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Full Year 2022 Hywin Holdings Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Dian Wang** *Hywin Holdings Ltd. - CEO & Director*  
**Wai Lok** *Hywin Holdings Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Edward Lee** *UBS Investment Bank - Analyst*  
**Sandy Mehta** *Evaluate Research Limited - CEO and CIO*  
**Alison Zhao** *Analyst*

## PRESENTATION

### Operator

Good morning, and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Hywin Holdings Ltd. Second Half and Full Year of Fiscal 2022 to Earnings Conference Call. (Operator Instructions) Before we start, I refer you to the Safe Harbor statement in the company's earnings release, which also applies to the conference call today as I mentioned like all 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 second half and full year fiscal 2022. Mr. Lok 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 second half and full year of fiscal 2022 on the company's IR website at [ir.hywinwealth.com](http://ir.hywinwealth.com). I'll now turn the call over to the Director and CEO Hywin Holdings Madam Wang Dian.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

(foreign language)

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] Hi, everyone. Welcome to the Hywin Holdings Earning's Call for the second half and full year fiscal 2022. On today's call, I will review our full year results and provide updates regarding the significant progress that we have achieved across each of the company's main business segments. After that, I will turn the call over to Mr. Lawrence Lok, our Chief Financial Officer, to provide greater details on the company's second half and full year fiscal 2022 financial performance.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

(foreign language)

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] To sum up fiscal year 2022, we faced and overcame multiple challenges in the macro economy and the market environment. Globally rising interest rates and geopolitical conflicts presented significant challenges to asset allocation and wealth preservation. In China, although the economy showed some resilience in the midst of COVID we still face significant challenges from weak consumer demand, supply-side shocks and depressed sentiments. Market volatility and macro uncertainties presented challenges but also opportunities to wealth managers like us. As a pioneer and promoter for China's wealth management industry, Hywin has navigated multiple economic cycles in the past 17 years, and we are trusted by our clients for how we anticipate and position for mega-trends. We leveraged our insights to guide clients on asset allocation and long-term investing, creating long-term value for our clients while delivering high-quality growth for the company at the same time.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

(foreign language)

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] In fiscal year 2022, we have performed well across most major metrics, including revenues and profitability. Our net revenues increased 5.9% year-on-year to RMB 1.94 billion, while net income grew 13.6% to RMB 236 million. Our operating income

increased 16% to RMB 327 million and operating income margin rose to 16.8%. The growth of net revenues and net income were a testament to our excellent governance, agile strategy, responsive product platform and robust processes, which led to efficiency gains throughout the organization and ensure balanced and sustainable growth.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

(foreign language)

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] Okay, now let's go over the performance of the Wealth Management business segment. In fiscal year 2022, client transaction value increased 1.3% year-on-year to RMB 79.8 billion. Amongst that, the transaction value from asset-backed products remain at similar level from last year at RMB 70.7 billion. Notably, long-tenor asset-backed products decreased 30.2% to RMB 32 billion, while short-tenor asset-backed products increased 57.5% to RMB 38.6 billion. This duration rotation is an example where updates in our house view and our investment research drove changes in our product strategy and our model portfolios, and it was echoed by shifts in client appetite. As two of the priority growth areas and our diversification drive, the transaction values in private securities bond products jumped by 98% year-on-year to RMB 3.37 billion and the transaction value in private equity VC products rose by 111.8% in the same period to RMB 1.49 billion.

