

[MNSO] - MINISO Group Holding Limited
Q3 2021 Ended March 31, 2021 Results Conference Call
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Executives

Eason Zhang, Director, Investor Relations
Guofu Ye, Founder, Chairman, Chief Executive Officer
Steven Zhang, Director, Chief Financial Officer

Analysts

Michelle Cheng, Goldman Sachs
Lucy Yu, Bank of America

Presentation

Operator: Ladies and gentlemen, thank you for standing by and welcome to MINISO Group Holding Limited's Earnings Conference Call for the third quarter of fiscal year 2021 that ended March 31, 2021. (Operator Instructions). After the management's prepared remarks, we will conduct a question-and-answer session. Please note this event is being recorded.

Now, I'd now like to hand the conference over to your host speaker today, Mr. Eason Zhang, Director of Investor Relations. Please go ahead, Eason.

Eason Zhang: Thank you, Jason. Hello, everyone, and thank you all for joining us on today's call. The Company has announced its quarterly financial results earlier today. An earnings release is now available on our Investor Relations website at ir.miniso.com.

Today, you will hear from our Chairman and CEO Mr. Guofu Ye, who will start the call with an overview of our business. He will be followed by our CFO Mr. Steven Zhang, who will address our financial results in more detail before we take your questions.

Before we continue, I'd like to refer you to the Safe Harbor statement in our earnings press release, which also applies to this call, as we will be making forward-looking statements.

Please also note that we will discuss non-IFRS measures today, which we have explained and reconciled to the most comparable measure reported under the International Financial Reporting Standard in the Company's earnings release and filings with the SEC.

During the Q&A session, please repeat your questions in Chinese if it is asked in English, management will answer in Chinese and I will translate them into English.

With that, I will now turn the call over to Mr. Ye to give you a business update. Please go ahead, sir.

Guofu Ye: (Speaking foreign language).

(Translated). Hello, everyone. For the March quarter of 2021, MINISO recorded a revenue of RMB2.23 billion, up 37% year-over-year and in line with the Company's guidance. Our domestic business delivered a combined revenue of RMB1.79 billion, up 75% year-over-year and 12% compared to the same period of 2019.

In today's conference call, I share the major developments we have achieved for both MINISO and TOP TOY this quarter.

For MINISO, our domestic operations continued to deliver an encouraging recovery this quarter. While occasional cases of COVID-19 in early January resulted in shutdowns for certain stores, we took a number of measures and launched a series of new products in the following months to achieve a healthy recovery. As a result, domestic operations of MINISO brand recorded a revenue of RMB1.72 billion, up 71% year-over-year and 12% compared to the same period of 2019.

We added 44 new MINISO stores in China during the quarter, with more than 90% of new stores located in tier-3 and below cities. During the past 12 months, we made significant progress in executing our strategy to penetrate into lower-tier cities, with 70% of new stores located in tier-3 and below cities.

We notice that nearly all key operating metrics for MINISO stores, such as average ticket size, conversion rate, and cross-selling rates are similar in lower-tier cities with tier-1 and tier 2 cities, while rental expenses are more attractive, providing a better ROI for our retail partners in the long term.

As of March 31, less than 40% of our stores were located in lower-tier cities. As lower-tier cities accounted for more than 70% of China's consumer spending, nearly 60% of GDP, and contributed two-thirds of the country's economic growth. Going forward, we see a lot of opportunities in lower-tier cities and will continue to unlock new market opportunities there.

As for overseas operations, revenue was RMB441 million, down 28% year-over-year and 5% quarter-over-quarter. During the same period of the previous year, COVID had not fully erupted. However, during this quarter, many countries have experienced major setbacks on the path to pandemic recovery, especially in Southeast Asia and Latin America, where many of our overseas stores are concentrated.

In these areas, many countries have continuously reported new records in case numbers, and have adopted stricter control measures. By the end of March, 228 overseas stores were temporarily closed, and many others were forced to reduce business hours due to the impact of COVID-19, resulting in the year-over-year revenue decline.

Nevertheless, we have made encouraging progress in our overseas market expansion. The number of overseas stores increased by 29 in this quarter, surpassing the net increase of 20 in the same period in 2020, demonstrating our overseas partners' confidence in MINISO's long-term competitiveness.

