



MINISO Group December Quarter 2023 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 December quarter of 2023. 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. Before joining the question-and-answer session, please mark your name and institution, and be kindly noted that 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. The currency unit is Chinese Yuan, unless otherwise stated.



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 Miss Allis Chen from MINISO IR team will translate for Mr. Ye. Please go ahead, Sir.



CEO Scripts

Hello everyone, and welcome to MINISO Group's December quarter 2023 earnings conference call. Our overall performance once again reached new heights during this quarter. We capped off the year of 2023 with brilliant outcome. Total revenue hit RMB3.84 billion and set a new record once again, increasing by 54% year over year. Gross margin grew to 43.1% with an increase of 3.1 percentage points compared to the same period in 2022. Adjusted net profit exceeded RMB 660 million, breaking our record once again. Adjusted net profit margin reached 17.2%. Excluding the foreign exchange impact, adjusted net profit margin reached 17.4%, which set a new record as well. For calendar year 2023, total revenue reached RMB13.8 billion with a year-over-year increase of around 40%. Gross margin reached 41.2% with an increase of 6.3 percentage points. Adjusted net profit margin reached RMB2.36 billion, representing an increase of around 110% year over year.

2023 marks a year full of new records for MINISO, we continuously report new heights in every aspect of our operation. We firstly exceeded RMB3 billion in revenue for the June quarter this year, and hopefully we can break through ourselves by reaching 4 billion, 5 billion or even higher in the future. Total store count exceeded 6,000 in Q3. Our gross margin also achieves breakthroughs again and again, reflecting the success of our IP strategy and brand upgrade strategy. Our net profit margin also kept climbing, which was

the reward of our asset-light model and efforts in controlling expenses.

Behind all these financial metrics of new records, I was always thinking how to outperform our past achievements. I fully agreed and resonated with Warren Buffett's words "Although I am already in my nineties, I truly do feel like tap dancing to work every morning, simply because of my immense love for my work". I love running MINISO and feel great happiness without tiredness every day. For me, there is no job in the world with more fun than running MINISO. Moreover, my journey is not solitary; rather, it is bolstered by the strength of a powerful team within our company. We understand and appreciate each other very much, and fight for the same goal. In the year of 2023, we were thrilled to see that much more investors showed up in our shareholder lists. I would like to express my sincere gratitude to our shareholders and hopefully deliver more value of our business operation with a long-term perspective.

Despite the uncertainties in our global expansion, globalization is a process of responding to challenges as they arise. It is about riding the waves, instead of seeking a definitively certain shore. For the calendar year 2023, our overseas revenue contributed 34% of total revenue. Having entered into 110 overseas markets so far, we presented as a globally operated enterprise. We are committed to fully diversifying the business layout of MINISO to increase our

risk-resistance capabilities.

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

Let's start with MINISO China. Offline sales increased by 66% year over year, compared with an increase of 8% in domestic retail sales of consumer goods, according to National Bureau of Statistics of China. On a comparable basis, same-store sales increased by around 32% year over year.

During 2023, GMV of MINISO offline stores in China enjoyed a year-over-year increase of about 40%, powered by over 25% increase in same-store sales. Entering 2024, GMV of MINISO offline stores in China increased by nearly 13% during the first two months, albeit the high base of last year because of the pent-up demand, and same-store sales was over 95% of the same period last year, the best recovery rate among peers, demonstrating the resilience of MINISO as always. In February, 1,369 stores, or one third of MINISO stores in China refreshed their sales records. In addition, same-store sales during the Chinese Spring Festival increased by around 10%, setting a solid foundation for growth in the first quarter of 2024. We will keep tracking this trend, staying alert and taking positive measures to cope with the macro headwind.

Moving to store openings in China, we opened 124 net new stores in China during December quarter, 70% of which were in the first- and second-tier cities. For the year of 2023, we opened 601 net new stores in China.

We value both speed and quality in our growth of store number. Meanwhile, we will steadily optimize a healthy and comprehensive global MINISO store network. Consequently, we will pay more attention to store locations, more actively establish MINISO store matrix, and conduct a more efficient store expansion and store network distribution.

We also pay attention to enhance our store UE. As we implement flagship store strategy, new-open stores of 2023 was 14% larger than average, while their sales was 33% higher than the average. Meanwhile, the closure rate of MINISO stores in China of 2023 was around 4%, a historic low. In 2024, we expect to open 350-450 new stores on a net basis in China, focusing on high-quality growth and lean operations.

