MINISO Group March Quarter 2022 Earnings Conference Call Full Script

CEO Script

Thank you. Hello everyone and welcome to MINISO Group's March quarter 2022 earnings conference call.

In March quarter, the pandemic once again gripped China, with major cities including Shenzhen and Shanghai consecutively adopting strict lock-down control measures since February. The domestic retail industry was challenged and stroke by the most stringent restrictive measures taken by local governments since 2020. According to our estimates, nationwide footprints to our MINISO stores decreased by about 2%, 14% and 34% on year-over-year basis from January to March, respectively, due to the strict control measures by local governments. Despite the ongoing challenges of the pandemic, we delivered another solid quarter, with revenue reaching RMB2.34 billion, up 5% year over year. TOP TOY's revenue increased by nearly four times year over year, and MINISO's offline business delivered positive growth, which again demonstrated the resilience of our business model.

So, as we have repeatedly emphasized in our earnings conference calls over the past few quarters, the pandemic will weigh on consumer demands and thus our near-term results, however, our business model has demonstrated its great resilience and flexibility under extreme market environments over the past two years. According to a report from Frost Sullivan, MINISO’s leadership position has been further consolidated: our market share in global branded variety retail market has increased from 5.2 per cent in 2019 to 6.7 per cent in 2021, during the same time, our market share in China has also increased from 10.9 per cent to 11.4 per cent.

I am pleased to see several positive trends in our business and let me share with you:

Firstly, in China, we continued to execute MINISO’s brand upgrade as planned. By integrating the concept of interest-based consumption into product development, our newly-launched products, which feature "appealing, useful and playful", have higher gross margin compared with our traditional products. As a result, gross margin for this quarter reached 30.2 per cent, up 2.1 per cent year over year, and we are pleased to see this trend of year-over-year increase in gross margin continued in April.

Secondly, benefiting from the pandemic control in many overseas countries and regions, MINISO's overseas business continues to recover, revenue for March quarter was RMB520 million, up 17 per cent year over year. Our globalized operation provided us more space and flexibility of future growth compared to peer companies.

Thirdly, global retail industry is challenged by cost pressures as many countries including the U.S. are entering one of the highest inflation in four decades, many retailers are challenged by ongoing pressures in cost and inventory. Consumers tend to look for value in such a high-inflation environment, which is a good opportunity for us.

To tackle the global inflation, we will continue to leverage our core capabilities in supply chain and ensure the value proposition of MINISO products globally. Specifically, with our deep cooperation with more than 1,000 qualified suppliers, our strong bargaining power and flexible cost-plus pricing model, MINISO is better positioned than peers to cope with the rising cost pressures.

Meanwhile, we are capable to maintain a healthy inventory level. Inventory turnover days worldwide for MINISO have returned to around 60-70 days, which is industry-leading and a relatively normalized level of pre-pandemic.

In March quarter in China, revenue of MINISO brand was RMB1.69

billion, among which offline stores recorded a revenue of RMB1.56 billion, up slightly year over year; e-Commerce business recorded a revenue of RMB130 million, and a healthy margin profile.

MINISO added 29 stores on a net basis during March quarter in China, compared to 44 stores a year ago. Typically, our store opening in China has seasonality, with March quarter the lowest season due to the long vacation of Chinese Lunar New Year. In 2022, another drag of new store opening was the pandemic. In coming quarters of 2022, we will adjust the pace of store opening in China dynamically according to the development of the pandemic control, and reduce operational risks of MINISO retail partners.

In our earning call last quarter, we introduced the roadmap of the strategic upgrade for MINISO brand, here are some updates. In March quarter, we have accomplished the refreshment in substantially all of MINISO stores in China as planned. This refreshment features MINISO's new slogan of "Light up wonderful life in 99 countries and regions", together with our brand-new interested-based products, will offer better shopping experience. We continued to execute our IP strategy well, with gross margin of new IP products improved by low single digits year-over-year. In the coming quarters, we will also dynamically adjust our marketing plans according to the situation of China's consumer market and pursue healthy ROI.

MINISO is strategically committed to deepening consumer engagement and driving repurchase by providing improved omni-channel experience to them. As you know, we have been actively exploring various possibilities for our membership operation, last September we launched MINISO's paying membership program, and has achieved preliminary progress. Members need to pay an annual subscription fee of RMB79 to enjoy a bunch of exclusive rights, for example, they can receive a package of coupons, enjoy additional discounts and exclusive products, among others, and these rights can be enjoyed in every MINISO store in China and our Wexin mini program. This program has been warmly received by our fans and we have rapidly accumulated more than 1 million paying members. Based on our A-B testing, the average incremental spending of consumers after they become paying member is encouraging.

Moving to overseas operations. Revenue for March quarter was about RMB520 million, up 17% year over year.

