

FY21/22 Interim Results Earnings Call

Friday, 3rd December, 2021, 11:00AM HKT

Attendees:

MA Pak Wing Kevin, Chairman & Chief Executive Officer

WONG Kar Hang Patrick, Chief Financial Officer

HUI Christopher, Investor Relations

Host

Good morning ladies and gentlemen, thank you for joining and standing by. Welcome to Hypebeast first half interim results earnings call for the six months ended 30 September 2021. The presentation today will be in English and will be recorded. From Hypebeast, I have with me Mr. Kevin Ma, founder and CEO, and Mr. Patrick Wong, CFO. In the call today, we will go over the first half reported financial results along with the discussion of the growth and prospect of the second half across Hypebeast operating segments. The presentation will then be followed by a Q&A session during which we will open up the lines for questions. Please leave all Q&As to the end of the presentation, and feel free to message us throughout the call using the Zoom messaging function if you would like to present a question to the management.

The call today includes forward-looking statements, including statements related to future strategy, products and features 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 any of the information presented today. With that said, I will now turn the call over to Patrick to present the financial statements in the first half.

Patrick Wong -- CFO

Thank you. Good morning, everyone. We are pleased to present our fiscal 2021/2022 interim financial results, which reflects a robust ramp-up in activity out of COVID, and highlights our brand's strength and our cultural leadership from our community and our brand partner's point of view. Our revenue for the interim reached a record HK\$440.8 million, for a 54.4% compared to HK\$285.5 million for the same period prior year.

As our revenues hit records, so does our profitability. Gross profit for the period amounted to HK\$258.4 million, representing an increase of HK\$130.5 million, or 102.0%, and a notable improvement in gross profit margin of approximately 14 percentage points from approximately 45% to approximately 59%. Net profit tripled compared to the same period last year and amounted to HK\$63.0 million, representing a significant increase of HK\$42.1 million, or 201.5%, as compared to the prior period. The increase translated to an improvement of net profit margin by 7.0 percentage points to approximately 14% in the reporting period.

Our Media Segment showed robust acceleration out of COVID and throughout the first half of FY2022 – recording a double digit percentage increase in revenue of 89.4% to HK\$326.9 million. This is mainly driven by increases in the number of media contracts signed with brand partners – the number of signed contracts in the period totalled 784, which is a 70% increase compared to the same period last year; as well as significant increases in media deal sizes – total signed contract value increased by 54% compared to the same period last year, while average contract value increased by approximately 11% compared to the same period last year.

Average monthly active users across our platforms totalled 15.6 million and total social media following increased to a record of 28.1 million in the period, reflecting increasing appeal of our brand and platform to our loyal and growing community. In fact, our Hypebeast English Instagram channel grew steadily over the reporting period and celebrated hitting the 10 million follower mark just last week.

Our robust revenue growth reflects successes in our instinct to drive culture forward across broader lifestyle categories, thereby creating opportunities to attract a wider base of clients – non-endemic clients, which we define as clients from industries outside of the fashion, apparel and luxury categories, represented 54% of our total signed contracts by category, compared to 46% representing endemic categories. Key highlights include clients in the technology, gaming, and cryptocurrency industries as you can see from a subset of brands represented in the slides.

The Ecommerce and Retail business remained steady from a revenue perspective compared to the prior period, recording HK\$113.9 million in the first half, but made strides in profitability – gross margins for the E-commerce and Retail business unit improved from HK\$41million to HK\$51 million, representing an increase of 24.5%. The past 6 months provided opportunities for the business to make improvements to its curation of products and optimize its mix of inventories to a more balanced portfolio, as well as bring inventory levels back up from risk-adjusted reductions during the pandemic period. The impact of improved product curation is reflected in increases in both average order value and average unit value, with increases of 8% for both metrics compared to the prior period.

Our healthier portfolio of optimally curated inventory sets us up well for growth in the Ecommerce and Retail business – as an indicator of ongoing successes in the integration of our media platform audience and Ecommerce customers within the Hypebeast Ecosystem is reflected in the number of visitors from Hypebeast digital and social properties into HBX, which increased 159% in the interim compared to the first half of last year.

