
MINISO December Quarter 2020 Earnings Conference Call Full Script

CEO Script

Hello everyone and thank you for joining us today. In today's call, I will give you an update on MINISO in December quarter, and then share with you our new 'X' strategy.

For MINISO, we are pleased to see our domestic operations recorded an encouraging performance, while our overseas operations moved further along the path of recovery. During this quarter, we added 184 new stores to our global store network. While the pandemic hit off-line retailers globally in calendar year 2020, we added 303 new stores during the year, demonstrating our partners' confidence in our resilient business model and faster-than-average recovery speed.

As for our domestic operations. We delivered a net addition of 135 new stores in China in this quarter, accounting for 60% of total net additions in calendar year 2020. Besides, we continued to unlock opportunities across China's lower-tier cities as about 60% of new stores opened in this quarter are located in these markets.

As for overseas operations. We entered 2 new countries and opened 49 new stores in this quarter, accounting for 63% of the net additions in calendar year 2020. Despite 153 overseas stores were temporarily closed by year end and many other overseas stores being forced to reduce their business hours due to the impact of COVID-19, revenue generated from overseas operations increased by 32% sequentially.

In terms of sales recovery. In China, while occasional cases of COVID-19 happened from time to time in this quarter, we reached an overall recovery rate at about 95%, some stores in lower-tier cities recovered to 100% or even picked up growth. In overseas markets, the average recovery rate once reached to around 60%, yet with the pandemic fluctuated several times and the holiday social gathering increased the difficulty of recovery in some countries, we saw an unstable and fragile recovery trend for the overseas market as a whole.

Product wise, we stick to our (seven-one-one) "7-1-1" philosophy as a core of our product strategy, provide customers with a fresh and amazing treasure hunting experience. In addition, we continued to seek cooperation with new IP partners. For example, by cooperating with Bilibili, we launched a series of new products and activities that were warmly received by customers. This cooperation has laid on the foundation of a highly overlap of user bases between MINISO and Bilibili. Besides, our sponsorship to one of Bilibili's Gala for Chinese Lunar New Year enhanced our communication with young customers, and refreshed MINISO's brand image. IP initiatives is an important component of our product strategy and we will remain committed to launching more IP products in the future.

As a young public company, MINISO announced our 'X' strategy in December, further illustrating our vision of becoming a global leading new-retail platform. Today I would like to take this opportunity to talk about our strategies in 2 topics: 1) why 'X' strategy? and 2) How do we achieve our vision.

So, why 'X' strategy? We celebrated the seventh anniversary of MINISO brand in 2020. Our team has accumulated core strengths in supply chain management, retail know-how, asset-light business model and

digitization. As we realize the huge potentials in many sectors in new retail, we believe it is right to expand these core strengths into these new sectors. Let me share with you in detail and discuss why they are replicable.

Firstly, efficient **supply chain** is our core competitive advantage. We cooperate with more than 600 highly qualified supplier partners who are able to meet our sophisticated demands, by connecting their unmatched manufacture ability with our unique customer insights and massive data, we pioneered the C2M in industry long before eCommerce players. As a part of our efforts to optimize supply chain, we build mutually beneficial relationships with them by procuring products in large volumes, being punctual with our payments to them and guiding them towards better production efficiency and enhanced cost control, thus creating a virtuous circle in which our supplier partners can focus their attention and energy solely on the continuous improvement of product quality, and we can enjoy benefits of improved quality in a cost-effective way.

In addition, our efficient supply chain system, together with our ability to offer frequently-refreshed products, help us balance fast product innovation with healthy inventory levels, and make us more competitive among peers. We can further leverage this efficient supply chain into our new initiatives.

Secondly, we have accumulated in-depth **retail know-how** from operational experience and deep consumer insights. We place strong emphasis on optimizing every key aspect of store operation using such know-how to create a treasury-hunting shopping experience. The standardized layout, decoration and lighting, modestly priced products, and the friendly staff in our store contribute to a welcoming environment for store visitors, and they will also find the store easy to navigate due to our optimized product arrangement and display. We have done this so well that most people that visit our store are going to be impressed by the difference between us and peers, and we believe the same will apply to our newly opened TopToy stores.

Thirdly, our asset-light business model enables us to form win-win partnerships with our retail partners because it aligns the interests of both sides and creates mutual benefits. By leveraging our asset-light model, MINISO has quickly expanded our store network in prime locations with a consistent brand image and consumer experience. Having the support from our strong partner network makes it easy for us to enter other sectors of retail industry.