The growth momentum in these 2 categories met our targets. The increased diversification of our business volumes reflected our clients' trust in our products and services, and was an endorsement of our ability to select high-performing asset managers and deliver advice that is backed by strong research. Going forward, we seek to maintain our leadership in asset-backed products while maintaining a strong risk management and product life cycle management. For private securities fund products, we continue to pay attention to hybrid strategies and FOF strategies, and we seek to improve risk returns for clients through continuous active portfolio management. For PE/VC products, we seek to further our collaboration with flagship GPs and user combination of direct investments as well as LP deployment to capture the long-term alpha in areas where we believe have massive long-term potentials in China, for example, in carbon neutral, high-end manufacturing and health care factors.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] In fiscal 2022, our asset management business delivered outstanding results. AUM, assets under management increased by 120.5% to RMB 4.48 billion. In particular, our EAM business achieved strong growth, cementing our strong competitive positioning in the battle for Asia's most demanding ultra-high net worth clients. It is also worth mentioning that more than 90% of our EAM clients are on discretionary mandates. We believe this is a ringing endorsement of Hywin's investment management expertise. Our Cayman funds business also continued to grow. For example, the "Hywin Global PE Fund SP" has exceeded RMB 30 million in AUM and generated 39% returns since its launch in October 2020. On July 1st this year, Hywin announced our partnership with FactSet, a global provider of integrated financial information, index and analytical applications to launch the FactSet Hywin Global Health Care Index. This was the first step in our build-out into index products and passive investing and it will help us accelerate our AUM growth as we present more participation vehicles to our clients.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] In fiscal 2022, we also recorded a higher level of client activities. By June 30th our total client number reached 141,000, rising 10.8% year-on-year. In the same period, the number of active clients stood at approximately \$44,000, increasing 15.1% and also a record high. Importantly, repeat investment rate from our existing clients was 80.8%, exceeding the 75% mark for the third year running. Our average ticket size for private market products rose to RMB 4.68 million. These metrics once again underline a key observation in a volatile world, clients tend to gravitate towards leading wealth managers like Hywin, who can offer excellent product selection, robust portfolio construction and superior advice and services. Clients ultimately trust and will stay with advisers who can deliver long-term

investment returns and value-added services that meet and exceed their expectations. These data points also show that Hywin's clients fit the classic profiles for high-net-worth and ultra-high net worth individuals with great potential to be unlocked in terms of business volume growth as well as product spectrum expansion. We believe our client wallet share will continuously expand as a result.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] We took advantage of the challenging market environment to expand our talent base and footprint opportunistically and cost effectively. By June 30th, our relationship managers headcount totaled 1,696, increasing 7.1% year-on-year. We also continued to lead the industry on the metric of transaction value per relationship manager at RMB 49.4 million. By June 30th, we had 178 wealth servicing centers across 88 cities, a moderate increase on both counts. We sharpened our focus on the most productive regions with the highest density of high-net-worth population namely Yangtze River Delta, Pearl River Delta, Bohai Economic Rim and the Midwest. As COVID will gradually ease in China, we will further leverage our physical presence and deepen our reach in these priority geographies.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] We continued to make progress in the build-out of our operations platform with research and digitization as two primary enablers. This year, we launched our AI powered asset allocation engine, "Asset Compass", which helps relationship managers track and analyze client situations and generate customized client portfolios and rebalancing strategies. We also continued to upgrade our corporate governance and uphold our fiduciary duties to shareholders. In June, we appointed Mr. Chun Hung Chan Vincent, a seasoned capital market guru as an Independent Director of Hywin Holdings. With this appointment, independent directors now hold half of our Board seats. We will continue to strengthen our growth going forward and enhance our corporate governance.

We also completed the transformation to a more nimble organizational structure, which is underpinned by 3 cross-departmental ecospheres, namely "Products and Research", "Clients and Servicing" and "Enable and Empower". This has led to more efficient decision-making, sharper focus on growth and ultimately, better client experience. We also continue to lead the industry in ESG commitment and championed a range of societal and environmental initiatives. In May, Hywin joined the United Nations supported principles for responsible investment PRI. Sustainability has now become one of our guiding principles in our strategy making and continuous innovation. Also, I am happy to report that Hywin Holdings has been voted the Best Wealth Manager of Greater China by Wealth Briefing Asia for the third year running with Madam Wang Dian recognized as the Best CEO in Greater China Wealth Management also for the third time. Hywin remains the only firm headquartered in Mainland China ever to win this award series.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] As the trusted adviser for our clients, we have accumulated deep insights across the full agenda of a typical high net worth family. We have validated our conviction that wealth management and health management are both top priorities for clients in this changing world. Therefore, it is natural and timely that Hywin has now officially launched our "Wealth Health Dual Proposition" for our clients. This means that we are now establishing a health management franchise as our second ecosystem to enrich client relationships and unlock value from our client base. Powered by surging client demand, the health management market in China has tremendous revenue potentials, but remains underpenetrated and under-competed. Meanwhile, in spite of COVID we solve an opportune window for us to enter the market as high-quality operating assets became available in the market and a reasonable valuation. In this context, Hywin Health Management Company Limited, a wholly owned subsidiary under Hywin Holdings has recently acquired the controlling stakes in Grand Doctor Medical Company Limited and Beijing iLife3 Technology Co. Ltd, also known as Life Infinity.

