HYPEBEAST

FY23 ANNUAL RESULTS EARNINGS CALL

Attendees
Kevin Ma, Chairman & Chief Executive Officer
Patrick Wong, Chief Financial Officer
Maisie Leung, Investor Relations/ Host

Host
Hello and welcome to the Hypebeast financial year 2023 annual results earnings call. This is Maisie from Hypebeast's investor relations team, and I'll be coordinating the call today. Joining me today to discuss our results are Hypebeast's founder and CEO, Kevin Ma and our CFO, Patrick Wong. In our call today, the management will go over the annual results and explore key strategies going forward across our business segments.

The presentation will then be followed by a Q&A session, during which management will be addressing the 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 be addressing all at once during the end of the presentation.

Before we begin, I want to remind you that today's discussions and responses contain forward-looking statements, including statements related to future strategies, 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 or notice. Such no reliance should be placed on the fairness, accuracy, completeness or correctness of the information presented today. Any statements included simply aims to provide an outline and covers the basic information of Hypebeast for informative purposes only.

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

Kevin Ma - CEO
Good morning and evening everyone, and thank you for joining us today to discuss our annual results. The 2023 financial year presented us with challenges and put our resilience to the test. In the initial 6 months of the fiscal year, our investments in pursuit of post-pandemic growth faced challenges amid economic headwinds that lasted longer than anticipated. While the macroenvironment affected our business, there were other impacting factors specific to Hypebeast, such as an increase in marketing investment and workforce expansion. To mitigate the risk, we implemented a series of cost cutting and efficiency measures, and sharpened investments back into our core strengths and value. By year-end we were able to traverse in a generally stabilized position.

Despite these challenges, we continue to grow in total and in the vast majority of the regions we operate in. Revenue amounted to HK$960 million, representing a 7% increase from HK$896 million compared to last year.

Media revenue amounted to HK$644 million in fiscal 2023, a modest decrease of 1.4% against a strong comparative of HK$654 million in fiscal year 2022. There is consistent demand for our media services in North America and EMEA with revenue increased by 17% and 14%, respectively, while the APAC region was impacted by COVID-19 related policies in fiscal year 2023. With the pandemic and related restrictions drawing to a close, we believe demand in the region will resume growth in the coming fiscal year.

In the e-commerce and retail segment, we continue to improve conversion and user experience with increased rigor in cost management while expanding the business. Revenue from this segment increased from HK$242 million to HK$316 million in fiscal year 2023, representing an increase of 31%. While the 2023 fiscal year had been uniquely challenging, our results demonstrated the resilience of Hypebeast, reflected a progressive recovery and showed positive signs towards growth.

Beyond financial performance, we launched a number of new and innovative initiatives to strengthen the Hypebeast brand. To better engage with our readers, we accelerated our production of video content across our editorial platforms, and invested in social media platforms popular among younger audiences. We continued to develop editorial properties that appeal to a diverse readership, with topics ranging from golf to art. We also broadened our reach by expanding into previously untapped markets, such as with the launch of Hypebeast Latin America and Africa, where we offered quality content tailored to the unique interests and preferences of these new regions.

Furthermore, the 360 approach within the Hypebeast ecosystem with Hypemaker and HBX enables us to connect with our readers with digital and live interactions. This sets us apart from our competitors by enabling us to engage with our community across various touchpoints of their journey. As a result of these efforts, average monthly unique visitors reached 18.8 million and social media followers reached 34 million as of March 31 2023, up 15% and 5% respectively year on year.

Looking ahead, our strategic approach involves several key directions to set a clear course for the future. We will continue to prioritize operational efficiency and cost control to ensure profitability across all divisions. We will take a community centric approach to ensure our products and experiences always resonate with our audience. Lastly, the Hypebeast ecosystem is one of a kind and difficult to replicate. Our goal is to refine and deliver a more cohesive and effective platform to bridge brands with readers, and drive customer acquisition and conversion.

The Hypebeast foundation built over the last 18 years is solid, our community enjoys the content and experiences we curate, and we take pride in improving and innovating our products for them. I am confident that our strategic direction will position us for continued and sustainable growth and success. And now I would like to turn the call over to Patrick to give more details on our results in his commentary.

