



Vinda International Holdings Limited
2021 Q1 Results Conference Call
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Speakers

Ms. Karen Li, CEO (KL)
Ms. Vicky Tan, CFO & Company Secretary (VT)
Ms. Kyra Lee, Investor Relations Officer (KYL)

Presentation

KYL: Good morning ladies and gentlemen, welcome to Vinda International's 2021 first quarter results briefing call.

On the line we have our CEO, Ms. Karen Li, and CFO, Ms. Vicky Tan. Today's call will last for about 30 minutes. Karen will first present the results and then we will open for Q&A.

Just a reminder, we have sent you a presentation deck this morning. Please check your email box or download it from our website.

Now I would like to pass the time to Karen. Karen, please.

KL: Thank you, Kyra. Good morning, ladies and gentlemen. We started the year 2021 with a very strong quarter one performance. Revenue over the period increased by 30.7%, which represents organic growth of 23.5%. In particular, mainland China, developed an exceptional growth over the period with an organic growth of 35.9%. Gross margin is at HKD1.7 billion over the period and a gross profit margin has improved not only compared to the same period last year but also on a sequential basis when comparing to the last quarter in 2020. We're able to do that by enjoying some of the low-cost materials that we have in our inventory and of course, as better fix coverage of our volume due to our better sales in quarter one.

Operating profit is at HKD700 million over the period, which represents an operating margin at 15.7%. Again, that is a better operating margin, not only

compared to a quarter one 2020, but also on a sequential case comparing to the last quarter.

SG&A compared to quarter one last year was higher, but for those of you who remember what happened in quarter one last year, I would say this is a very difficult comparison to make, because it was very little marketing activities due to COVID in the same period last year. SG&A is significantly lower in this quarter compared to the last quarter due to fewer promotional activities and e-commerce activities in this quarter. Of course, this is also helped by a very disciplined pricing management we have in place, which is something that Vinda has always had in the past. And very similar story for net profit and net profit margin, which I will not go into detail.

A little bit more details on the revenue breakdown for the Group. As I have mentioned, revenue was up by 23.5% organically to a level of HKD4.47 billion in quarter one, 2021. Our strong growth in mainland China was partially offset by a relatively weak performance in North Asia. And particularly, Hong Kong began for those of you who remember quarter one last year, we had some very extreme panic buy situation in Hong Kong, which again made the comparison practically difficult in quarter one. But I have mentioned before, for mainland China and Southeast Asia, we had the fantastic performance in quarter one which is reflected in the growth number that you're seeing in this slide. From a category perspective, it was a strong quarter for both tissue and personal care.

Mainland China has delivered exceptional growth, while overseas markets had a modest growth which is in line with our expectation. While the majority of our personal care business are still coming from overseas. You can see that the personal care business at the percentage to total sales is now around 18% of our total sales within the Group. Little bit more details on our performance in mainland China, I think I touched on it before, it was a great quarter for mainland China, we're able to grow in the very good way over the quarter with the organic growth of 35.9%. Not only tissue, but also personal care had a great performance in this quarter in particularly for our feminine care business in China, we had a growth number that is over 100% in quarter one, which is a great start of the year, obviously.

In terms of channel, we are seeing a very good recovery of basically all the channels. Again, of course, we had a very strong quarter for e-commerce, close to 50% growth in quarter one for China. Apart from our online channel, we have also seen some of the offline channels key account and distributors we are seeing very good performance with continuous recovery that we're seeing following last year.

Last but not least, for professional hygiene, we have close to 40% growth against continuous recovery in this channel, and which you can see the channel split for China in the next slide. We talked about our premium category quarter-over-quarter and this quarter is again with no exception. A very good quarter for our premium products in particularly for China. For example, Tempo again, had a very good performance with the growth more than 80%. And just to remind you that this is a very continuous strategy that we are taking within Vinda to push for our premium category, which have a gross margin that is roughly 8 to 10 percentage points higher than our non-premium tissue category.

Little bit more details on gross profits. Thanks to our continuous product mix improvements, gross profit increase by 35.6% to a level of HKD1.7 billion during the quarter. While gross profit margin increased 1.4 percentage point to a level of 38.9% in quarter one, 2021. This is a better performance compared to quarter four last year sequentially mainly due to a better mix within our product portfolio and also less promotion in quarter one.

