MINISO Group December Quarter 2022 Earnings Conference Call

Full Scripts

Operator Script

Ladies and gentlemen, thank you for standing by and welcome to MINISO's Earnings Conference Call for the second quarter of fiscal year 2023 that ended December 31, 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.

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. Eason 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.

Now, I’ d now like to hand the conference over to Mr. Ye, and Mr. Zhang will translate for Mr. Ye. Please go ahead, Sir.

CEO Scripts

Hello everyone, and welcome to MINISO Group's December quarter 2022 earnings conference call. Continuing our strong performance from the September quarter, we delivered another strong profitability result in the December quarter to cap off a successful 2022 calendar year. We achieved these results amidst the most severe pandemic-related challenges of the past three years. In the December quarter, the company's gross margin increased by 8.9 percentage points from the same period last year, reaching a record high of 40%. Overseas revenue increased by nearly 40% year over year, effectively offseting the adverse impact of the domestic pandemic situation. Adjusted net profit increased by 82% year over year; Adjusted net margin remained stable compared to the prior quarter at 15%, and excluding the impact of foreign exchange gains, net margin for the December quarter was 14.9%, up from 13.2% in the September quarter.

Let me walk you through our performance of the quarter by segment. Starting with MINISO China. According to our estimates, total foot traffic to offline MINISO stores decreased by 32% year-over-year in this quarter, while average ticket size increased by 6% thanks to our brand upgrade efforts, partially offsetting the decrease in traffic, as a result, we saw a 28% decrease in revenue from MINISO's offline operation in China.

However, we kicked off 2023 with strong sales performance in China. Our offline sales in January increased by nearly 40% year over year, setting a new record. Average sales per MINISO store increased by nearly 33% year over year. During the 7-day Chinese New Year holiday, offline sales increased by nearly 25% year over year, and average sales per MINISO store increased by nearly 18% year over year. Quarter to date, we saw offline sales increased by more than 20% year over year in China. Overall, we are very confident about the growth prospects of our domestic business in 2023.

As China's pandemic control measures are lifted and consumer spending gradually recovers, we are optimistic about our store expansion plans for 2023. We have very strong relationships with our major Retail Partners, who are in a good financial position and seeing healthy investment returns. The overall Retail Partners structure has remained stable throughout the past three years. The percentage of total MINISO stores owned by our TOP 50 MINISO Retail Partners was 49%, 50% and 46% in 2020, 2021 and 2022, respectively. For 2023, we are committed to improving store performance on both the product and operation fronts. In the December quarter, we added a net 56 MINISO stores in China, most of which were located in lower tier cities. For 2023, we currently expect a net increase of between 250 and 350 MINISO stores in China, but we retain the flexibility to adjust our plan dynamically.

Moving on to an update on our overseas business.

In the December quarter, our overseas business maintained its strong momentum. The overall GMV increased by 40% year over year and 33% quarter over quarter. This represents high-single-digit growth compared to the same period of 2019. Overseas revenue reached 990 million, representing a year over year increase of 38%, a quarter-on-quarter increase of 7%, and an increase of nearly 5% over the same period in 2019.

In the December quarter, nearly eighty percent of GMV in the overseas market was contributed from the distributor channel, a similar percentage to the past a few quarters. In terms of region, Latin America contributed 38% of overseas GMV and 22% of overseas stores, while Asia contributed 28% of GMV and 45% of stores. In addition, North America, Europe, and the Middle East/North Africa region each contributed about 10% of GMV, and their store shares were 6%, 10% and 7%, respectively. In terms of markets, the top 10 countries and regions contributed more than 60% of overseas GMV, the top 20 contributed nearly 80%, and the top 40 contributed more than 90%. The top five markets were Mexico, the Philippines, Indonesia, U.S and Colombia, the India market has become our sixth overseas market.

In terms of GMV growth, North America saw the best performance, recording 66% year-over-year growth, followed by Latin America with 51%. Asia also grew by 35%.

In terms of the average GMV per store, the overseas business as a whole has recovered to 86% of the level we achieved in the same period of 2019. Broken down by market, North America's average GMV per store was 1.5 times that of the same period in 2019, with the U.S. market was 1.5 times and Canada was 1.1 times, while Latin America recovered to 93% of the corresponding 2019 level, with Mexico surpassed by 8%. Although the Asia business has recovered to only 66% of same-period in 2019, its performance has improved by 30% sequentially compared to the 55% recovery rate we saw in the September quarter, and we are very confident that Asia will improve significantly in 2023. In Europe, average GMV per store was at 80% of the same period in 2019, mainly due to the weakness of the local market in October and November. But in December and January, same-store sales performance in Europe already exceeded the level seen in the same period of 2019.

