MINISO Group March Quarter 2024 Earnings Conference Call Full Scripts

CEO Scripts

Hello everyone, welcome to MINISO Group's earnings conference call. The March Quarter marked our highest Q1 store openings pace ever and laid a solid foundation for the target of net addition 900 to 1,100 stores in 2024. Also, we have maintained a solid financial performance while rapidly expanding our overseas directly operated markets.

At the group level, our revenue increased 26% year over year to RMB 3.72 billion. The increase was primarily due to an around 19% increase in the average store count and an overall around 9% same-store sales growth. In the current uncertain economic environment, compared to consuming companies of similar scale globally, MINISO has maintained a leading growth rate in the industry.

Behind the rapid growth, we observed several trends that are shaping our future:

Firstly, Chinese companies are expanding globally with vast opportunities ahead. As a company, MINISO leveraged Chinese supply chain capabilities to expand overseas at early stage, and has secured a first-mover advantage. With a store network in over 100 markets and extensive local operational experience, now we are moving forward to globalizing our MINISO brand.

Secondly, along the current of times, there will emerge a number of worldclass consuming brands from China. MINISO’s goal is to ride this wave and become a super brand.

Thirdly, despite the increasing uncertainties in the global economic environment, interest-driven consumption is still on the rise. Our target is to achieve 50% IP products sales and 50% high affordable products by 2028. It was because after the pandemic, we observed the co-existence of "rational consumption" and "interest-driven consumption" in domestic consumption behaviors. And this trend is similar across the world. And IP consuming goods is a good example of this trend. The scale of global IP consuming goods is around RMB2 trillion and remains highly decentralized. Per capita consumption of IP consuming goods in China is only RMB 51, which is only one-fourth of the global average and one-sixtieth of that in the United States. This indicates a vast opportunity for IP consuming.

Gross margin stands at 43.4%, which is an increase of 4.1 percentage points year over year, setting a new historical high. This improvement was primarily attributable to the increased overseas revenue contribution and the optimization of the gross margin for TOP TOY. Moving forward, with the fast growth of overseas revenue, higher IP product sales contribution and booming of TOP TOY, the momentum for gross margin enhancement remains robust. Meanwhile, we still committed to providing affordable products, pursuing a healthy increase in gross margin. Adjusted net profit of the March Quarter was RMB620 million, increased 28% year over year, with adjusted net margin of 16.6%.

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

Let’s start with MINISO mainland China, which continues to grow with high quality. Offline GMV increased 16% year over year, compared with 5% increase of the domestic retail sales of consuming goods, according to National Bureau of Statistics. In particular, same-store sales recovered to over 98% of last year’s high base, continued to outperform peers. In this context, average transaction value remained stable, and transaction volume recovered to 98%. Entering into June quarter, same-store sales trend remains positive, with year-to-date same-store sales recovery rate reaching 100% of the same period last year. Keeping an industry-leading SSSG will be one of our priorities in this year.

We summarize two reasons for achieving outperformed same-store sales:

First, we stick to product innovation and solidify our differentiated product strength. Leveraging on our observation of consumption trends and our own advantages, we are gaining market share for strategic categories such as blind boxes, toys, beauty tools and travel-related products, etc. In Q1, sales from such categories accounted for over 40% in China, with a year-on-year sales increase of more than 40%, driving a 16% growth of total sales in China. Among these, blind box category saw a nearly 200% growth, and travel-related products achieved nearly a 70% growth.

Second, our offline-to-online model, or O2O, developed rapidly. In Q1, its sales increased by over 80% year over year, effectively compensating for the natural decline in foot traffic after public holidays and driving the growth of same-store sales. Compared to in-store sales, top-selling SKUs within O2O are predominantly concentrated to IP products and items that cater to immediate consumer needs. This year, we have implemented several operational optimization measures, such as extending the operating hours of O2O and improving service quality.

In this quarter, we added 108 net new stores in mainland China, setting a new record for Q1. Structurally, there are several things worth noticing:

First, over 50% of the new stores were located in first- and second-tier cities. With the normalization of economy, we have identified lots of commercial within China's top-tier cities that present promising opportunities for future store expansion.

Second, the total number of our directly operated stores has reached 29, nearly doubling 16 stores from a year ago. It was due to our on-going exploration over the past year into various channel matrices, including directly operated flagship stores. We will continue to refine our channel strategy this year and look forward to sharing more details about it in the near future.

Lastly, store network in mainland China has seen high-quality development, with store closure rate remaining healthy at around 1.4% for three consecutive quarters.

Moving on to MINISO's overseas business update:

Firstly, overseas business growth once again exceeded our most optimistic expectations, revenue was RMB1.2 billion, up 53% year over year. In particular, revenue from directly operated markets has seen a staggering year-over-year growth of 92%, or 84% on a comparable basis, achieving a growth rate of over 80% for four consecutive quarters. Directly operated markets account for 58% of our overseas revenue, with both YoY and QoQ increase in revenue share.