Highlights from the interim and beyond reflect increased appetite from brands to engage in physical activations, larger 360-degree activations and retail opportunities which range the spectrum of services from media to agency to commerce. Our HBX LANDMARK store and our upcoming New York flagship physical experience will embody cultural, community, media and retail elements, which serves as a point of appeal and engagement for fans and brand partners alike. During the interim, we opened our first HYPEBEANS physical store outside of Hong Kong in Seoul, South Korea, as a first showcase of the Hypebeast world of culture in the country.

Although our main businesses will continue to be digitally based, we continue to look for opportunities to activate physical touchpoints as a complement to what we are doing online, as it acts as a powerful consolidation point for our community and for our brand partners.

In September, we launched HBX on Tmall Global, expanding distribution points for our products to a wider audience and creating a powerful touchpoint for our China user-customers. We will continue to grow our appeal amongst our audience and look for ways to broaden our customer base for our Ecommerce and Retail business.

I want to close the financial part of the presentation by quickly reviewing some insights on our balance sheet and particularly our Treasury – the Company continues to improve its liquidity and treasury position as our cash position reached HK\$255 million as at the end of September. AR and Inventory turnover both improved dramatically from the prior period – AR turnover for the interim is 71 days compared to 139 days for the same period last year, and Inventory turnover improved from 175 to 170 days. Our healthy treasury position allows us to invest profitably in organic growth in both our Media and Ecommerce businesses. The direction for the business for the foreseeable future would be driving and investing in further growth and our current treasury balance is a first basis in terms of resources for near term development.

Host

Thank you, Patrick. We will now pass on to Kevin's discussion in the growth and prospects of the second half across these operating segments.

Kevin Ma -- CEO

Thank you Patrick for your explanations on the financials. Thanks everybody for your time today. I want to share some thoughts about the future of our company. 2020 was a year where COVID hit us and a lot of things were uncertain, but we made it through. We did pretty well in 2021, especially the first half if you saw the numbers. Revenue was up 54% and over 200% on our net profits. Thanks to our team and the management team for making that happen and for our investors who continue to believe in us. Moving into 2022, it is important for us to keep stepping on the gas pedal; we saw a really good growth in the first half, so in the second half, we would like to continue doing that, but also put more investments and resources into developing the future of Hypebeast. We have three businesses: media, agency and e-commerce.

On the media side, since our advertising business is coming back really strong and we will continue building our products and media offerings, not only strengthening Hypebeast, but also all our other verticals such as HypeArt, Hypegolf, Hypefoods, and even venturing into new spaces like crypto, web3, blockchain and NFT communities as I see that as big growth area. As proven by that, we have already signed a pretty big deal with exchanges like coinbase recently, so I am really excited about getting our hands into different categories and new ventures. We will also invest resources into beefing up our video as well as our social media video, we are going to do more in the OTT space, so look forward to that in the upcoming year.

On the agency side, we will continue to expand our offerings by broadening our client base, like what I just said, we diversify ourselves from only having fashion and endemic brand clients to having a range of non-endemic brand clients. Also, I think the core part of our company is that we are able to tap into new categories, again, such as crypto, blockchain, etc. Not many other companies can just easily tap into new spaces like that and make it feel organic. I am happy that our company is able to do that and hopefully, we can offer more services and serve a more diverse range of customers as we develop our production team. We are looking into live shopping, so look forward to that in 2022.

Last but not least, our e-commerce business. During COVID, we took a cost-conscious approach to scale down our inventories just to ensure we have a healthy balance sheet. Now that our margins are doing better, I think we have a good foundation for us to scale in 2022 and beyond. We are going to put more resources in building out our technology so we can offer things like marketplace. We want to build out not only our wholesale business or 1P business, but also a marketplace 3P business. In addition, we want to get into re-commerce, meaning selling used or vintage goods that are not brand-new. This way we can be sustainable as a company, so we are not always just selling new stuff, but also we can sell recycled stuff, and now we have got to build the technology and platform. For now, we already have HBX archives to facilitate, but we want to build that out. So that's something really exciting that we look forward to. Beefing up the team, putting more resources into hiring great talent. I think that's also very important moving forward. That's our 2022 plan in a nutshell, so I will go into the Q&A session now. Thank you.