MINISO Group March Quarter 2023 Earnings Conference Call

Full Scripts

CEO Scripts

Hello everyone, and welcome to our earnings conference call. We delivered a strong start to calendar year 2023 with the best March quarter performance in our history, shaking off three years of uncertainty caused by pandemic. Driven by the strong recovery of our offline operations in China and the continued development of our overseas business, our revenues for the March quarter increased by 26% year over year and reached RMB2.95 billion. I am also pleased to see that our margin profile continued to beat expectations. Gross profit margins of all business segments saw healthy year-over-year improvement, bringing the overall gross profit margin to 39.3%, which is 9 percentage points higher than the same period last year. Adjusted net profit exceeded RMB480 million, an increase of 336% year-over-year. Adjusted net profit margin expanded to 16.4%, a 12 percentage points increase compared to same period last year. Both figures set new records for MINISO.

I will now walk you through business updates for our three major segments: MINISO China, MINISO Overseas, and TOP TOY.

I'll start with our MINISO brand's China business, which recorded RMB2 billion in revenue for the March quarter, a year-over-year increase of 19%. Within MINISO China business, revenue from offline stores totaled 1.83 billion, a year-over-year increase of 25%.

As we shared during our last earnings conference call, January was the best month in terms of domestic offline sales in MINISO's history. In February and March, as the pent-up demand from the pandemic gradually dissipated and the Chinese New Year holiday ended, the pace of recovery in the retail industry moderated to a certain extent. That said, our performance continued to outperform the industry. According to data from the National Bureau of Statistics, retail sales of consumer goods in China increased by 4.9% year-over-year in the March quarter, while MINISO China's offline business recorded over 25% year-over-year growth during the same period. Our per-store GMV in the March quarter has essentially returned to the same level of the same period in 2021, reaching around 85% of the pre-Covid level in 2019.

Entering April, we have seen sustained strong performance and even marginal improvement in store-level performance. Total offline GMV increased by 80% year over year, higher than the 16% or so growth in retail sales of consumer goods reported by the National Bureau of Statistics just today, while per-store sales increased by 50% year over year, reaching 85% of the pre-Covid level in 2019, representing a substantial sequential improvement from the previous two months of February and March. During Labor Day holiday, total offline GMV increased by 75% year over year, and per-store GMV increased by 45% year over year to a comparable level of 2019.

We opened 58 new stores on a net basis during the March quarter, double the figure from the same period last year. More than 53% of new stores were in tier-1 and tier-2 cities. In addition, store closure rate was 0.6%, a record low. The strong performance further bolstered the confidence of our retail partners, and we are quite confident now that we will meet and exceed our store opening target of 250 to 350 in calendar year 2023.

We are firmly committed to pursuing high quality growth. As we stressed in previous quarters, in addition to maintaining a steady pace of store openings, we continue to improve store performance with better merchandize and operations in 2023.

From merchandize perspective, we adhere to our IP strategy as the core and focus our efforts in strategic categories. This paid off in the past quarter as our merchandize gross margin increased by nearly 7 percentage points from a year ago.

Let me first address our IP strategy. As scheduled, we launched a highly anticipated series of Pokémon IP products in the March quarter. We collaborated with Pokémon to design multiple high-quality products featuring four classic characters. These products generated a great response from consumers and sold out soon after their release. As we emphasized last quarter, we are going to surprise and delight our customers with an exciting series of IP collaborations in 2023. In the upcoming quarters, we will be unveiling collaborations with blockbuster IPs.

Second, we remained focused on **strategic categories, which** we define as categories with emotional resonance, global appeal and high growth potential. Take perfume as an example. We believe this category exemplifies MINISO’s value proposition of “better life” and has strong emotional resonance with consumers. In China, we have identified perfumes as our most important strategic category. In the March quarter, sales of perfume products increased by 60% year over year, sales contribution increased by one percentage point. Furthermore, sales of 70% of perfume-related SKUs met our internal standards of "best sellers", indicating a significant increase in the success rate of product development.

Accessory is another strategic category we devoted a lot of resources to this year, as we believe it has strong global appeal. We had a solid foundation in this sector, and we continued to strengthen it by setting up a new warehouse in Zhejiang Yiwu and strengthened our designer team, and we hope to forge the this category into a signature category in overseas markets by high-frequency product launch and more efficient logistics. The preliminary results have been very promising, with its sales increasing by over 80% year over year and sales contribution increased by 2 percentage points.

