# MINISO Group September Quarter 2022 Earnings Conference Call

# Full Scripts

## Operator Script

Ladies and gentlemen, thank you for standing by and welcome to MINISO Group Holding Limited's Earnings Conference Call for the first quarter of fiscal year 2023 that ended September 30, 2022. At this time, all participants are in a listen-only mode. 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, vice president of capital markets. Please go ahead, Eason.

**IR Script**

Thank you. Hello, everyone, and thank you all for joining us. We have announced our quarterly financial results earlier today. An earnings release is now available on our investor relations website at ir.miniso.com. Joining us today are our founder and CEO Mr. Jack Ye and our CFO Mr. Steven Zhang.

Before we continue, I would 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 financial 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 release and filings with the U.S. SEC and Hong Kong Stock Exchange.

In addition, we have prepared a PowerPoint presentation for today's call, which contains financial and operational information for this quarter, if you are using Zoom meeting, you should be seeing it right now. You can also revisit it on our IR website later.

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

**CEO Script**

Thank you. Hello everyone and welcome to MINISO Group's earnings call for the 2022 September quarter. We kicked off fiscal year 2023 with an encouraging set of results headlined by strong margin performance. In spite of the short-term headwinds brought by the pandemic in China, we remained focused on our long-term strategic goals: delivering on our globalization strategy, bolstering the strength of our product offerings and optimizing our store network. These efforts are yielding positive results, and we continued to see our overseas operations move further along the path of recovery, while our margin profile continued to beat expectations.

As we have repeatedly emphasized in our earnings calls over the past several quarters, value retailers are well-positioned to weather economic cycles. Our business model has demonstrated great resilience despite the pandemic weighing on our near-term results. During the quarter, we made progress on upgrading MINISO brand in China and rolling out a portfolio of Wow products, with gross margin increasing by about 4% year-on-year. We continued to focus on driving the strong recovery of our overseas business, which has recorded 50% year-on-year revenue growth for two consecutive quarters and now accounts for 33% of our total revenue. Benefiting from these two drivers, our overall gross margin reached 35.7%, a record high for MINISO Group.

MINISO's globalization strategy gives us greater flexibility in dealing with pandemic-related uncertainty in China. Our directly-operated overseas business turned profitable during the quarter as we continued to unleash its operating leverage. Combined with our continued progress in cost-cutting, this helped us increase our adjusted net profit by 127% year-on-year to RMB417 million in the September quarter. Our adjusted net margin reached its highest level at 15.1%,

**Next, I will talk in more detail about the developments in each business segment during the quarter.**

**Let's start with MINISO China, which recorded a revenue** of RMB1.7 billion this quarter. Revenue from MINISO China's offline business was RMB1.54 billion, which represents a 9% year-on-year decrease, but a 20% quarter-over-quarter increase. E-commerce revenue was RMB163 million, decreasing by 12% year-on-year, yet increasing by 23% quarter-over-quarter to account for 6% of our total revenue.

Over the last three years in China, the pandemic has posed unprecedented challenges to offline retail businesses. With the ease of pandemic control policies, however, it is important to note that the most difficult times are behind us, and most MINISO Retail Partners are financially stable and generating a healthy rate of return, our inventory turnover has also recovered to the normalized pre-Covid level. Going forward, we will continue to communicate closely with our partners and respond to their concerns in a timely manner. In order to provide our partners with additional support, our product and operations teams are conducting detailed research and analysis on different regional markets in China, aiming to help them improve store performance from both a product and an operational perspective. During the quarter, we added 43 stores on a net basis, most of which were located in lower-tier cities. In the near future, we will adjust our store opening pace based on pandemic dynamics in China to reduce MINISO Retail Partners' operating risks.

**Moving on to our progress on the international front.** Revenue for the September quarter was about RMB920 million, representing an increase of almost 50% year-on-year. Revenue from our distributor model increased by 42% year-on-year. Revenue from our directly-operated model increased by more than 60% year-on-year.

We are delighted to see that overseas markets sustained good recovery momentum during the September quarter, with overall sales increasing by 41% year-on-year, and nearly recovering to the 2019 pre-Covid level for two consecutive quarters. GMV in our distributor markets increased by 36% year-on-year and were above the level from the same period in 2019; GMV in our directly-operated markets increased by 64% year-on-year, recovering to the north of 80% of the 2019 pre-Covid level.

