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Half Year 2022 Hywin Holdings Ltd Earnings Call

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PRESENTATION

Operator

Good morning and good evening ladies and gentlemen. Thank you for standing by. Welcome to Hywin Holdings Ltd.'s First Half of Fiscal Year 2022 Earnings Conference Call. (Operator Instructions) I will turn the call over to the first speaker today, Mr. Ryan Teng, and Investor Relations Director of Hywin. Please go ahead sir.

Ryan Teng Director, Investor Relations - Hywin Holdings Ltd.

Thank you, Operator. Thank you all for joining today's call for Hywin's Unaudited Financial Results for the First Half of Fiscal Year 2022.

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

On the call with me today are our Director, and CEO, Madam Wang Dian; and our CFO, Mr. Lawrence Lok. Madam Wang will review the Company's performance for the first half of Fiscal Year 2022. Mr. Lok, will translate for Madam Wang.

You may refer to our financial results of First Half of Fiscal Year 2022 on the Company's IR website at ir.hywinwealth.com. I will now turn the call over to Director and the CEO of Hywin Holdings, Madam Wang Dian.

Wang Dian Chief Executive Officer and Director - Hywin Holdings Ltd.

(interpreted) Hi everyone. Welcome to Hywin Holdings Earnings Call for the First Half of Fiscal Year 2022. On today's call I will review our first half results and update you on the significant progress across our business segments. I will also share some highlights from our ongoing strategic transformation.

After that I will turn the call over to Mr. Lawrence Lok, our Chief Financial Officer to provide greater details on the Company's first half financial performance.

In 2021 the COVID Pandemic was still raging across the world. However China achieved earlier economic recovery, thanks to its policies. China's strong growth momentum became an important backdrop for the wealth management industry.

Based on statistics compiled by McKinsey, China is now the second largest wealth management market globally with household investable assets exceeding RMB 330 trillion by 2025. As a result high net-worth individuals in China expect an expanding range of sophisticated and professional services from their wealth managers.

As Hywin's platform covers a full spectrum of asset classes and client services, Hywin is well positioned to capture the long-term wealth creation opportunities in China.

In the first half of Fiscal Year 2022, we continued to benefit from diversification in our business mix and we delivered resilient financial results. In the first half, Hywin reported a net revenue of RMB 881.3 million, increasing by 1.4% year on year which demonstrates our institutional resilience in a challenging and volatile external environment.

Operating costs and expenses were RMB 792.9 million, increasing 4.5% year on year. This increase reflected our continued investments in advisory capabilities and technology platform which underpinned our ambition to build a world-class investment advisory and asset management infrastructure.

As of December 31st, 2021, our total clients reached 135,000 representing a year-on-year growth of 12.5%. In the first half of fiscal 2022, the number of active clients increased 22% year on year to exceed 35,400 which is a new record high for us. Client repeat investment rate for the trailing 12 months was 81.6% which was 6.3 percentage points higher than the same period in 2020.

This is a key metric where Hywin dominates the industry. This continued growth of our client base and the strong client-activity levels underscored our product-sourcing capabilities and asset-allocation expertise.

For the past 16 years Hywin has been a trusted partner for Chinese clients, helping them navigate through economic cycles, and capture investment returns. Our insights into clients and foresight on the markets have cemented our position as a leading wealth manager trusted by Chinese clients.

At the end of 2021 we held VIP Client Conferences in 16 cities in China to mark our 16th Anniversary. Our in-house research team was joined by economists and strategists from leading financial institutions to analyze trends and help clients position for the coming year.

And in March 2022, Hywin will join hands with our partners VP Bank and WealthBriefingAsia and jointly launch a report on the private market investments space in the Asia-Pacific region. This report will shed light on the players in the private market space including high net-worth clients, fund managers, portfolio companies, and financial intermediaries, and offer guidance to our clients on this exciting market.

In the first half of fiscal 2022, total client transaction value in our wealth-management segment reached RMB 37.5 billion, increasing 3.5% year on year. In response to the changing environment in the real estate sector, our asset allocation methodology and institutional risk management, proved to be effective.

Transaction value from long-term asset-backed products declined by 37.4% year on year to RMB 13.7 billion, whereas the transaction value from short-term asset-backed products increased by 60.2% year on year to RMB 16.9 billion, which was a calibrated rotation in our clients' asset allocation. And as a result of our adaptive asset allocation and strong client stickiness our business demonstrated resilience in this period.

