MINISO September Quarter 2020 Earnings Conference Full Script

CEO Script

Hello, everyone and welcome to MINISO's first earnings conference call as a U.S.-listed company.

Despite the disruptions caused by the outbreak of COVID-19, we successfully completed our listing on the New York Stock Exchange in 2020. Our transition to a publicly-listed company will provide us with the necessary resources to fuel our growth engines, fortify our shareholder base, and ultimately deliver more of our design-led lifestyle products to customers from all walks of life. On behalf of everyone here at MINISO, I would like to express my gratitude to each and every one of our shareholders for their support of our business model, management team, and future growth prospects. Looking ahead, we remain confident in our ability to continue delivering shareholder value, attracting likeminded stakeholders, and enabling all people to better enjoy life's little surprises.

Now, turning to our quarterly results for the September quarter of 2020. During the period, the pervasiveness of COVID-19 continued to hinder our business growth in overseas markets, especially in Europe and North America. Nevertheless, in spite of these short-term headwinds, we remained focused on our long-term goals, fortifying our leadership at home and optimizing our store network. Such efforts yielded positive results, helping us to not only improve our financial performance on a sequential basis, but also further augment our market share in turn.

First, starting with our operations in China. During the quarter, we continued to focus on accelerating the recovery of our domestic business. With an expanding backlog of MINISO Retail Partners that are eager to open and operate MINISO stores, we were able to grow the total number of MINISO stores in China to 2,633 as of September 30, 2020, from 2,533 as of June 30, 2020. In first- and second-tier cities, we continued to work diligently to maintain our industry-leading market share, refining our store network in order to further expand our market penetration and broaden our coverage of higher-tier cities. In addition, we also focused on penetrating lower-tier cities during the quarter. So far in 2020, we have organized 14 Business Development Conferences for potential MINISO Partners in lower-tier cities across China. The positive receptions we collected from our local retail partners during these events showcases the strong momentum of our partners' interests, which we will leverage to further expand our store network going forward.

Now, turning to our progress on the international front. During the quarter, the pandemic continued to negatively impact our international operations. As a result, we proactively adjusted our globalization strategies to decelerate our overseas store expansion and help our partners to mitigate their risks. The decision to not open new stores during the pandemic will provide us with more time and resources to analyze different regional markets, and we will be able to select the optimal locations for new store openings by leveraging these insights once the pandemic is fully contained. Additionally, we also utilized the time to focus on reducing our inventory abroad. Although winding down the speed of our overseas expansion will delay our growth in the short term, we believe that such measures will ultimately lead to more robust growth over the long term. In fact, our global brand influence and strong value propositions are recognized by an increasing number of overseas partners and distributors. During the September quarter, we successfully expanded into five additional countries and regions, bringing the total number of our overseas stores to 1,697 as of September 30, 2020, compared to 1,689 as of June 30, 2020.

On the e-commerce front, we further accelerated the development of our online initiatives to supplement our store network in a prudent manner. Through our WeChat Mini Programs and other third-party e-commerce platforms, our customers are now able to place product orders, which has helped to both decrease user purchasing friction and improve our customers' overall shopping experience. The outbreak of COVID-19 in 2020 has highlighted the complementarity nature of online and offline sales channels. As such, our e-commerce segment contributed to more than 5% of our total revenue in the September quarter of 2020, compared to less than 2% of our total revenue in the same quarter of 2019. Going forward, we will remain focused on increasing the stickiness and repurchase rate of our omni-channel consumers.

Lastly, I would also like to provide everyone with an update on our new initiatives. As many of you are now aware, we celebrated the launch of our TopToy retail store brand today, and the grand opening of our flagship TopToy store experienced a flood of foot traffic resulting from an abundance of customer enthusiasm and excitement. Specializing in blind boxes, action figures, and more, TopToy is our new retail store brand dedicated to pop toys. The grand opening of TopToy further demonstrates our platform's capabilities to incubate new business initiatives with strong growth potential.

In summary, we achieved solid progress at home as China has successfully eliminated all but the last traces of the COVID-19 virus. Consequently, we further expanded our store network coverage across more lower-tier cities and further boosted our market share leadership in higher-tier cities. Internationally, we remained focused on reducing our inventory and helping our overseas partners to mitigate the risks from resurgences of the pandemic. Meanwhile, our new growth initiatives have also yielded encouraging results, and we plan to continue cultivating these initiatives going forward. Overall, as we continue to see positive news concerning vaccines for COVID-19, we believe that the worse of the pandemic is behind us. Our sequential growth has illustrated the speed of our recovery, and our efforts this quarter have laid a solid foundation for us to sustain our growth, fortify our market leadership, and deliver more lasting value to our shareholders over the long term.

