



MINISO Group September Quarter 2021 Earnings Conference Call Full Scripts

Operator

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 2022 that ended September 30, 2021. 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, director of capital markets. Please go ahead, Eason.



IR Script

Thank you. Hello, everyone, and thank you all for joining us on today's call. The Company has announced its quarterly financial results earlier today. An earnings release is now available on our investor relations website at ir.miniso.com. Today, you will hear from our Chairman and CEO Mr. Jack Guofu Ye, who will start the call with an overview of our business. He will be followed by our CFO Mr. Steven Saiyin Zhang, who will address our financial results in more detail before we take your questions.

Before 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 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 SEC.

With that, I will now turn the call over to Jack. Please go ahead, sir.



CEO Script

Thank you. Hello everyone and welcome to MINISO's September quarter 2021 earnings conference call.

During this quarter, we added 161 stores to our global store network, including 122 MINISO stores and 39 TOP TOY stores. Revenue reached RMB2.654 billion, up 28% year-over-year, exceeding the high end of our guidance range. Operating profit was RMB213.5 million, operating margin of 8% was the highest in recent seven quarters. Adjusted net profit was RMB184.2 million, up 80% year-over-year, adjusted net margin of 6.9% was the highest in recent six quarters since the pandemic broke out.

In spite of the headwinds from the resurgences of pandemic, rainstorm disaster and weak consumption data in domestic market in this quarter, we focused on the elements of our business that are within control, driving product innovation, enhancing inventory management, improving operating efficiency and executing our omni-channel strategy. These efforts yielded positive results, as we kicked off fiscal year 2022 with a solid performance, demonstrating the resilience of our business model and core competitive strengths.

On today's call, I will share major developments we have made in MINISO brand's domestic operations, international operations, and TOP TOY in this quarter.

First, let's start with the operations of our flagship brand MINISO in China.

Offline retailers and consumer confidence were challenged by the continued spread of the Delta variant nationwide since late July. This regional outbreak was reported as the most widely spread wave since the first quarter of 2020. Despite the shelter-in-place during this quarter, domestic operations of MINISO brand recorded a revenue of RMB1.87 billion, up 13% year over year, driven by a 16% year-over-year increase in average store count and a 58% year-over-year increase in our ecommerce business.

MINISO added 96 stores on a net basis during this quarter and ended September with more than 3,000 stores in China, marking a new milestone in our eight-year history. As we continue to penetrate into more and more tier-3 and below cities and unlock these new markets, approximately 80% of newly added stores in this quarter were from there. By the end of September, the geographic reach of MINISO stores spanned across about 330 cities in China, including four tier-1 cities, 46



tier-2 cities and about 280 cities tier-3 and below. According to government statistics, there are about 2,200 cities in China, including 300 prefectural-level cities and nearly 1,900 counties. In addition, there are 91 cities in China with populations of more than 5 million and 18 cities with populations of more than 10 million. As China's urbanization continues, there will be a large number of new shopping malls suitable for new MINISO stores every year. Although resurgences of the pandemic in China could bring short-term pressure, MINISO's long-term addressable market in China remains huge.

Moving to our online business. Revenue from ecommerce was around RMB186 million, up 58% year over year. Revenue from O2O business was around RMB90 million, up 126% year over year. In total, online business including ecommerce and O2O contributed 10% of our revenue.

MINISO is committed to deepening consumer engagement and driving omni-channel experience. We firmly believe that the success of our omni-channel strategy will help improve MINISO's brand awareness, user retention and repurchase. Starting this year, we have enhanced our omni-channel strategy to become a key focus and growth engine for the company. Supported by our 3,000 plus offline stores nationwide, we have established stable cooperation with leading O2O platforms and accumulated a significant amount of private traffic. Let me give you some examples, monthly active user of MINISO's official Wechat mini program surpassed 6 million in this September and private traffic of MINISO brand surpassed 12 million by the end of September. In fiscal year 2021, there were a total of 300 million orders in MINISO stores, with that figure in mind, we believe MINISO's private traffic has huge potential for future growth.

Moving to MINISO's overseas operations.