Our fourth key strength lies in digitization. Retail industry is a closed loop of merchandise flow, information flow, and cash flow, the key to success lies in whether or not these three flows can be well controlled, and that highlighted the importance of a strong IT system. For example, our supplier partners are able to access our **SCM system** to monitor real-time sales figures, so that they can make quick and effective decisions in procurement and production; our **smart-store systems** enable us to track consumer profiles, in-store behavioral patterns and product sales trends and use algorithm to customize store-level inventory mix. In line with these IT advantages, our system also enables us to pay our retail partners with **daily revenue sharing in China**, which is extremely attractive for partners. As with other core strengths, our digital capability can also be leveraged into our new initiatives.

To conclude, our core strengths create a **potent flywheel effect**. Using this flywheel, the **momentum of our satisfied customers** drives more referrals and repurchases, **the momentum of our supplier** successes drives our sustainability, and **the momentum of our satisfied retail partners** enables us to expand our store network on the global front. That is why we have been successful in MINISO in the past. More importantly, they are all

replicable by ourselves into other sectors but hard for others to copy.

Let me share with you some of our first moves of ‘X’ strategy.

Firstly, we plan to strengthen our core MINISO business by expanding store network not only in China, but also in overseas markets. For China, we estimate a net addition of 500 stores in calendar year 2021. In particular, we see strong demands in lower-tier cities and higher returns for our partners compared to more mature markets in higher-tier cities, we are excited about the huge potentials and believe we are pursuing the right strategies there.

For overseas markets, we believe there is incredible long-term value there. Before the outbreak of COVID-19, MINISO had accumulated abundant localized experience from team-building, product verification, clearance to market research by entering over 80 countries and areas. With that solid foundation, it will be easy to replicate hundreds of new stores and achieve rapid growth in these markets. However, we also recognize that such operations may experience challenges caused by COVID-19 in the near term. We and overseas partners have agreed that our major task should be destocking and reduce operational risks in the next few quarters. At the same time, we will closely monitor the development of the pandemic and adjust our store expansion plan accordingly and dynamically.

Secondly, we plan to invest in our new growth initiatives, which will help us to accelerate our progress along the path to becoming a global leading new-retail platform.

Take TopToy as an example. We observed a structural imbalance between the supply and demand sides of the art toy market, and that means a great opportunity. Our first step to meet the diverse demands of younger people is to leverage our strong supply chain to provide eight categories of products. In the near future, we plan to launch more co-branding products by sharing MINISO’s IP library. We will also have TopToy’s own IP products development and operation, it may take some time but worthwhile. All in all, we will leverage MINISO’s core strengths to increase our offerings as much as possible, while reducing our dependence on any single category. To date, we have opened nine TopToy stores in five different cities in China. Although still early, we have seen encouraging preliminary results and received positive feedback from our stakeholders.

Thirdly, we are also focused on omni-channel strategy. In this quarter, online takes account about 7% of MINISO’s revenue and there is plenty room to grow in next few years. And we plan to follow a more sustainable rate of development in our online initiatives, rather than burning cash to juice up our GMV, which is a common practice for ecommerce players.

Our target is to provide customers with a more convenient, accessible, and personalized shopping experience with our omni-channel strategy, especially for those customers who are more used to shopping online. Based on this idea, TopToy launched its official online store and vending machine network at the very beginning, which made a good supplement to off-line stores.

To conclude, we were able to achieve past success because our core competitive strengths. Those core strengths have laid a solid foundation for our “X” strategy, which has put higher demands on our organizational ability and agility, and we will continue to build a highly competitive team by creating opportunities for employees to grow and develop internally and attracting more talents to join us. Thank you.

CFO Script

I will start my remarks with a review of the December quarter results and then provide some additional color regarding the March quarter. Please note that for operating expenses, I will be referring to our non-IFRS measures, which have excluded share-based compensation expenses.

Revenue was RMB2.3 billion for the December quarter, around the midpoint of our guidance and represented a decline of 18% year over year. In comparison, our revenue showed significant signs of improvement from the previous quarter, during which revenue declined by 31% year over year. This same trend was also reflected in our revenue from overseas markets, in which revenue showed a decline of 51% year over year as compared to a decline of 71% year over year in the previous quarter. Revenue from the domestic market was flat year over year.