Secondly, GMV in overseas increased by 46% year over year, with a 104% increase in directly operated markets and a 29% increase in distributor markets, if on a comparable basis, the growth rate were 78% and 35%, respectively. Among key areas, North America increased by nearly 110%, Europe increased by over 80%, Latin America was 40% and Asia was 34%. Structurally, Latin America and Asia are the top two markets, accounted for nearly three quarters of overseas GMV, while Europe and North America markets are growing rapidly with over 20% GMV contribution. Especially North America, when we relaunched its operations in late 2021, it accounted for only 7% of overseas GMV, and now is 13% already. We anticipate that the share of Europe and North America will continue to rise rapidly.

Thirdly, one of the key drivers of GMV's rapid growth was same-store sales, which grew by 21%. Within this, directly operated markets saw a 32% SSSG, while the distributor markets grew by 18%. Across nearly all overseas regions, we have achieved positive same-store growth, with North America increased by around 32%, Latin America by around 25%, Asia by around 19%, and Europe by around 13%. In addition, TOP 20 overseas countries and regions as a whole achieved a 23% SSSG.

In March Quarter, we added 109 net new stores in overseas market, another new record for Q1 store openings. Having learned from the lessons of last year's store expansion, we will exert stronger control over the pace of store openings this year, aiming to open more high-quality stores before the peak season in Q4. Structurally, 60% of the new stores were contributed by directly operated markets, with Indonesia and the United States together contributing over 40%. Among key regions, Asia contributed over 60% of new stores, while North America and Latin America contributed 17% and 10%, respectively.

In 2024, we further deepen our implementation of IP strategy. For example, we celebrated Chinese New Year with ChiChi and TiTi from Disney. And in response to consumers' demand, we initiated innovative offline event of float parades celebrating the "Barbie 65th Anniversary New Collection" to draw attention. Moreover, the exclusive launch of Chiikawa at the end of March sparked a phenomenal consumer craze. This debut partnership has further solidified our undisputed status as a leader in IP collaborations. This collaboration can be summarized with five "Unprecedenteds": Unprecedented sales performance, Unprecedented product launch speed, Unprecedented efficiency, Unprecedented courage, and the Unprecedented enthusiasm of Chiikawa fans. This collaboration is a milestone for our product team, in which they have improved capabilities in identifying trendy IPs, R&D, supply chain management, and product review, and enabled a rapid product launch and high-quality standards. It also sets an very successful benchmark for future IP co-branding and marketing. I strongly believe that, the brands that bring joys to consumers and put consumers first, will finally be favored by consumers. MINISO have created multiple phenomenal IP collaboration events, thanks to our strong IP conversion capabilities. We are pleased to see that more and more young consumers on social media platforms such as Weibo and Xiaohongshu, are tagging MINISO, and request us to collaborate with more IPs.

In this quarter, IP products accounted for 26% of total sales. In mainland China, IP accounted for about 25%, increased slightly year over year. In overseas, IP product shipment increased by over 100% and contributed over 40% of total shipment. We are steadily moving towards our target of 50% IP sales by 2028.

Let’s move on to TOP TOY.

We believe that the turning point for the TOP TOY business has arrived. After three years since inception, TOP TOY has grown into a leading player in pop toys industry with an annual sale of one billion, and with 160 stores across nearly 70 cities across mainland China.

With the business moving on track, we have stronger confidence in TOP TOY's rapid expansion and have therefore raised its store opening target for this year from 50 to 100, which means we will have 250 or so TOP TOY stores by the end of 2024.

During this quarter, TOP TOY's revenue increased 55% year over year, driven by a very high-quality of 26% SSSG and a net addition of 44 stores year over year.

With the rapid growth in scale, TOP TOY is set to unlock profit potential gradually, and has achieved positive profitability for two consecutive quarters. On one hand, through the optimization of product mix, its gross margin improved by around 8 percentage points year over year. On the other hand, as operational leverage takes effect and with more targeted investment in marketing, its expenses ratio has been further reduced.

The year 2024 is a new starting point for five-year development plan of MINISO Group. “Beginning with the ending target in mind” is a philosophy I uphold as always. To realize our long-term goals, we need to pursue excellence, detail orientation, and continuously deliver high-quality work. Therefore, this year I have spent a lot of time encouraging the development of a corporate culture that is simple, efficient, and straightforward, one that simplifies complexities and maintains strategic focus. We want to embrace a professional, focused and simple culture at MINISO.

We possess the necessary patience and perseverance and remain committed to a long-term approach, taking each step with care and diligence to accomplish our five-year development plan.

