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Q3 2021 Hywin Holdings Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Nick Xiao** *Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings*  
**Wang Dian** *Hywin Wealth Management, Co. Ltd. - CEO, Hywin Holdings*  
**Zhou Huichuan** *Hywin Wealth Management, Co. Ltd. - CFO, Hywin Holdings*

## CONFERENCE CALL PARTICIPANTS

**Antonio Chang** *BOCI*  
**Anthony Ma** *JPMorgan*  
**Shirley Xing** *BOCI - Analyst*  
**Joshua Chiu** *Rothschild & Co.*  
**Joseph Chan** *Guotai Junan*  
**Sandy Mehta** *Evaluate Research - Analyst*

## PRESENTATION

### Operator

Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to Hywin Holdings Ltd.'s Third Quarter Fiscal year 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after the management's prepared remarks.

I'll now turn the call over to your first speaker today, Mr. Nick Xiao, Vice President of Hywin Holdings. Please go ahead, Sir.

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### **Nick Xiao** *Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings*

Thank you, operator. Hello, everyone. On the call with me today, are our director and CEO, Madame Wang Dian, and our CFO, Mr. Zhou Huichuan.

I would translate for the CEO and the CFO, and then host the Q&A session. You can refer to our third quarter fiscal year 2021 financial results on our company's IR website, [ir.hywinwealth.com](http://ir.hywinwealth.com).

Before we start, please note, this call may contain forward-looking statements made pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors that were not under the company's control, which may cause actual results performance or achievements of the company to be materially different from the results, performance, or expectations implied by these forward-looking statements.

You may refer to the Safe Harbor Statement in the Company's earnings release for more details. I will now turn the call over to Director and the CEO of Hywin Holdings, Madame Wang Dian. (Spoken in Chinese).

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### **Wang Dian** *Hywin Wealth Management, Co. Ltd. - CEO, Hywin Holdings*

(interpreted) Hello, everyone, welcome. And thank you all for joining today's call for Hywin's unaudited financial results for the third quarter of fiscal year 2021.

Our recent listing on NASDAQ was a major milestone in our corporate journey. We are committed to creating long-term value for our clients and investors and look forward to earning your trust through our performance, prudence, and hard work.

During the third quarter of fiscal year 2021, China continued its strong economic recovery with acceleration in investment and financing activities. This provided a supportive backdrop for the wealth management sector.

After experiencing the global volatility of 2020, Chinese high-net-worth clients demand un-biased and high-quality asset allocation services and challenge the wealth managers more than ever to deliver robust investment advisory and holistic solutions.

We were able to meet these challenges and achieve exceptional financial performance by focusing on the core elements of our strategies, to fulfil client needs, to empower our talent, and to drive innovation and efficiency through technology.

During the third quarter of fiscal year 2021, we achieved all-time highs in the net revenues and net income. Our net revenues were RMB463 million, increasing 46.5% year on year. Net income attributable to shareholders was RMB 61.87 million, increasing 97.6% year on year.

We believe that strong financial performance is a natural result of meticulous execution of a good growth strategy. This was proven once again in this quarter.

As of March 31st, 2021, our total clients had grown to a historical high of 124,043, increasing 13.5% year on year. This was made possible by our efficient client acquisition and strong client-servicing skills.

Meanwhile, our active clients in the quarter reached a new record of 29,064 increasing 24.7% year on year. The growth in client activities was driven by our use of data analytics to sharpen client segmentation, client profiling, and client needs discovery.

The average transaction value per client of our privately-raised products during the quarter, increased 14.5% year on year to RMB3.38 million, demonstrating the increased efficiency in our client's asset allocation.

The continued growth in our client base was also supported by our high-quality research and advisory services. Our investment advice to clients across asset classes and across investment strategies has been proven through market cycles and is trusted by our clients.

During the quarter, we hosted 484 online and offline client events with more than 13,000 high-net-worth clients in attendance. In April, we unveiled our 11th asset allocation white paper, titled A New Strategy for a New Context. This white paper has been read by more than 35,000 of our clients to date, another testament to our intellectual leadership.

During this quarter, the aggregate transaction value of wealth management products reached RMB21.7 billion, increasing 22.5% year on year.

Notably, the transaction value for privately-raised products during the quarter reached a historical high of RMB20.1 billion growing 53.2% year on year. The growth was supported by our expanding product range, rigorous due diligence, and the ability to accurately discover client needs through the "X-LINK" digital sales platform.

During the quarter, we added more products to our product menu. We also kicked off collaboration with additional asset managers to extend our scope to cover the full range of product tenors and investment strategies.