Sequentially, our revenue increased by 11%, with overseas revenue increasing by 32%, and domestic revenue 7%. The sequential increase of revenue is also due to the 4% growth in store count and a 7% growth in revenue per MINISO store in this quarter. Our ability to achieve sequential revenue growth further demonstrated the effectiveness of our expansion strategies in lower-tier cities and business recovery of both domestic and overseas operations.

Gross profit was RMB643 million, representing a decrease of 28% year over year and an increase of 23% quarter over quarter. In addition, gross margin was 28.0% in the December quarter, compared to 31.6% a year ago and 25.2% a quarter ago. Such fluctuations in our gross margin were primarily due to the fluctuations in revenue contributions from international operations, which typically has a higher gross margin than that of our domestic operations. During this quarter, revenue from our overseas operations accounted for 20% of our total revenues as compared to 34% a year ago and 17% a quarter ago.

Selling and distribution expenses were RMB306 million, compared to RMB317 million a year ago and RMB230 million a quarter ago. The quarter-over-quarter increase was primarily attributable to increased logistics expenses, which were in line with the recovery of the Company's sales during the December quarter, as well as the increase in marketing expenses as we continue to strengthen brand recognition for MINISO and TopToy.

G&A expenses were RMB160 million, generally flat year-over-year and quarter-over-quarter.

Other net loss was RMB55 million, compared to other net income of RMB24 million a year ago and other net loss of RMB16 million a quarter ago. Other net loss was mainly comprised of RMB67 million in net foreign exchange loss, which was in line with the appreciation of the Renminbi against the U.S. dollar in the December quarter.

Now, turning to our profitability. Operating profit was RMB54 million, compared to RMB330 million a year ago and an operating loss of RMB2 million a quarter ago. The year-over-year decrease in operating profit was due to the revenue decline in overseas operations caused by the negative impact of COVID-19 in the period, despite our fixed costs and expenses remaining stable. Nevertheless, we are pleased to see an excellent improvement in our operating profit on a sequential basis.

Adjusted net profit was RMB84 million, compared to RMB390 million a year ago and RMB102 million a quarter ago. As mentioned earlier, our adjusted net profit in the December quarter included a net foreign exchange loss of RMB67 million. Excluding this one-time effect of foreign exchange loss, adjusted net profit was RMB150 million in December quarter and increased by 25% quarter-over-quarter, and we expect our margin level will normalize over the coming quarters as the pandemic abates.

Basic and diluted earnings from continuing operations per ADS were RMB0.08 (8 cents), compared to a loss of RMB0.80 (80 cents) a year ago and a loss of RMB7 a quarter ago. Adjusted basic and diluted earnings per ADS were RMB0.28 (28 cents), compared to RMB1.52 a year ago and RMB0.40 (40 cents) a quarter ago.

Turning to our balance sheet. As of December 31, 2020, the combined balance of the Company's cash, cash equivalents and restricted cash was RMB6.8 billion, compared to RMB3 billion as of September 30, 2020. This increase was primarily due to the proceeds we received from our IPO and cash flow generated from operations.

Turnover of inventories and trade receivables remain flat sequentially, consider the sequential recovery of revenue and store expansion, this is a strong proof of our effective working capital management.

Looking ahead into the March quarter of 2021, we expect our total revenue to be between RMB2.2 billion and RMB2.4 billion, which represents an increase of 35% to 47% year over year. As we continue to operate in a time of significant uncertainty, specifically in regards to the severity and duration of COVID-19, and especially in the context of overseas markets, this forecast only reflects our current and preliminary views on the market and operational conditions, which is subject to change.

Finally, I would like to reiterate that we remain proud of our team's consistent execution and commitment to going above and beyond in the service of our customers. Such perseverance in the face of uncertainty has enabled us to remain on track despite this unexpected and challenging environment.

Going forward, our financial strategy will be to remain disciplined in our budgeting, cost controls, and allocation of capital, as we focus on the consistent delivery of solid financial performances. Moreover, we will not become complacent and will continue to invest strategically for future growth, these initiatives may affect individual financial metrics in the short term, we firmly believe that such efforts will contribute meaningfully to MINISO's sustainable and long-term growth

Looking ahead, we are highly confident in the strength of our underlying business model and remain steadfast in our commitment to solidifying our leadership at home, expanding our market share abroad, and delivering long-term shareholder value.