

HYPEBEAST

FISCAL YEAR 2025 INTERIM RESULTS EARNINGS CALL

Attendees

Kevin Ma, Chairman and Chief Executive Officer

Patrick Wong, Chief Financial Officer

Fiona Chan, Communications/Host

Host

Hello and welcome to the Hypebeast fiscal year 2025 interim results earnings call. This is Fiona from Hypebeast's communications team, and I'll be coordinating the call today. Joining me today to discuss our results are our Chairman and CEO, Kevin Ma and our CFO, Patrick Wong. In our call today, management will go over our interim results and discuss key strategies across our business segments.

The presentation will then be followed by a Q&A session and we will be addressing questions from investors. Please feel free to submit any questions you may have using the on screen Q&A function throughout the presentation, and we will address them all at once during the end of the presentation.

Before we begin, I want to remind you that today's discussions contain forward-looking statements, including statements related to future strategy, products and overall long-term growth prospects of the company. These statements are subject to risks and uncertainties, and do not intend to be a complete and comprehensive analysis or overview of Hypebeast. All matters, explanations, financials and any information set out in this presentation is subject to change at any time with or without notice. As such, no reliance should be placed on the fairness, accuracy, completeness or correctness of the information presented today. Any statements included simply aim to provide an outline and cover the basic information of Hypebeast for informative purposes only.

With that said, I will now turn the call over to Kevin.

Kevin Ma - Chairman and CEO

Good afternoon everyone, and thank you for joining us today to discuss our interim results of the fiscal year 2025.

Reflecting on the first half of this fiscal year, our primary focus has centered on streamlining our work processes with AI and automation, enhancing our core products to improve brand positioning and also foster community building in response to the economic volatility and the shifting consumer confidence.

In our drive to enhance company efficiency and sustainability, we have focused on optimizing our work processes and accelerating automation. We believe the advancement in AI and technology will enable us to establish a strong foundation for reshaping the company's business strategies.

To recap our business in the first half of this fiscal year, there's a lot of headwinds in the industry. So our total revenue decreased 18.1% to HK\$360 million, representing a decrease of HK\$80 million, as compared to the first half of last fiscal year.

HYPEBEAST

The decrease in revenue was primarily driven by the unsettled global economic outlook and challenges that a lot of people including us are facing, as well as consumer confidence, leading to slower execution of media campaigns in different regions.

Our gross profit recorded HK\$173 million, it was down HK\$34 million or 16.2% compared to the first half of the last fiscal year. However, our gross profit margin increased 1.1 percentage points from 47% in the first half of last fiscal year to 48.1% this year.

Our net profit reached HK\$20 million, marking a turnaround from a net loss of HK\$10 million in the previous fiscal year. Our net profit margin improved from -2.3% in the first half of last year to 5.6% this year. Earnings per share for the first half of fiscal 2025 stands at HK\$0.99 cents, shifting from loss per share in the first half of last year to earnings per share this year. These advancements in margin and profitability are primarily attributed to our cost efficiency initiatives.

In addition, we have also streamlined our operations. We reduced our headcount from 523 in the first half of the last fiscal year to 421 this year. So we want to ensure a lean and focused approach moving forward.

Let's move onto the media segment. Our revenue decreased by 1.6% to HK\$279 million compared to HK\$283 million in the first half of the last fiscal year. The media campaign executions fell behind schedule, resulting in slight year-on-year decrease. Due to the larger scale and increased complexity of these campaigns, the timeline from signing to execution has naturally expanded to align with the demands of these initiatives.

To address these challenges, we are focusing on rebalancing staffing levels throughout our divisions to maximize results and return on investment. In addition, we are continuously reviewing and streamlining our products and services to be more focused.

On the e-commerce and retail side, our revenue decreased from HK\$157 million in the first half of last fiscal year to HK\$82 million this year, or a decrease of 47.8%.

It's a big decrease, but we did it on purpose. It was mainly a result of right-sizing our inventory levels for both our e-commerce and retail business, making our inventory more productive and efficient.