**Breaking it down by region:**

- ✓ North America, which accounts for 6% of our overseas stores and 7% of sales, saw sales growth of nearly 50% year-on-year, matching the level from the same period in 2019;
- ✓ Europe, which accounts for 9% of both overseas stores and sales, saw sales increased by 20% year-on-year, doubling the level from the same period in 2019;
- ✓ Latin America, which accounts for 22% of our overseas stores and 35% of sales, increased by nearly 40% year-on-year and 20% from the same period in 2019;
- ✓ Middle East and North Africa, which accounts for 7% of our overseas stores and 14% of sales, increased by nearly 20% year-on-year and 50% from the same period in 2019;

- ✓ Asian countries, which accounts for about 50% of our overseas stores and 30% of sales, increased by 70% year-on-year, representing 65% of the level from the same period in 2019;
- ✓ Oceania, which accounts for 2% of both our overseas stores and sales, saw year-on-year growth of more than three times, recovering to nearly 80% of the level from the same period in 2019.

Since 2022, with many countries have gradually lifted lockdown policies, MINISO's overseas expansion has shifted from "Recovery" model to "Growth" mode. MINISO added 54 overseas stores on a net basis during the quarter, compared to 26 stores in the same period last year. In addition to accelerating store expansion, more localized product strategies and sophisticated operations are imperative to our sustainable growth. In our last call we talked about product strategies, let me share some details about MINISO's localized operations this quarter.

We celebrated MINISO's 5,000th store in Boston last December, recently we celebrated the grand opening of our 2,000th overseas store, which locates in Lyon, France. This is truly another milestone in the globalization of Chinese offline retail brands.

We are proud to position MINISO as a globalized Chinese brand, together with more localized products and operations, and this is going to be a very standard strategy going forward. First of all, in order to promote traditional Chinese culture, the opening ceremony presented a fantastic Chinese lion dancing, and we plan to keep it for upcoming new stores. Secondly, the decoration, product display and service of the Lyon store have been tailored to local consumers' habits.

For example, the store's layout is divided into several engaging areas with different IPs, allowing young people with more interesting, more personalized and more diversified collection in one visit. Meanwhile, the store is wheelchair accessible, with shelves spaced 1.4 meters apart for easy navigation. Finally, by leveraging our supply chain capabilities, we have brought Quality, Affordable, Design-led Products to French consumers, which are "Affordable Luxuries" to them. And it's not just our products, but also the experience of shopping at MINISO and the comfort that it adds to life, that coincide with MINISO's mission of enabling everyone to enjoy life's little surprise.

MINISO will continue to bring "more playful, more appealing and more useful" IP products to global fans. Following the success we had in China last winter, we recently launched new Lotso products in overseas markets such as Vietnam with initial success. We had been teasing the Lotso collection and exciting the launch on social media, and on the launch day, customers flocked to MINISO stores and quickly filled the retail space. The shelves were soon cleared. In the following three days, long queues continued to form as enthusiastic shoppers waited for restocking. At one of the stores in Ho Chi Minh, the daily sales broke Vietnamese store's history record on the launch day. Overall, in the Vietnamese market, the debut of the Lotso series drove up sales by nearly two times.

**Next, I would like to provide everyone with an update on TOP TOY.** We made significant progress on executing our established strategy for TOP TOY during the quarter. At quarter end, we had 109 TOP TOY offline stores, representing an increase of 37 year-on-year and 12 quarter-on-quarter. Seven of these were DreamWorks stores and 102 were collection stores.

Merchandise gross margin was about 42% in the September quarter, a slight increase from the previous quarter. Revenue contribution of proprietary products stabilized at 20% for all channels, and over 30% for online channel, with gross margin relatively stable. TOP TOY's net loss narrowed significantly on a sequential basis as we continued to optimize the business' margin profile.

We recently released our first ESG Report, in which we have disclosed relevant information from governance structure, internal control, products, stakeholders, green development and social responsibilities. As a company with global reach, strengthening the disclosure of ESG information provides stakeholders a useful perspective to better understand the value of the company. In the future, ESG will not only be reflected in our strategy, but also be executed in our daily operation.

