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Q4 2021 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 Limited's Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions) I will now turn the call over to the first speaker today, Miss Luffi Wen, Senior Director of Investor Relations in Hywin Holdings. Please go ahead, Madame.

Luffi Wen *Hywin Wealth - Senior Director Investor Relations*

Thank you all for joining today's call for Hywin's Unaudited Financial Results for the Fourth Quarter and the Full Fiscal year 2021. Before we start, I refer you to the Safe Harbor Statement in the company's Earnings release, which also applies to this conference call today as our management will make forward looking statements.

On this call with me today are our Director and CEO, Madame Wang Dian and our CFO, Mr. Lawrence Lok. Madame Wang will review the company's overall performance for the fiscal year 2021, then Mr. Lawrence Lok will discuss our financial results of fourth quarter and full fiscal year 2021 in detail. Mr. Lok will translate for Madame Wang.

You may refer to our financial results on the company's IR website. I will now turn the call over to Madame Wang.

Madame Wang Dian *Hywin Wealth Management - CEO*

(through translator) Hello, everyone, thank you for taking the time to join us today on our Earnings call for the Fourth Quarter and Full Year of Fiscal 2021.

In this past year, China's recovery from the COVID-19 pandemic continued fueling a strong economic rebound. According to forecasts by the China Insights Consultancy, the total investible assets of China's households are on track to exceed RMB 240 trillion by the end of 2021.

Elevated uncertainties in the macro outlook and market trends have driven high net worth client demand for professional wealth management services and global asset allocation advisory.

Meanwhile, clients are extending their focus beyond just risks and returns in their investment process. As clients become more sophisticated and pursue diverse goals over longer horizons, the bar has been raised for wealth managers like Hywin.

2021 is the 16th year in Hywin's corporate journey and also our first year as a public company, listed on NASDAQ. We achieved excellent operating results and financial performance in fiscal 2021, as our net revenues increased by 42.8% from the prior fiscal year to RMB 1.83 billion.

Our discipline and cost control also yielded solid results. Operating costs increased by 37.9% from the prior fiscal year to RMB 1.55 billion, growing at a slower pace than our net revenues growth.

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On the back of our strong revenue growth and effective cost control, our net income in fiscal 2021 increased by 95.6% from the prior fiscal year to RMB 208 million. Our strong net revenues and net income once again reflected the competitive strength of our client proposition, our product proposition and our talent proposition.

Our excellent financial performance this year is also a ringing endorsement of our eight dimensional business strategy which aims to deepen client relationships, diversify product offerings, optimize distribution footprints, unlock value from technology, upgrade research and advisory, enhance brand value, and scale up our offshore franchise.

Our fiscal 2021 results have further reinforced our strategy conviction and accelerated our pursuit of long term sustainable growth.

In terms of our client franchise, our total number of clients increased by 12.5% from the prior fiscal year reaching 127,000 as of June 30th. Our number of active clients in fiscal 2021 increased 4.5% from the prior fiscal year, reaching 38,000.

We believe client trust is the ultimate engine of steady business growth. In fiscal 2021, the repeat investment rate of our clients was 76.7%. This is a key metric for measuring client stickiness, and we have shown and continued our industry leadership in this regard over recent years.

This consistently strong client activities level and revenue production were made possible by our rigorous mapping of client needs, differentiated offerings, high quality client conversations and continuous client services. Meanwhile, investor education is also an important channel for maintaining and enhancing our clients' trust.

During fiscal 2021, we held 1,519 investment seminars across China, attended by nearly 40,000 clients. In addition, we used technology to maintain high frequency digital engagement with our clients, for example utilizing webinars, our own app, and other various digital channels.

We also continue to enhance our product structure from wealth management to asset management, from renminbi assets to global asset allocation, and from product solutions to holistic advisory, we are continuously expanding our business scope to create value for our clients.

In fiscal 2021, transaction values for our wealth management segment increased by 15% from the prior fiscal year to RMB 78.8 billion, mainly driven by growth in our privately raised product sub category, which increased 38.4% from the prior fiscal year to reach RMB 73 billion.

In particular, the transaction value of privately raised securities products increased 46 times year on year to RMB 1.7 billion. Going forward, we believe privately raised securities products will become one of the key drivers for our product mix diversification.

Our future growth will be supported by our expanding spectrum of product offerings, but will also be safeguarded by our robust product onboarding and risk management processes, as well as our asset allocation expertise.

On the asset management side, in fiscal 2021, our asset management business scaled up rapidly with AUM increasing by 69.9% from the prior fiscal year to RMB 2.0 billion. Leveraging Hywin Asset Management Hong Kong Limited as our asset management hub in the offshore space, we provided highly tailored portfolio management solutions to ultra-high net worth clients and institutional clients in Asia, using the EAM (external asset management) business model.