And of course the higher contribution from personal care, which I think I touched on before in particularly for our *VIA Libresse* in China, this has also helped to increase our gross margin compared to the last quarter. If we take a comparison versus the same period last year when it comes to gross profit margin, I think I talked about in the first slide that the improve mainly comes from better cost efficiency, and of course, lower raw material prices. A pulp price movement, you can see from the chart on the right that in terms of pulp, it has moved up quite a bit during the period for both long fiber and short fiber. However, our growth margin has managed to remain at a very good level, because we are still benefiting the low pulp cost in our inventory. But as you can imagine, this would eventually translate into a cost line and normal order to cover these we have put a plan in place already to increase prices in the coming quarters for some of our tissue products. And of course, it together with other cost savings and efficiency optimizing program will do that together with the price increase to maintain our good profitability level.

Operating profit, I think I touched on a lot of the elements before, but just to emphasize we have a very stable SG&A against us for this quarter. But on the other hand, we are continuing to invest in brand buildings with a lot of focus in premium products and personal care in particularly for China. I guess the story is very similar for EBITDA which I would not go into details a lot.

When it comes to our revenue by channel, I think again if we compare to the same period last year on both the Group level and mainland China level, e-commerce again has taken another level up for the Group in quarter one 2021, it is already

36% of our total sales for China, it is 44% of our total sales in the region.

In terms of recovery and performance by each channel, I think I talked about before all four channels basically had a very good performance over the quarter. For traditional channels such as distributors and key accounts, I think this is the very first quarter that we are seeing a significant recovery. And particularly, for key accounts that we are seeing great performance in the quarter driven by a lot of the O2O channel within key accounts. And for professional hygiene, following a very successful recovery in quarter four last year. We have delivered another great performance in quarter one. We are seeing a very strong growth in terms of professional hygiene and we believe that this will continue into the coming few quarters in 2021.

Last but not least, within Vinda Innovation is a core principle and something that we are continuously driving, not to only drive growth, but also to drive margin. So just to give you a bit of flavor on the different innovation in new launches that we have done for all the categories in quarter one. In Vinda, you can see that we are continually to upgrade our product packs, some special editions and also wet wipes which is the providing very strong growth for quarter one in terms of both growth and margin. For tempo, as you can see that this is a premium brand, the most premium brand in the market and we are also driving a lot of innovation behind to not only drive penetration, but also to drive our entire portfolio upgrade.

Libresse, VIA, I think, I talked about it before, we have started the year with a great quarter of 100% sales (growth). And apart from continues to drive our penetration, we are also continuing to put different innovation and new products online to refresh the brand and different consumers and the same story for incontinence and professional hygiene.

So, I think I'll stop here and we're now open for Q&A.

VT: As you know, we only disclosed few numbers for quarter one results. So please understand in the Q&A session for some questions, we may not able to comment in a very detailed way.

KYL: Now we come to Q&A session. Operator, please make an instruction for Q&A.

Q&A Session

Tiffany Feng (TF) from Citi

TF: Hi, Karen, Vicky. Good morning and thank you for the presentation, congratulations for the results. My first question is regarding the pulp price. And could management help us understand the drivers behind the pulp price increase and what do you think about the trend in the second half and the next year? Secondly, for the tissue selling price, I think it is quite surprising that the top four players, all announced the price hike of over 10% even though there is no immediate cost pressure given that above the normal pulp inventory. Do you think is there anything changed on the competition landscape? And what is different when compared with the years 2017 to 2018. I recall at that time the pulp prices were quite difficult. My last question is, I want to know what is the impact on the sales volume after the price hike? And any chance to see a second round of price hikes going forward? Thank you.

KL: Yeah. Okay. I'll start. Thank you, Tiffany. I think the first question is on pulp price. I think there have been a lot of studies and analysis going on the market on what are the drivers behind the pulp price movement. I think, it's difficult to really do a forecast, but of course, pulp is a global commodity and on a macro perspective, theoretically it has a lot to do with the demand and supply sides of pulp not only from China but from the global market. So, the economic recovery from COVID and consumer demand and things like that are all factored into the equation. When it comes to China, perhaps, the situation is a little bit different. Sometimes the pulp price development are also being impacted by speculations, e.g. the Shanghai future market and things like that. So, it's quite difficult to kind of describe everything in one go. But it also has to do with the suppliers which it's something that is difficult to forecast. But on the longer-term perspective, I think any movement of any commodities should reflect the fundamentals of the economy and the economic activities and consumer demand.

