MINISO Group June Quarter 2022 Earnings Conference Call

Full Scripts

CEO Script

Thank you. Hello everyone and welcome to MINISO Group's June quarter 2022 earnings conference call. This marks the last quarter of our fiscal year 2022, and the first time we have announced results as a dual primary listed company in the U.S. and Hong Kong.

Thanks to the efforts of our dedicated team, we completed our listing in Hong Kong on July 13 this year. Our listing in Hong Kong was an important arrangement from the perspective of protecting the interests of our existing shareholders, and proactively responding to the evolving regulatory environment. We believe it will also provide us with broader financing channels to drive the Company's future development, help us expand our shareholder base, and promote the sustainable healthy development of our business. On behalf of the Company, I would like to express my gratitude to each and every employee for their dedication, and to our investors who have always cared for and supported MINISO. Going forward, we are confident that we will create long-term value for shareholders by enabling everyone to better enjoy life's little surprises.

So, as we have repeatedly emphasized in our earnings conference calls over the past few quarters, value retailers are capable of passing through economic cycles. Our business model has demonstrated great resilience despite the pandemic weighing on our near-term results. During this quarter, we have been promoting our brand upgrade efforts in China, and the gross margin of our domestic operations in the June quarter increased by about 3% from the same period of last year as we have launched a new portfolio of high gross margin consumption-based products. During this quarter, as the domestic offline retail sector faced unprecedented challenges, we focused on driving the recovery of our overseas business, which achieved nearly 50% year-on-year growth in revenue and accounted for 34% of the Company's revenue – the highest since the outbreak of the pandemic in early 2020. Benefiting from these two drivers, our overall gross margin reached a record high of 33.3% in the quarter.

Our recent business performance demonstrates that our globalized presence has given us much greater flexibility when facing pandemic-related uncertainty in China. As we continued to unleash the operating leverage of our directly-operated overseas business and furthered our efforts to reduce costs and improve efficiency, our adjusted net profit increased by 57% year-on-year to RMB220 million in the June Quarter, which is double the figure from the prior quarter. Our adjusted net margin reached its highest level of the past 10 quarters at 9.6%, returning to a level similar to what we achieved before the pandemic.

First, I will cover our domestic operations. Revenue in this quarter was RMB1.41 billion, of which, revenue from the offline business was RMB1.28 billion, which compared to RMB1.82 billion and RMB1.63 billion in the same period last year, respectively.

We estimate that the GMV lost due to the impact of the pandemic was about RMB700 million, and the corresponding loss of accounting revenue was over RMB400 million. More specifically, our sales decreased by nearly 30% year over year in April and May, as a result of the reduced traffic to shopping malls, many of which were unable to operate due to local government restrictions. In April, an average of 380 or 12% of MINISO stores in China were unable to operate. The number was down by about 100 in May but still accounted for nearly 9% of our stores. Going into June, as key cities gradually re-opened, shopping mall traffic recovered rapidly and many stores resumed normal operations, temporary store closures were further down to 60 or 2% of our stores. Our sales in June recovered to 94% of the level from the same period last year; that figure was nearly 90% in tier-1 and tier-2 cities, whereas in tier-3 and below cities, we saw year-on-year growth of nearly 1%.

E-commerce revenue in the quarter was RMB130 million. As an important complement to our offline channels, revenue itself is not the most important KPI for e-commerce. Instead, we focus more on its profitability, which has been increasing over the past year through our reasonable control of traffic acquisition costs.

The MINISO Retail Partner model has demonstrated its great resilience during the pandemic outbreak. As MINISO Retail Partners face minimal inventory risk and always receive their revenue share on time, their working capital pressure is much lower than in other franchise models. This quarter, despite the tremendous pressure of the pandemic, our business development team still added 29 stores on a net basis, and contained the quarterly store closure ratio to about 1.1%, the lowest level of the past 8 quarters. In the fiscal year 2022, the number of store closures in China decreased by 40 compared with the prior year.

As the control measures were stricter in tier-1 and tier-2 cities, new

MINISO stores in China in this quarter came entirely from tier-3 and below cities. For the remaining 4 months of 2022, we will dynamically adjust the store opening pace according to pandemic developments in China to lower operating risks of MINISO Retail Partners.

Moving on to MINISO's overseas operations. Revenue for the June quarter was about RMB780 million, an increase of almost 50% year-on-year. Revenue from our distributor business model increased by more than 30% year-on-year. Revenue from our directly-operated business model increased by about 70% year-on-year.

During the June quarter, the overseas market sustained good recovery momentum, and overall sales increased by 52% year-on-year and recovered to over 90% of the same period in 2019. Sales in our distributor markets increased by 45% year-on-year, and have already recovered to nearly 100% of the same period in 2019; while sales in our directly-operated markets increased by nearly 80% year-on-year and have recovered to 80% of the same period in 2019.