Let's move on to our overseas business, which continued to maintain its strong momentum in the March quarter in the following aspects:

Firstly, revenue from overseas market was RMB800 million, an increase of 55% year-over-year, another record for the March quarter.

Secondly, GMV in overseas markets increased by 45% year-over-year, with both the direct-operated and distributor models achieving a similar GMV growth rate of around 45%, primarily driven by a 30% growth in per-store GMV and an increase of 12% in our store number. All of our major overseas markets continued to experience rapid year-over-year growth in GMV, including over 100% in North America, over 60% in Latin America, and about 30% in both Europe and Asian countries excluding China.

Third, I want to stress that, per-store GMV increased by about 30% year-over-year in the March quarter, recovering to around 80% of where it was in the same period of 2019. North America increased by 90% year over year, and was 50% higher than in the same period of 2019. As we continue to see impressive growth in this region, the U.S. market has been our largest overseas market in terms of revenue contribution for two consecutive quarters, while Canada is also among our top 10 markets.

In North America, we continue to enjoy tail-winds from merchandize, brand, and operations. That said, as a company which operates globally, we will inevitably face geopolitical challenges. However, I am pleased to say that our business in North America is increasingly integrated into local communities, providing value-for-money products to local consumers under the current high inflation environment and contributing to local employment and tax revenue.

I believe that only through sufficient globalization can companies in our position effectively mitigate country-specific risks. I am pleased to see that in the March quarter, per-store GMV recovery was also quite positive in a range of overseas markets. For example, Latin American market saw year-over-year growth of over 40%, including a 60% growth in Mexico, and Asian market recorded a year-over-year growth of 15%, including a 90% growth in Singapore, and a 50% for both the Phillipines and Thailand.

Finally, let me provide an update on TOP TOY. Revenue was 140 million, a

24% year-over-year increase. As of quarter-end, there were 116 TOP TOY offline stores, up 24 from a year ago.

In the March quarter, our exclusive products made greater sales contribution, and helped increase TOP TOY's gross profit margin by more than 2 percentage points year over year. China bricks, the most important strategic category for TOP TOY, continued to play a key role in driving sales and accounted for more than 25% of TOP TOY's total sales during the period. The strong performance of China bricks was the key driver for the increase in TOP TOY's gross profit margin during the quarter.

Our designer talent pool continues to enlarge and mature, churning out a string of highly popular products in toy bricks category, including co-branding products with Sanrio's Kuromi, "Rabbit Breaking the Future", "Dawn Astronaut", "Luban No. 7", "Chameleon Neon Bricks" and others. We are particularly excited about "Dawn Astronaut", the latest IP product of TOP TOY's cooperation with China aerospace. This self-developed series is designed to educate young consumers about space and cultivate pride in China's strong national aerospace industry.

We are as firm as two years ago in the long-term prospects of the art toy market, especially in China bricks, which is TOP TOY's number one strategic category. We are long-termist on TOP TOY business, and will work very hard in product innovation as its key focus. We aim to grow this business further and establish it into an influential brand in this industry.

2023 marks MINISO's tenth anniversary, as well as the first year of our journey to become a super-brand. On May 20th, we will celebrate the opening of MINISO's global flagship store in New York City, marking another milestone in our history as MINISO will become the first Chinese consumer brand to open a flagship store in Times Square, a global crossroads. We remain committed to executing on our roadmap to transform MINISO into a great Chinese consumer brand. We will firmly anchor our focus on the "Three Transformations" and continue to serve every consumer with the "Happiness Philosophy." Thank you all very much, that concludes my prepared remarks, I will now turn the call to our CFO Eason for a review of our financial performance in the March quarter.

CFO Scripts

Thank you Mr. Ye. Hello everyone, thank you again for joining us today. I will walk you through our financial results for the March quarter. Please note that all numbers are in unless otherwise stated, and I will also refer to some non-IFRS measures, which have excluded share-based compensation expenses.

Revenue in the March quarter was 2.95 billion, an increase of 26% year-over-year, driven primarily by a 18% year-over-year increase in revenue from China, and a 55% year-over-year increase in revenue from overseas markets.

