

[MNSO] - MINISO Group Holding Limited
Q2 Fiscal Year 2022 Results Conference Call
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Executives

Eason Zhang, Director, Capital Markets
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 second quarter of fiscal year 2022 that's ending December 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 Capital Markets. Please go ahead, Eason.

Eason Zhang: Thank you. 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 measures reported under the International Financial Reporting Standard in the Company's earnings press 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). Thank you. Hello, everyone, and welcome to MINISO's December quarter 2021 earnings conference call. On today's call, I will share major developments of our business, and then talk about the strategic upgrade of MINISO brand. I will begin with business review.

During this quarter, we added 191 stores to our global store network, including 174 MINISO stores and 17 TOP TOY stores.

Revenue reached RMB2.77 billion, up 21% year-over-year, exceeding the high end of our guidance range. Adjusted net profit was RMB214 million, up 155% year-over-year. Adjusted net margin of 7.7% was the highest in recent 7 quarters since the pandemic broke out.

During calendar year 2021, we added 615 stores to our global store network, including 531 MINISO stores and 84 TOP TOY stores.

Revenue reached RMB10.13 billion, up 34% year-over-year. Adjusted net profit was about RMB690 million, up 90% year-over-year. Adjusted net margin was 6.8%, compared to 4.8% in calendar year 2020.

In December quarter, MINISO brand recorded a revenue of RMB2.6 billion, up 17% year-over-year. Revenue from China was RMB1.88 billion, up 6% year-over-year. Revenue from overseas markets was RMB717 million, up 55% year-over-year.

In China, our offline stores recorded a higher recovery rate than industry average in October. Total sales increased by 9% year-over-year from the high watermark of last October, and increased by 16% from the same period in 2019. Sales recovery rate was about 97% of the same period in 2019, among which tier-1 and tier-2 cities recovered to 95%, and tier-3 and below cities recovered to more than 100%.

However, this growth was interrupted by the new wave of the pandemic in November, when total sales was down 6% year-over-year and 7% compared to the same period in 2019, separately. Total sales in December was down 7% compared to the same period in 2019, but thanks to the operating measures we took, and the year-end promotion campaign, total sales was down by only 1% year-over-year.

MINISO added 133 stores on a net basis during this quarter, and ended December with 3,168 stores in China. With a net addition of 400 MINISO stores in calendar year 2021, we have successfully completed our store expansion plan and nearly doubled the number of 225 in calendar year 2020, which demonstrates our unrivaled expansion ability and retail partners' strong confidence in our business.

As we continue to penetrate into tier-3 and below cities and unlock these new markets, approximately 60% of newly-added stores in this quarter were from there. By the end of December, we had more than 1,300 stores located in tier-3 and below cities.

Moving to our online business, revenue from ecommerce was RMB170 million. Revenue from O2O business was around RMB130 million, up 130% year-over-year. In total, online business including ecommerce and O2O contributed 11% of our revenue. In terms of user operations, sales contribution from members exceeded 50% for the first time in calendar year 2021.

Meanwhile, we continue to strategically focus on private traffic and WeChat mini program. Our WeChat mini program had nearly 7.8 million MAUs in December, and our private traffic had accumulated over 14 million consumers.

MINISO is strategically committed to deepening consumer engagement and driving repurchase by providing improved omni-channel experience to them. Take our very successful IP products in this quarter, Lotso, as an example. For the first time, we managed to invite consumers to participate into the product development process. Consumers involved were asked to vote for their favorite product design.

We also launched pre-sales for this IP product online. The statistics from the pre-sales were found very useful in production projection and merchandise preparation for offline stores. The Lotso IP products went viral on social media, attracting more than 12 million page views on Xiaohongshu. The secret to this success is to invite young people to become co-creators of products, so that young people can have an immersive and more friendly new shopping experience.

Like what we did in Lotso's case, we shall keep testing this tactic, while driving user stickiness and repurchases, and eventually help to create a Wonderful Lifestyle for young consumers globally.

Moving to overseas operations, revenue for December quarter reached RMB717 million, up 55% year-over-year and 15% quarter-over-quarter, thanks to the recovery from the pandemic and holiday spending.

Overall GMV recovered to about 80% of the same period in 2019, up 26% year-over-year, with distributor markets recovered to 80% and directly-operated markets 70% of the same period in 2019. GMV in the U.S. market, for example, increased by 40% from the same period in 2019, and Europe increased by about 60%. Asian countries as a whole also delivered significant improvements from previous quarters. The positive trend in overseas markets has enhanced our confidence to actively expand our business after the pandemic.