So of course, at this point in time, I think it is still difficult to foresee. China has come back pretty well after COVID, but for a lot of the western countries, you know better than me, it's quite difficult to see how whether consumer demand will come back to a normal level. But having said that, you feel that the pulp price had reached to a very high level in a very short period of time, which is historically something that we have not seen. To us it's also quite unusual that we think this kind of spike, but again and more like this, I'll say it's difficult to forecast the development.

When it comes to selling price, I cannot comment on other players. But for us, as you can see that yes, in quarter one, we're still able to deliver a very good margin.

And I think we have communicated before that because of the level of pulp that we have internally, we do have a good foreseeability of our cost structure for tissue for 2021. But having said that, eventually the price increase will kick into our cost line and of course, we need to be prepared, better prepared for this, and that is why we are putting a plan in place as you might have picked up from the news before that is to increase the price. But of course, the strategies can be different for different channels and for different customers, and we will do these things in a good way. And of course we do that as we need to stay very close to the market and see how the market is developing and we will adjust our strategy over time.

VT: And I think, Tiffany, you mentioned that last time it was quite difficult to increase the prices and you mentioned that this time all the big players announced the price increase. So, circumstances are quite, slightly different from last time. So, I think it's a good thing for the industry that if everyone realized the raw material cost pressure will be facing by everyone in a few months or in few quarters. So, the circumstances are quite different from last time. And the last question is for the sales revenue development after our price hike. I think Karen has touched on that already. It is quite early to comment and to make an impact on the sales revenue at this point of time.

TF: Okay. Thank you.

Nicolas Wang (NW) from Haitong International

NW: Okay. Good morning. Thanks for the management for sharing the latest results and congratulations for the very strong first quarter performance. I have just two simple questions. First, could you give us some idea about the business outlook for personal care product line, in China market particularly. I notice that the percentage of it in the revenue breakdown still remained about 18%, but we think, as Karen mentioned, this sector grew very fast in the first quarter. So, do you have any update on how is its business development in China, especially for *Libresse*? That's the question one. And the second question is about the gross margin increase breakdown. We noticed that you still have mentioned that the impact of the material cost remained relatively low for the first quarter. But the gross margin still increased by about 1.4 percentage points on a year-on-year basis. So, I wonder how did the increase come from, how much of it had come from the sales mix change and how much of the increase had come from operating efficiency increase, saying in the cost of production or the improved production capacity utilization rate? Thank you.

KL: Okay, maybe I'll take the first question and Vicky can take the second question about the gross margin. Yes, you're right. In terms of mix within the entire Group,

you don't see a significant improvement. That is because our personal care business in China is still relatively small not only compared to our business in China, but also compared to the entire personal care portfolio within the Group. So far the majority of our business of personal care is still coming from overseas. And overseas markets actually have lower growth unlike China, but they do have tend to have a better profitability. So that is why, to answer your question. Firstly, why you don't see a significant improvement in the number, because compared to the whole Group it is too small to tell. But when it comes to *Libresse VIA*, our feminine care category in China, we have a fantastic quarter one, maybe even better than what I would have expected with the growth that is over 100%. So, I think this is a very strong start in 2021, it's entirely within our plan.

We are seeing that not only is it delivering a good performance online, but also performing quite well in offline channels as well. We will still take some time for us to increase our distribution and channel and penetration, which is something that it's our core direction for this year and next year, because we're still relatively small, but we are very committed into this category, we are investing a lot behind. If you have a chance to look at what we are doing on the major platforms, such as JD.com and Tmall, you will be able to have a feeling of how much we are determined to put behind into this category. Of course, this is supported by very good feedback that we are receiving from both consumers and customers. The repeated (businesses) are very good. Brand loyalty is coming up. This tells us that apart from penetration and continuous distribution, this category has all it takes, so the product quality, the brand positioning, everything for us to bring the category to the next level.

So, having a great start of course gives us a lot more confidence for us to continue this, but we are very confident that this strong momentum will continue for 2021. And hopefully soon we can create a major impact on the numbers that you see on the Group level. It's just a matter of time. But overall, I think we're very happy with our performance in the feminine care in China.