Patrick Wong - CFO
Thank you, Kevin. Good morning, good afternoon or good evening everyone, wherever you are joining us from today. Let us begin with consolidated results. We expanded our revenue albeit a challenging year. Overall revenue for the 2023 fiscal year amounted to HK$960 million, for an increase of 7% compared to HK$896 million for the prior year. Gross profit for the year amounted to HK$505 million, representing a decrease of HK$44 million or 8%, and also reflects a decrease in gross profit margin from 61% to 53%. A decrease in gross profit margin was mainly driven by headcount expansion as well as under performance in the APAC region media business due to a slow emergence from COVID-19 policies in the region during the previous fiscal year.

Before delving into our annual results in more detail, I wish to review our fiscal second half performance compared to our interim first half results. Although our first half performance started slower than expected, our second half performance shows significant improvements. Second half performance showcased increases in revenue and profitability compared to the first half, and demonstrates both a broad rebound in demand across media and e-commerce and reflects key improvements we have made to cost and operating efficiency during the fiscal year.

In the fiscal second half, our revenue reached HK$510 million, representing a 13% increase compared to HK$450 million in the first half. Specifically, media revenue increased by approximately 14% in the second half compared to the first half, while second half e-commerce and retail revenues increased by approximately 13% compared to the first half.

Additionally, compared to the same period last year, our total revenue grew by approximately 12% in the second half of the year. Total gross profit for the second half was HK$271 million, representing an increase of 16% compared to the fiscal first half, while adjusted EBITDA for the second half was HK$71 million compared to HK$22 million for the first half, which is more than a threefold increase.

Addressing underperformance in the first half, we credit the improvement in the second half of the fiscal year to efforts in promoting cost savings across the organization in order to ensure that our committed resources are efficiently aligned with current and future revenue and business growth. Additionally, we made some strategic improvements in our approach to social media marketing and advertising for digital and e-commerce platforms during the second half. As we continue to enhance the Hypebeast ecosystem and integrate our media platforms in e-commerce services, we anticipate relying more on organic channel acquisition compared to paid channels to bring in customers and drive conversion. This will improve the efficiency and return on our marketing spend and investment.

Looking at specific line items for annual results, we saw an increase of 36% in selling and marketing expenses for the fiscal year from HK$160 million in fiscal 2022 to HK$218 million in fiscal 2023. Correspondingly, as a percentage of revenue, selling and marketing expenses increased from 18% in fiscal 2022 to 23% in fiscal 2023. The increase was largely driven by our headcount expansion and spending on social media marketing and advertising in the first half of the fiscal year.

The Group's administrative and operating expenses increased by 13% from HK$203 million in fiscal 2022 to HK$230 million in fiscal 2023. Correspondingly, as a percentage of revenue, there was a modest increase from 23% to 24%. The overall increase was primarily due to our business expansion into the U.S. and EMEA markets, as well as investments in headcount to establish a foundation for the long-term growth of our business in these regions. As the majority of key headcounts have already been filled to sufficiently support anticipated demand and needs, we anticipate improvements in operating leverage from payroll cost management in the upcoming year.

In the second half of the year, the Group took progressive steps to address cost efficiency. Both selling and marketing expenses and administrative and operating expenses decreased as a percentage of revenue compared to the first half. Selling and marketing expenses slightly decreased from 23% in the first half to 22% in the second half, while administrative expenses had a notable decrease from 27% to 21%. We expect operating expenses to continue to come down as a percentage of revenue over the medium to long term as we realize additional efficiencies in our spending.

Throughout the fiscal year, we recorded several non-cash and non-operating items that do not impact our underlying operating growth or profitability. We incurred HK$42 million in professional fees related to the merger, which was subsequently terminated in December 2022 after due and careful consideration. We also recognized a gain on disposal of joint venture amounting to HK$18 million and an impairment loss on PPE, right of use assets and intangible assets of approximately HK$9 million.

If we eliminate the effects of these non-cash and non-operating expenses, our adjusted OPEX would have been HK$455 million, representing a 24% increase, while adjusted EBITDA would have been HK$93 million, down 57% compared to the prior year. Adjusted net profit would have been HK$28 million.

Before delving into details on our business segments, I would like to review some insights on our balance sheet. As at 31 March 2023, we had inventories of HK$114 million, accounting for approximately 18% of our total assets. This represents an increase of HK$44 million as compared to 31 March 2022. Correspondingly, our inventory turnover increased from 158 days in fiscal year 2022 to 201 days for fiscal year 2023. Such increases in inventory was driven by expansion and development of our U.S. based omni-channel and retail channels within our e-commerce and retail segment.