Through these transactions, Hywin acquired a strong operating backbone for our health management business with health screening

facilities and health management clinics in Beijing, Shanghai and Chongqing. Also, by integrating the acquired assets, [expertise](added by company after the call), and global resource pool into the Hywin Health ecosystem. We are now well placed to start rolling out products and services to clients across both health and wellness spectrum. For example, health screening, family doctors, product disease management, rejuvenation solutions as well as preventive programs for major diseases. This once again echoes Hywin 's vision and strategy of serving our high-net-worth clients across their full life cycles. We believe that as we integrate Hywin Health into our client servicing matrix, it will create substantial synergies with our wealth management business, adding more multi-faceted and differentiated health management offerings can also help our relationship managers establish more client touch points with client families, strengthen client relationships as well as create more meaningful client engagement opportunities. Meanwhile, the Pan-China footprint and the large sales force that we have in our wealth management business will become a powerful catchment area and delivery medium for our health management business. As a result, we believe they will benefit Hywin financially as well.

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**Dian Wang Hywin Holdings Ltd. - CEO & Director**

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**Wai Lok Hywin Holdings Ltd. - CFO**

[Interpreted] I will attribute the success that Hywin achieved in the past 17 years to our vision, our prudence, our independent thinking and the pilot pursuit of value, which has won the trust of our 140,000 clients. Today, our business scope and revenue mix are gradually expanding. Our presence in the financial services market continues to strengthen and deepen. Our entry to health management will give us another leg for growth. We have demonstrated our ability to navigate through market cycles, deliver continuous efficiency gains and maintain client loyalty. We are now confident that our new wealth plus health value proposition will further enrich our client engagement and deliver earnings growth for the long term. Over the past 2 fiscal years, since our IPO, we have achieved a combined net income of more than RMB 440 million in total. This year, we have set another year of rapid profitability. These achievements are encouraging, but also humbling. The support from our clients, employees and partners is the ultimate fountain of our success. We are privileged to be the trusted adviser for our clients' wealth and health. So, we aspire to become the premier wealth management and health management brand in China, creating sustainable value for our clients as well as the shareholders.

Thank you, Madam Wang, and thank you everybody 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 on a year-over-year basis. And I will now present our financial results for the second half and fiscal year 2022 ended June 30. In the six months ended June 30, our total net revenues were 1.1 billion, up 9.9%. Total revenue for the full fiscal year was 1.9 billion, up 5.9%. Looking at our revenue breakdown, revenue for our wealth management segment was 1.9 billion for the full fiscal year, up 5.8%. The strong growth in our Wealth Management Services was primarily due to the increase in transaction value of private market investment products.

Revenue from our asset management segment for the full fiscal year was 19.5 million, up 30.3%. This continued strong growth in our asset management revenue was driven by an increase of assets under management. On the cost and expenses side, total operating costs and expenses for the six months were 823 million, up 3.5%. For the full fiscal year, total operating costs and expenses were 1.6 billion, up 4.0%. In terms of costs breakdown, compensation and benefits for the full fiscal year increased 5.1% to 1.05 billion. Meanwhile, our sales and marketing expenses for the full fiscal year decreased 4.6% to 312 million and our general and administrative expenses increased 20.4% to 242 million. We have demonstrated cost structure improvement this year given our overall cost and expenses as a percentage of revenue decreased to 83.2%, compared to 84.6% in the previous fiscal year. We seek to continue in improving our operating efficiency as we scale up.