Meanwhile, we launched a series of Hywin-branded Cayman funds to offer a number of strategies to high-net-worth clients including Global Private Equity, Asian fixed income, Greater China Equities and more.

During fiscal 2021 our distribution network continued to expand with our footprint increasing from 84 cities to 87 cities, while our number of wealth service centers increased from 167 to 177. As a result, our client servicing capacity and competitive clout in the local market continued to grow.

Our footprint strategy has been highly effective, with our headquarters in Shanghai and two regional hubs in the Bohai Economic Rim and the Greater Bay Area, we have penetrated into 18 strategic cities in China and we're covering most of China's 50 wealthiest cities.

In fiscal 2021, we continued to invest in our people. As of June 30th, our number of relationship managers was 1,584, a slight decrease from the prior fiscal year. However the transaction value of wealth management products per RM increased by 16.1% to RMB 52.4 million.

The attrition rate within the elite segment of our relationship managers was less than 6%, which shows our staff loyalty and stability. During fiscal 2021, we also continued to strengthen our training programs and implemented differentiated incentive schemes across various tiers of relationship managers.

Meanwhile, our continuous upgrade in our research and technology platforms also further empowered our frontline staff, thereby steering the transformation of our relationship managers from a product based proposition to holistic, trusted advisory when they engage with our clients.

This year, we also worked with Willis Towers Watson to implement a more nimble organizational structure to enhance our platform's synergies and efficiency. Through increased internal connectivity and collaborations, we aim for optimal resource allocation and position ourselves to be more responsive to any shifts in the operating environment.

Our digital transformation accelerated in fiscal 2021. We implemented our "3-2-1" technology infrastructure and the "3-2-1" stand for: 3 - digital portals for our clients, our relationship managers and our products, 2 - middle office engines, meaning our commercial middle office and our data at the middle office, and 1 - technology infrastructure platform, which [underpins] (corrected by company after the call) all of our major functions.

Since the launch of our "321" technology infrastructure, we observed significant improvements in several key internal metrics such as monthly active users (MAU), electronic contract signing rates, our digital mapping of clients and more.

During this quarter, we also launched our X Link Big Data engine. The engine uses big data to help our relationship managers on multiple fronts, including data analytics of clients' online behaviors, sales prediction, client servicing lifecycle management, early warnings on client attrition and more.

These tools enable relationship managers to fully maximize client profitability and our share of the clients' wallets.

During this fiscal year, we also continued to invest in our research capabilities. We recruited seasoned analysts from leading investment banks to lead our research efforts on macroeconomics, asset classes and portfolio strategies. These intellectual insights are incorporated into our sales and advisory processes through robo-advisories and other sales and marketing interfaces.

We also entered into a strategic collaboration with the Shanghai Advanced Institute of Finance, which is a part of the prominent Shanghai Jiao Tong University. This partnership will convert latest academic insights into value creation for our clients.

Our efforts and achievements were highly regarded in the industry. In fiscal 2021, Hywin and our senior management won more than 80 major awards from numerous industry bodies and publications. These awards are tributes to our successful growth strategy and encourage us to take efforts and innovations to the next level.

Building on our successes over the past 16 years, Hywin is continuously reinventing itself to take on new growth opportunities. Our focus on serving clients, nurturing talent and unlocking value from technology will continue to be our guiding light as we venture into new business domains and expand our franchise.

We also continue to enrich our intellectual capital and attract top tier talents from leading international firms, including recently Mr.

Lawrence Lok, who joined Hywin as our Chief Financial Officer, and Mr. Lok was previously a senior investment banker.

Mr. Lok will lead our conversations with the capital markets and global investors as well as champion Hywin's various growth strategies via multiple avenues. On that note, I would like to pass things over to Mr. Lok to share details on our operating and financial results.

Lawrence Wai Lok Hywin Wealth Management - CFO

Thank you, Madame Wang and thank you all for joining us today. Before we begin our detailed financial discussion, please note that unless otherwise stated, all financial numbers presented are in renminbi terms while comparisons are made year on year.

During the fourth quarter, we achieved strong growth. Our total net revenue in the fourth quarter was 502 million, up 43%. Total net revenue for the full fiscal year 2021 was 1.83 billion, up 42.8%.

Looking at our revenue breakdown, revenue from our wealth management segments was 1.80 billion for the full fiscal year, up 40.9%. This strong growth in our wealth management services was primarily due to continued strength in client demand for our privately raised products.

Revenue from our asset management segments for the full fiscal year was 14.9 million, up 223.4%. This particularly rapid growth in our asset management business was driven by strong client interest in offshore fund products and discretionary mandates.

Revenue from our other services segments for the full fiscal year was 23.9 million, up 311.9%. Our other services segment is primarily comprised of technology consulting.