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

CFO Scripts

Thank you, Jack and thanks everyone for joining us today. Let me walk you through our financials for this March 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 saw a robust increase of 26%. As highlighted by Jack, we are particularly encouraged by a strong same-store sales growth, or SSSG, of 9%, achieved concurrently with the rapid expansion of our global store network. In Mainland China, MINISO's same-store sales surpassed 98% of the previous year's figure—a high benchmark set after the release of pent-up demand following the Covid. The overseas market's SSSG reached 21%, surpassing the peak season's SSSG of 20% observed in last December quarter, with a particularly notable 32% growth in our overseas directly operated markets and 18% growth in distributor markets. Additionally, TOP TOY's SSSG was remarkably at 26%.

Regarding our channel mix, we have noted a significant surge in the contribution from our overseas markets. The share has grown from 23% in CY2021 to 33% in the current quarter. This increase is particularly pronounced in our overseas directly operated markets, which have seen their contribution to total revenue more than doubled, climbing from 8% in CY2021 to 19% in this quarter. Additionally, TOP TOY has been consistently gaining traction, with its revenue share escalating from 3% in CY2021 to 6% in the current quarter, indicating its readiness to unlock even more significant potential moving forward. We are optimistic about this shift towards a more diversified revenue stream, which underscores the strength and resilience of our business model.

Gross profit margin reached 43.4%, marking another historical high and representing a 4.1 percentage points increase year over year. This improvement is attributable primarily to two factors. First, there was a higher revenue contribution from our overseas markets, particularly from our directly operated segments, which accounted for over 4.7 percentage points increase of condensed GP margin. Second, the optimization of TOP TOY's GP margin resulted from a strategic shift towards a product mix with greater profitability.

SG&A expenses amounted to 856 million, constituting 23% of our revenue, an increase from the approximately 20% recorded in the same quarter of the previous year. Despite this shift, the structure of major expenses remained stable, indicating effective cost management amidst expansion.

The year-over-year increase was attributable to (i) increased personnel-related expenses, logistics expenses and other expenses in relation to the growth of our business; (ii) increased expense in relation to directly operated stores, including payroll, rental expense, D&A expense, as well as marketing expenditures for new store opening, all of which are essential investments for new store openings and the ongoing success of our directly operated stores. Let me give you an example, by March Quarter, we had 281 such stores in overseas market, up 131 stores or 87%, and in mainland China, we had 46 such stores for our two brands, up 21 stores or 84%.

As we rapidly expand our overseas directly operated markets, there may be a temporary surge in related expenses, and we might observe fluctuations in these expenses across different quarters in a year. However, we are confident that the higher gross margins, driven by the increased revenue contribution from our directly operated markets, will more than offset our operating expenses and protect margins. In this March Quarter, revenue from our overseas directly operated markets soared by 92%, and if on a comparable basis, the increase was 84%, which has outpaced the growth in expenses.

The swift expansion of our overseas directly operated markets also has a consequential impact on the distribution of operating profits. In 2023, over 60% of operating profits from overseas were realized in the second half of the year, in contrast to over 50% for our operations in mainland China. Consequently, 55% of our total operating profits for that year were realized in the second half. This trend is expected to continue in 2024, with profits being even more skewed towards the second half of the year.

Turning to profitability. Operating profit was RMB743 million, up 29% year over year; operating profit margin was 20.0%, up from 19.5% in the same quarter of last year.

Adjusted net profit was RMB617 million, up 28% year over year. Adjusted net margin was 16.6%, up from 16.4% in the same quarter of last year.

Adjusted EBITDA was RMB965 million, increasing by 37% year over year; Adjusted EBITDA margin was 25.9%, compared to 23.9% in the same period of 2023.

Adjusted basic and diluted earnings per ADS were both RMB1.96, representing an increase of 29% year over year.

Turning to cash position, as of the end of March Quarter, we maintained a strong cash position of RMB7.3 billion. In April, we distributed cash dividend of about RMB650 million, more than 50% of adjusted net profits generated during the second half of CY2023. We are committed to a dividend payout ratio of no less than 50% and bringing sustainable and foreseeable returns to our shareholders.

Turning to working capital, the channel inventory turnover remains efficient. By March Quarter, 24% of MINISO brand’s inventory were located in overseas, compared to 18% a year ago. Inventory turnover days were 83 days on brand level, including 72 days for MINISO China and 153 days for MINISO overseas directly operated markets. For TOP 20 markets of overseas distributor markets, inventory turnover was comparable to directly operated markets. Structurally, inventory over 180 days accounted for about 9% on group level, flat year over year.

Turning to capital allocation, net cash flow generated by operation was about 652 million, CAPEX was about 122 million and free cash flow was 530 million. We repurchased 71 million worth of stock in the first quarter, if we include the dividend paid out in April, we have returned around 720 million back to our shareholders year to date. Since our U.S. IPO, we have returned 3.5 billion to shareholders. We will continue to commit to a capital allocation strategy that balance growth and return.

Our performance in March Quarter once again demonstrates the strength and resilience of our business model and reflects our ability to execute on our IP and globalization strategy. I am very confident that we will once again meet our full-year targets and deliver on our fun and value to consumers worldwide.

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