VT: And on the gross profit margin, yes our gross margin improved year-on-year in quarter one, I think there are only two main reasons. One is because in last year's quarter one if you recall some of our factories were shut down for some weeks, especially in Hubei, so the capacity utilization was not very good in last year quarter one. So, this is the first reason. And the second reason is the mix improvement of our product like Karen mentioned, we see really good development of our Tempo wet wipes and other premium products in quarter one this year. And actually, our gross margin also improved compared to the last quarter, the quarter four. The reason is slightly different, one is the mix is also improving, but the promotion level

compared to quarter four last year is now much lower in quarter one this year.

NW: Okay. And my follow-up question is how much the impact due to the input material cost is in terms of the cost level, is in terms of the wood pulp price? Is it similar on year-on-year bases or it's just some minors change already?

VT: Well, the raw material cost actually remained relatively stable compared to last year same period. We still have some upside for the personal care to raw material because we have an improvement in our China feminine business side but the impact is not that big. Yes.

NW: Okay, well received. Thank you, Karen. Thank you, Vicky.

Dustin Wei (DW) from Morgan Stanley

DW: Thank you, management. Thanks for taking my questions. So, first question related to the first quarter sales number. So that we sort of see the price increase announcement and that most of the price increase took place in early April or late March. So does that actually put some of your customers like, distributors pooling some of the inventory ahead of the quarter. And should we kind of expect a little bit sort of normalization for some of those distributor channel in the coming quarter? And the second is that on the ASP increase, like Tiffany mentioned, many players have been making that announcement, and it's a little unusual to see everybody kind of making a sort of that kind of that ASP increase announcement. And is that really already seen the price increase at the retail end, like up by maybe like a 10% or even 20% increase in some announcement. And then have you seen any pushback from either consumers or distributors or retailers. That's the second one. And I guess the last one is more on the pulp. So quite curious that who because I think the hardwood pulp now is already hitting close to the record high. And who is actually buying those pulp in China? Are you aware of any big players buying pulp or are they just some of the traders, distributors, buying and maybe they are sort of more speculating on the prices? And then for your own pulp inventory, I think, is that, as it has been previously talked about, maybe that 6-month kind of sort of low-cost inventory and is that okay to assume that the company now has probably like two to three months, low-cost inventory and sort of the potential higher-cost inventory will come in the third quarter. Thank you very much.

KL: Okay, there are quite a few questions here. Maybe I'll take the previous questions on pricing and pulp market and Vicky can take the question on our pulp inventory level and the cost for our pulp. When it comes to price increases, let me just clarify that whatever you guys have seen on the news whatever. It was actually quite selective and including the one that you have from us, it was the price

increase notice from what I remember. It was from one subsidiary in Vinda, it was not intended that to go to the customers. So let me just clarify that it was not a voluntary announcement from us. Let me just clarify that. And it does not represent our pricing, overall pricing strategy for the Group.

When it comes to the price increase progress. I think for quarter one, overall, I think we have not seen any major movement but however, from us, say internally, we have started to reduce some of our promotional frequencies and particularly for e-commerce in second half of March already. And so far, we are seeing that it's going quite well. It's going as planned. Perhaps one different, far different thing that we have observed is that we are much more consistent and that's the same thing that we saw in 2018. That's we are very determined and confident to push through some of the price increase as planned whereas other players, they might have put it up one day and take it down and offer discounts again. So that is something that's not a surprise to us. But it's something that we have observed in March, but in terms of the wide channel increase, we expect that will kick-start in quarter two. But obviously every channel has different ways of doing it. Just give you an example, distributors will start working on the promotional price first and then you continue the negotiation and you adjusted according to the marketing activities. And for key accounts, you also need a little bit more time to discuss and negotiate with your retail partners and sometimes you have to wait for the promotional slot to kick in for your new pricing. And for professional hygiene, which is not a big part of our business but the way of putting price increases is also different, usually you will have to wait for your contract to end and then you start to negotiate a new price. So, every channel to put up prices the way of doing it is quite different. So that is why it's quite difficult to foresee what's going to happen in quarter two.