We also made progress on the diversification of revenue mix as the transaction values from hedge-fund products and private-equity products reached RMB 2.97 billion and RMB 919 million, respectively, growing 440% and 296% year on year, respectively.

Meanwhile as China's domestic-Asia's stock market faced volatilities in this period, the transaction value from mutual funds stayed largely flat at RMB 2.7 billion.

Notably we have been steering clients towards long-term investing principles and helping them allocate towards longer-tenor private-market products. An extended investment horizon can help clients capture strong returns across market cycles. Our product sourcing therefore continued to expand across asset classes and across strategies which are the building blocks for constructing segmented and tailored portfolios for clients.

In the first half of fiscal 2022 our asset management business continued to scale up with AUM growth of 74.2% year on year, reaching RMB 3.3 billion.

In 2022, we will continue to build up our family office offerings, execute on our globalization strategy, and expand partnerships with international asset management partners in order to enrich our global solutions for clients.

By December 31st, 2021, our distribution network has grown to 178 wealth-servicing centers in 88 cities including most of the top 50 cities in China, ranked by economic output. Our nationwide presence covers all of China's major wealth clusters, namely the Yangtze River Delta, the Greater Bay Area, the Bohai Economic Rim, and Central and Western China, with penetration into lower-tier cities where the local wealth pools are sizable.

Going forward, Hywin will use the Bohai Economic Rim and the Greater Bay Area as our two regional hubs. Together with our 18 strategic cities where we will focus on increasing our market share and building our brand power.

Our talent base remains strong. In the first half of fiscal 2022, the total number of relationship managers were 1,643, largely unchanged from the previous year. Productivity improved significantly as the average transaction value per relationship manager reached RMB 23.5 million, growing 7.5% year on year.

The elite segment of our relationship managers continued to be highly stable with a turnover rate of less than 5% for the previous 12 months which beats our peers in this important metric. Meanwhile we intensified efforts to nurture young talents with campus recruitment at leading universities in China.

We believe a strong middle back-office support system is also crucial to efficiency gains and advisory quality so we continuously adopt best practices. In 2021 the People's Bank of China, published a code of best practices for the wealth management industry with clear guidance on professional standards. Our training, certification, and KPI regime have therefore incorporated this code from the PBOC.

Technology and digitization are crucial enablers in Hywin's strategic transformation. In December 2021, we appointed Mr. Zhu Hua, as our Chief Technology Officer, to accelerate our digital transformation. Our collaboration with IBM also continued to yield results as we digitized our client services, our relationship managers' portals, and our operational processes.

The Hywin Mobile App which is the client portal also continued to improve in client experience and service capabilities. Daily active users, DAU, of the app saw year-on-year growth of 40% in this period.

Our proprietary decision-enabler system for relationship managers has achieved adoption rate of nearly 100% and is now supporting our staff across client acquisition, client servicing, and portfolio customization. Now 100% of our tailored asset-allocation proposals are now constructed online and more than 80% of our businesses can now be digitally executed.

We are also expanding and laying the foundation to expand into healthcare as wealth and health, are two overarching goals for most high net-worth families in China. Our vision is to leverage our core wealth management business while building out asset management and health management as two strategic levers to grow and monetize our high net-worth client base.

As an opening shot in our entry into healthcare, in late 2021, we launched the Hywin Global Health Care Fund. The objective of this fund is two-fold. Investing into global opportunities in healthcare and life sciences on one hand, while potentially introducing selective, global, cutting edge health management technologies and services for our high net worth clients in China on the other hand.

Over the past year we achieved significant results across multiple fronts, from diversification of revenue mix, to the upgrade of our research and advisory platform, to enhancing our talent management and performance delivery, to the expansion of the Hywin ecosystem into new domains. These achievements are rooted in our market leadership and our dedication to clients. Our strategic direction is clear. And we expect strong momentum to continue.

Looking forward, we will continue to enrich our wealth management business, scale up our asset management franchise, remain the premier brand that high net-worth clients in China trust to guide them across market cycles and across borders.

We seek to unlock growth by expanding our boundaries, increase profitability from cost discipline, and drive efficiency through technology.