Bank and cash balance held was HK$166 million, 42% lower than as at 31 March 2022 mainly due to professional fees related to the merger and payout of accrued staff commissions and incentives relating to the previous fiscal year, in addition to the aforementioned increase in inventory related working capital.

Accounts receivable turnover for fiscal year 2023 was approximately 71 days compared to 59 days in fiscal year 2022. This is mainly due to a longer duration in payments relating to certain larger campaign executions for agency customers. We continue to review and adjust credit policies to ensure timely collection of outstanding receivables, and proactively implement policies such as prepayments for media campaigns to mitigate credit risk. Management does not consider there to be a material risk on collectibility of our receivables balance.

CAPEX decreased to HK$17 million during the fiscal year 2023 compared to robust capital spend in the fiscal year 2022 which is mainly driven by the pre-opening of our New York store. We do not anticipate further capital outlays in the upcoming fiscal year.

Looking ahead, we are focusing on maintaining a strong balance sheet, allocating capital in a disciplined and balanced way, and prioritizing investments in organic growth opportunities to drive long-term profitable growth.

Moving on to our segment results. Media revenue amounted to HK$644 million in fiscal 2023, a modest decrease of approximately 1.4% against a strong comparative of HK$654 million in fiscal 2022. As mentioned, slow emergence from restrictions related to COVID-19 outbreaks in Mainland China and the APAC region in the fiscal year weighed on signing and execution of media contracts in the region. Further, changes in campaign delivery schedules and longer execution periods for certain large scale advertising campaigns in North America and EMEA regions caused deferrals in the timing of completion of certain campaigns compared to plan and a corresponding deferral in the revenue recognition of signed media contracts.

Gross profit margin decreased from 69% in fiscal year 2022 to 58% in fiscal 2023. This was mainly due to an increase in staff headcounts in editorial and creative teams in key growth regions to support anticipated increases in campaign deliveries, which offset against a decrease in campaign cost execution. While we have invested in expanding our existing footprint and deepening our expertise, we remain committed to optimize execution. Starting in the second half of fiscal 2023 and moving forward, we are taking a more focused approach in our investments to deliver a cohesive and effective platform that bridges brands with our community, drives growth, and improves long-term profitability. To achieve this, we will increase scrutiny and continuously review our campaign production strategy to ensure that productions are streamlined and cost optimised. We also anticipate the pace of operating cost to slow down in the coming year.

Region-wise as a breakdown, the U.S., EMEA and APAC markets accounted for 43%, 28% and 29% of our total media revenues in fiscal year 2023, respectively. US and EMEA markets showed continued growth and momentum as indicated by 17% and a 14% increase in media revenues compared to the previous year respectively. Such increase was offset by softness seen in APAC markets as discussed previously.

Moving on to our e-commerce and retail segment. Our e-commerce and retail business continue to gain strong brand traction. In fiscal year 2023, revenue from the segment increased by 31%, from HK$242 million in fiscal 2022 to HK$316 million in fiscal 2023. This growth was primarily driven by streamlining of the shopping experiences and promotional strategies implemented during the year, and resulted in higher customer demand and sales.

We observed a decrease in the average order value of approximately 7%, to HK$1,860 per order in fiscal year 2023, this was balanced against an increase of 16% in the total number of orders in fiscal year 2023 that we fulfilled. Throughout the fiscal year, we fulfilled approximately 139,520 e-commerce orders.

During the same period, average unit value decreased by 10% to approximately HK$972. This was due to slight changes in product mix compared to the prior year, as we onboarded relatively more moderately priced assortments and categories in response to trends and demand.

In fiscal 2023, gross profit for our e-commerce segment increased from HK$98 million in fiscal 2022 to HK$131 million in fiscal 2023, representing a significant increase of HK$33 million or 33%. Gross profit margin of 42% remained largely consistent with the prior year.

We attribute this growth to our increased frequency of promotional activities, such as free shipping and promotion codes, which stimulated sales and led to an increase in the total number of orders. Going forward, we will focus on right-sizing our inventory, improving network efficiency, and maintaining a more balanced view of investments in acquiring and engaging customers. As we enter peak season centered around global holidays, we anticipate an increase in consumer activities and will prioritize maintaining a balanced view of investments in acquiring and converting customers on our platforms.