The net increase in new stores came mainly from countries in the Middle East and Europe, where the pandemic recovery went well. This includes Spain, where we opened 6 new stores during the quarter. In January, MINISO opened its first store in Porto, the second largest city in Portugal, which was the 94th overseas market we have entered.

The mission of MINISO is to provide global consumers with high-quality and affordable lifestyle products. In this quarter, we continued to focus on products and innovation, so I'd like to share additional details on this front. First of all, in product development, we focus on strategic new categories. In this quarter in China, sales of strategic new categories such as toys and snacks increased significantly year-over-year. Specifically, sales of toys were up nearly twofold year-over-year, in which building blocks were up more than threefold. Sales of snacks were up 104% year-over-year, in which sugar-candy sales increased by 168% year-over-year.

Second, we kept innovating our business. Take our first theme store, Fashion Mask Store, as an example. Its sales in a single day exceeded RMB10,000, which is a very encouraging number for a vertical retail store, and provided us with confidence and experience in expanding theme stores in other categories. And we will transplant new successful business to other cities in the near future.

Let me give you another example. During the pandemic, we proactively leveraged innovative ways such as live-streaming to distribute merchandise to overseas partners. It has been proved to be quite effective in promoting the recovery of overseas business, with 2 live-streaming events in this quarter generated revenues of RMB150 million. We think live-streaming is a great way to interact with partners globally and to promote MINISO's quality products.

Third, we strengthened our IP advantage by successively launching products with new IP partners such as Chip and Dale, Tsum Tsum, Heaven Official's Blessing and Bilibili during this quarter. So far, we have fully covered 6 major IP sectors such as Global Trendy IPs, ACG IPs, Chinese traditional IPs, creative art toys IPs, sports and gaming IPs, and have solidified MINISO's position as the leading IP player in industry.

On the operational side, we have been dedicated to improving the efficiency of MINISO stores by introducing information systems and detailed tactics during the past several years. For example, average number of employees per store in China dropped from 10 a few years ago to 6 in last quarter, and dropped further by nearly 10% during this quarter, effectively reduced the cost burden of our retail partners.

MINISO's omni-channel strategy continued to be well executed during this quarter. We continued reaching and activating members through various ways such as private traffic operations, and giving incentives such as coupons in WeChat Mini Program, to improve retention and repurchase rate of them.

As of March 31, members who had made at least one purchase during the past 12 months were about 30.2 million, an increase of 2 million sequentially and nearly 8 million from the end of June 2020.

As a result of the above-mentioned measures, revenue contribution from online channels exceeded 10% for the first time in this quarter, with eCommerce contributed RMB171 million or 7.7% of net revenues, and O2O contributed about RMB70 million or 3.1% of net revenues.

Now I'd like to share more about TOP TOY. As the first new business incubated under X strategy, this is TOP TOY's first full quarter. We continue to see healthy trends in each aspect of its operation, including optimization of its economic model, expansion of product categories, improvement of omni-channel strategy, and positive initial results of IP strategy.

The first DreamWorks store of TOP TOY has been in operation for 5 months. Our team has been refining its business model. So far, we have opened 4 DreamWorks stores, each of which has created a very good opening performance among peers, giving us great confidence in the success of DreamWorks stores.

At the same time, we are also testing smaller stores such as collection stores, as well as flash stores, and will continue to review TOP TOY's operations on a dynamic basis. And we will provide more updates on next quarter's call.

TOP TOY is committed to building the world's largest and most comprehensive collection shop of art toys. To achieve this, it has been adopting a multiple category strategy to expand the addressable market of art toys while reducing reliance on any single category.

In this quarter, we added sculptures as the 8th category of TOP TOY to enrich its product line. Garage kits, building blocks, and assembly Gundam were the 3 rising categories favored by consumers during the quarter. And their revenue contributions continued to increase. So far, TOP TOY has about 2,500 SKUs, increased from 1,500 when it got started.

In terms of channels, TOP TOY has been building its omni-channel capabilities since day one. Today, it covers 15 cities in China with 25 offline stores. Meanwhile, it plans to open roboshops and the first overseas store within this year. In terms of online channels, it has accumulated more than 300,000 members in its WeChat Mini Program. In addition, it opened its Tmall flagship store in late April, and will cooperate with other eCommerce giants such as JD.com and Douyin to open more stores.