On the cost and expenses side, our total operating cost and expenses for the fourth quarter was 423 million, up 39.3%. For the full fiscal year, total operating cost and expenses were 1.55 billion, up 37.9%.

In terms of cost breakdowns, compensation and benefits for the full fiscal year increased 41.5%, largely in line with our revenue growth. Meanwhile, our sales and marketing expenses for the full fiscal year increased 32.8% and our general and administrative expenses increased 17.2%, demonstrating that we continue to have success in optimizing our overhead expenses, as a percentage of our revenue.

As Madame Wang said, we will continue to invest in our platform, in our people and in our technology. But at the same time, we will also be focused on our cost and expenses discipline.

Our income from operations in the fourth quarter was 78.8 million, up 67.4%. For the full fiscal year, our income from operations was 281.6 million, up 77.1%. Our reported net income for the full fiscal year was 207.7 million, up 95.6%.

Our earnings per ADS for the full year was RMB 8.05 per ADS on a basic basis and 7.76 per ADS on a diluted basis. As you can see, we are very pleased with our significant earnings growth.

Our balance sheet is also strong. As of June 30th, 2021, we had 705.3 million in cash and cash equivalents and restricted cash on hand. Our business model is capital light and we continue to maintain very healthy liquidity ratios.

Looking forward, we remain optimistic about our growth. This year, we are investing into several key areas, including our product diversification, our technology R&D, our physical network of wealth service centers, our young talent, our technology and our research capabilities and so on.

As we focus on strategy [execution] (corrected by company after the call) and productivity gains, we believe we shall continue to deliver attractive returns on our investments. Thank you, everyone. This concludes our prepared remarks for today. And operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Wayne Shuai of ICBC International. Please ask your question. For the line of Wayne Shuai, your line is open. Please ask your question.

Wayne Shuai ICBC International - Analyst

(Foreign Language). Hi, this is Wayne Shuai calling from ICBCI Asset Management, does Hywin have plan to launch new product categories in your near future? Thanks.

Madame Wang Dian Hywin Wealth Management - CEO

(through translator) Yes, thank you. So, the way we approach our product offerings is really based on what we see in our client demand. As you heard just now, we are increasingly approaching our client dialogs with comprehensive asset allocation advisory, not just selling a single product or a single fund.

So, what we saw from our clients is that our clients increasingly want more diversity of products. For example, we see very rapid growth in our privately raised security products, and we believe that's an area of opportunity for us.

We also look to expand our private equity venture capital type of products and our possibly raised mutual funds over time as well. Also, we see that our high net worth clients have increasing demand for overseas asset allocation.

So, for example, in Hong Kong, we offer tailored portfolio solutions and trading solutions to our ultra-high-net-worth clients. Our EAM, external asset manager business model, as well as our asset management business in Hong Kong are both high growth areas for us.

So overall, we believe what's key in this business is really that we continue to strengthen our client servicing capacity so that our distribution strength would in turn help us with our product sourcing and product selection capabilities. Next question, please.

Operator

Your next question comes from the line of Julian Chen of TradeMaster Securities. Please ask your question.

Julian Chen TradeMaster Securities - Asset Management Department Director

Hello. OK, so (Foreign Language). Hello, this is Julian Chen. I hold the position of Asset Management Department Director in TradeMaster Securities. And I'm still managing an AI quantitative fund.

My question is high yields wealth service centers are concentrated in the top tier cities and coastal areas of China, what's your footprint plan for the inland areas and third tier cities? Thank you.

Madame Wang Dian Hywin Wealth Management - CEO

(through translator) Thank you, Julian. So, first of all, we already have very extensive national coverage. We have physical wealth service centers in over 90% of China's top 50 wealthiest cities. We also have a total of 177 centers covering 87 cities.

So, while we particularly established I should say, in the tier one cities, we also follow, the Chinese government's overall development planning. When we think about our strategy in the lower tiered city. So, Shanghai, obviously is our headquarter, and Beijing and the Greater Bay Area, we already have two regional hubs, right, and we have very strong presence.

We continue to selectively deepen our penetration in 18 strategic lower tiered cities like Chengdu, Wuhan, Changsha, Xi'an, and more. So, in some of these cities, there's actually a lot of wealth that should be tapped into, and we have seen very strong business growth of more than 40% per year in some of these cities. Next question please.

Operator

Your next question comes from the line of Joseph Chan of Guotai Junan Wealth. Please ask your question.

Joseph Chan *Guotai Junan Securities*

(Foreign Language). In English, I'm Joseph Chan of Guotai Junan Wealth Management EAM Department. The Hywin company has robust onboarding standard for your products.

My question is do you have ongoing risk management for products that have already been sold to clients? In particular for products related to real estate sector? How do you manage risk throughout the lifecycle of such products? Thank you.