By region, sales in Europe increased by nearly 40% year-on-year, and more than doubled that in the same period in 2019; sales in North America increased by nearly 170% year-on-year, up 13% from the same period in 2019; sales in Latin America increased by nearly 60% year-on-year, up more than 20% from the same period in 2019; sales in the Middle East and North Africa increased by nearly 30% year-on-year, up 60% from the same period in 2019; and sales in Asian countries excluding China increased by over 50% year-on-year, recovering to nearly 60% of the same period in 2019, Asian countries excluding China is so far the only market that has not fully recovered to pre-Covid level in sales. **By country**, sales in both the U.S. and Canada increased by nearly 170% year-on-year, Mexico increased by over 50%, while India nearly tripled.

MINISO entered its 105th market in the June quarter, and added 57 overseas stores on a net basis, compared to 35 stores in the same period last year. The overseas market has entered the post-pandemic era, and with the strong demand growth from distributors, we have sped up the pace of opening overseas stores this year. Although due to the Russia-Ukraine conflict and geopolitical tension, which has delayed some of our distributors' store-opening plans, we are still confident that the number of new overseas stores opened in the calendar year of 2022 on a net basis will be significantly higher than in 2021.

Under the current high inflation environment in overseas markets, consumers tend to look for more value, which creates great market opportunities for us. We adhere to the “product is king” philosophy, and will continue to enhance our overseas design capacities by sending our domestic product teams overseas to further strengthen our product design capabilities and develop localized products. At present, we have built preliminary capabilities to launch products in a 7-1-1 manner in major overseas markets. Our next focus is on Latin America, North America, Southeast Asia, and Europe, where our goal is to provide more and more localized products to consumers there. We will continue to leverage China’s strong supply chain capabilities and benefit from exporting the Chinese supply chain overseas.

As we continue to cultivate in overseas markets, we have launched the MINISO store image 3.0 project to improve the visual competitiveness of our stores in some of these markets. We also proactively assist overseas distributors in refining their operating strategies. Taking our distributor in Spain as an example, it has achieved improved performance by shifting its focus from tourist areas to local communities, to reduce its reliance on tourists.

Next, let’s talk about TOP TOY.

We continued to execute our established strategy in the quarter and made steady progress. Offline revenue of TOP TOY increased by 43% year-on-year, while its online business contributed 15% of revenue in the quarter.

In response to the pandemic in China, TOP TOY stepped up some promotional campaigns, as a result, its merchandise gross margin was about 42% in the June quarter, which, although lower than the previous quarter, is still a healthy level. More importantly, the sales mix between TOP TOY's proprietary products and 3rd-party products has been moving towards a more reasonable level, matching our consistent product strategy. Proprietary products accounted for nearly 20% of TOP TOY's sales, and the gross margin of proprietary products remained over 60%.

Looking back over the 2022 fiscal year, our key operating metrics have demonstrated that we are in a healthy growth phase: we added 514 stores on a net basis, representing a 11% year-on-year growth; revenue exceeded RMB10 billion, up 11% year-on-year; gross profit exceeded RMB3 billion, up 26% year-on-year; gross margin reached 30.4%, up 3.6 percentage points year-on-year; adjusted net profit was RMB720 million, up 51% year-on-year; and net margin was 7.2%, up nearly 2 percentage points year-on-year.

Looking forward to the 2023 fiscal year, we are still optimistic about future revenue and profit growth despite continued uncertainty from the pandemic. This positive outlook comes from our long-term confidence in China's economic development, our unchanged ambition for offline retail business, and our consistent determination to achieve globalized development. Lastly, as you may have noticed, we issued a heartfelt letter of apology last week, in which we mulled over the inappropriate marketing tactic in our early days before becoming a listed company, and announced a correction plan. In the future, as a dual primary listed company, we will strictly comply with the regulations of both exchanges, which creates a greater level of compliance requirements for the Company. Going forward, we will continuously raise our compliance standards, and govern our operations to guarantee the sustainable success of our core business.

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 walk you through the financial results of June Quarter as well as the full fiscal year 2022. Please be noted that all numbers are in RMB unless otherwise stated, and I will also refer to some non-IFRS measures, which have excluded share-based compensation expenses.

Revenue in June Quarter reached 2.3 billion, above the mid-point of our guidance range, which was 2.1 billion to 2.4 billion, which implies a better-than-expected performance in our domestic operation in June.