On April 28, TOP TOY held a themed branding event in Shanghai to introduce its proprietary IPs such as Twinkle, Tammy, and Yoyo. I would like to take this opportunity to share TOP TOY's IP strategy. We estimate 30% of TOP TOY's products will be through self-owned IPs, or through cooperation with IP partners, and the other 70% will be through third-party IPs.

Proprietary and exclusive IPs, because of its originality and uniqueness, are much easier to communicate with fans. They have higher gross margin and enable TOP TOY to build competitive advantages. To focus on IP development, TOP TOY has cooperated with nearly 300 designer and supplier partners including talented designers such as Kow Yokoyama, Japan's TOP designer.

The March quarter was MINISO's first full quarter as a public company. We have experienced accelerating recoveries in domestic operations and profitability, as we continued to focus on

product innovation. TOP TOY continues to achieve new milestones as we continue to sharpen our business model, products, sales channels and proprietary IPs.

Looking forward in 2021, MINISO will continue to penetrate further into China's lower-tier cities by opening more stores and capturing greater market share in these high-ROI regions. Meanwhile, we will continue monitoring the pandemic recovery in overseas markets carefully, and rapidly adapt our expansion plan as necessary to embrace its recovery.

This concludes my part of business update. I will now turn the call to our CFO for financial review.

Steven Zhang: Thank you. I will start my remarks with a review of the March quarter financial results, and then provide additional color regarding the June quarter. Please note that I will be referring to non-IFRS measures, which have excluded share-based compensation expenses.

Revenue was RMB2,229 million, representing a year-over-year increase of 37% and a quarter-over-quarter decrease of 3%. The year-over-year increase in revenue was driven by the recovery of our domestic operations, which increased 75% to RMB1,788 million.

Within our domestic operations, revenues of MINISO offline stores were RMB1,544 million, increased 69% year-over-year. Revenues of eCommerce were RMB171 million, increased 86% year-over-year. In overseas markets, revenue declined by 28% year-over-year, as compared to a decline of 51% year-over-year in the previous quarter. The quarter-over-quarter decrease was mainly due to seasonality and the influence of pandemic.

Our business is subject to seasonal fluctuation, typically with stronger performance in December quarter than in March quarter. However, we took several effective measures, such as launching more popular products to boost sales and penetrating further into lower-tier cities in China in this quarter. The sequential decline of revenue was only 3%, compared with the sequential decline of 11% in March quarter 2019, which represented a normalized seasonality before pandemic.

Gross profit was RMB627 million, increased 19% year-over-year and decreased slightly quarter-over-quarter. Gross margin was 28.1%, the highest in the past 4 quarters since the outbreak of

pandemic, showing a positive sign of our continued business recovery. Gross margin was 32.4% a year ago and 28.0% a quarter ago.

As we have explained in last quarter, the fluctuations in gross margin were due to changes in our revenue mix. The year-over-year decrease was due to a decrease in revenue contribution from our more profitable overseas operations, which was 19.8% of net revenues in this quarter as compared to 37.3% a year ago.

The sequential increase in gross margin was mainly attributable to an increase in revenue contributions from our higher-margin online channels such as eCommerce and O2O in this quarter, despite the decrease in revenue contribution from our overseas operations, which was 20.1% of net revenues a quarter ago.

Selling and distribution expenses were RMB275 million, increased 18% year-over-year, but decreased 10% quarter-over-quarter. The year-over-year increase was attributable to increased logistics expenses, which was in line with the recovery of our business during this quarter, and increased marketing expenses, as we continue to strengthen brand recognition for MINISO and TOP TOY.

The quarter-over-quarter decrease was primarily due to the decrease in marketing-related expenses and personnel-related expenses such as payroll and travel expenses caused by seasonality.

G&A expenses were RMB157 million, increased 29% year-over-year and flat quarter-over-quarter. The year-over-year increase was primarily due to increases in personnel-related expenses and IT expenses. We took measures to reduce G&A expenses when the COVID-19 pandemic broke out during the same period of 2020, such as trimming down the personnel-related expenses and IT expenses, resulting in a low comparison base for these expenses.

