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Half Year 2023 Hywin Holdings Ltd Earnings Call

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PRESENTATION

Operator

Good morning, and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Hywin Holdings' First Half of Fiscal Year 2023 Earnings Conference Call. (Operator Instructions)

Before we start, I refer you to the safe harbor statement and the company's earnings release, which also applies to the conference call today as our management will make forward-looking statements.

On the call today are the company's Director and CEO, Madam Wang Dian; and CFO, Mr. Lawrence Lok. Madam Wang will review the company's performance for the first half of fiscal year 2023. Mr. Lok will translate for Madam Wang. Then Mr. Lok will discuss the financials. We will be hosting a question-and-answer session after the management's prepared remarks. You may refer to our financial results of first half of fiscal year 2023 on the company's IR website at ir.hywinwealth.com.

I will now turn the call over to Director and CEO of Hywin Holdings, Madam Wang Dian. Madam Wang, please proceed.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] Hello, everyone, and welcome to the Hywin Holdings' Earnings Call for the First Half of Fiscal Year 2023. On today's call, I will review the results first and provide updates regarding the significant progress we have achieved across each of the company's main business segments. After that, I will turn it over to Mr. Lawrence Lok, our CFO, to provide greater details on the company's first half of fiscal '23 financial performance.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] In the second half of 2022, China's COVID-19 related lockdowns and a series of interest rate hikes from the U.S. that presented challenges for China's economic flexibility and stability, resulting in a deep correction in overall domestic financial asset valuation. Since the pandemic has passed now, economic growth in the Chinese Mainland has improved somewhat, but more time remains necessary to shore up the investment confidence of high net worth households and private corporate clients.

China's investment market is, therefore, waiting to see more solid evidence of improvements in economic data, including consumption, manufacturing confidence and social financing. Taking into account these factors and in order to respond to market changes, at Hywin, we have implemented measures, including proactive adjustment of our product matrix and client advice and reinforcement of our risk management. Thanks to these efforts, we achieved steady high-quality progress in our performance in this reporting period.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] First, on our Wealth Management segment. As China's household savings rate has continued to rise over the past few quarters, Hywin has captured year-on-year growth in our transaction value. In the first half of fiscal year 2023, Hywin's Wealth Management transaction value reached RMB 40.1 billion, a year-on-year growth of 6.9%. And amongst which, our asset-backed product transaction value increased to RMB 37.2 billion, up 21.4% year-on-year. Characterized by a steady rate of return, these asset-backed products became a safe harbor for our clients' investment needs during a period of great market movements in 2022.

On the other hand, transaction value for our hedge fund products have declined by 76.3% year-on-year to RMB 710 million. Transaction value for our private equity and venture capital products have declined by 42.4% year-on-year to RMB 570 million. These results reflect our proactive adjustments in our product shelf and our advice to clients against a backdrop of increased public market volatility and devaluation of private equity assets NAV.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] Next, on to our asset management business. Our strong investment research, investment management and client service capabilities are also reflected in our outstanding asset management segment performance. Hywin's client assets under management AUM increased by 114.3% year-on-year to RMB 7.0 billion in the first half of fiscal 2023. Specifically, through 3 years of growth, Hywin International's EAM, External Asset Management Service, this i.e., discretionary investment management services for ultra-high net worth clients have now become our asset management flagship with AUM exceeding RMB 5.8 billion. The EAM service model, which combines client account, execution, investment management and custody into one holistic solution is a mainstream business model in the European and U.S. markets. For example, in Europe, the EAM industry accounts for roughly 1/3 of the Wealth Management industry's total AUM compared to only 3% to 5% in Asia. This does, however, imply that Asia still harbors great potential for the EAM industry.

As the sophistication of the Asian markets and clients continue to increase, we believe EAM, which is an intellectually-driven open architecture, safe, flexible and sticky asset management model is positioned to capture rapid growth in market share, benefiting from our broad client base and our high-quality client coverage and service team, Hywin's first-mover advantage in the Asian EAM market will be reinforced over time.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] Hywin International's Cayman funds, also continued to develop steadily offering clients attractive and stable returns across a variety of strategies with AUM currently exceeding RMB 700 million. Our Cayman Funds segment has now become a platform for Hywin to work with the world's top asset managers, and is now a second growth engine apart from our EAM for our asset management services. In the future, we will continue to expand our Cayman funds franchise by nurturing in-house active management strategies as well as by building up index-based offerings.