Revenue from China was 2.15 billion, including 2.0 billion from MINISO brand and 152 million from other businesses, including TOP TOY. Revenue from MINISO brand increased by about 19% year-over-year, driven by a year-over-year increase of 25% in revenue from offline stores but a year-over-year decrease of 23% in other small channels.

The 25% year-over-year increase in offline revenue was primarily due to a 19% year-over-year increase in per-store revenue and a 5% increase in store number. On a single-store basis, average number of orders and the average order value both grew by 8% year over year. So, we were seeing quite healthy performance improvement across all of our operating metrics, including traffic, ASP and store number in the March quarter

Revenue from overseas markets was RMB800 million, increasing by 55% year over year. This growth was primarily driven by a 38% year-over-year growth in the average revenue per MINISO store in overseas markets and a 12% year-over-year increase in the average store count.

Revenue from the distributor model was RMB430 million, an increase of 47% year over year. Revenue from the directly-operated model was RMB370 million, an increase of 64% year over year, and accounted for more than 46% of total overseas revenue, as compared to 44% last year.

Gross profit was RMB1,162 million, representing a 64% year-over-year increase. Gross margin was 39.3%, compared to 30.2% in the same period of 2022. The year-over-year increase was primarily due to three reasons, as we have eaplained in earnings release. I want to make some supplementary notes here.

First, we have seen positive growths of GP margin in all of our business segments. As Mr. Ye shared earlier, merchandize gross margin in China increased by nearly 7 percentage points from a year ago, that translates in to a higher increase in our accounting GP margin, say 10%, considering our revenue share percentage with retail partners is fixed. For eCommerce, its GP margin improved significantly thanks to its operational optimization. Meanwhile, we took a series of measures to optimize TOP TOY’s product mix and store operations, which helped increase its accounting gross profit margin by nearly 9 percentage points year over year. Let me remind you here, TOP TOY’s business model is now progressing towards the profit model we have planed two year ago.

Second, when we look at the shift in our revenue mix, there are two shifts here, the first one is the increased contribution from overseas market as a whole, the second is the increased revenue contribution from our directly-operated model from 43.6% to 46.3%, which has the highest GP margin among our business segments.

Selling and distribution expenses were 432 million, representing a year-over-year increase of 23%. The increase was mainly attributable to (i) increased licensing expenses in relation to our IP products, (ii) increased personnel-related expenses and logistics expenses in relation to the growth of our business, and to a lesser extent, (iii) increased promotion and advertising expenses, mainly in connection with our strategic brand upgrade of MINISO in China.

G&A expenses were RMB151 million, representing a decrease of 21% year-on-year. The decrease was primarily due to (i) decreased personnel-related expenses in relation to our cost control measures among our corporate crew, and (ii) decreased depreciation and amortization expenses due to the capitalization of the depreciation of land use right in construction cost of our headquarters building.

Other net income was 3 million, compared to RMB0.5 million in the same period of 2022. Other net income mainly consists of net foreign exchange loss, investment income from wealth management products and others. The year-over-year increase was mainly attributable to an increase in investment income and a decrease in other losses.

Turning to profitability. Operating profit was RMB576 million, representing a year-over-year increase of 309%.

Net finance income was RMB25 million, representing a year-over-year increase of 445%, mainly due to an increase in interest income from bank deposits.

Adjusted net profit was RMB483 million, representing a year-over-year increase of 336%. Adjusted net margin was 16.4%, compared to 4.7% in the same period of 2022.

Adjusted basic and diluted earnings per ADS was RMB1.52 for the quarter, increasing by 322% year over year.

Turning to cash position. As of March 31, 2023, our combined balance cash position was approximately 7 billion, compared to 6.2 billion and 5.8 billion as of December 31, 2022 and June 30, 2022, respectively.

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

As Mr. Ye commented, we delivered a strong start to this year with the best March quarter performance in our history, shaking off three years of uncertainty. Looking forward into the June quarter, we expect our sales will continue to grow strongly on a year-over-year basis, driven by better store-level performance and store network expansion. Meanwhile, our margin profile will continue to improve on a year-over-year basis.

Despite various challenges raised by external environment, we will continue to focus on those elements of the business that are under our control, and 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.

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