

[MNSO] - MINISO Group Holding Limited
Q4 2021 Ended June 30, 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
Jerry Wong, CITIC
Rebecca Hu, Haitong International

Presentation

Operator: Ladies and gentlemen, thank you for standing by and welcome to MINISO Group Holding Limited's Earnings Conference Call for the fourth quarter of fiscal year 2021 that ended June 30, 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, [Maru]. 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.

With that, I will now turn the call over to Mr. Ye. Please go ahead, sir.

Guofu Ye: (Speaking foreign language).

(Translated). Hello, everyone. On today's call, I will first give you an update on our operations in June quarter and full fiscal year 2021, and then share our development strategy for the full fiscal year 2022.

We closed fiscal year 2021 with a solid fourth quarter. Revenue was RMB2.47 billion, up 59% year-over-year, and within the Company's guidance. Adjusted net profit, RMB145 million, up 242% year-over-year.

In terms of regions, domestic revenue was RMB1.95 billion, up 43% year-over-year. Overseas revenue was RMB526 million, up 179% year-over-year.

In terms of business units, MINISO, our flagship business, recorded a revenue of RMB2.36 billion, up 57% year-over-year, accounting for 95% of total revenue. Meanwhile, other business recorded a revenue of RMB110 million, up 136% year-over-year.

MINISO faced a tough operating environment in June quarter, as the rapid spread of the Delta variant triggered a new round of pandemic in Guangdong province and some overseas markets. In China, thanks to the strong measures taken by the government, the spread of the pandemic was effectively limited in Guangdong and completely controlled by early July. As a result, domestic operations of the MINISO brand recorded a revenue of RMB1.83 billion, up 39% year-over-year.

Revenue from international operations in the quarter was RMB526 million, up 179% year-over-year. Although the overall situation was better than that of the same period in 2020 for our international operations, some of our overseas subsidiaries, such as those in India, experienced a revenue decline sequentially in this quarter due to the impact of the Delta variant. Our distributor countries, on the other hand, experienced a revenue increase sequentially, despite slower than expectation.

In China, we added 127 MINISO stores during this quarter, compared to a net decrease of 2 stores and a net addition of 38 stores during the same period of 2020 and 2019, respectively. This was an encouraging development for us, and we should give credit to support our retail partners here. By the end of June, we had 820 retail partners, increased by 80 year-over-year, with each partner having 3.5 MINISO stores average, flat year-over-year.

Despite resurgences, the pandemic in China could bring short-term pressure. However, MINISO's long-term potential in China remains unchanged. For example, as we continued to unlock new opportunities in China's lower-tier cities, 50% of new stores were from this market in this quarter. We have many cities in our list to be entered or to further develop.

We opened 35 new stores in overseas markets on a net basis this quarter, 40% of which were located in Europe. In Italy, MINISO opened 3 stores consecutively in April, attracting lines of consumers who waited outside the stores for a long time. This is the latest example of MINISO's initial success in European markets as represented by Italy, France and Spain and so on. We look forward to continue to serve European customers with MINISO's relaxing shopping environment and fun shopping experience. We also entered 3 other markets in this quarter besides Italy, marked our entry into the 98th overseas markets.

During this quarter, the average number of store suspensions in overseas markets was about 300, compared to 200 in the previous quarter, mainly due to the spread of the Delta variant this quarter. On the other hand, suspended stores were at a quarterly low of 205 by the end of June, down from 228 a quarter ago. However, the recent resurgences of the pandemic since July is expected to continue to impact international operations.

We have adopted several measures to assist our overseas partners in tackling the new challenges caused by the pandemic resurgences. First of all, we have connected them to local channels such as supermarkets and online channels to boost sales, clear inventory and get cash back. For example, in Morocco and Thailand, we set up flash stores, while in the Philippines, we cooperated with supermarkets. Our specialized team has enabled operations in about 50 overseas markets to move part of their sales online by providing useful suggestions.

Secondly, we launched a new Business Process Management system this quarter, which helps distributors better integrate the whole business process with its standardized and visualized features. This system has helped improve overall efficiency and satisfaction of distributors. Thirdly, by allowing the use of credit tools such as Letter of Credit for payment, we helped relieve a part of distributors' cash flow pressure.

Last but not least, we continued to help distributor partners control their costs in areas such as improving average employee output and negotiating more favorable rent reductions.

As we pointed out on our last call, MINISO has cooperated with many strong partners in its overseas markets, who have strengths in cash position, shareholder background and bargaining power, and are more resilient to the uncertainties caused by the pandemic. We remain confident about MINISO's long-term prospects in overseas markets, and our strengths in supply chain, products, retail know-how and business model remain outstanding. We will continue to cooperate with overseas partners to overcome the challenges together.