On November $11^{th}$, China's National Health Commission released a new set of refined pandemic prevention and control policies which are more scientific and more precise. I believe that under the guidance of these new policies, the offline retail industry will see new opportunities for recovery and growth. We remain optimistic about our revenue and profit growth potential. Our positive outlook is based on our long-term confidence in China's economic development, our steadfast commitment to our vision for the offline retail business, and our determination to achieve a truly global reach.

This 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 September Quarter. 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 September Quarter reached 2.77 billion, increasing by 5% year-on-year, primarily due to a 48% growth of our revenue from overseas markets, partially offset by a 9% decrease of revenue from China.

Revenue from China was 1.85 billion, including 1.7 billion from MINISO brand and 152 million from other business including TOP TOY. For MINISO brand, the year-on-year revenue decrease was also about 9% in this quarter, primarily due to the pandemic.

During the peak summer sales season of July and August, when the pandemic situation was also relatively stable, our GMV in China recovered to 95% of the level from the same quarter last year. With the pandemic’s resurgence in September, our GMV declined to 80% of last year’s level.

During the quarter, an average of 2%, 5% and 7% of stores were unable to operate due to the pandemic in July, August and September, respectively. Excluding the impacted stores, we estimate that average sales per store from July to September were about 85%, 90% and 80% of the same period last year, respectively.

Revenue from overseas markets was RMB920 million, accounting for 33% of our total revenue, the 48% revenue growth was primarily due to a year-on-year increase of 10% in average store count and a year-on-year growth of 35% in average revenue per MINISO store in overseas markets. As we have presented in CEO's speech, we are thrilled to see strong sales recovery from across the board in overseas markets, which helped a lot to balance our topline growth trajectory. On a sequential basis, revenue from overseas markets increase by 17%, primarily due to 3% of store growth and 14% of growth in average revenue per store.

Gross profit in September quarter was 989 million, representing an increase of 36% year-on-year. Gross margin was 35.7%, another record high for MINISO Group and increase by more than 800 basis points from 27.4% in the same quarter of last year.

The year-on-year increase was primarily due to three reasons. No.1, the shift of revenue mix. Revenue contribution from overseas markets, which typically have higher gross margin than domestic operations, increased to 33% from 24% a year ago. No.2, we launched more profitable products in relation to MINISO's strategic brand upgrade in this quarter. No.3, we have optimized cost structures of certain products by leveraging our strong supply chain management capabilities.

Selling and distribution expenses were 373 million, representing an increase of 16% year-on-year. The increase was primarily attributable to: (i) increased rental and related expenses, (ii) increased personnel-related expenses, and (iii) increased licensing expenses in relation to our enlarged IP product offerings, partially offset by reduced promotion and advertising expenses due to our deferred marketing activities in China to tackle the resurgence of COVID-19.

General and administrative expenses were 163 million, representing a decrease of 18% year-on-year. The decrease was primarily due to decreased personnel-related expenses.

Other net income was 64 million, compared to 34 million in the same quarter of last year. Other net income mainly consists of net foreign exchange gain, investment income from wealth management products and others. The year-on-year increase was mainly attributable to a net foreign exchange gain of RMB52 million in this quarter, compared to RMB4 million in the same quarter of 2021. We have experienced a strong US dollar lately, but we are well positioned in dealing with foreign exchange risks related to this, because the majority of our sales to overseas markets are settled in dollar.

**Turning to profitability.** Operating profit in the September quarter was 510 million, representing an increase of 139% year-on-year. Operating margin was 18.4%, compared to 8% in the same quarter of last year.

Adjusted net profit was 417 million, representing an increase of 127% year-on-year. Adjusted net margin was 15.1%, compared to 6.9% in the same quarter of last year.

Adjusted basic and diluted earnings per ADS were RMB1.36 in this quarter, compared to 60 cents in the same quarter of last year, increasing by 127% year over year.

**Turning to cash position**. As of September 30, we had a strong cash position of 6 billion.

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

Looking forward into the December quarter, we expect our overseas markets will continue to grow strongly. Meanwhile, our margin profile will improve on a year-on-year basis as we successfully execute our brand upgrade, see steady recovery in the overseas market, and break even on our directly-operated overseas business. Our financial strategy will remain disciplined in terms of budgeting, cost controls, and allocation of capital, as we focus on the consistent delivery of solid financial performances.

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