Hywin International's standing and achievements in the investment industry have also been further recognized recently. On February 2023, the Council of the Hong Kong Limited Partnership on Association, HKLPFA-elected Hywin International as Vice Chair. As such, we began to work with regional institutions such as Haitong International, SPDB International, China Life Insurance, CNCB Investments and other members of the association to further promote the development of Hong Kong into a leading domicile for global alternatives managers. HKLPFA has also assigned a series of strategic projects to Hywin as lead including promoting the synergies between HKLPFA regime and the private banking and family office sectors -- piloting secondary funds as additional exit vehicles for investors and setting up feeder funds in the Middle East to channel investor capital towards Asia, et cetera.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] Next, on to our family office services. Hywin's family office capabilities have also continued to develop as our services continue to diversify. On January 9, 2023, Hywin's family office team was included in the 7th Asia-Pacific Wealth Forum's list of "Top 50 Family Offices of the Year in China" at the 2022 International Private and Family Wealth Management Award Ceremony. The forum hosted by the "Wealth Management" Magazine and the think tank "Cai Ce" has made these awards a benchmark for excellence in Wealth Management in the Asia-Pacific region.

As one of the industry's earliest providers of family office services, in addition to our consistent efforts to rollout our presence across the Chinese Mainland, we have sought to explore and expand overseas markets via Hong Kong as a hub. As one of the first Chinese funded institutions to offer family office services in Hong Kong, Hywin now sets an example promoted worldwide by the Hong Kong SAR government. In addition, this year, Hywin established the Hywin Club, which specializes in value-added services for ultra-high net worth clients. The Hywin Club addresses client needs spanning from Wealth Management to family governance, to corporate management and provide value-added services to families across their life cycles, which includes single-family office operations, legal and tax planning and health management.

Recently, Hywin Club customized a trip to Hong Kong for a group of ultra-high net worth to meet with top global private equity managers, private banks and trusts. In the first quarter of this year, Hywin Club's core team also put on roadshows in Beijing, Shanghai, Shenzhen and Chengdu in order to promote its visions, share its resources and develop a network of high-end clients.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] We have just discussed highlights in some of our key segments. Next, we will discuss highlights on operations. First, our client metrics. Client operations in the first half of fiscal year 2023 also continue to reflect our business development momentum. As of December 31, 2022, our total number of clients reached 146,000, a year-on-year increase of 8.7% of those nearly 37,000 were active, up 3.9% year-on-year. Repeat investment rate reached 80.5%. Average transaction value per private equity product transaction amounted to RMB 3.6 million.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] Some key highlights on our coverage network. Our relationship manager team expanded further during the first half fiscal year with the total number of relationship managers reaching 1,738, reflecting a year-on-year growth of 7.6%. Hywin's public market fund distribution division has also further elevated its NAV-based product capabilities at our 11 Mainland branches and with the support from an upgraded professional investment advisory team, our IA team, we expect to offer more NAV-based products in 2023 and further diversify our revenue growth.

In terms of our distribution footprint as of December 31, 2022, Hywin had 177 wealth centers covering 88 cities same as 2021. Today, we have a solid presence across the Yangtze River Delta, the Greater Bay Area, the Bohai Rim, the Central and Western regions and other regions with high concentrations of high-net worth clients. In addition, we believe that Hong Kong's recent reopening together with the Chinese Mainland, plus with the continued implementation of cross-border wealth management connect in the Greater Bay Area will further create demand for the Wealth Management industry in the Greater Bay Area. In this context, Hywin is strengthening links with the Greater Bay area to capture opportunities in this regional development.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] Next, our technology. Our technological upgrade strategy was designed to provide a better client experience and greater operational efficiency. Hywin has now migrated most of its on-premises applications to the cloud, adopting mature cloud computing technologies to achieve a more secure, greener, hybrid cloud setup, which also gives our clients a high-quality financial service experience. Officially launched in 2022, our "Jihuitong", "Invest Path" service platform is a specialized platform for institutional client fund trading designed to help our institutional clients trade funds fully online, improve fund investment efficiency and control operational risks.