During the quarter, our transaction value for publicly-raised products was RMB1.58 billion, a decrease of 65% year on year. However, our transaction value for private securities funds increased by more than 116 times to reach RMB520 million. These numbers reflected the migration within the liquid space from momentum driven mutual funds to performance-driven private funds. This is a trend encouraged by our long-term investment philosophy.

During the quarter, our total operating costs increased 35.8% year on year to RMB371 million, growing slower than our revenue for the same period. Our continued efficiency gains were the result of our transition towards a flat and nimble organizational structure.

For example, we established two regional headquarters in the Greater Bay Area and the Bohai Economic Rim to increase responsiveness to regional trends, accelerate decision making and promote cross selling amongst local teams. In addition, we have been very effective at guiding operations with our specialist committees which combined expertise with accountability.

Meanwhile, we continued to deploy technology in our procurement, resource allocation and efficiency-tracking to further optimize costs.

During the quarter, our relationship managers continued to raise their productivity. Transaction value per relationship manager was RMB13.67 million, increasing by 32.4% year on year. Net revenue per relationship manager exceeded RMB290,000, representing a substantial increase of 58.3% year on year.

These efficiency gains were powered by our excellent training regime and gradual transition of our compensation practices towards a long-term equity-based system, igniting the entrepreneurial passion of our people. In addition, we continued to upgrade the functionalities of our technology platform to enhance client-needs discovery and expand sales touchpoints further boosting the productivity of relationship managers.

Next, I would like to share some exciting recent developments. In March, we signed a strategic collaboration agreement with VP Bank Ltd. a company listed on the Swiss Stock Exchange to provide Hywin's clients with global wealth management solutions.

In April, Hywin was voted the "Best Wealth Manager of Greater China" at the WealthBriefingAsia Greater China Awards 2021.

In May, WIND Info, China's largest financial information provider began publishing Hywin Research Institute's reports to their subscribers, who are mostly professional investors and institutions.

These achievements are tributes to Hywin's leadership position in China's wealth management sector and it reflects our operational excellence and commercial success.

As the world enters the period of recovery and adjustment, the bond between clients and their wealth managers has grown closer and stronger. Today, Hywin is combining growth with excellence, delivering value in addition to scale, and leveraging success in China to build a global brand.

Guided by client insights, backed by technology, and powered by our passionate people, we are fully confident in delivering high quality and sustainable growth throughout economic cycles. Thank you.

Now, I would like to pass to our CFO, Mr. Zhou, to review our financial results for the third quarter of fiscal year 2021.

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**Zhou Huichuan Hywin Wealth Management, Co. Ltd. - CFO, Hywin Holdings**

(interpreted) Hello and thank you for joining us today. Before I proceed, please note that all numbers presented are in RMB terms and for the third quarter of fiscal year 2021 ended March 31st, 2021. While all the comparisons and percentage changes are year on year unless stated otherwise.

We have achieved strong growth during the quarter as our total net revenues increased by 46.5% year on year to RMB463 million. Growth was primarily driven by our wealth management services which increased revenues by 49.9% year on year to RMB426 million. Growth for this segment was mostly due to increased volumes in privately-raised products.

Net revenues from insurance brokerage services were RMB25.77 million, decreasing by 14.7% year on year, mainly due to travel restrictions related to the COVID-19 pandemic. Net revenue from asset management services were RMB5.33 million, increasing by 265.5% year on year as client interest in offshore funds and mandate continued to grow.

Net revenues from other services were RMB6.2 million, mostly from technology consulting and other value-added services.

For the quarter, total operating cost and expenses were RMB371 million, increasing by 35.8% year on year, in line with our net revenue growth. Looking at cost breakdown, costs of compensation and benefits increased by 37.5%, sales and marketing expenses increased by 21.7%, general and administrative expenses increased by 19.4%. All these changes were in line with our revenue growth.

Income from operations increased by 115.3% year on year to RMB91.82 million while net income increased by 97.6% year on year to RMB

61.87 million.

Basic and diluted earnings per ADS were both RMB2.46 compared to RMB1.25 in the same period of fiscal year 2020. Each ADS represent two of the company's ordinary shares.

As for our balance sheet, we had RMB404 million in cash, cash equivalents, and restricted cash as of March 31st, 2021 compared with RMB188 million as of June 30, 2020.

Finally, I would like to share our expectations for the coming quarter. For the fourth quarter of the current fiscal year ended June 30th, 2021, we expect our net revenues to be between RMB480 million and RMB510 million. This forecast only reflects our current and preliminary views on the market and operational conditions which are subject to change.