In the December quarter, we added 88 stores in overseas markets on a net basis, compared with a net addition of 41 stores in the same period of the prior year. For calendar year 2022, we added nearly 240 stores, compared with a net addition of 131 in 2021. Among these new stores, Asia contributed 44%, Latin America contributed 22%, and Europe contributed 19%. Looking ahead to

2023, we are more optimistic about overseas store openings, expecting a net increase of 350 to 450 overseas stores throughout the year. We expect around 60% of store growth wil come from Asia and Latin America, more than 10% from North America, and 10% each from Europe and the Middle East/North Africa region.

Next, let me give you a quick update on TOP TOY.

During the quarter, TOP TOY revenue decreased by 25% year over year, mainly due to the decline in shopping mall traffic. By quarter-end, there were 117 TOP TOY stores, representing a net increase of 28 year over year, with one new store in tier-1 cities, 20 in tier-2 cities and 7 in lower-tier cities.

For the December quarter, gross margin of TOP TOY was around 45%, flat year over year. China Bricks, TOP TOY's strategic category, contributed nearly 1/4 of sales. We continue to refine our products. The recently launched Sanrio Kuromi series of TOP TOY China Bricks has become a blockbuster product in Sam's Club in China. During the period, TOP TOY's exclusive products contributed nearly 1/4 of its sales. Over the past year, TOP TOY has significantly stepped up its product development capability, and in the future, TOP TOY aims to become a product brand rather than a channel brand.

Last week, we held MINISO's global brand upgrade conference. For the first time, I systematically laid out our roadmap to building a great Chinese consumer brand. Thinking about MINISO's future from a global perspective, we aim to become **a super brand**. To achieve this goal, we need to focus on three strategic transformations. First, we need to upgrade MINISO from a channel brand to a product brand which has its own channels; second, we need to upgrade MINISO from a retailer to an interest-driven content company; and third, we need to upgrade the MINISO experience from one of consumption to one of passion, enhancing our customers's loyealty, converting them into our friends and users.

At the conference, we also introduced MINISO's Global Product Innovation Center. With users as its core, this massive platform brings together IP owners, global designers and players in the supply chain around the key principles of "good-looking, fun and easy to use" products. This platform will leverage the extensive product innovation insights we have accumulated over the past 10 years.

Finally, let me give you some details about how MINISO will continue to leverage its IP strategy and develop new products in strategic categories.

First, I'll talk about our IP strategy. IPs enable a direct emotional connection between products and consumers, and are driving the increasingly salient trend of interest-based consumption. Our IP-based product innovations have proven to be our most successful products in terms of connecting with consumers' emotions. We have seen this play out over and over again within the MINISO business. For example, last March we introduced limited-edition IP products featuring Sanrio's Cinnamonroll Dog, to help fans celebrate the cute puppy character's birthday. These products sold out on the same day they hit shelves. We see the same dynamic with the Pixar product series we launch every summer in cooperation with Disney, which has become a summer festival for Pixar fans. Another example would be MINISO's own IP character, Penguin Penpen, which has gained popularity on social media. Topics related to Penpen have reached tens of millions on TikTok. Our data shows that consumers who buy IP products have 28% higher shopping frequency and 43% higher ASP than the average customer.

For 2023, we have lined up collaborations with many popular and influential IP owners to bring more exciting surprises to our users. We also launched the "Chinese Culture Globalized Innovation Program" with the Xinhua News Agency, as an important part of our efforts to promote Chinese culture and creativity spirit.

Second, to adapt to changing consumer demand, technology, and fashion trends, we need to focus our resources on categories with strategic value. We define strategic categories as having 3 critirias:

No.1 is emotional resonance, meaning products that convey MINISO's value proposition of "better life";

No.2. is global appeal;

And No.3 is high growth potential.

Categories that meet these criteria include plush toys, mugs, fragrances and perfumes, accessories and toys such as blind boxes.

As an example, we have identified perfumes as our most important strategic category in China. During the past several years, sales in the perfume sector have been growing at a CAGR of 20%, while in MINISO, their sales are growing at a CAGR of 60%. We have become the NO.1 brand in China's perfume market.

Together with master perfumers and top suppliers, we established the "Master's Aroma Lab" to provide consumers with high-quality perfume products that match the quality of the top international brands at very attractive prices.

Our master perfume series achieved instant popularity upon its launch on the Double 11 shopping festival last year, breaking into Tmall's bestseller ranking list typically dominated by international brands. Encouraged by this success, we are committed to developing perfume as our top strategic category.

As we head into MINISO's next decade, we need to upgrade, integrate and empower our product platform.