Separately, "Youpeitong", "Allomaster", our scenario-based sales and marketing system also officially went live in 2022. This system aims to support relationship managers with the construction of fund portfolios, comparison of fund performances, analysis of post investment holdings as well as to help fulfill clients' personalized asset allocation needs, all of which give Hywin the opportunity to provide more integrated one-stop Wealth Management services.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] Next is our Hywin Health segment. Our long-standing relationships with many of our clients gave us the opportunity to expand into health management services. In 2022, we officially announced our Wealth + Health dual-platform strategy. Since then, Hywin Holdings entered the health management industry by acquiring Grand Doctor, Life Infinity and Sincerity and Compassion Health Management Center. The strategic vision of Hywin Health is to create a new paradigm of high-end health management in China. Hywin Health is differentiated as we combine our own in-house core competencies and medical examinations and high-end health management together with the first class international health care resources.

Hywin Health has also developed an AI-based health evaluation system and a digital health management platform. We will continue to refine our client data from both our medical examination business as well as our health management business, which will allow us to further customize our health management solutions for clients.

In the first half of fiscal 2023, Hywin Health achieved revenue from fiscal examinations at RMB 12.4 million and revenue from health management at RMB 25.8 million. Total number of Hywin Health clients reached 28,763 clients. Number of medical examination visits was 4,936 with an average visit price of RMB 2,520, and number of health management clients totaled 1,178 with an average revenue per client of RMB 21,952, which is well above industry average.

Through Hywin Health, we believe we are creating a new competitive moat for ourselves while also earning the trust of our clients and their families by providing them with more comprehensive health safeguards.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] While we are focused on growing our businesses and improving operational efficiency, Hywin also remains very strongly committed to sustainable ESG development, public welfare and environmental protection. In December last year, we released our first corporate social responsibility report, and Hywin received the 2022 ESG award for responsible practices from a well-known Chinese media, "The Paper", in recognition of our efforts in creating long-term value for our shareholders, clients, employees, the industry, the public and other stakeholders. We also remain committed to further enhancing our corporate governance, creating an equal and diversified working environment for our employees and giving back to the society through our continued efforts in public welfare.

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

[Interpreted] In conclusion, 2022 was a year of resilience and modest growth for Hywin. As we look ahead into 2023, we believe there is a great opportunity for the wealth management industry to reenergize as China's economy as well as Chinese investor sentiment rebalance. Taking advantage of our leadership in Wealth Management, we also believe our new entry into Health Management gives us a dual platform to serve clients as well as add a second leg of growth to create additional value for our stockholders.

Thank you, Madam Wang, and thank you for joining us today. Before we begin our detailed financial discussion, please note that unless otherwise stated, all financial numbers presented today are in renminbi terms, while comparisons are made year-on-year. In the 6 months ended December 31, 2022, our total net revenues were RMB 1.0 billion, up 17.6%.

Looking at our revenue breakdown. Revenue for our Wealth Management segment was RMB 970 million for the first half of fiscal 2023, up 13.4%. The strong growth in our wealth management services was primarily due to the increase in transaction value of private market investment products, especially asset-backed products, which shares similar characteristics with fixed income products.

During this period, investor appetite favored asset-backed products and fixed income like products over NAV-based products such as hedge funds or private equity products. We believe this pendulum could swing the other way going forward if investment sentiment in China could recover significantly this year. We believe this is actually a strength in our business model versus competitors as we offer more products across more categories.

It is also worth mentioning that our revenue from other financial products increased by 100.2% to RMB 68.1 million, which is mainly attributed to surging insurance demand during the COVID period. Revenue from our Asset Management segment for the 6 months was RMB 16.2 million, up 79.4%. Asset Management continues to be a high-growth segment for us, mainly driven by increases in AUM. We believe in our EAM business and our Cayman Funds business, we are a market leader in our industry.