Moving on to our progress on the international front. Firstly, overseas revenue was about RMB1.5 billion, another historical high, the 51% year-over-year growth of revenue exceeded our most optimistic expectation. Notably, revenue from directly operated markets increased around 90% and has increased by more than 80% for three consecutive quarters, contributing

over 50% of overseas revenue. For the year of 2023, overseas revenue increased around 47% year over year, including an 83% increase in directly operated markets and 24% increase in distributor markets.

Secondly, GMV of overseas markets increased 38% year over year, primarily due to a 76% increase in directly operated markets and a 27% increase in distributor markets. Major markets maintained strong momentum, including a 110% increase in North America, followed by Europe, which is another key market in the next five years, achieving 70% increase in this quarter, and a 40% increase in LATAM, a 21% increase in Asia excluding China. For the year of 2023, we witnessed a 120% increase in North America, a 70% increase in Europe, a 50% increase in LATAM and a 26% increase in Asia excluding China.

Thirdly, same-store sales in overseas markets during December quarter increased by 19% year over year, including 39% increase in directly operated markets and 13% increase in distributor markets. In terms of major overseas markets such as North America experienced a 49% increase, a 23% increase in LATAM, and a 12% increase in Asia excluding China.

For 2023, same-store sales in overseas markets increased by 26%, including 45% increase in directly operated markets and 22% increase in distributor markets. Major overseas markets such as North America experienced a 75%



increase, a 34% increase in LATAM, and a 18% increase in Asia excluding China.

We opened 174 new stores on a net basis in overseas markets in Q4, achieving a new record since 2019. For the year of 2023, we opened 372 new stores on a net basis, in line with our guidance. In 2024, we expected to open 550-650 net new stores in overseas markets, with a majority in in Asia excluding China and LATAM countries, followed by Europe and North America.

In January, we hosted the MINISO 2024 Investor Day and shared development strategy for the next five years with the investors from a long-term prospective. We brought up our mission of “life is for fun” and our vision to become the world’s No.1 IP design retail group with three strategic pillars: production innovation (IP design), affordability and globalization.

From product innovation perspective, we will adhere to our IP strategy as the core and focus our efforts in strategic categories. We are committed to satisfying the demand driven by interest-consumption from worldwide consumers by placing emphasis on affordability of IP products. We adopt “dual-engine” tactics on “Super IP” strategy. On one hand, we continuously collaborate with global Top IPs. On the other hand, we will focus on incubate self-design IPs and generate unique brand advantage. I have confidence that

IP market is of great potential. We witnessed a fast growth in IP product sales contribution in overseas markets from the previous quarters. The IP product sales contribution of the year of 2023 already exceeded 40%.

Meanwhile, developing strategic categories is an important measure in product innovation as well. Strategic categories, represented by blind boxes, disposable products for traveling, plush toys and fragrances and perfumes, increased about 70% in sales year over year.

Providing affordable products to consumers is MINISO's core value for the whole time. During 2023, I have become more confident than ever with our advantages in supply chain and IP design, after travelling a lot in our overseas markets.

In 2024, we will speed up in establishment in global supply chain and strengthen the collaboration with global suppliers of good quality, in order to improve product delivery and anti-risk capability of supply chains. These measures will help us in maintaining our competitive advantage in terms of cost-saving in our future operations. Nowadays, there were about 24% overseas suppliers among 1,400 global suppliers that we have worked with, including cosmetics suppliers from Korea, toy suppliers from Vietnam, textile suppliers from India, skin care products from Europe, and snacks and toys

suppliers from North America. We now have stable and long-term collaboration with suppliers of the above-mentioned categories.

Globalization can be demonstrated in the following 3 aspects. The first one is to optimize the globalization of our store network. Recently, we devoted our focus and supports to Europe market. The newly-open Oxford Street store and Camden store in London have set new sales record of all European stores. Moving forward, we expect to see more stores like these to be opened in Europe which will be one of the key markets of our growth.

The second one is product globalization. Differentiation in global products will be the engine for store UE improvement. We will focus on strategic categories and carry out customized R&D of products according to local condition, providing our customers with popular products of MINISO features, local usage experience, and sense of aesthetic.

The third one is talents globalization. As of December 31, 2023, the percentage of overseas employees exceeded 50%, which demonstrated our resolve in globalization. We will continue to exert effort in talents pool establishment to better cope with overseas developments of high speeds and potential.