Madame Wang Dian *Hywin Wealth Management - CEO*

(through translator) Yes, so thank you for the question. So, we have risk management processes in place on both the product side as well as the client side. And I'll explain more.

So, first of all, for all of our new products, they would go through our rigorous product selection system, and then - and then our risk management system. For our product selection system, we do due diligence on the asset managers and their track record of historical performance, their strategies, their risk control and so on.

And then for real estate linked projects that you asked, we do due diligence on the underlying assets as well.

And then, we have a two tiered risk management system. First, selective product will go through our investment selection subcommittee and then our management committee, which is comprised of our senior management.

We are very, very selective in our product selection, right. So, for example, in the privately raised securities product categories, we focus on the top 100 asset managers from over 10,000 managers in China.

Furthermore, we do KYC and risk appetite screening on our clients as well to ensure that not just quality products are being selected to our product selection funnel, right, but the right products are sold to the right clients in the right way.

And then, during the lifecycle of the product post investments, the objective is to maximize transparency for our clients. So, we proactively help our clients review their portfolios, track any updates on their investments, flag any potential risks if we detect any concerns.

In particular for real estate linked products, we would monitor the financials of the underlying project and help our client access, right, the asset managers or do regular site visits or access the management if needed.

We believe that these transparency enhancement measures can actually help our clients better understand the performance of their investments and the risk control measures that are built into the products. Thank you for the question. And next question, please.

Operator

Your next question comes from the line of Aaron Tan of Schroders. Please ask your question.

Aaron Tan *Schroders*

Hi (Foreign Language). And hello, everyone. My name is Aaron from Schroders Capital. I've noted that Hywin's business is expanding rapidly, but I'll be keen to learn a little bit more about your expansion plans for your international business. Thank you.

Madame Wang Dian *Hywin Wealth Management - CEO*

(through translator) Yes, thank you for the question. So, in the offshore space, our growth strategy is really a - what we call a multi tiered, multi segment strategy. So, first, for our most demanding ultra high-net-worth clients, we leverage our EAM, external asset manager platform in Hong Kong, right to provide highly tailored portfolio management solutions.

So, for example, we are providing custody and monetization solutions for entrepreneurs who recently had liquidity events like IPOs and company sales.

And then for our core high net worth clients, we are offering and expanding our range of Cayman funds that invest in select sectors and thematic strategies. And then for the even larger segment of affluent clients, we are exploring the potential use of a robo-advisory technology platform to potentially tap into this high growth client base.

And then in addition, we are also very active in the offshore private market, helping clients pursue opportunistic transactions like secondary blocks, direct investments, private credit and so on.

And then last but not least, we also provide insights, content advisory services to our clients, so for example, research from our in-house research team or wealth planning advisory that is delivered by our Hywin Wealth Fiduciary Services Hong Kong Limited. And these are the services that we provide to our offshore clients. Next question, please.

Operator

Your last question comes from the line of Derek Lam of Altive. Please ask your question.

Derek Lam *Altive Capital - Partner, Investment*

Hi, you've got Derek Lam from Altive Capital on the line. (Foreign Language). I'm going to repeat that in English. I noted that there was a drop in number of relationship managers at Hywin. Is there a reason around this drop? And how is the client coverage ratio been doing since then? And is there any plan for expansion of the sales force? Thanks.

Madame Wang Dian *Hywin Wealth Management - CEO*

(through translator) Yes, so thank you, Derek. So, one of our priorities, as you heard just now is optimizing our organizational structure and efficiency as well as raising the professional standard of our relationship managers.

So for example, when we evaluate our relationship managers internally, we take into consideration both sales targets as well as overall client satisfaction. And then we also believe strongly in enabling and empowering our relationship managers to help them succeed with their clients.

So, we continue to be enhancing our training programs, and we are offering the tools, the technology, the research and all the resources that's on our platform to help our relationship managers succeed.

So overall, the attrition rates of our elite tier relationship managers was actually fairly low at less than 6%, right. So, our number of RMs was 1,584, which although is a slight decrease year on year, but the transaction value per RM actually increased by [16.1% to RMB 52.4] (corrected by company after the call) million, right.

So, we believe that the productivity and the profitability per RM actually improved in this fiscal year. And then going forward, we will continue to grow, especially our elite tiered relationship managers, particularly in certain strategic cities. Thank you.

Operator

As there are no further question at this time, I'd like to hand the conference back to our management for closing remarks.

Lawrence Wai Lok *Hywin Wealth Management - CFO*

OK. So, thank you, everybody for joining our call. If you have any further questions, please feel free to reach out to us through our IR website. We look forward to speaking with everyone in our next earnings call. Have a great day. Thank you.

Operator

This concludes this conference call. You may now disconnect your line. Thank you.

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