert Chen, to go over our second fiscal quarter financial performance.

Albert CHEN - Financials

Good morning everyone. Thank you for joining our call today.

REVENUES:

In the second quarter, revenues increased by 27% year over year (“YoY”) to RMB314 million. Similar to last quarter, the increase was mainly driven by the upward adjustment in processing fees from RMB6,800 to RMB9,800, which became effective in April, 2019. In addition, storage revenues increased as a result of the Company’s enlarged subscriber base.

In the reporting quarter, driven by concerns over slower economic growth as well as the on-going US-China trade tensions, consumer sentiment in our markets remained conservative. At the same time, our target segment was adjusting to the new pricing. Despite such conditions, we managed to recruit 21,551 new subscribers, in line with management expectations, at only a 6% YoY decrease. With a boosting effect from the new processing fee, revenues generated from processing fees and other services increased by 32% YoY to RMB201 million. This represents approximately 64% of total revenues compared to 61% last year.

By the end of September 2019, our accumulated subscriber base had exceeded 791,000. Accordingly, storage revenues for this quarter increased by approximately 18% YoY to RMB113 million.

GROSS PROFIT:

Gross profit in this quarter increased by 33% YoY to nearly RMB265 million. Gross margin improved to 85%, as the increase in the processing fee exceeded the increase in labor related costs.

OPERATING INCOME & EBITDA:

Benefiting from the new pricing, operating income increased by 38% YoY to RMB144 million and operating margin increased to 46%. Depreciation and amortization expenses were approximately RMB13 million, similar to last year. Despite the increase in operating expenses, non-GAAP operating income still increased by 33% YoY to RMB157 million. Non-GAAP operating margin increased to 50%.

SG&A:

In the face of cautious consumer sentiment in the second quarter, we continued to expand our sales team and scaled up our marketing and promotion activities. Therefore, sales and marketing expenses increased by 26% YoY, or 7% QoQ, to RMB65 million. Sales and marketing expenses as a percentage of revenues was 21%, same

as last year and down from 22% of last quarter.

General and administrative expenses amounted to RMB49 million compared to RMB40 million last year. The increase was mainly attributable to the increase in staff costs, bad debt provision, and legal and professional fees. General and administrative expenses as a percentage of revenues decreased to less than 16%.

OTHER INCOME AND EXPENSES

In the second quarter, we recognized a RMB7 million decrease in fair value of equity securities, or commonly known as “mark-to-market loss.” This was significantly less than the RMB31 million which was recorded last year.

NET INCOME/ EPS:

As a result of an increase in operating income and a significant decrease in mark-to-market loss from equity securities, income before tax increased by 78% YoY to RMB144 million. Net income attributable to the Company’s shareholders increased by 85% YoY to RMB120 million. Net margin improved to 38% from 26% of last year.

Basic and diluted earnings per ordinary share for the second quarter were RMB0.99.

This concludes my remarks. We are now happy to take any questions concerning our latest financial results and our recent operational developments.