Average sales per store in overseas market in this quarter recovered to 70% of the same period in 2019, up 20% year-over-year and 30% quarter-over-quarter. In the U.S. market, sales per store surpassed the level in the same period in 2019, and increased by 10% after it recorded a recovery rate of 90% in the previous quarter. Sales per store recovered to 100% and 80% in Canada and Mexico, separately.

Total number of overseas stores reached 1,877 by the end of December, with a net addition of 41 stores during the quarter. In calendar year 2021, we have surpassed our store expansion target and delivered a net addition of 131 MINISO stores. There were 76 suspended stores in overseas markets by the end of December, down from 157 such stores a quarter ago.

TOP TOY celebrated its first anniversary in December. As the first sub-brand incubated under X strategy, TOP TOY has made remarkable achievements in its first year: Established a brand image as a global collection store of art toys, forged a set of promising omni-channel capabilities, enlarged product offerings of art toys, and built a team of high-potential talents.

Revenue of TOP TOY was RMB130 million, up 20% quarter-over-quarter. Total number of TOP TOY's offline stores was 89 by December, including 13 Dreamwork stores and 76 collections stores. Through its continuous efforts in online channels, TOP TOY has accumulated nearly 3 million fans and 1.5 million members.

Product-wise, TOP TOY continued to make breakthroughs. Proprietary products contributed 8% of offline sales and 30% of online sales in December, separately. Merchandise gross margin of our proprietary products reached about 65%, and plays a positive role in improving its overall gross margin.

TOP TOY managed to combine esports, another popular pop culture element among young people, with art toys, in an effort to attract consumers from different segments. Our partnership with EDG, Edward Gaming, in January highlighted TOP TOY's leadership in the industry. Sales of the co-branding products from this cooperation were encouraging and far exceeded our expectation, for example, the 1,000% Umasou + EDG figures were sold out in 48 hours, again demonstrating TOP TOY's strong abilities of rapid product development and IP co-branding.

Behind this collaboration is TOP TOY's never-ending exploration to capture various trendy topics among young people, to reshape consuming environments, and to enlarge addressable market of art toys.

Next, I would like to introduce the strategic upgrade of MINISO brand. During the past 8 years, MINISO brand has become a global household name, demonstrated by our entrance into 99 countries and regions, and our massive network of more than 5,000 stores worldwide, enabling hundreds of millions of consumers around the world to enjoy life's little surprise every year. It is very important for us to keep our strategy and brand positioning up to date. And after careful deliberations, we have made the decision that 2022 will be the first year of an era to strategically upgrade MINISO brand.

In China, we plan to further upgrade MINISO brand with a value proposition of Wonderful Life on the basis of our established advantages in product quality and affordability. With the core of our brand upgrade strategy being from product recognition to brand recognition, we will make efforts in the following three aspects closely around the topic of interest-based consumption.

Product-wise, the upgrade does not necessarily mean raising prices of all of MINISO's products. We currently estimate that prices of about 70% of our products will remain stable. And MINISO's brand promise to offer consumers value and affordability is not going to change. For our new products, we will be more focused on interest-based consumption by offering more appealing usefulness and playfulness than we used to.

We believe the strategic upgrade in product philosophy will drive a steady offering of such new products, which have higher premium and will fuel our future growth. We are also building a robust pipeline of new blockbuster products of strategic importance to effectively capture more consumer mind-share.

Marketing-wise, we plan to take a systematic approach and first launch our branding campaigns in tier-1 and tier-2 cities, to enhance our brand image as a global brand. By leveraging our edges in appealing, usefulness and playfulness products, and sticking to our core strategy of product-driven brand upgrade, we will strive to build a value proposition and brand image representing Wonderful Life among consumers.

Channel-wise, we will continue to penetrate into lower-tier cities. In tier-1 and tier-2 cities, we will focus on optimizing the margin profile of MINISO stores with key initiatives, such as

product mix optimization, brand image upgrade and pricing range extension. We are also committed to omni-channel strategy, enhance our operations in private traffic and WeChat Mini Program, and ultimately drive business growth across online and offline channels.

When I founded MINISO brand in 2013, it was a time when ecommerce was booming and the brick-and-mortar retail industry was experiencing a cold [water], just like today. The pandemic has changed consumers' shopping patterns and habits. But neither the rising of ecommerce nor the pandemic will change consumers' pursuit of Wonderful Life. And it is the promise of MINISO brand and the reason behind our past success that we enable consumers to enjoy life's little surprise.