Let's move on to TOP TOY. Quarterly revenue achieved a 90% year-over-year increase, with a quarter-over-quarter increase of 26 and a year-over-year increase of 31.

Moving forward in 2024, TOP TOY will run in two key strategies, which are speeding up in stores expansion and elaboratively optimizing its margin profile. In 2024, we will actively expand the layout of TOPTOY store network, aiming to establish a recognizable and distinctive brand store network.

Turning to profitability, on one hand, TOP TOY will continue to increase the contribution of self-developed products actively. On the other hand, it will conduct a stricter control on costs and expenses, improve sales forecast, conduct reasonable manufacturing arrangement and inventory management, and conduct lean reform in supply chains. We expect that TOP TOY will continue to improve its market share and enhance its role in pop toys markets.

The year of 2024 will be the starter of our development strategy for the next 5 years and the year for all of us to fight and thrive. We embrace the challenge and opportunities with brave hearts by emphasizing on product innovation, affordability, globalization strategies and sticking to result orientation, longtermism and the belief in victories.

I will now turn the call over to Eason for a review of our financial performance in December quarter of 2023.

CFO Scripts

Thank you, Jack. Hello everyone, thanks again 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 was RMB3.84 billion, representing an increase of 54% year over year.

Revenue from China was RMB2.35 billion, up 56% year over year. The increase was driven by (i) a growth of 63% in revenue from MINISO's offline stores and (ii) a growth of 90% in revenue from TOP TOY.

The 63% year-over-year growth of MINISO offline business from China was the result of a 17% growth in average store count and a 39% growth in per-store sales. The 90% year-over-year growth of TOP TOY was the result of a 19% growth in average store count and a 59% growth in per-store revenue.

Revenue from overseas markets was RMB1.49 billion, up 51% year-over-year, driven by an increase of 16% in average store count and a growth of 31% in per-store sales in overseas markets. Revenue from distributor markets was around RMB723 million, an increase of over 26% year over year. Revenue from directly operated markets was around RMB771 million, an increase of

around 86% year over year, accounting for over 50% of overseas revenue, as compared to 42% during the same period of 2022.

Gross profit in the December quarter was RMB1.66 billion, up 66% year over year. Gross margin was 43.1%, increasing by about 3.1 percentage points in the same period of 2022. The year-over-year increase was mainly due to two reasons. Firstly, we witnessed higher gross margin in overseas markets contributed by product optimization, and higher revenue contribution from directly operated overseas markets. Secondly, we also witnessed higher gross margin of MINISO and TOP TOY brand due to a shift in product mix towards more profitable products.

SG&A expenses as a percentage of revenue was around 23%, about 1 percentage point up from 22% in the same period of 2022.

Selling and distribution expenses were RMB701 million, increasing by 71% year over year, mainly driven by (i) increased personnel-related expenses, logistics expenses and IP licensing expenses in relation to the growth of the Company's business, (ii) increased depreciation expenses of the right-of-use assets in relation to directly operated stores, and (iii) increased promotion and advertising expenses, mainly in connection with brand upgrade and the openings of new stores in overseas markets.

G&A expenses were RMB186 million, representing a year-over-year increase of 32%, driven by increased personnel-related expenses in relation to the growth of the Company's business.

Turning to profitability. Operating profit in this quarter was RMB765 million, representing an increase of 71% year over year. Operating margin was 20%, compared to 18% in the same quarter of 2022.

Adjusted net profit in this quarter was RMB660 million, increasing by 77% year over year. Adjusted net margin was 17.2%, compared to 15.0 % in the same period of 2022, and 16.9% in the previous September quarter. Excluding FX impacts, adjusted net margin in this quarter would be 17.4%, another new record in this quarter.

Turning to cash position. As of December 31, 2023, we had strong cash position of RMB6.9 billion. Free cash flow for CY 2023 is 1.97 billion, up 115% year over year. Return on equity or ROE is 28%, compared to 15% in 2022, thanks to higher net margin and improved asset turnover.

In longer term, we are confident to increase gross margin steadily by leveraging our core capabilities in IP product development, supply chain



integration and glocalization, we will also optimize our expense structure and pursue a sustainable margin profile.

And our board approved a cash dividend of approximately RMB650 million, about 50% of our adjusted net profit during the second half of 2023. Since we became a public company in 2020, we have returned approximately RMB2.8 billion to shareholders, accounting for about 50% of our adjusted net income from 2019 to 2023. our capital allocation strategy in the future will continue to balance growth and our commitment to bringing stable and foreseeable return to shareholders.

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