While fiscal year 2023 presented significant challenges for our business and teams, we were consistently impressed by the resilience and strength demonstrated by our employees. Our management remains steadfastly focused on delivering long-term revenue growth and profits, beginning with shifts in strategies during the fiscal year to promote cost efficiency and continued integration of the Hypebeast digital community and ecosystem to deliver sustainable growth. We are confident that the actions we have implemented enable Hypebeast to consistently generate sustainable and profitable growth, and deliver value to our shareholders over the medium to long term. We are grateful 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 first question is about our media segment. What is the reason for the decrease in gross margin for the media segment, and which region led to the increase in headcounts?

Patrick Wong - CFO
I can take that question. As mentioned, the decrease was primarily driven by two things. One thing is that the APAC region is in a bit of slowness, in terms of emergence from COVID policies in the APAC region. That has been consistent in the last fiscal year; if you look at key regions that we operate in, basically Mainland China, a bit of Korea and Japan as well, a lot of the policies didn't lift until closer to the end of the second half. This caused disruptions to executions in campaigns in the media segment. A lot of that impact really hit our APAC region compared to the prior years. That led to a bit of a dampening and softness in terms of executions for the region overall.

Another piece, in terms of gross margins, is an increase in headcounts across regions to really augment and increase our capabilities. This is primarily in some of our key departments, such as editorial, more of the development in terms of our digital and creative services. This actually is an increase to really support the business in the medium and long term. As I mentioned, we anticipate this increase just really to be an augmentation of our resources, and all of the key roles that we anticipated for have been filled. We foresee more cost efficiencies in terms of cost management going forward, so we should see an improvement in gross margins looking forward to the next fiscal year.

Host
The second question is about the decrease in profit of our company. Would you please explain the reason for making the long term development and investment projects, and what would be the expected rate of return of these investments?

Patrick Wong - CFO
As I mentioned, we looked at longer term trajectories, and let me start from the media business. A lot of the campaign executions in EMEA and US have sustained momentum even during the last fiscal year. We continue to see those trends ongoing. If you look at the larger scale campaign executions, 360 activations that are a lot closer to our brand and executions with non-endemic partners in broader industry such as tech, media, entertainment - these partners continue to work with us. All of these really are signs that we see in terms of improvements in long term longevity in our revenue cadence. Our teams and our resources are ready to fulfill that capacity going forward. Our sales pipelines remain strong in both regions. As we look at the emergence from COVID in APAC regions as well for Mainland China, Korea, Japan, I think all those regions are starting to pick up in terms of activities, or back in terms of production. So the increases that you see in terms of cost for headcounts and resources really is to support that longer term growth. If you look at our resources last year, obviously there is a timing difference as we stepped up resources here and that capacity will roll forward in the coming fiscal year. And again, I think from cost management, and I believe that

as a philosophy for management, we don't foresee additional increases in terms of costs and we will be able to execute what we have planned for over the next fiscal year and beyond. So as I mentioned, I think the gross profit and profitably overall for the company should see improvements in the medium and long term as we continue executing on our media campaign and agency executions.

Kevin Ma - CEO
Let me just add to that. I think in our fiscal year 2022, our results are pretty good so that gave us a lot of confidence to try to expand the business as we should. In the beginning of the fiscal year 2023, we invested a lot into new regions, new products and new verticals. Unfortunately, not all the projects kind of worked out so now we are tightening it up. Obviously you go through periods of innovation and not everything always works out. We believe that moving forward, the things that work out will help increase the revenue and our users for our business.

Host
Given we are in a net cash position now, would we consider paying dividends and share the profit with other shareholders?

Patrick Wong - CFO
I think that in the longer run, we would love to share the success of the company with investors as well. I think we're looking at a balanced view. Obviously, there are a lot of different opportunities in terms of internal investments and organic things we want to do, but I think over time we are looking at ways to share some of that with the broader investors and shareholders in the longer run, on a longer term traction.

Kevin Ma - CEO
At the end of the day, we want to increase the value for shareholders and there are different ways to do that. We want to continue to reinvest into our business. At the same time, we do believe that we have a lot of great shareholders who want some sort of return, so myself included, I am a big shareholder. We are looking into delivering value back to our shareholders, but of course not forgetting about reinvesting back to the business as well.

Host
While growing our community, how do we keep track of the strength and size of our community and target audience. What other metrics do we track? What is the trend over the past years, are they growing?