Looking ahead in the post-pandemic era, we are more capable and highly confident in constantly delivering long-term values to consumers and investors with our constant offerings of products that are more appealing, useful and playful.

That concludes my remarks. I will now turn the call to our CFO for financial review.

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

Revenue in December quarter was RMB2.77 billion, increased by 21% year-over-year and 5% quarter-over-quarter, above the high end of our guidance range of RMB2.5 billion to RMB2.7 billion. The year-over-year increase was primarily driven by the growth of our domestic operations and the recovery of our international operations.

Revenue generated from our domestic operations was RMB2.06 billion, increased by 12% year-over-year. Revenue generated from the domestic operations of the MINISO brand was RMB1.88 billion, increased by 6% year-over-year. Revenue generated from TOP TOY was RMB131 million, compared to RMB3 million in the same period of 2020. Revenue generated from our international operations was RMB717 million, increased by 55% year-over-year, reflecting a consistent improvement of our sales recovery in overseas market as a whole.

From a quarter-over-quarter perspective, revenue from our domestic operations remained flat. We estimate that the GMV loss for those influenced stores in China during this quarter was comparable to that in the previous quarter.

Revenue from international operations increased by 15% sequentially.

Gross profit was RMB863 million, increased by 34% year-over-year and 19% quarter-over-quarter. Gross margin was 31.1%, compared to 28% a year ago and 27.4% a quarter ago. Both of the year-over-year and quarter-over-quarter increases were primarily due to, one, revenue contribution of international operations increased from 20.1% in the same period of 2020 to 25.9% in this quarter. As you know, international operations typically have higher gross margin than domestic operations. And number two, our expanding co-branded IP product offerings and its associated higher gross margin in this quarter.

Selling and distribution expenses were RMB371 million, increased by 21% year-over-year and 15% quarter-over-quarter. The year-over-year increase was primarily attributable to increased personnel-related expenses, licensing expenses and marketing expenses that were in line with the year-over-year revenue growth and brand awareness improvement for both MINISO and TOP TOY. The quarter-over-quarter increase was primarily attributable to increases in licensing expenses and rental-related expenses.

G&A expenses were RMB215 million, increased by 34% year-over-year and 7% quarter-over-quarter. Both the year-over-year and quarter-over-quarter increases were primarily due to increased depreciation and amortization expenses of land use right related to our headquarter building projects, and to a [lesser] extent, increased personnel-related expense and professional service fees.

Turning to our profitability, operating profit was RMB255 million, increased by 371% year-over-year and 20% quarter-over-quarter. Operating margin was 9.2%, compared to 2.4% a year ago and 8% a quarter ago.

Adjusted net profit was RMB214 million, increased by 155% year-over-year and 16% quarter-over-quarter. Adjusted net margin was 7.7%, the highest in recent 7 quarters, compared to 3.7% a year ago and 6.9% a quarter ago.

Adjusted basic and diluted earnings per ADS were RMB0.72 in this quarter, compared to RMB0.28 a year ago and RMB0.60 a quarter ago.

Turning to our balance sheet, as of December end, the combined balance of our cash, cash equivalents, restricted cash and other investments was RMB5.37 billion, compared to RMB6.14 billion as of end of September.

Turning to working capital, turnovers of inventories and trade receivables remain stable on both year-over-year and quarter-over-quarter basis.

Looking ahead into the March quarter of 2022, we expect our total revenue to be between RMB2.4 billion to RMB2.7 billion, which represents an increase of 7.7% to 21.1% year-over-year.

In calendar year 2022, we currently expect to open about 400 MINISO stores in China and about 350 stores in overseas market. As we continue to operate in a time of significant uncertainty in regards to the timetable of pandemic recovery in our major markets, we remain cautious in our outlook in terms of sales and store expansion, and may update and adjust these operational plan based on the latest development of the pandemic.

We are encouraged by our efficient working capital management and strong recoveries in both top line and bottom line in this quarter.

Before we move to Q&A session, I would like to reiterate our financial strategy, which has led us to above-mentioned results, and the idea of disciplined investment runs through it. The same idea will also apply to the strategic upgrade of MINISO brand. We have developed a thorough

financial planning on this project, and will have this plan quickly tested in a small scale before it is implemented nationwide.

We will also closely monitor the performance, and gather feedback from the consumers throughout the process to ensure we remain committed to MINISO's brand promise of enabling everyone to enjoy life's little surprise with products that are more appealing, more useful and more playful.

That concludes our prepared remarks. Operator, we are now ready to take questions.