Overall, sales of MINISO's overseas stores moved further along the path of recovery in this quarter, with overall GMV recovered to about 70% of the same period in 2019, GMV in distributor markets recovered to about 75% of the same period in 2019 and GMV of subsidiary markets recovered to about 50% of the same period in 2019. Revenue generated from international operations was RMB623 million, up 78 % year over year and 18% quarter over quarter, thanks to the improved sales recovery in important markets such as Mexico and re-stocking by distributors for the upcoming holiday season.



Our total number of overseas stores reached 1,836 by the end of September, with a net opening of 26 new stores during the quarter, compared to a net opening of eight in the same period of 2020. More than 60% of these new stores were located in Europe, Middle East and North Africa, where sales recovery stabilized during the past several quarters at a level sufficient to support moderate expansion. There were 157 suspended stores in overseas markets by the end of September, down from 205 a quarter ago.

Moving to TOP TOY.

During the quarter, we added 39 TOP TOY stores on a net basis, bringing total TOP TOY stores to 72 by the end of September, including 9 Dreamwork stores and 63 collection stores. More than 90% of TOP TOY stores are opened by retail partners. With its rapid expansion this quarter, TOP TOY's revenue increased by 64% sequentially and exceeded RMB100 million for the first time.

TOP TOY has been committed to multi-category strategy since day one, because we firmly believe that art toys should not be limited to blind boxes, and that there should be many other potential categories to meet diversified needs of Generation Z, one such category is toy bricks. After years of consumer education, the toy brick category has become one of the most popular categories in China's toy market. Meanwhile, certain promising domestic brands have emerged but the challenge for these young brands is that they are facing a fragmented market in terms of channels, data, and productivity. TOP TOY's solution for this problem is the launch of the first-ever "Toy Brick Festival" in China, a major campaign launched by TOP TOY together with several domestic brands. By leveraging TOP TOY's unmatched omni-channel capabilities, this activity combined online and offline channels to increase exposure of toy bricks with Chinese elements and boost sales.

Going forward, we plan to allocate more TOP TOY shelves for domestic brands to help them introduce their flagship products, especially in our Dreamwork stores. We also plan to encourage our consumers to engage more with toy brick products embedded with Chinese elements, so they can learn more about the value of Chinese toy bricks.

This campaign is a good attempt for TOP TOY to use its omni-channel capabilities to empower traditional toy brands. Going forward, we will continue to focus on integrating online and offline channels to improve TOP TOY's omni-channel experience, and explore more potential trendy toy categories to effectively meet consumers demand.



Recently, we held the first TOP TOY Show in Guangzhou, an art toy carnival featuring approximately 200 brands and over 1,000 artists. This two-and-half-day festival for art toy fans attracted more than 100,000 offline visits and accumulated 200 million clicks in Douyin and Weibo, respectively. TTS was one of the largest art toy exhibitions in China during the second half of 2021, in terms of scale and number of participating brands. Through this very successful exhibition, TOP TOY has deepened its customer insights, enhanced consumer retention and expanded the influence the TOP TOY brand.

In terms of TOP TOY's proprietary products. We have been continuously discovering talented designers and work with them. Take Da Li Zhao Cai Mao, a co-branding IP, as an example, sales of its new blind boxes stabilized within TOP three SKUs of TOP TOY during this quarter.

TOP TOY is still in an early stage of building core capabilities and establishing brand awareness. This leaves its merchandise gross margin huge room for improvement. Going forward, we are confident that its gross margin will improve as its operating leverage is gradually released, driven by the expansion of its scale and the maturity of its proprietary IPs and products.

This concludes my prepared remarks. I will now turn the call to our CFO Steven Zhang for financial review.



CFO Script

Thank you. Hello everyone, I will start my remarks with a review of September Quarter's financial results and then provide additional color regarding December quarter. Please note that I will be referring to non-IFRS measures, which have excluded share-based compensation expenses and certain non-recurring items.

Revenue in September quarter was RMB2.654 billion, increased by 28% year over year and 7% quarter over quarter, above the high end of the Company's guidance range of RMB2.45 billion to RMB2.65 billion.