During March quarter, we observed an encouraging year-over-year sales growth in overseas market as a whole. Total GMV increased 30% year over year, GMV growth in distributor markets were even higher. By regions, Europe as a whole increased by 85 per cent YoY, North America

65 per cent, Latin America 45 per cent, the Middle East and North Africa 20 per cent, and Asia excluding China 10 per cent. By countries, we saw YoY growth of about 80 per cent in the U.S., 60 per cent in Mexico, nearly 30 in India and 20 in Indonesia.

We added 39 stores on a net basis in March quarter, compared to 29 stores a year ago. We have been relatively restrained in opening overseas stores during the pandemic in the past two years in order to control risks. Now, observing the stable recovery trend in the past several quarters, we plan to speed up the pace of opening overseas stores this year. We are quite confident to open more overseas stores in this year.

In overseas markets, 74 stores or 4% of our total overseas stores had not resumed operations as of March 31, flat quarter-over-quarter, the majority of such stores were concentrated in Asian countries excluding China, and Latin America. It reflects the lingering effect of the pandemic on our operations in these two regions.

Our efforts in product never stopped, during the past two years, we made full use of the time window to strengthen our core capabilities, one of them is product localization. As its preliminary results, we have accelerated product launch in major overseas markets in this year. Take

Latin America as an example, we successfully launched 1,100 new SKUs in the March quarter, and contributed directly to the 45% YoY GMV growth. We will continue to strengthen our overseas design capacities, and offer more localized products to consumers in overseas in a timely and accurate manner.

Now, let me introduce the developments of TOP TOY.

The pandemic has inevitably impacted TOP TOY's short-term performance, but we continued to followed our established strategy in the quarter and made steady progress. On the revenue side, offline revenue increased by three times year over year, while online business ramped up quickly and contributed more than 10% of revenue in this quarter from nil last year.

In the long term, we see huge potentials of the pop toy market. According to a report by Frost & Sullivan, the size of pop toy market in China has increased rapidly at a CAGR of 34% from 2017 to 2021, and is estimated to grow at a CAGR of 24% from 2022 to 2026, before its size reaches RMB110 billion.

The fast growth of pop toy market in China is laid on four pillars: diversified products, sales channel expansion, increasing importance of IP incubation and co-branding, and growing fan base. TOP TOY is strategically committed to develop its portfolio of diversified products, such as toy bricks with Chinese elements, and to explore omni-channel strategy, to improve capabilities in IP incubation and operation, and to understand more about the Generation Z. Going forward, TOP TOY will follow its own way of interest-based consumption in pop toy business.

In March quarter, merchandize gross margin of TOP TOY reached a healthy level of 45%, improved sequentially. Merchandise gross margin of TOP TOY's proprietary products stabilized at around 65% and revenue contribution has surpassed 10%.

Take Sanrio, MINISO's long-term partner of IP co-branding, as an example. TOP TOY launched co-branded IP products with Sanrio since day one and achieved encouraging sales performance. A new product of TOP TOY's newly incubated IP *"Strong Lucky Cat"* became the best-selling SKU during this quarter.

In addition, TOP TOY continued to focus on potential categories such as toy bricks. In March, TOP TOY launched original VINTAGE home appliance series under the label of "China Bricks" and this original series became top-sellers and was posted by many Generation Z consumers on social media because it reminded them childhood. That is why we believe toy bricks has a huge addressable market and growth potential, TOP TOY has several toy bricks products in pipeline and will continue to explore the potential of “China Bricks” and to offer diversified toy bricks to young consumers .

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

CFO Script

Hello everyone, thank you for joining us. Today I will start my remarks with a review of March Quarter's financial results and then provide additional color regarding June quarter. Please note that I will talk about financials in RMB, and I will also refer to some non-IFRS measures, which have excluded share-based compensation expenses.

Revenue for March quarter was RMB2.34 billion, including 1.82 billion in China and 520 million in overseas market. In China, revenue from offline business of MINISO brand was 1.56 billion, revenue from e-Commerce of MINISO brand was 126 million, revenue from TOP TOY was 111 million.

From a year-over-year perspective, our revenue increased by 5 per cent year over year, primarily driven by the 17 percent year-over-year growth in overseas market, but dragged by the 2 percent year-over-year growth in China, which was caused by the lingering effect of the Omicron variant. As we mentioned in CEO's prepared remarks, **in China** in this quarter, revenue from offline business of **MINISO brand** grew by 1 per cent year over year. The pandemic has negatively affected our revenue in China in two ways: firstly, it caused temporarily closure of our stores, for example, more than 300 or 10 per cent of MINISO stores were temporarily closed in March; secondly, for those stores opened, the lock-down measures taken by local governments have significantly impacted their traffic. We estimate the GMV loss for the month of March alone was around 300 million, which translates into a revenue loss of about 200 million. For **TOP TOY brand**, although it recorded a year-over-year revenue growth rate of more than 300 per cent, its operation was also negatively impacted by the Omicron variant, with more than 10% of its stores were temporarily closed in March.