Our aim in the long run is to enhance long-term profitability by 1. freeing up working capital tied to all these inventory, 2. exploring cost effective sourcing and distribution channels, and finally, like mentioned before, we are managing our operational costs tightly to protect the product margins and profit margins. By doing that, we will be able to improve our inventory efficiency and position us for better growth in the future, and ultimately hopefully work towards profitability in the e-commerce and retail segment.

Here are some of the highlights of the first half of the fiscal year, we have been ramping up our physical events to drive real-world interactions. Events like Hypebeast Flea in New York, Hypefest in Hangzhou and Hypebeast Flea in Shanghai are all about turning our online followers into loyal customers and introducing newcomers to the Hypebeast community through engaging and immersive experiences.

HYPEBEAST

The purpose is to enhance our brand visibility and strengthen our bond with our customers, making a more loyal customer base. That's our goal moving forward. We will be hosting more of these events effectively and efficiently to capture a broader audience.

As we look forward, our ongoing emphasis remains on prioritizing operational efficiency, utilizing technology to enhance our products, and we want to continue cultivating a vibrant and engaged audience and community. Our primary objective is to bring our audience together, foster genuine interactions, curate unique cultural experiences through the lens of Hypebeast, and empower individuals with our diverse and advanced product lineup within our community.

In the future, we have several products in the pipeline. Hopefully, they will be our significant revenue drivers. First of all, we've got to leverage our data from our audience better, so we are doing that, we are preparing to complete our ecosystem by embracing digital fully.

In addition, the advancement in our products and IPs, along with the improvement to our e-commerce and retail operations after our inventory enhancements will pave a way for more future growth and profitability.

We're also focusing on creating more of our merchandise and products with our Hypegolf brands, and we just launched our Hypebeast branded products so more in-house products as well, hopefully increasing our sales and distribution channels.

Now I'm going to turn the call over to Patrick to give more details on our results.

Patrick Wong - CFO

Thank you, Kevin. Good afternoon everyone. Let us begin with the consolidated results. Overall revenue for the first half of this fiscal year amounted to HK\$360 million, for a decrease of 18.1% compared to HK\$440 million for the prior year. This was primarily driven by a decrease in business size of our ecommerce and retail division - management has taken, as Kevin mentioned, progressive steps to rightsize the scope of the ecommerce and retail segment in order to deliver a more streamlined operations and improve its long term profitability. Our media division for the first half was largely flat compared to the same period last year.

From a margin perspective, gross profit for the year for the period amounted to HK\$173 million, representing a decrease of HK\$34 million or roughly 16.2% largely due to the decrease in overall revenue. However it reflected an increase in gross profit margin from 47% to 48.1%.

Overall, the first half of our fiscal year has been a story of efficiency - the company's overall profitability improved compared to the first half of fiscal 2024 due to cost efficiency exercises conducted during the year. Management has taken a look at all of our internal processes, everything from budgets and manpower to ensure that we are optimizing resources and to maintain a lean and efficient company. As a result, both selling and marketing and administration and operating expenses basically cost below the line have decreased significantly compared to the previous period by 28.9% and 32.1% respectively.

HYPEBEAST

Thus we recorded an EBITDA of HK\$45 million for the first half of the fiscal year, about a 216.6% improvement compared to the same period last year.

Before delving into our business segment results, I would like to review some insights on our balance sheet. As at September 30, 2024, we had inventories of HK\$82 million, which accounts for approximately 13% of our total assets. This represents a slight HK\$4 million increase as compared to March 31, 2024, largely due to incoming and ongoing deliveries ahead of the holiday sale season.

Taking out this seasonal factor, our inventory balance has decreased from HK\$96 million from the first half of last fiscal year to HK\$82 million this fiscal year. This is the result of right-sizing our inventory levels, as we mentioned, for both our e-commerce and retail division, in an effort to make inventory more streamlined and productive.