This is the first quarter where we consolidate Hywin Health's financials after we completed 3 acquisitions in 2022. Hywin Health segment revenue and net losses for the 6 months was RMB 38.3 million and minus RMB 24.2 million, respectively. Last year, we were in the initial stage of integrating and transforming our health businesses. We expect to drive further revenue growth from our health businesses before they reach breakeven.

On the cost and expense side, total operating cost and expenses for the 6 months were RMB 933.9 million, up 17.8%. Compensation and benefits increased 16.6% to RMB 576.2 million, which is in line with business volume growth. Health-related cost was RMB 26.2 million. Sales and marketing expenses increased 4.8% to RMB 182.6 million, which is due to our good cost control measures.

General and administrative expenses increased 21.4% to RMB 146.2 million, mainly due to our investment in Health as well as our continued deployment in technology. Our income from operations in the 6 months was RMB 102.1 million, up 15.5%. Our reported net income for this period was RMB 70.6 million, up 0.3%. Operating margin was 9.9%, flat year-on-year. Our earnings per ADS for the 6 months was 2.52 per ADS on a basic basis and 2.43 per ADS on a diluted basis.

Our balance sheet also remains healthy. As of December 31, 2022, we had RMB 574.9 million in cash and cash equivalents and restricted cash on hand. This gives us a solid foundation to pursue further growth.

In conclusion, we believe our financial results in this reporting period demonstrated resilience and a good balance between achieving business growth and managing macro risks. We showed strong client metrics and strength in our distribution model. Our international business once again shows market leadership and was a highlight in this period. At the same time, this reporting period also marks an exciting new entry into Hywin Health for us.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Peng Zhang from Nomura.

Peng Zhang Nomura Orient Securities International, Co., Ltd - Consumer Discretionary Analyst

(foreign language) And congrats on the results. My question is that can you tell us more about the company's recent product strategy as we saw the transaction value increased comparing with the same period from last year?

Dian Wang Hywin Holdings Ltd. - CEO & Director

(foreign language)

Wai Lok Hywin Holdings Ltd. - CFO

Thank you, Zhang Peng. Let me translate for Madam Wang. So yes, you're right in that. Equity market volatility was quite high in 2022, right? So although that said, we, as a whole, our transaction value were solid, and we had a modest increase in our transaction value in 2022. We believe this has a lot to do with our proactive approach in product mix adjustments. In the second half of last year, we were actually quite cautious in onboarding or recommending market product, secondary market products or NAV-based products. We did see that our clients were more inclined to products, which have, generally speaking, shorter duration or lower volatility or more visible returns. Looking forward, though, I think there is a general sentiment that market could rebound significantly in 2023.

Although I think largely speaking, people are still sort of waiting for more data to be seen, looking for more evidence to strengthen this confidence. So I think one of our strategies this year is we will increase, I guess, our exposure or our allocation to more NAV-based products, secondary markets or secondary markets linked products, for example, enhanced index funds or quant funds. And I think in doing this, what we also have -- I think what we also have to pay attention to or what we think our clients will pay a lot of attention to is drawdown as well as the product -- the fund managers track records in handling drawdowns.

In terms of private equity, our strategy tends to -- and we'll continue to focus more on certain sectors such as high-end manufacturing and pharmaceutical or healthcare verticals. That's on the onshore side. On the offshore or Hong Kong side, our strategies were very diversified. But I think this year, given continued market volatilities, we may put high emphasis on private equity, for example, or overseas or Hong Kong-based insurance. And of course, our EAM. And we will emphasize on risk diversification and risk management, product diversification and risk management with our clients as well. Thank you.

Operator

Our next question comes from the line of Ruoxiang Ye from Citic Securities.

Ruoxiang Ye Citic Securities

(foreign language) I saw the company's total revenue for this period increased by 17.6%, while the net income increased only marginally by 0.3% year-on-year. Could you please specify the reasons for this?

Wai Lok Hywin Holdings Ltd. - CFO

Okay. (foreign language). Okay. I'll answer this question. Yes. So actually, I think thanks for pointing out our revenue and net income. Actually, I was looking at some of the media pickup, and I think some of the media headlines as our EP ADS, right, earnings per ADS fell. And -- but I think it's more correct to say that actually our earnings is flat year-on-year this year in renminbi terms. But because of U.S. dollar depreciation if reported on a U.S. dollar basis, it fell. But I think -- so I want to maybe handle this question on -- with several points. First of all, our earnings was flat, primarily because of the RMB 24 million losses that we recorded from Hywin Health in this period, and I'll explain more on this point. I want to talk about the Wealth Management side first.