Looking ahead, we expect to continue to expand our client franchise, enhance our products and services, empower our people, deploy technologies, and increase operational efficiencies and it creates substantial and sustainable value for our clients and shareholders. Thank you.

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**Nick Xiao Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings**

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

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## QUESTIONS AND ANSWERS

### Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. (Operator instructions).

Our first question comes from the line of Antonio Chang from BOCI. Please ask a question.

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### Antonio Chang BOCI

(Spoken in Chinese).

I heard "tech" and "digital" were mentioned by the CEO and CFO. In a tech-saturated market like China, how is Hywin really using tech, and what results you want to achieve?

(Spoken in Chinese). Thank you.

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### Wang Dian Hywin Wealth Management, Co. Ltd. - CEO, Hywin Holdings

(interpreted) Nick Xiao^ I will translate for the CEO. First, I want to say that for Hywin, technology is not a tool but a way to structure our business. Technology is a lens through which we find our clients, understand them, get to know their needs and improve our operations.

Firstly, we use technology to "find" clients. Through our digital platform, We've broadened our interface through the high-net-worth population in China and increase the efficiency of client conversion.

We also use technology to "understand" the clients. We construct client profiles and map client needs with the fragmented information by using diagnostic tools.

This profile provides basis for our highly tailored solutions. In addition, we do technology to service clients. We use integrated online and offline engagements to enhance informational contents and to drive needs fulfillment.

Of course, we also use technology to improve operations, the intelligence and transparency generated from data help us manage

process, risks, and the costs.

Next question.

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**Operator**

Thank you. Next question comes from [Anthony Ma] from JPMorgan. Please ask your question.

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**Anthony Ma JPMorgan**

(Spoken in Chinese).

So, Hywin had already achieved the high-growth in Chinese wealth management market. So, how do you plan to sustain your growth in the years to come, please? [Xiexie].

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**Wang Dian Hywin Wealth Management, Co. Ltd. - CEO, Hywin Holdings**

(interpreted) As we know, China has more than 2 million high-net-worth individuals and more than RMB200 trillion of personal wealth. This huge market can continue to grow at 15% CAGR in the years to come.

Hywin has had 16 years of continuous growth, and navigated multiple economic cycles. We have built a physical network of more than 170 wealth service centers in more than 80 cities in China, nearly 1,600 relationship managers, a strong digital platform and 120,000 high-net-worth clients.

Building on the successful wealth management business, we will accelerate the build out of asset management business in both onshore and offshore locations to increase the weighting of recurring income on a diversified revenue sources.

We will also continue to expand our product offerings, strengthen advisory capabilities and enhance investment management expertise. We will also promote cross selling and up-selling to increase our share of client wallets.

In the meantime, we continue to make great progress in our digital transformation, our digital infrastructure, digital interfaces, have delivered excellent experiences for clients, efficiency gains for our teams, and the commercial value for the firm.

In addition, we will scale up our Hong Kong business and opportunistically enter new offshore markets. Chinese wealth is rapidly globalizing and Hywin is well placed to be the bridge.

Thank you. Next question.

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**Operator**

Thank you. Our next question comes from Joshua Chang from Rothschild & Co. Please ask a question.

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**Joshua Chiu Rothschild & Co.**

(Spoken in Chinese).

So, we noticed that the company had delivered a very strong growth in particular over the given period. On the other hand, the overall like I said, the net margin has been weak compared to market in front of their peers. So, our question is that if there is any measures or changes that could help increase the net profit margin in near and median term? Thank you.

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**Zhou Huichuan Hywin Wealth Management, Co. Ltd. - CFO, Hywin Holdings**

(interpreted) Thank you. First of all, we expect continued momentum in our revenue growth. The weighting of high-margin products in our wealth management business is expected to increase and the revenue from our asset management business are also expected to rapidly scale up.

Meanwhile, as our digital transformation delivers efficiency gains and the productivity of relationship managers continue to grow, the marginal cost of the business continues to decrease. This means sustained improvement on the cost income ratio and will create substantial profit growth from our operations.

The investments we make in nurturing our people and educating our clients generate tremendous intellectual capital on the branding value. These are crucial foundation for our commercial success. We will continue to make smart investments in these areas.

Thank you. Next question.

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**Operator**

Thank you. Next question comes from Joseph Chan from Guotai Junan. Please ask your question.

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**Joseph Chan Guotai Junan**

Hi. This is Joseph Chan of Guotai Junan Wealth Management based in Hong Kong. And the CEO just now mentioned about the strategic cooperation agreement with the VP Bank, the Swiss bank, what are the benefits of this tie-up? Thank you.