During the period, our inventory turnover is about 292 days. It's a slight rise from the prior period. The rise in turnover days is attributed to timing differences in terms of our promotion and liquidation strategy. Management will accelerate the approach to clearing older inventory in order to maximize margins on our markdown products. We expect inventory turnover to decrease over the second half of the fiscal year as inventory begins to clear through both full price sales during the holiday season and over the liquidation strategies that we're deploying for the rest of the fiscal year.

The total bank and cash balance, including cryptocurrencies, decreased by 1.8% from the end of fiscal year 2024 to the first half of fiscal year 2025.

The balance of bank and cash, including bank deposit, was HK\$198 million as at September 30, 2024, which was 7.1% lower than March 31, 2024. This was mainly due to payment of dividends of HK\$29 million during the period.

Additionally, our holdings of Bitcoin and Ethereum amounted to approximately HK\$21 million as of September 30, 2024, marking a 110% increase from March 31, 2024. The Group acquired around 30 units of Bitcoin at a cost of approximately HK\$13.2 million in December 2021 and received approximately 440 units of Ethereum as a project revenue with the cost of approximately HK\$6.7 million in May 2022. The market value of Bitcoin and Ethereum stood at HK\$23 million and HK\$12 million, respectively, as of November 21, 2024, the most recent market price.

AR turnover reduced from 87 days to 69 days in the first half of the fiscal year compared to last year, reflecting faster cash collections from our media division.

Moving on to our segment results. Media revenue amounted to HK\$279 million in the first half of FY2025, a decrease of approximately 1.6% against the comparative of HK\$283 million in the first half of 2024. Gross profit margin decreased from 54.1% to 52% between the 2 periods. This was mainly due to increases in campaign costs associated with "in real life" sales executions produced by the Group comparatively.

HYPEBEAST

Region-wise as a breakdown, the North America, EMEA and APAC markets accounted for 51%, 24% and 25% respectively of our total media revenues in the first half of FY2025. The U.S. continues to represent a large majority of our media sales.

Moving on to our e-commerce and retail segment. In the first half of FY2025, revenue from the segment decreased by 47.8%, from HK\$157 million in the first half of 2024 to HK\$82 million in the first half of 2025. This decline was primarily driven by a conscious right sizing of the division to promote long term profitability and also reduce the impact to our working capital.

In the first half of FY2025, gross profit for our e-commerce and retail segment decreased from HK\$54 million in the first half of 2024 to HK\$28 million in the first half of 2025, representing a decrease of HK\$26 million or 48.3%. This translates to a gross profit margin of 33.9%, a decrease of 0.3 percentage points as compared to 34.2% in the first half of 2024.

The Group's main focus within the e-commerce and retail segment is to improve the division's long term profitability and reduce segment risk by reducing the working capital tied up in inventory. As we onboard more efficient channels for product procurement and distribution and focus on brand and product, gross margins adhering to stringent operational cost management, and also focusing more on energy and different activations that bring retail to life within the e-commerce and retail segment within the Hypebeast's umbrella.

While fiscal year 2025 presented challenges for our business, we remain focused on prioritizing operational efficiency and cost management to ensure profitable growth across all of our divisions. Our community remains at the core of our business, and this is where we will continue nurturing relationships and empower our audience engagement across our platforms. Our goal is to bridge the relationships between brands and our audience and continue driving customer acquisition and conversion.

We are confident that the actions we have implemented position Hypebeast in a much better way to consistently generate long term, sustainable and profitable growth, and deliver value to our shareholders over the long term. Thank you to all of our investors for their continued confidence in Hypebeast. With that, we will turn it over to the Q&A session.

Host

Thank you, Kevin and Patrick for your presentations. Please send through all your questions using the on-screen messaging function if you would like to present a question to the management.

The question is, how shall we think now about the business? Is the growth phase over and now the company is in a more steady state with a focus on cash flow and dividends?