Revenue from China was 1.5 billion, including 1.4 billion from MINISO brand, 95 million from TOP TOY brand and 28 million from others. Of this, revenue from MINISO brand experienced a year-over-year decline of 23%, consistent with the decline trend of GMV and offline traffic to shopping malls. Revenue from TOP TOY increased by 33% year over year. During this quarter, TOP TOY's sales was significantly impacted by the outbreak of Omicron variant, due to its concentration of stores in tier-1 and tier-2 cities. As we have concluded in our previous call in [May], although the impact of pandemic on short-term performance is inevitable, we continued to follow our established strategy and made steady progresses in refining TOP TOY's business model, products and omni-channel strategy.

For our overseas markets, its revenue increased by 49% year over year to 785 million. If we look at fiscal year 2022, the year-over-year increase in revenue was also about 50%, which demonstrates the recovery trend of our overseas opeartions is very clear. **For full fiscal year 2022**, total revenue reached 10.1 billion, an increase of 11% from fiscal year 2021. Revenue from our domestic operations was 7.4 billion, increasing by 2% from a year ago. Of this, revenue from domestic operations increase by 15% in the first half of fiscal year 2022, and decreased by 10% in the second half due to the spread of Omicron in China.

Revenue generated from TOP TOY was 447 million, representing an increase of 355% year over year.

Gross profit in June quarter was 772 million, representing an increase of 21% year over year. Gross margin was 33.3%, compared to 25.8% in the same period of 2021.

There were three reasons for the year-over-year increase in gross margin. (i) firstly, it was primarily due to revenue mix change, this quarter we have seen overseas market contributing 34% of total revenue, its highest level since December quarter of 2019; (ii) secondly, we launched more profitable products in relation to MINISO's strategic brand upgrade in this quarter; and (iii) the third reason is about the inventory clearances activities last year that aimed to tackle the negative impacts of the pandemic in Guangdong. **For full year**, gross profit was 3.1 billion, up 26% year over year. Gross margin was 30.4%, compared to 26.8% in fiscal year 2021.

Selling and distribution expenses in June quarter were 346 million, representing an increase of 31% year over year. The year-over-year increase was primarily attributable to (i) increased logistics expenses in relation to our recovering international operations, (ii) increased personnel-related expenses, and (iii) increased licensing expenses in relation to our newly launched IP products, partially offset by our savings in promotion and advertising expenses due to our reduced marketing efforts in China to tackle the resurgence of COVID-19. **For full year**, selling and distribution expenses were approximately 1.4 billion, representing an increase of 29% year over year. The year-over-year increase was primarily attributable to (i) increased personnel-related expenses; (ii) increased licensing expenses in relation to our enlarging IP library and enriching offerings of IP products; and (iii) increased promotion and advertising expense, mainly connecting to strategic brand upgrade of MINISO in China.

G&A expenses in June quarter were 180 million, representing a decrease of 5% year over year. The year-over-year decrease was primarily due to decreased personnel-related expenses. **For full year**, G&A expenses were 785 million, representing an increase of 19% year over year. The year-over-year increase was primarily due to (i) increased depreciation and amortization expenses, mainly related to the land use right of the Company's headquarters building project; and (ii) increased personnel-related expenses, which were partially offset by decreased office operating expense as a result of expense control measures taken by the Company to tackle the resurgence of COVID-19 in China.

Turning to profitability. Operating profit in June quarter was 272 million, representing an increase of 45% year over year. Operating margin was 11.7%, compared to 7.6% a year ago. **For full fiscal year 2022**, operating profit was 882 million, representing an increase of 120% year over year. Operating margin was 8.7%, compared to 4.4% in fiscal year 2021.

Adjusted net profit in June quarter was 223 million, representing an increase of 57% year over year. Adjusted net margin was 9.6%, compared to 5.7% in the same period of 2021. **For full year**, adjusted net profit was 723 million, representing an increase of 51% year over year. Adjusted net margin was 7.2%, compared to 5.3% in fiscal year 2021.

Adjusted basic and diluted earnings per ADS in June quarter were 72 cents, up 50% year over year. **For full year, adjusted basic and diluted earnings per ADS** were 2.40 and 2.36, respectively, representing increases of 43% and 40% year over year, respectively.

Turning to cash position. As of June 30, we had a cash position of 5.8 billion.

On August 17, 2022, our board of directors approved a special cash dividend in the amount of approximately US$53.5 million, or RMB360 million, up 20% year over year, our capital allocation strategy in the future will balance new growth opportunities and our commitment to bringing stable return to shareholders.

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

As a newly-listed company on Hong Kong Stock Exchange, we follow the common practices adopted by public companies in the Hong Kong market and will **no longer provide guidance** on revenue growth going forward. That being said, as we approach the last month of the September quarter, we have observed encouraging sales recovery in China, which has stabilized at a healthy level during the past several weeks. Looking forward in to the coming quarters, we expect our bottom-line performance will further normalize because of our disciplined execution of brand upgrade and steady recovery of overseas operation.

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