Move to our online business. E-commerce revenue was around RMB200 million, up 136% year-over-year, mainly attributable to the June 18 Mid-Year Shopping Festival. In total, online business including e-commerce and O2O contributed 12% of our total revenue. As of June 30, members who had made at least one purchase during the past 12 months were about 33 million, up 49% year-over-year and 10% sequentially.

We continued to expand our IP library, and this quarter has seen great success in our cooperation with top IPs such as Toy Story, the NBA and Minions, with IP sales up 79% and 59% over the same period in 2020 and 2019, separately.

In addition, we plan to leverage MINISO's global store network to introduce more popular products such as blind box to overseas markets. As the first step, we have achieved encouraging results in Southeast Asia and Middle East in this quarter. For example, in its first 5 days in Singapore, sales of blind box accounted for more than 20% of total store sales. We will test more markets in Europe and Latin America by this year.

Now, TOP TOY. First of all, channel expansion on track. During this quarter, TOP TOY opened 24 stores, bringing its total stores to 33 by the end of June, including 6 Dreamwork stores, and 27 collection stores. Just last weekend, the Art Toy Museum, co-branded by TOP TOY and

Shenzhen Wenheyu, celebrated its grand opening, bringing TOP TOY stores to a grand total of 54 and recorded total sales of more than RMB1 million in its first day.

We are also preparing for TOP TOY's first Art Toy Carnival Exhibition with the China International Comics Festival in Guangzhou in early October. This 10,000-square-meter exhibition will include top brands such as Bandai, and will be a great opportunity for us to both promote TOP TOY and accumulate the relevant experience.

Secondly, TOP TOY's business model is improving. With its rapid expansion in this quarter, TOP TOY's revenue increased by more than 180% sequentially. TOP TOY is still in the early stage of capacity building and brand promotion, and its gross margin level has huge room to improve. Going forward, we expect that TOP TOY's gross margin will improve while its operating leverage will be gradually released, driven by the expansion of its scale and the maturity of its proprietary IPs.

Thirdly, we continued to upgrade our product structure as planned. TOP TOY's proprietary products, including 6 of its proprietary IPs, now account for more than 5% of its total SKUs, with higher gross margins than those of third-party products. Our proprietary IPs, launched just 3 months ago, have gradually caught on in the market. For example, sales of Twinkle and Damo Tumbler have stabilized within our top 10 SKUs, and sales of Tammy's Daily Series stabilized within TOP 20.

Move on to fiscal year 2021. Despite the continuous impacts on global retail industry caused by the pandemic, we still recorded a positive growth with revenue reached RMB9.07 billion. Domestic revenue was RMB7.29 billion, up 21% year-over-year and overseas revenue was RMB1.78 billion, down 39% year-over-year.

In this year, we continued our overseas expansion, adding an additional 121 MINISO stores in overseas market and entering our 98th overseas market, despite the great uncertainty caused by the pandemic. We also continued to seize the market potentials in China's lower-tier cities, with 60% of the 406 new MINISO stores in China being located in this market segment. Additionally, we successfully completed our Initial Public Offering, unveiled our X strategy, and launched TOP TOY. We are moving towards our vision of Becoming a Leading Global New Retail Platform.

Looking ahead into the fiscal year 2022, we remain committed to pursuing the following strategies. Firstly, we will continue to expand and upgrade our store network and refine our business model. Secondly, we will continue to focus on product and supply chain as well as the introduction of more popular products to fully leverage our strengths in product design and cost control. We will also continue to execute our IP strategy and expand our IP library to fully utilize the brand awareness and appeal of top IPs.

Thirdly, we will continue to deepen consumer engagement and drive the omni-channel experience. We will also improve our ability to operate private traffic through mini-programs, DTC capabilities, launching products exclusively online, and improving our recommendation algorithms. Fourthly, we will continue to closely monitor the pandemic's development and adjust

our business plans dynamically. By continuing to cooperate with our overseas partners in various aspects, we will help them to save energy for future development.

Finally, we will continue to leverage our strengths and core capabilities to explore new business opportunities.

This concludes my prepared remarks. 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 June quarter financial results, and then provide additional color regarding the September quarter. Please note that I will be referring to non-IFRS measures, which have excluded share-based compensation expenses.

Revenue was RMB2.47 billion, increased by 59% year-over-year and 11% quarter-over-quarter, and above the midpoint of the Company's guidance range of RMB2.3 billion to RMB2.5 billion. The year-over-year increase was primarily driven by the growth of the Company's domestic operations and recovery of its international operations.