Turning to our profitability, operating profit was RMB161 million, increased by threefold year-over-year and twofold quarter-over-quarter. The year-over-year improvement in operating profit was primarily due to our business recovery in China, while the quarter-over-quarter improvement was due to the reductions in operating expenses and other net income or loss, which was a loss of RMB55 million in the previous quarter, but an income of RMB 8 million in this quarter.

Adjusted net profit was RMB149 million, increased by 10% year-over-year and 77% quarter-over-quarter.

Adjusted net margin was 6.7%, the highest in the past 4 quarters since the outbreak of pandemic, compared to about 8.3% a year ago and 3.7% a quarter ago.

Basic and diluted earnings from continuing operations per ADS were both RMB0.40, compared to RMB0.76 a year ago and RMB0.08 a quarter ago. Adjusted basic and diluted earnings per ADS were RMB0.52, compared to RMB0.44 a year ago and RMB0.28 a quarter ago.

Turning to our balance sheet. As of March 31, 2021, the combined balance of the Company's cash, cash equivalents, restricted cash and other investments was RMB7 billion, compared to RMB6.9 billion a quarter ago. The increase was primarily due to the cash flow generated from the operations.

Turning to working capital, the turnover of inventories and trade receivables remain flat sequentially.

Looking ahead into the June quarter of 2021, we expect our total revenue to be between RMB2.3 billion and RMB2.5 billion, which represents an increase of 48% to 61% year-over-year.

As we continue to operate in a time of significant uncertainty in regards to the timetable of pandemic recovery in our overseas markets, we remain cautious in our sales outlook in these markets. However, we are encouraged by our efficient working capital management, steady recovery of gross margin, and disciplined investment and expense in the new businesses, all of

which have laid a solid foundation for us to deliver consistent, strong financial performance and long-term shareholder value.

This concludes our prepared remarks for today. Operator, we are now ready to take questions.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Michelle Cheng from Goldman Sachs.

Michelle Cheng: (Speaking foreign language). So I have 3 questions for management. First one is the company introduced a new retail platform X strategy, and we successfully developed TOP TOY. So can management share the thoughts about the future development, and also past experience we can learn from TOP TOY development?

And second question is about the overseas recovery. So on one hand, we control the inventory and also the expansion. But have we like reviewed the overseas contributors' financial situation and the business environment? And how this will impact our expansion in the future?

And thirdly, for the domestic business, we have been expanding aggressively in the lower-tier cities. And can you share with us for those stores opened in the past few quarters, the operational situation? And also how do we see the business opportunities in the lower-tier cities going forward?

Guofu Ye: (Speaking foreign language).

(Translated). Okay. Michelle, thank you for the questions. For your first question about X strategy, we certainly have some ideas and thoughts about new categories and TOP TOY has gained preliminary success at this moment. And we are actually in the planning and preparation process of our new categories and we will give the market an update when we make progress. Thank you.

Steven Zhang: (Speaking foreign language).

(Translated). Okay. Michelle, for your second question for the overseas, I think these questions need to be analyzed case-by-case. Now we have more than 1,700 open stores by now. And in terms of overseas distributors, the top 10 distributors accounted for more than 50% of our overseas stores, so the concentration is quite high and stable. Please note, for these big distributors, they have -- they absolutely are comfortable at this moment, but outside the very strong cash position in shareholder structure and in our cost control abilities. So our judgment is that there's no big risk for these big distributors.

For the smaller ones, absolutely some of them will face even bigger difficulties. And as we shared before that, we now have 80 distributors in overseas market. Certain distributors' financial

difficulty will not influence the whole picture of our overseas market. And if you look at the past 4 quarters' performance of our overseas business, no matter in revenue or in net income, I think the most difficulty time has passed. And we even see some -- in some of overseas markets, some distributors are accelerating their pace of expansion, such as Italy and Portugal, which we have entered during the first quarter and second quarter this year. And for example, Spain, this country alone has opened 6 stores in the first quarter. So that's the answer for your second question.

Steven Zhang: (Speaking foreign language).