In overseas market, the year-over-year growth comes from both distributor markets and subsidiary markets, with a part of shipment to overseas distributors was deferred to June quarter because of the pandemic has impacted the operation of our logistics and transportation service providers. However, considering the strong replenishment demands from overseas market after an encouraging GMV growth this quarter, and considering that more stores will be opened in the coming quarters, we expect a decent growth of shipment revenue to overseas in the coming quarters.

From a quarter-over-quarter perspective, revenue from overseas market down 28 per cent. As you may know that our overseas business is subject to seasonality, typically with the strongest performance in December quarter and the lowest in March quarter. For example, our overseas revenue decreased by 40 per cent sequentially in March quarter of 2019, which to some extent represented a normalized seasonality before the pandemic. The stronger seasonality in March quarter of 2022 is a proof of continued recovery in overseas market.

Gross profit was 707 million, increased by about 13 per cent year over year and decreased by 18 per cent quarter over quarter. **Gross margin** was 30.2 per cent, compared to 28.1 per cent a year ago and 31.1 per cent a quarter ago. The year-over-year increase was primarily due to: one, revenue contribution of overseas market increased by about 2 per cent, from about 20 per cent in the same period of 2021 to 22 per cent in this quarter, as you know, our overseas operation usually has higher gross margin than our operation in China, and two, higher gross margin contributed by those new products under the strategic brand upgrade of MINISO in China. The quarter-over-quarter decrease was mainly due to decreased revenue contribution from overseas market from about 26 per cent to about 22 percent.

Excluding share-based compensation expenses, **Selling and distribution expenses** were 352 million, increased by 28 per cent year over year and decreased by 5 per cent quarter over quarter. The year-over-year increase was primarily attributable to: **one,** increased personnel-related expenses; **two,** increased licensing expenses in relation to our newly launched IP products; **and three,** increased promotion and advertising expenses in relation to the refreshment of MINISO stores in China, partially offset by decreased logistics expenses. The quarter-over-quarter decrease was due to decreased logistics expenses, licensing and travelling expenses.

General and administrative expenses were 191 million, increased by 22 per cent year over year and decreased by 11 per cent quarter over quarter. The year-over-year increase was primarily due to: increased depreciation and amortization expenses in relation to the land use right of our headquarter building project, and increased personnel-related expenses and tax and surcharges. The quarter-over-quarter decrease was primarily due to: decreased personnel-related expenses, and decreased financial and legal service fee.

Turning to profitability. Operating profit was 141 million, compared to 161 million in the same period of 2021 and 255 million in the previous quarter. Operating margin was 6 per cent, compared to 7.2 per cent a year ago and 9.2 per cent a quarter ago.

Adjusted net profit was 111 million, compared to 149 million in the same period of 2021 and 205 million in the previous quarter. Adjusted net margin was 4.7 per cent, compared to 6.7 per cent in the same period of 2021 and 7.4 per cent in the previous quarter.

Adjusted basic and diluted earnings per ADS were 36 cents in this quarter, compared to 52 cents a year ago.

Turning to cash position. As of March 31, the combined balance of our cash, cash equivalents, restricted cash and other investments was 5.49 billion, compared to 5.37 billion as of December 31, 2021. Our strong cash position and ample operating cash inflow have positioned us well to cope with any kind of challenges.

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

Looking ahead into the June quarter of 2022, we continue to operate in significant uncertainties in regards to the timetable of pandemic recovery in China and some Asian countries. In China, our business suffered more in April than in March, with average 380 MINISO stores were temporarily closed, and total GMV down about 10% sequentially. Although we have observed sequential improvement in May, it is more related to seasonality. As it is difficult to predict when the lock-down measures will come to an end, we remain cautious in our outlook for the June quarter. We currently expect our total revenue to be between RMB2.1 billion to RMB2.4 billion, the middle point of the range represents a decrease of 9 per cent year over year.

Our margins have been and are expected to be pressured during this wave of pandemic outbreak, primarily due to sales deleverage. As we have shared in CEO's prepared remarks, we have not faced any material cost headwinds, thanks to our strong bargaining power and our flexible pricing strategy. However, we have taken necessary actions such as controlling operational overheads, reducing personnel-related expenses and adjusting marketing plans, in order to ease the short-term impact from the challenges we face on our bottom line.

Although we have been experiencing these tough challenges, we are confident with our competitive advantages and optimistic about our growth potential in inflation times. The fundamentals of our business remain unchanged, we will continue to focus on those elements of the business that are under our control to drive growth and protect margins.

Thank you and this concludes our prepared remarks. Operator, we are now ready to take questions.