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**Nick Xiao Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings**

I will take this question. VP Bank, our partner, is a boutique European private bank famous for its expertise in global custody, execution, fund advisory, and wealth planning.

Through the recently executed cooperation, we now can use VP Bank's brokerage, trading and custodian platform to manage accounts and implement investment strategies for our high-net-worth clients in the offshore space.

Also, VP Bank can provide credit to Hywin clients to support their portfolio construction and insurance policy financing and even real estate purchases in selected global locations.

The cooperation between Hywin and VP Bank will meet client demands for integrated onshore and offshore proposition. This also reflects the appetite of global financial institutions for the China markets.

Actually, just two weeks ago, the Shanghai government published a major policy announcement on the plan to build Shanghai into a global hub for asset managements. This plan includes supportive measures for global asset managers coming to China but also for Chinese asset managers entering the offshore market.

Hywin will look for opportunities to work with the leading global asset managers to capture opportunities and value in this space.

Thank you, Joseph. Next question?

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**Operator**

Thank you. Next question comes from Shirley Xing from BOCI. Please ask your question.

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**Shirley Xing BOCI - Analyst**

(Spoken in Chinese).

We know that one of our wealth management business advantages is the supply of the real-estate products. However, according to the third parties private wealth reports, you can see that asset allocation of the high-net-worth population on the equity investment increases and demand of the private equity increases significantly. So, do we have some advantage versus these changes? Thank you.

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**Nick Xiao Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings**

Thank you, Shirley. I will take a shot. It's a very good question, Shirley. You correctly pointed out that at this moment, the bulk of the products our clients transact through us are the real estate-backed fixed income products.

And I think we should look at this way. For the portfolio of any high-net-worth clients, it's just like a wedding cake. At the bottom is the fixed income. People love the certainty and the cash flow.

On top of it, people gradually build liquid alpha, mutual funds, and then illiquid long-term alpha, private equity, venture capital, and hedge funds.

I think Hywin is in a very advantageous position because we have been with clients for the past 16 years for our 120,000 clients, they have always known us as a robust, reliable, delivering what we promised. That's the feature of our fixed-income centric proposition in the past.

But now, leveraging the same client relationships and gradually expanding our spectrum of products and building up our advisory skills in more asset classes, I think it's a matter of time and actually very quickly clients would bring more business to us and we'll be in an even stronger position to do truly multi-asset class allocations across private and public and across equity and fixed income, and of course, across onshore/offshore.

To answer your question, if we have client relationships and sixteen years of unbroken trust, it's actually pretty easy to expand our product spectrum and you are going to see that pretty soon.

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**Operator**

All right. Thank you. Next question comes from Sandy Mehta from Evaluate Research. Please ask your question.

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**Sandy Mehta Evaluate Research - Analyst**

Yes. Congratulations on the strong earnings performance as well as execution. The wealth management business accelerated this quarter. You're up 50% and you mentioned that privately-raised products have been really well. Do you get higher margins in that and is that -- and can you talk about what specific products is selling really well or where does the customer interest in what sort of products? Thank you.

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**Nick Xiao Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings**

Thank you. (Spoken in Chinese).

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**Wang Dian Hywin Wealth Management, Co. Ltd. - CEO, Hywin Holdings**

(Spoken in Chinese).

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**Nick Xiao Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings**

Thank you. I will translate for the CEO. To answer your question, yes, as you correctly noted, privately-raised products are currently very popular with our clients and mainstay of the business. But we do believe and we're already witnessing, clients' needs are rapidly diversifying and we're expanding our product universe to meet them.

Very importantly, Hywin asset allocation methodology is based on three pillars. Firstly, the first one, we are very good at macroeconomic research. So, we have house view on the asset classes and we tend to be right. And two, we also focus on the policy and the macro regulations so that we position our clients' portfolio with foresight.

And very importantly, we think client needs are not necessarily obvious and apparent to themselves so we understand the clients, we know their needs, and we anticipate their needs. So, it's possible that with the client-education process based on research, policy reading, and client understanding, i.e. the three pillars, our asset allocation methodology will support expansion of our business interface with our clients. Thank you.

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**Operator**

All right. Thank you. As there are no further questions at this time, I'd like to hand the conference back to your management team, for the closing remarks.

**Nick Xiao Hywin Wealth Management, Co. Ltd. - VP, Hywin Holdings**

Okay. Thank you, operator, and thank you everyone for attending today's call. If you have any further questions and inquiries, please feel free to contact us at our IR website. We very much look forward to speaking with all of you at our next earnings call.

On this note, we wish you a very good day. Thank you.

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**Operator**

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

Editor: Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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