Our income from operations in the six months was 238 million, up 39.6%. For the full fiscal year, our income from operations was 327 million, up 16%. Our reported net income for the full fiscal year was 236 million, up 13.6%. Our earnings per ADS for the full fiscal year was 8.42 per ADS on a basic basis and 8.14 per ADS on diluted basis. It is encouraging that our resilient business model delivered healthy and solid operating and financial growth, despite market turbulence in this period. Our balance sheet also remains strong. As of June 30th, 2022, we had 660 million in cash and cash equivalents and restricted cash on hand. As such, we continue to maintain very healthy liquidity ratios. We acquired controlling stakes in Beijing iLife3 Technology Co. Ltd, also known as Life Infinity in August 2022, which is a leading integrated health management service provider in China. Together with the acquisition of Grand Doctor Medical Co., Ltd., we're now ready to roll-out our health management business and seek [unlock](added by company after the call) further unlock

value from our enormous high net worth client franchise. Looking forward to our next fiscal year, we seek to scale up our operations with a continuous focus on serving the full lifecycle wealth management needs and health management needs of our high-net-worth level clients. We believe we have plenty of opportunities ahead for us to drive organic growth, in order to create greater value to our shareholders. Thank you, everyone. This concludes our prepared remarks for today. And operator, we're now ready to take questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Sandy Mehta from Evaluate Research.

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### Sandy Mehta *Evaluate Research Limited - CEO and CIO*

Yes. Thank you so much. Congratulations on the solid result in terms of earnings and client metrics. I had two questions. First, for the two healthcare acquisitions, Grand Doctor and iLife3, can you give us a little bit more commentary on how this will enhance your growth rate and add to your earnings?

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### Wai Lok *Hywin Holdings Ltd. - CFO*

Sure, Sandy. Let me just translate for Madam Wang for one quick minute. Okay. Madam Wang would answer this question on our healthcare strategy. Thank you, Sandy.

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### Dian Wang *Hywin Holdings Ltd. - CEO & Director*

(foreign language)

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### Wai Lok *Hywin Holdings Ltd. - CFO*

[Interpreted] Okay. Sandy, let me translate for Madam Wang. I think we've got quite a few points here. Okay. So, first of all, right, I think if you look at the health management industry in China itself, right, we see massive opportunities for growth, especially in the high-end health management area, right? We can't claim that we're the only practitioner in this business, right, or the two acquisitions being the only practitioners, but I think what we observed was that there's insufficient penetration and insufficient good players in this market. That is what we observed. That can truly meet the needs of the high-net-worth population in China, right? And that's the thinking behind our acquisitions of Life Infinity and Grand Doctor as they are already leading high-end health management service providers in their respective cities.

They have their own high quality healthcare resources. They have established products. They have also established operating platform and they have their own respective solid client base, which we believe are all scores, assets in the high-end health management business.

So, by integrating these two acquisitions into our ecosystem, our strategy for Hywin Health is to establish a one-stop high-end health management platform that can integrate a number of offerings into our product platform. And these products could include, for example, in-depth physical screening, disease prevention, chronic disease management, etcetera. So, a number of health and wellness products and services that we will be offering to our clients. And another point that Madam Wang made was that we have been so far successful, right? In the health management side of things. And we know our clients very well, therefore, right? And we understand their needs of their families to a large extent as well. So, we know that there is this unmet need that we can fulfil. And there is therefore, we believe a very strong cross-selling opportunity for us. And our goal is to... once again, right? Very quickly ramp up our health business so that we will be a trusted adviser and provider, not only for our clients' wealth management needs, but also their health management needs. I hope this answers your question, Sandy.

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### Operator

Our next question comes from the line of Edward Lee from UBS. Please ask your question Edward.

Edward Lee;UBS Investment Bank;Analyst^ Yes. So, my question is in the context of high inflation combined with low interest rates. How high-net-worth client's asset allocation preference shifted?

**Wai Lok Hywin Holdings Ltd. - CFO**

Okay. Thank you. Thanks Edward. Okay. I think I got your question. Your question is on high inflation with low interest rate in the overall market environment right now. And sorry, your question is how has client preferences for investment shifted? Is that... If I got your question, right?

Edward Lee;UBS Investment Bank;Analyst^ Yes, correct.