Kevin Ma - Chairman and CEO

There's a lot of headwinds in the global market. As you can see, for example, our China market is quite impacted, also globally because of the increases in interest rates. Consumer spending has just been much more off than previously, which affected not only our company, but a lot of different companies, including luxury companies as well, so our mission was to, we saw that this was happening, before we

HYPEBEAST

went a little bit too gun hole and tried to expand a little bit too quickly. But we are quickly trying to pull back and try to entrench ourselves, and wait until this downturn in the economy passes by while trying to look for different opportunities for new business growth.

For example, things that I talked about, which was building our brands, building our IPs, building more of our data driven agency, and obviously, continuing to make our content better while doing it operationally efficiently as well with AI automation that kind of stuff. So in the short run, it will be a little bit slower than previously. But we're still generating profits. So we want to return some of that cash back to our shareholders in different formats, like dividends.

Patrick Wong - CFO

As Kevin said, it's definitely a much more balanced approach. In the past, when the industry was in a different cycle, we expanded quite quickly. As you can see, some of the changes that were made prior had some impact on our profitability. This year, as we mentioned, is the year of efficiency. So we've made a lot of progress in terms of just right sizing and optimizing some of the internal channels and processes in order to bring the company back into a better state.

We've done a lot of effort on that over the last year. We're at the right place right now in terms of the business size and operational efficiency. Profits are well supported in terms of the media division, and e-commerce and retail is also picking up as well in terms of profitability. So we're in a better place in terms of just financial profitability. And you know, as Kevin mentioned, we're still taking a lot of different opportunities to look at how growth can be shaped, definitely not at the pace that we grew years prior, We're still looking at planning for growth, though, internally. So on the media division various things we're doing like Kevin mentioned. Aside from looking at the different channels and the different products and what works and what's not. That's maybe more of an organic side like, things like Hypebeast Flea and Hypefest. Those are opportunities for us to connect better with the community.

Internally, we do have an operational mandate to look at connectivity, and this extends beyond just connecting internally, but also connecting with brand partners in the right way, connecting with our audience in the right way. As Kevin mentioned, increasing engagement throughout, not just maybe on the online side, but also on the offline side as well, bringing to prominence really what Hypebeast can really do, and showing the brands and our audience, really a good time in terms of Hypebeast's culture and all of that stuff. So as we look at reshaping the business, we're at a good place in terms of stabilizing core operations and core profitability. We've done all the actions and most actions we've tried, we've implemented, and for now it's time to re-plan for maybe a more balanced level of growth as we head towards the future.

Host

The second question is, can you talk about the orderbook on the media side? How does it compare to prior years with regards to H1 vs H2 seasonality?

Patrick Wong - CFO

It's different in different regions. So whilst some regions like EMEA and APAC are more balanced in terms of seasonality. In the first half versus second half, some regions like Japan, Hypemaker for EMEA,

HYPEBEAST

and perhaps maybe North America as well, as you head into December, and the future quarters are still experiencing some levels of seasonality.

So it's a bit of a mixed bag this year. In the past, as you were aware, we had a lot of impact in terms of seasonality into the second half across, maybe broadly, most of our regions now. That's still maybe existent in some regions. But some other regions are a little bit more balanced.

Another aspect is when you look at media activations as Kevin mentioned, we actually did sign a number of bigger activations in the first half. But those haven't been executed yet, especially in the media region. There's a bit of a backlog in terms of execution, heading into the months of September, October, November. So that is a function of really just how we operate the lag between the signings and the campaign executions, because the campaigns are getting bigger and much more involved in terms of production.

In other aspects, there is a bit of a time lag, so from a revenue delivery standpoint. You'll still see some of that seasonality come to play, but signings are a little bit more balanced. Brands are maybe planning ahead a little bit more, because maybe from their side resourcing is maybe a bit of a challenge. So they're able to sign on a little bit earlier, but the lag between signing and executions has extended so that that impacts a little bit on how we record revenues comparatively.

Host

If there are no further questions, we will end here today. Thank you everyone for attending the fiscal year 2025 interim results earnings call. The call recording and the presentation will be uploaded on the corporate website shortly. If you have any follow up questions or requests, please feel free to send us an email at investors@hypebeast.com. Thank you everyone.