Creating sustainable value for clients and for shareholders is always our first priority. Thank you all for your support. And with that, I would like to turn the call over to our CFO, Lawrence Lok.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Thank you, Madam Wang. Thank you all for joining us today. Please note that unless otherwise stated, all financial numbers presented today are in RMB and comparisons are made on a year-on-year basis.

During the first half of our fiscal 2022, ended December 31st, 2021, our total net revenues increased by 1.4% year on year to RMB 881.3 million. Overall, we believe the stability in our topline in this period is a testament to Hywin's resilience despite ongoing uncertainties in the macroeconomic environment both in China as well as globally.

Revenues from the wealth management segment were RMB 855.4 million, remaining flat from the same period in fiscal 2021. Revenues from the asset management segment were RMB 9.0 million, up 35.1% year on year.

As we continue to strengthen our investment management capabilities and realize greater investment gains for our clients we expect our asset management segment to continue delivering strong growth going forward.

On the cost and expensive side, total operating costs and expenses for the reported six months were RMB 792.9 million, up 4.5% year on year.

Among that compensation and benefits were RMB 494.1 million which was flat year on year and was in line with our distributed transaction value and the stability in our relationship management team.

Meanwhile our SG&A expenses were RMB 294.7 million, an 11.4% increase year over year, as we further built out our technology and our talent platform while increasing our share-based compensation expenses.

On the balance sheet side, as of December 31st, 2021, our cash and cash equivalents increased by 9.6% to RMB 481.5 million. Also as a result of our continued optimization, our total account receivables was reduced to RMB 561.1 million as of December 31st, 2021.

During this period, we also made an investment to purchase the office space of our headquarter and in Shanghai which we view as essential to the long-term development of our headquarter.

We continue to maintain a healthy liquidity profile and financial position. Our liability to asset ratio further fell to 48% as of December 31st, 2021, compared to 53% on June 30th.

Overall we believe this reporting period once again demonstrated Hywin's resilience in the midst of an uncertain economic environment where there was considerable capital markets volatilities.

It was reassuring though that during this half, our customers continued to show strong demand for our services, our advisory, and our investment products.

We believe our ongoing strategy execution including our product diversification strategy, our platform strategy, and our talent strategy will help us in capturing the dynamic opportunities in China's fast-growing wealth management industry.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jiageng Sun from Orient Securities. Please ask your question.

Shengyu Tao Analyst - Orient Securities

Hello. I'm Shengyu Tao, from Orient Securities. In the first half of the Fiscal Year 2021, the performance of the fund raising and the topline were almost the same as compared to the same period of the last year. So my question is what are the drivers for the growth of the company in long term? Thank you.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Let me translate this.

Wang Dian Chief Executive Officer and Director - Hywin Holdings Ltd.

(interpreted) So first of all, in the first half of fiscal 2022 given that there was external market volatilities and changes in the regulatory environment there were also changes, in the client demand in the underlying asset classes or sector allocation, what we saw with that client demand for asset-allocation services as a whole continue to be very strong for us.

So we acted ahead of the market and adjusted our asset-allocation guidances that we gave to our clients. And that's one point.

And then the other point that we wanted to make was, in order to help our clients continuously capture returns from long-term asset allocation regardless of market environment, what we also did was we further expanded our partnerships with leading fund managers in the industry in order to increase our equities products, long-term equities products especially our private-equity products as well as some of our secondary market hedge-fund products which as you saw just now, we presented, grew 440% and 296%, respectively.

And furthermore our in-house asset-management segment will also grow as we continue to strengthen our investment management and research capabilities, and expand our asset-management team.

So we believe that all of these going forward will create long-term value over time as there will be further diversification in our wealth-management product offerings as well as a growing scale of our clients AUM, our clients as under management and we should therefore see our recurring revenues grow over time as well which will have a positive snowball effect that will benefit both growth as well as revenue visibility.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Operator, next question please.

Operator

Sure. Your next question comes from the line of Peng Zhang from Nomura. Please ask your question.

Peng Zhang Nomura Orient International Securities - Analyst

(Foreign Language)

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Thank you. Thank you for the question. So let me answer this one.