The **year-over-year** increase was primarily driven by the growth of our domestic operations and the recovery of our international operations. Revenue generated from our **domestic operations** was RMB2.03 billion, increased by 18% year-over-year. Revenue generated from **domestic operations of the MINISO brand** was RMB1.87 billion, increased by 13% year over year, mainly driven by a year-over-year increase of 16% in average store count and a year-over-year growth of 58% in our ecommerce business. Revenue generated from TOP TOY was RMB109 million, compared to nil in the same period of 2020. Revenue generated from our **international operations** was RMB623 million, increased by 78% year-over-year, reflecting an improved recovery of sales in certain markets and re-stocking by distributors for the upcoming holiday season.

From a **quarter-over-quarter** perspective, revenue from our **domestic operations** increased by 4%. As you may know that our business is subject to seasonality, typically with stronger performance in September quarter than in June quarter. For example, our domestic revenue increased by 16% sequentially in September quarter of 2019, which represented a normalized seasonality before pandemic. Apparently, the weak seasonality in this year was primarily due to the new wave of the pandemic from late July. We estimate that the GMV loss for those influenced stores in China during this quarter was north of RMB200 million. Revenue from **international operations** increased by 18% sequentially.

According to the National Bureau of Statistics (NBS) in China, in the first three quarters of



2021, retail sales of supermarkets, convenience stores, department stores and specialty stores increased by an average of 16% compared to the same period of 2020. On an apple to apple basis, MINISO Group's domestic sales increased by 40% during the same period, demonstrating the resilience in our business model and core capabilities.

Gross profit was RMB728 million, increased by 39% year over year and 14% quarter over quarter. **Gross margin** was 27.4%, as compared to 25.2% a year ago and 25.8% a quarter ago. Both of the year-over-year and quarter-over-quarter increase in gross margin were primarily related to changes of revenue mix, our more profitable international operations accounted for 24% of our revenue in this quarter, the highest percentage in recent six quarters, compared to 17% a year ago and 21% a quarter ago.

Selling and distribution expenses were RMB323 million, increased by 40% year over year and 22% quarter over quarter. The year-over-year increase was primarily attributable to increased personnel related expenses, logistics expenses and marketing expenses as with the year-over-year revenue growth and brand awareness improvement for both MINISO and TOP TOY, and to a lesser extent, increased licensing expenses as with the increased revenue contribution from IP products. The quarter-over-quarter increase was primarily attributable to logistics expenses and personnel related expenses.

G&A expenses were RMB200 million, increased by 29% year over year and 6% quarter over quarter. The year-over-year increase was primarily due to increased personnel related expenses and IT expenses for our new initiatives such as TOP TOY, partially offset by decreased professional service fee related to our IPO in the same period of 2020. The quarter-over-quarter increase was primarily due to increased personnel related expenses.

Turning to our profitability. Operating profit was RMB214 million, compared to a loss of RMB2 million a year ago and a profit of RMB188 million a quarter ago. Operating margin of 8% was the highest in recent seven quarters.

Adjusted net profit was RMB184 million, increased by 80% year over year and 27% quarter



over quarter. **Adjusted net margin** was 6.9%, the highest in recent 6 quarters, compared to 4.9% a year ago and 5.9% a quarter ago.

Adjusted basic and diluted earnings per ADS were RMB60 cents in this quarter, compared to RMB40 cents a year ago and RMB48 cents a quarter ago.

Turning to our balance sheet. As of September 30, 2021, the combined balance of our cash, cash equivalents, restricted cash and other investments was RMB6.14 billion, compared to RMB6.88 billion as of June 30, 2021.

Turning to working capital, turnovers of inventories and trade receivables remain flat sequentially.

Looking ahead into the December quarter of 2021, we expect our total revenue to be between RMB2.5 billion to RMB2.7 billion, which represents an increase of 9% to 18% year over year.

Looking ahead, we remain confident in our ability to continue delivering shareholder value, attracting likeminded stakeholders, and enabling our consumers to better enjoy life's little surprises.

This concludes our prepared remarks for today. Operator, we are now ready to take questions.



IR Script

Thank you once again for joining us today. If you have any further questions, please contact MINISO's investor relations team. Our contact information can be found on today's press release. We will see you next quarter. Have a nice day.