**Wai Lok Hywin Holdings Ltd. - CFO**

Okay, got it. I think I'll answer this question. Yes, okay. Thank you for your question. I think you're right in pointing out that. Right now, we have an environment, right? We're talking about China having somewhat high inflation, but combined with also relatively low interest rate, right? So, it is I think it's interesting that we have this environment in China and therefore our clients are... our high-net-worth clients in China are very interested therefore in seeking asset backed products that can provide stable returns with relatively lower risk. And I think that's actually reflected in our financial results as you saw, right? Volume in our asset backed products as whole has been fairly stable, right? And that's a reflection of client demand. So, that's one point. Two is, I think in the face of greater uncertainties in the market though, since we talked about asset backed products, client preferences for these products have however shifted towards shorter duration.

I think you saw that shift in our financial reports just now as well. And then I think the third thing that I would say is that, as you pointed out, right? China is actually cutting rates right now. We're one of the very few, in fact maybe with only major economies in the world that is on an easing cycle whereas the rest of the world is on a tightening path raising interest rate, right? So, our clients are actually therefore conscious of hedging their currency risk, therefore, right? So, as such, our clients have shown strong interest in understanding and knowing more about offshore products. And that's what Hywin Hong Kong is here for to serve our clients in their offshore needs. Hywin Hong Kong is... we believe Hywin Hong Kong will continue to be a high growth area for us. And Hywin Hong Kong offers a wide spectrum of products all the way from longer duration, private equity funds to U.S. denominated equity funds to global real estate income funds for example, right? And we believe that Hywin Hong Kong would create a strong complement for our clients to gain exposure globally in addition to their portfolios in the domestic market. Hope this answers your question. Next question please.

**Operator**

Our next question comes from the line of [Alison Zhao].

**Alison Zhao Analyst**

Good evening. This is Alison from Cowen Asset Management. Congratulations on the full-year results. So, my question is that, Asia market has been seeing turbulences since the beginning of the year, how the company identified competitive fund managers and screen quality products in this environment? Thank you.

**Wai Lok Hywin Holdings Ltd. - CFO**

Okay. I think I'll answer this question. Thank you, Alison. Yes, thank you for pointing out that, I think there is quite a bit of market volatilities and uncertainties in the global market, as well as Asia market since the beginning of this year. I think we are very pleased and fortunate that our results are... continue to be resilient and strong, although we believe that our results would have been even better has the market been a strong bull market. I think one data point maybe I can offer is, I ask my team to do a data pool and the data that I saw was 70% of our private secondaries fund products that we distributed since the beginning of this year had actually achieved positive returns this year 70%.

I think that's not bad given the market environment, but the key I believe is really selecting the right strategy for the right market. And on the product strategy, right? Long only for example, it's really only one of the strategies for our private market, secondaries products that we distribute or enhanced index. I think that was popular, but there are other strategies that we distributed this year, right? And our clients can choose from, right? For example, structured products, structured strategies, long short strategies, hedged strategies, FOF, CTA, et cetera. So, I think, again it's really... we believe it's to some extent selecting and distributing the right products in the right market. And then I think last point is, I think if the market comes back towards... for the rest of the year, we will have to very quickly adjust our product strategy to focus, for example on more long-only enhanced index products, right?

So, it goes back to our point on agility of our product strategy, which I believe is the key in this product category in the... as far as the secondaries fund products are concerned. And then maybe one last point is, I think historically, we had some success with working with some of the smaller, but perhaps lesser-known fund managers who could deliver outperformance. I think, we will continue to seek out these asset managers as well, the so-called dark horse asset managers, but I think we had some success in that direction historically as well. Hope this answers the question. Next question please.

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**Operator**

Thank you very much for all your questions. Now, we have reached the end of the question-and-answer session. I'll now turn the call back to the management team for closing remarks.

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**Wai Lok Hywin Holdings Ltd. - CFO**

Okay. Thank you. Thank you again for joining us today. If you have any further questions, please do feel free to reach out to us through our IR website or to us directly. We look forward to speaking with all of you in our next call. Thank you. Have a good day.

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**Operator**

Thank you. This concludes today's conference call. You may now disconnect your line. Thank you.

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