Peng Zhang Nomura Orient International Securities - Analyst

Okay. I'll proceed with English version. We noticed the operating margin decline year on year with personal cost accounting for over 50% of the revenue. So what is the company's plan going forward to increase operating margin and profitability.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Yes. Thank, thank you. Thank you very much for the question. So let me answer this one. So a couple of points we can make here. Number one, first let me emphasize that you know, cost control and efficiency improvements continue to be a key priority for our senior management. That hasn't changed.

That said, this year what we did was we strategically invested more in our people and our infrastructure in particular to strengthen our

core platform and our technology which we believe will benefit our long-term profitability.

Second, as we accelerate our digitization strategy, as we discussed just now, our relationship managers we believe will be increasingly empowered by technology to improve their client-acquisition efficiency as well as improve the overall client experience from clients which we also believe will help us obtain high productivity from the relationship managers over time so that our future growth will come with lower marginal-cost as well as higher profit margin.

And then the last point we want to make is, as our revenue mix will further diversify, as we talked about just now, and a greater portion of our revenue will be coming from longer tenor -- longer-duration products we expect to grow our recurring revenues and our performance-based revenues.

And higher recurring revenues in the long run should also benefit both our revenue visibility as well as our profit margin over time. Thank you. And next question please?

Operator

Your next question comes from the line of Sandy Mehta, from Evaluate Research. Please ask your question.

Sandy Mehta Analyst - Evaluate Research Ltd.

Yes, sir. Good afternoon. How much were your results impacted by the volatility within the real estate investment products that's been happening in China. And is most of the client churn or reallocation will return to real estate, is that now behind you? Thank you.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Yes. Thank you. Thank you, Sandy. I'll answer this question as well. So I think you're right in pointing out that there was market volatilities and changes in the environment, in the overall macroeconomic environment and in particular relating to the real estate sector.

So what we did right in this period that was important was we had to act ahead of the market basically and basically adjusted our asset allocation strategy in response to the changing environment.

So what we talked about just now in the main part was that overall our asset-allocation methodology as well as our risk-management methodology worked well in this period, as we guided our clients away from, some of these underlying sector exposures but directed them towards shorter duration and lower risk asset-backed products in this period. And so we saw this as effective.

As to your question on whether the changes or the volatility in the underlying physical market or the underlying sector is over. I think it is perhaps premature for us to comment on that. I think what's important for us is that we are offering a full range of assets products that our clients can invest into in their portfolios and construct healthy and balanced portfolios that can capture returns in the longer run. Thank you. Next question please?

Operator

Your next question comes from the line of Jeff Wong, from GAM Hong Kong. Please ask your question.

Jeff Wong Gam Hong Kong Limited - Analyst

(Foreign Language) And let me repeat my question in English. So this is Jeff Wong calling from GAM Investments. My question is how do you see the competition coming from other competitor like banks, brokers, and other independent wealth managers, including those international players entering China? Thank you.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Okay. Let me translate for Madam Wang.

Wang Dian Chief Executive Officer and Director - Hywin Holdings Ltd.

(interpreted) Firstly, China's wealth management market is both a massive total addressable market as well as a fast-growing markets, so our view is that China's wealth management market is not a one-size-fit-all industry but it is comprised of many different client segments that should be served by many different tiers and types of financial institutions.

So for independent wealth management players like Hywin, really what the core value proposition that we can provide is that we can always start from our high net-worth clients perspectives, understand our clients and provide tailored asset-allocation services.

So we do believe that high net-worth clients and family-offices clients in China, do see the value that a long-term trusted adviser, like Hywin, is able to provide.

And then there are foreign institutions or private banks in China. They may be well established in their service model in their own right but they may not be as deeply local as we are for us, Hywin. We've been in this wealth management business for over 16 years.

So our clients long-standing experience with us through the various macroeconomic and market cycles, plus our deep penetration into the various local markets in China, we believe will continue to serve as our competitive moat. Thank you.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Next question please?

Operator

There are no further questions at this time. I would like to hand the conference back to today's presenters. Please continue.

Lawrence Wai Lok Chief Financial Officer - Hywin Holdings Ltd.

Okay. No further question. Then this will be the end of our call. Thank you very much. And we look forward to seeing and hearing from you guys on our next call. Thank you. Have a good day.

Wang Dian Chief Executive Officer and Director - Hywin Holdings Ltd.

(Foreign Language)

Operator

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

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