(Translated). For the third question on lower-tier cities, first of all, we think MINISO's product and our business model is both very competitive in lower-cities. As Mr. Ye mentioned just now, the key operating metrics such as average sales price, cross-selling rate and conversion rate they are all very close to that of higher-tier cities. And in terms of addressable market as of today MINISO has entered about less than 300 cities in China. But if you look at the tier-3 and tier-2 cities alone, there are 270 more in China, so the addressable market is big enough.

In terms of single store model, we have been continuously monitoring during the past year, and as we talked before that for stores in lower-tier cities the revenue is maybe not as high as in the first-tier cities as these stores on average generate sales of RMB3 million to RMB4 million annually. And the rent of each store can be controlled within 8% of sales. So the payback period tends to be as short as in 6 to 8 months to MINISO's early stage between 2013 and 2015. Thank you.

Operator: Lucy Yu from Bank of America.

Lucy Yu: (Speaking foreign language). The first question is about membership. So we have accumulated members for a while. So what we have learned from this big data? And how are we going to more utilize this data to help with our operations?

Second question is about the GMV recovery in China and overseas market in April and May. And how should we think about the recovery trajectory for the second half?

Third question is about TOP TOY. So what's the store opening plan for this year as well as more operating metrics?

Guofu Ye: (Speaking foreign language).

Steven Zhang: (Speaking foreign language).

(Translated). Okay. Lucy, thank you for the question. For your question on members, as we shared that by the end of this quarter, and we have accumulated 30.2 million members. And we are using various ways to outreach and activating things. So we have some figures to share. In terms of the average sales price, the members were double that of non-members. And in terms of the repurchase rate, ordinary customers of MINISO on average, they come and buy for 1.5 times each year versus 3 times of our members.

And Steven added that we have realized the important role that members have played in our improvements so our outstanding of the importance of members have been improving during the

past year, and we'll make more efforts to improve that way. So we have -- for example, we have managed our members in different stage in their lifecycles, and so that we can carry out more targeted marketing to outreach and keep them and increase the retention and repurchase rates of these members.

Steven Zhang: (Speaking foreign language).

(Translated). Let me give quick update our business in China and overseas markets. In April and May, we have 2 public holidays in China, so we can see very strong sales increase during these 2 holidays. But after the holidays, we can see a big decrease and get to normalize of the sales. So we believe that in China, the pandemic influence is still there, so the overall recovery is still at 95% or so. In the overseas market, by the end of last month, by April 30, the overseas market as a whole is a bit -- a little bit worse than we were in the end of March.

We had more than 300 stores were temporarily shut down because of the stricter control measures by the regulators in different countries. And for those stores in operation or in business, the recovery average were lower, were 5% lower, than in last month. If you look at the second half of this year, we see stable growth and stable recovery in China and unstable situations in overseas.

And the pandemic recovery for overseas market is still wait-to-see. For example, in India where we have 150 stores. As for now, 90 of them are not open. And for some developed countries such as the U.S., where the vaccine injections are quite good, we actually see a good recovery of the sales trend. But now U.S., we now have only more than 30 stores, so the influence is quite insignificant for the overseas market. Thank you.

Steven Zhang: (Speaking foreign language).

(Translated). Okay in terms of TOP TOY in terms of the expansion plan, we have no big change with our update. We maintain our guidance of 90 to 100 stores by year-end, calendar year-end.

In terms of economic model, it is continuously being refining. I want to share our DreamWorks stores, the 4 DreamWorks stores. The monthly sales of each has been quite stable at RMB2 million in a month. And we are also testing our Type B stores, in which our monthly sales trend can be stable at RMB600,000 per month.

In terms of the retail partners, we also held quite a big roadshow of our retail partners by the end of -- at the end of April. And we saw strong willingness of our retail partners to open TOPTOY stores. And we have been receiving positive feedback and quite positive proposals, active proposals, from them.

Operator: There are no more questions in the queue. This concludes our question-and-answer session. I'd like to turn the conference back over to management for any closing remarks.

Eason Zhang: Okay. Thank you again for joining us today. If you have any further questions on MINISO, please feel free to contact MINISO's IR team. And our contact information can be found on today's press release. We will see you next quarter. Have a good day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.