Revenue generated from the Company's domestic operations was RMB1.95 billion, increased by 43% year-over-year. Revenue generated from domestic operations of the MINISO brand was RMB1.83 billion, increased by 39% year-over-year, mainly driven by a year-over-year increase of 14% in average store count and a year-over-year growth of 23% in average revenue per store in China.

Revenue generated from the Company's international operations was RMB526 million, increased by 179% year-over-year, reflecting the recovery of the Company's international operations from the same period of 2020.

From quarter-over-quarter perspective, revenue from the Company's domestic operations increased by 9%, driven by a sequential growth of 6% in MINISO's offline sales in China and a sequential growth of 15% in e-commerce business due to the June 18th Mid-Year Shopping Festival. Revenue from international operations increased by 19% sequentially.

According to the National Bureau of Statistics in China, in the first half of 2021, retail sales of supermarkets, convenience stores, department stores and specialty stores increased by an average of 22% compared to the same period of 2020 and then 7% compared to the same period of 2019.

Over the same period, MINISO Group's sales increased by 54% and 8%, separately, better than the industrial average. And it was achieved against the background of the pandemic resurgence in Guangdong province, which lasted for nearly 50 days. During the period, the estimated loss in GMV was about RMB50 million.

Gross profit was RMB639 million, increased by 68% year-over-year and 2% quarter-over-quarter. Gross margin was 25.8%, as compared to 24.4% a year ago and 28.1% a quarter ago. The year-over-year increase of gross margin was primarily due to an increase in revenue contribution from the Company's international operations, which typically has a higher gross margin than the Company's domestic operations.

Revenue from international operation accounted for 21% of the Company's total revenue, compared to 12% in the same period in 2020. The quarter-over-quarter decrease was mainly attributable to increased promotion activities during the June 18th Mid-Year Shopping Festival; and second, inventory clearances in certain cities that aimed to tackle the negative impacts caused by reoccurrence of the pandemic in Guangdong province.

Selling and distribution expenses were RMB264 million, increased by 15% year-over-year, but decreased by 4% quarter-over-quarter. The year-over-year increase was primarily attributable to increased personnel-related expense and marketing expenses as with the year-over-year revenue growth and brand awareness improvement for both MINISO and TOP TOY. The quarter-over-quarter decrease was primarily attributable to rent deductions related to COVID-19 in certain international markets.

G&A expenses were RMB188 million, increased by 59% year-over-year and 20% quarter-over-quarter. The year-over-year increase was primarily due to, first, increases in personnel-related expense and IT expense for our new initiatives such as TOP TOY; and second, we took the necessary measures to reduce our general and administrative expenses to tackle the challenges caused by the pandemic during the same period of 2020, resulting in a low comparison base for these expenses. The quarter-over-quarter increase was primarily due to increased professional service fees.

Turning to our profitability. Operating profit was RMB188 million, compared to a loss of RMB30 million in the same period of 2020 and a profit of RMB161 million in the previous quarter. The year-over-year improvement in operating profit was primarily due to our business recovery both in China and overseas market, while the quarter-over-quarter improvement was due to the reduction in foreign exchange loss and a credit reversal in this quarter.

Adjusted net profit was RMB145 million, increased by 242% year-over-year and flat quarter-over-quarter. Adjusted net margin was 5.9%, compared to about 2.7% a year ago and 6.7% a quarter ago.

Adjusted basic and diluted earnings per ADS were both RMB0.48 in this quarter, compared to RMB0.16 a year ago and RMB0.52 a quarter ago.

Turning to our balance sheet. As of June 30, 2021, the combined balance of the Company's cash, cash equivalents, restricted cash and other investments was RMB6.88 billion, compared to RMB2.86 billion a year ago.

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

The board of directors has approved a dividend of about RMB300 million, and I want to take this chance to share the Company's capital allocation strategy here. When deciding the total amount of the dividend, we have considered the levels of profitability that we have achieved in fiscal year 2020 and could have achieved in fiscal year 2021 without the pandemic. Our capital allocation strategy in the future will prioritize new growth opportunities, such as new strategic initiatives and new store expansion. We will also remain committed to bring return to shareholders through anticipated dividend payments.

Looking ahead into the September quarter of 2021, we expect our total revenue to be between RMB2.45 billion and RMB2.65 billion, which represents an increase of 18% to 28% year-over-year.

The latest resurgence of the pandemic from Nanjing in China has spread to several provinces and is still evolving. The Company currently estimates that its sales will continue to be pressured by the lingering effects of the pandemic in the short term, which will lead to reduced traffic or even the temporary closure of the Company's stores. We will continue to focus on those elements of the business that are under our control, such as product innovation, inventory management, operating efficiency and omni-channel strategy to drive sales and protect margins.

This concludes our prepared remarks for today.