Our profitability on the Wealth Management side actually increased in this period. Our operating margin rose to 12.6% in this period, which was up 2.6% year-on-year. Due to the strong cost control and the scale back in sales and marketing during this period. As we went more digital during COVID and lockdowns, et cetera, we were actually able to realize cost savings and therefore, an increase in our operating margin on the Wealth Management side. Now on the Hywin Health side of things, I would offer a couple of points. One is this is the first time ever we begin to consolidate, right, the 3 acquisitions that we made in 2022. And the consolidation period of Life Infinity

and Sincerity and Compassion (Chengdu), actually only began in September, right? So that's one. So that's -- what we are reporting is not necessarily reflecting the entire half year for some of these acquired businesses.

The second point is, we were still in an initial phase of integration, right, post-acquisition and transforming and tie together the 3 acquired businesses post-acquisitions. So I would say the operating efficiency in our Health business is still being fine tuned. And then I think the last point I wanted to make was because of COVID, because of lockdowns, the financial results of our Health business, was actually distorted based on just what you see in the reported numbers because the clinics basically were shutdown, right, for a significant amount of the reporting period. So going forward, in the next reporting period in 2023, right, you will see sort of a more true representation of what the results of Hywin Health should be. And I hope that answers your question on what's behind the RMB 24 million losses from Hywin Health.

Operator

Our next question comes from the line of Sandy Mehta from Evaluate Research.

Sandy Mehta Evaluate Research Limited - CEO and CIO

Congratulations on the very strong results. Just to follow up on your previous comments on healthcare. When do you expect -- what is the progression towards the health care business reporting breakeven results? And also, can you comment on from the small base, what sort of growth do you expect going forward?

Wai Lok Hywin Holdings Ltd. - CFO

Thank you, Sandy. Okay. So I will take this question as well. I think, as I said just now, we are still in an initial phase of transforming, integrating the business. On your question on breakeven, we don't have -- well, I'm not putting out specific numbers yet. But I think -- but what I want to say here is what we're doing here is really -- first of all, as step one, the clinics that we acquired that we are unifying the management, unifying the system and unifying the -- our service approach, et cetera. And there is obviously, some friction, but that's very normal and very natural post-acquisitions. And I think we did a lot of that last year. And I think in this first quarter this year, we're doing a lot of that as well.

I think we could hope to see narrowing -- well, I think we are comfortable in saying that we could be narrowing losses on a per clinic level, right? But I think it's perhaps early for us to say exactly when they will be breakeven, and that's on the profitability. And then on the business growth side, I think what would be interesting, right, in the next reporting period, is it's likely to see a very large increase, right, in the Hywin Health revenue, right, because, again, the reporting period -- in this reporting period, it's heavily distorted, right, because the clinics were closed, because the consolidation period was really only for 3 months, right, since September for Life Infinity and Sincerity and Compassion. So I think the growth, we are quite confident there's a lot more we can do in the Health side.

And the one thing I really wanted to point out is the very significant synergies, right, that we believe there is between our Wealth business and our Health business. And ultimately, I think Health is a great client acquisition, right, business model for us as well. And on the medical examination side, larger volume, larger amount of traffic. And then on the health management side, really deep dive into client profiles and very high -- very personal high-end health management services that we give to our clients. So we think there's a lot of synergies and a lot of complementariness in the business models.

And to wrap this up, I think, yes, we are very confident that there's a lot more growth that will be coming out of Health and then we'll get to breakeven when we get to a critical volume in these businesses.

Operator

Thank you all for your questions. As there are no further questions at this time, I would like to hand the conference back to our management for closing remarks.

Wai Lok Hywin Holdings Ltd. - CFO

Okay. Thank you again for joining us. If you have any questions, please feel free to contact us through the IR website. We look forward to speaking in our next call. Have a good day.

Operator

Thank you. This concludes the conference call. You may now disconnect your lines. Thank you.

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