Kevin Ma - CEO
Something that we are reinvesting in is that, last year we tried to invest and grow a lot of different products and touchpoints, opening different verticals, categories and regions as well. This year is going to be a year of figuring out, we have those touchpoints and people are funneling into our ecosystem. Now we are building our CRM to know who our audiences are and how we deliver value back to our audience by providing better services, products, contents and physical events. We believe we have a valuable audience base and the core focus this year is to deliver value to these audiences.

Host
Do you see any changes in the characteristics of our community, for example age, spending habits, etc.?

Kevin Ma - CEO
One challenge for any platform is stay relevant. So that’s why I said we have to figure out ways to not only expand ways to reach our current audience, but also new audiences, especially the younger audience because they are on different platforms. We have to be there and make sure we deliver great content to continue to expand our brand. And I think we have done that.

Host
What is the next step after our US listing? Would there be another attempt?

Patrick Wong - CFO
The company is always looking for various ways in terms of the right path for the business overall. The thesis around how and why we looked at the transaction in the first place are still clear. The US continues to be a very strong market for us, both commercially, for investor outreach, interest and brand interest overall. From an investor relations perspective, or commercial and revenue opportunities perspective, we continue to focus on the region in a very big way. In terms of looking at a more capital kind of orientation, the company will take some time in terms of looking at the right solution for the business. There are a couple of different factors in play there. One is obviously around the listing itself, but also looking at long term growth and acquiring resources to support that long term growth of the business and seeing really what kind of solution would be the best for the company overall. I think the business, as I said, continues to remain focused on growth in general. And it's about really finding the right solutions in order to support that in the medium and long run.

Host
What do you think about the mid-term prospect of our e-commerce and retail segment? What would be the trend of our revenue and how much working capital is going to be consumed in the mid term for the e-commerce segment?

Kevin Ma - CEO
I can start with that. I really believe in our e-commerce and retail segment, we build a great infrastructure, we have a great team, we have the best brands in the world. We have built a great platform where people can find great products and we can deliver to them very efficiently. So really proud of the team on building that infrastructure. Moving forward, we will definitely expand into having better products, more products, more catered products as well, and different types of products for different types of customers. That is something that we want to provide; people come to us to find the best products, whether it's apparel or accessories or lifestyle products, we want to be the place to deliver the products to our customers. We want to do that efficiently, e-commerce is about efficiency. We have to make sure that we do it in an efficient way and we spend the money in the right places. We acquire users very organically or efficiently. We have to be very focused and cautious on e-commerce spending, but we do believe that it is a very important part of the business.

Host
Could you provide more information about the postponed delivery and deferred revenue recognition of some of the advertising campaigns. Would we see some of that coming through in the first half of the 2024 fiscal year?

Patrick Wong - CFO
A lot of it is really a bit of a timing difference in terms of executions, and is primarily focused on the EMEA region and the North America region. These would be some of the larger campaigns that we do for our brand partners because of just various production schedules and expectations aligning with the clients and overall. Some of the planned execution time frame has been pushed to the next fiscal year, which is why you are seeing a little bit of a timing difference impact on the revenue recognition between this fiscal year and the next fiscal year. In terms of quantification, I would say it's almost at a one month mark - or, in terms of global revenue, about a month of global revenues being pushed into this fiscal for the EMEA region and the North America region. We should see that revenue recognized in the next fiscal year.

Host
What is our future development plan for the EMEA region?

Patrick Wong - CFO
We believe in the region a lot. If you look at the way the business developed, EMEA is really our third largest region, after North American and APAC. We have planted our seeds, we have a great team, a strong team operating out from London servicing the European region. Other than the UK being a significant market, regions like France, Spain, Netherlands and Germany, we do have sales presence there. Although not a full-fledged office, but we do have sales representation there liaising with some of the brand partners that have consistently worked with us in the past and we do continue to see opportunities in that region as well. If you look at the region overall, there is a lot of orientation

around really good brands, luxury brands, apparel brands, commercial brands, all the brands we would love to work with. We are pushing those regions and growing that platform continentally as we really believe in the growth opportunity in that region. I think broadly for EMEA, the Middle East is another region that we have done pretty well in last year. We do see continued opportunities there to do a lot of cultural and sales executions. There will be something new and interesting for the region, both from a cultural perspective and a sales perspective. So, another key region that we are observing and really chasing after under the EMEA umbrella.

Host
If there are no further questions we will end here today. Thank you everyone for attending the fiscal year 2023 annual 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.