First, we will incubate in-house IPs and make them our signature products, alongside co-branded IP products;

Second, we will set up four global design centers in China, the US, Japan and South Korea;

Third, we will work with top market research institutions to monitor trends and gain consumer insights, so that we can pursue forward-looking product development on a global scale;

Fourth, we will cooperate with leading suppliers in raw materials, technology and other fields to provide more high quality products to our users;

Fifth, we will strengthen our global sourcing abilities so that we can rapidly put MINISO products in front of our users in every part of the world.

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

CFO script

Hello everyone, thank you for joining us today. I will walk you through our financial results for the December Quarter. Please note 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 the December Quarter was about 2.5 billion, a decrease of 10% year over year, primarily due to a 27% year-over-year decline in our revenue in China, partially offset by a 38% increase in revenue in overseas markets.

Revenue from China was 1.5 billion, including 1.4 billion from the MINISO brand and 122 million from other business, including TOP TOY. Revenue from the MINISO brand decreased about 26%, primarily due to the effects of Covid. Based on the Company's estimation, total foot traffic to our offline MINISO stores decreased by 27%, 36% and 34% in each of October, November and December, while average spending per ticket size increased by 5%, 7% and 7%, which translates into declines of 23%, 32% and 30% in sales in the corresponding periods.

Revenue from overseas markets increased by about 38% year over year, and closed to 1 billion, accounting for almost 40% of our total revenue. This growth was primarily driven by a 12% year-over-year increase in the average overseas store count and a 23% year-over-year increase in the average revenue per overseas MINISO store. As mentioned in Mr. Ye's remarks, we were thrilled to see strong sales recovery across the board in overseas markets, boosting our topline performance.

Gross profit was 997 million, an increase of 16% year over year. Gross margin was 40%, another record high for MINISO Group and an increase of nearly 900 basis points from 31.1% in the same quarter of last year.

The year-over-year increase in gross margin was primarily attributable to three reasons: number one, revenue mix shift to overseas market, overseas market's revenue contribution increased from 26% to nearly 40% in this quarter, while its gross margin stabilized; number two, higher gross margin contributed by newly launched products in relation to our execution of strategic brand upgrade of MINISO in China, and number three, the savings measures we adopted to reduce the cost of certain products.

Excluding share-based compensation expenses, selling and distribution expenses were 409 million, representing a 10% year-over-year increase. The year-over-year increase was primarily attributable to (i) increased promotion and advertising expenses, mainly in connection with our strategic brand upgrade of MINISO in China, and (ii) increased depreciation and amortisation expenses of directly operated stores.

Excluding share-based compensation expenses, G&A expenses were 141 million, representing a decrease of 34% year over year. The year-over-year decrease was primarily due to (i) decreased personnel-related expenses, and (ii) decreased depreciation and amortization expenses due to the capitalization of construction costs of our headquarter building.

Other net income was 8.8 million, compared to 12.3 million in the same quarter of 2021. Other net income mainly consists of net foreign exchange gain, investment income from wealth management products and others. The year-over-year decrease was mainly attributable to a decrease in investment income from wealth management products as a result of reduced principal of such products, which was partially offset by a net foreign exchange gain of RMB1.8 million in this quarter, compared to a net foreign exchange loss of RMB15.8 million in the same period of 2021.

Turning to profitability. Operating profit in the December quarter was 448 million, representing an increase of 75% year over year. Operating margin was 18%, compared to 9% in the same quarter of last year, and flat quarter over quarter.

Net finance income was RMB23 million, representing an increase of 373% year over year, mainly due to an increase in interest income from bank deposits.

Adjusted net profit was 373 million, representing an increase of 82% year over year. Adjusted net margin was 15%, compared to 7.4% in the same quarter of last year. Excluding foreign exchange gains, adjusted net margin was 14.9%, compared to 8% in the same quarter of last year and 13.2% in the previous quarter.

Adjusted basic and diluted earnings per ADS were RMB1.16 in this quarter, compared to 68 cents in the same quarter of last year.

Turning to cash position. As of December 31, 2022, our consolidated cash position was approximately 6.2 billion.

Turning to working capital, turnover of inventories and trade receivables remained very healthy.

Looking back on the past three years, MINISO has demonstrated strong profitability under the repeated stress tests of the pandemic. Over the past 18 quarters, MINISO's adjusted net margin averaged 8.6%. Of these 18 quarters, 12 were in the pandemic, and MINISO's adjusted net margin averaged 7.6%;

for the remaining 6 quarters without pandemic effects, MINISO’s adjusted net margin averaged 10.7%. We will continue to execute a disciplined financial policy in terms of budgeting, cost controls and allocation of capital as we focus on consistently delivering solid profits and healthy cash flow.

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