CFO Script

Now, as the CFO of MINISO, I will provide an overview of our September quarter financial results. Before I start, please note that all numbers are in RMB terms, unless otherwise noted.

Revenue in the September quarter of 2020 decreased by 30.7% year over year to 2.07 billion from 2.99 billion in the same quarter last year. The decline was mainly due to a 70.5% decrease in our revenue generated from international markets as a result of COVID-19. On a sequential basis, our revenue grew by 33.4% as our strategies to boost our revenue per MINISO store and accelerate our store network expansion started to yield results. In fact, as our overseas operations continued to recover from the impact of the pandemic, our revenue generated from international markets increased by 85.7% and our revenue per MINISO store increased by 31.9% quarter over quarter.

Cost of revenue was 1.55 billion, compared to 2.05 billion in the same quarter of 2019 and 1.17 billion in the previous quarter.

Gross profit was 522.4 million, representing a year-over-year decrease of 44.3% from 937.2 million in the same quarter of 2019 and a sequential increase of 37.7% from 379.4 million in the previous quarter. Additionally, gross margin was 25.2%, compared to 31.4% in the same quarter of 2019 and 24.4% in the previous quarter. The year-over-year decline in gross margin was mainly a result of lower revenue contribution from our overseas business in the quarter, which had a relatively higher margin. In addition, we also recorded an impairment loss of inventory as a result of a decrease in value of personal protective equipment.

Other income was 36.0 million, compared to 3.1 million in the same quarter last year and 33.7 million in the previous quarter. The year-over-year increase was driven by a substantial amount of government grants that we received in September 2020.

Selling and distribution expenses were 286.7 million, compared to 306.1 million in the same quarter of 2019 and 273.2 million in the previous quarter. Excluding share-based compensation expenses, our selling and distribution expenses were 230.4 million, compared to 283.5 million in the same quarter of 2019 and 230.1 million in the previous quarter. Due to the impact of COVID-19, we had lower logistics expenses as well as payroll and employee benefits which resulted in the year-over-year decrease of our selling and distribution expenses during the September quarter of 2020.

General and administrative expenses were 252.1 million, compared to 212.8 million in the same quarter of 2019 and 175.9 million in the previous quarter. Excluding share-based compensation expenses, our general and administrative expenses increased to 155.3 million from 151.4 million in the same quarter of 2019 and 118.4 million in the previous quarter. The year-over-year increase was primarily attributable to the increase in accounting and legal service fees related to our IPO.

Other net loss was 15.7 million, compared to other net income of 14.8 million in the same quarter last year, and other net income of 18.5 million in the previous quarter, due to the appreciation of the Renminbi against the U.S. dollar, which resulted in net foreign exchange losses.

As a result, our operating loss was 2.1 million, compared to an operating profit of 426.6 million in the same quarter of 2019 and an operating loss of 29.7 million in the previous quarter.

Loss from continuing operations was 1.68 billion, compared to 20.3 million in the same quarter of 2019 and 74.8 million in the previous quarter. Our loss from continuing operations in the September quarter of 2020 included fair value changes of paid-in capital subject to redemption and other preferential rights, which resulted in a quarterly loss of 1.63 billion.

Excluding fair value changes of paid-in capital subject to redemption and other preferential rights, as well as share-based compensation expenses, loss from discontinued operations and impairment loss on non-current assets, our adjusted net profit from continuing operations in the September quarter of 2020 was 102.1 million, compared to 402.5 million in the same quarter of 2019 and 42.4 million in the previous quarter.

Basic and Diluted loss from continuing operations per ADS were both RMB7.08, compared to RMB0.12 in the same quarter of 2019 and RMB0.36 in the previous quarter. Adjusted basic and diluted net profit per ADS were both RMB0.40, compared to RMB1.52 in the same quarter of 2019 and RMB0.12 in the previous quarter.

Turning to our balance sheet. As of September 30, 2020, we had cash and cash equivalents of 2.96 billion.

Looking ahead into the December quarter of 2020, we expect our revenue to be between RMB2.2 billion and RMB2.4 billion. Please note that this forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change.