But within Vinda, we are very confident that we're going to put these through not only because we're very disciplined in that execution. But with such a strong brand and our strong retail capabilities in the past and I also guess this time, we are the first one to raise prices and we are very determined that and confident that we can put through this. I think you have a question on whether there's a lot of stocking up by distributors, I guess, I cannot comment on other people, but that is not our way of putting a price increase and even if in cases where distributors ask for a lot of stock, so which is not something that we have not seen in this year. We do a very disciplined control in how much we can give to distributors. So, I would not say that this had significantly impact on our quarter one results.

VT: And also we have like 23% sales from distributors only in China, so it will not make too much sense to do so.

DW: Great. Thank you. And the pulp?

VT: Yes, on the pulp. I think because we don't disclose the balance sheet this time, so I cannot comment in detail way. But our answer will be very pretty much the same as before. We have more than six months pulp, so the stock level gives us good foreseeability for the coming quarters of our raw material cost.

DW: But Vicky, does that six months of pulp include some of the higher-priced pulp already or you are referring to the pulp that you bought like before the spike?

VT: Well, that is another quite sensitive question, but as you mentioned that though the pulp price now is very expensive, and we think that is quite deviating from the real demand-supply sides of the commercial aspect. So actually we are not buying a lot early this year.

DW: Okay. So, it's actually the last year that the pulp actually climbed more than just six months so even if almost four months passed in 2021. We are still seeing like about six months of the kind of lower-cost pulp inventory?

VT: Well, we have been saying that we have more than six months, but we cannot comment to what you have just said. Sorry about that.

DW: Thank you very much.

Emily Lee (EL) from Nomura

EL: Hi Karen & Vicky. Thanks for taking the question. I got few questions here. So first of all, on *Libresse*. Just wondering if you can give us the gross margin that we are seeing, will we be able to expand it in the first quarter and following such a strong growth in sales in the first quarter, we are actually adjusting the breakeven schedule we are bringing it forward as to our target. Secondly, it has to do with the SG&A ratio. I remember you talked about how we are expecting the SG&A ratio to be the average of FY19 and FY20. Are we still keeping this or since we have talked about how we are going to invest a little bit more on brand building over the next two quarters. Is there any adjustment on this? Lastly, I still want to clarify how much of price increase you are planning to get in the upcoming quarters? Thank you.

KL: When it comes to *Libresse*, we have our internal target obviously, a very aggressive one. I don't think we have communicated that. But I can assure you that it's very aggressive. And if we have any room to raise that target, we will go for it because we are very clear that the biggest priority for us to increase the scale. We have no issues with the products and consumer feedback are very good. The customers, they loved that e-commerce. The loved so far. Now it is really to expand

our scale. So that is, I think, my answer for that. For gross margin for *Libresse*, do you want to comment on that, Vicky?

VT: Yeah, if you look at the market and the leading brands for feminine (care) business in China, I think that quite a good level of the feminine (care) products' gross profit margin is between 55% to 60% or to even a bit more. I think our sales scale for our China feminine (care) business went up a lot in the last few quarters, so I could say that we are at a quite decent level of gross profit margin already for our feminine (care) business in China. But we don't disclose that for a specific category gross margin so far. And the second question is that our sales momentum and our sales target in coming quarters. So, I think we don't disclose forecasts, I'm afraid, but our message will be the same. We always want to gain market share; we want to have more than double-digit growth in mainland China to consolidate the market every quarter. And for SG&A ratio, our message will be the same as before. I think no change. It is somewhere between (those in) 2019 and 2020 and we are continuing to invest for premium products and also the personal care in China. And your last question is how much price increase we will put through in China for the tissue price?

KL: Yes, I'll take that question. For now, we are aiming for somewhere between mid-single-digit to high-single-digit and that is the plan that we are putting through, but I think I touched on that before. First of all, it takes time for us to put through that and on the other hand we are also keeping very close to the market because we would like to have a nice balance between profitability and market share and volume. All of that are very important to us. And as you know, in the mainland China, it's super dynamic when it comes to working with different retail partners. So, this does not mean that whatever we have set for ourselves today will be the case for the forthcoming few quarters. So, I think the message in conclusion is that, yes, we are determined to put through a price increase but, on the other hand, we are keeping ourselves super flexible to make minor changes to our plan in the coming few quarters. But for now, I think it's too early to tell what's going to happen in quarter two.

EL: Alright, thank you so much.

VT: Great. Thank you everyone for your time today and we will stay in touch.

KL: Thank you!