HYPEBEAST

FISCAL YEAR 2024 ANNUAL RESULTS EARNINGS CALL

Attendees
Kevin Ma, Chairman & Chief Executive Officer
Patrick Wong, Chief Financial Officer
Janice Fong, Communications/ Host

Host
Hello and welcome to the Hypebeast fiscal year 2024 annual results earnings call. This is Janice from Hypebeast's communications 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, management will go over our annual 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 & CEO
Good morning and evening everyone, and thank you for joining us today to discuss our annual results of the fiscal year 2024.

Reflecting on the past year, our journey has been shaped by a multitude of challenges. Despite ambitious goals, we faced unfavorable macroeconomic conditions and shifting consumer spending patterns that impacted our performance. However, we responded proactively by making necessary adjustments to pivot our business. Our focus is to establish a solid foundation for sustainability and long-term efficiency in response to the new broader economic reality.

Our revenue was unfortunately negatively affected by various factors. These included challenging economic conditions and industry trends, slower execution of media campaigns in the APAC and North America regions, and reduced spending from luxury clients in the EMEA region. Our company recorded revenue of HK$896 million in fiscal year 2024, representing a decrease of HK$64 million or 7% compared to 2023.

The decrease in revenue was primarily driven by the economic downturn and discounts deployed in the e-commerce and retail segment as part of our efforts to rightsize our inventory portfolio.

Moving into the media segments, our revenue decreased by 6% to HK$608 million compared to HK$644 million in fiscal year 2023. Slow media campaign executions in APAC and North America, as well as decreased luxury client spend in EMEA, dampened revenue in the first half of fiscal year 2024. To address these challenges, we reduced our workforce through a company-wide restructure. We have also adopted a conservative approach and implemented cost-effective measures in our business operations.

In the second half of the fiscal year, we saw an improvement in performance led by a global increase in media campaign executions and improved revenue from the media segment to HK$325 million, a 15% increase compared to a recorded revenue in the first half, which amounted to HK$283 million.

On the e-commerce and retail side, our revenue decreased from HK$316 million in fiscal year 2023 to HK$287 million in 2024, or a decrease of 9%. Our main goal is to improve long-term profitability and minimize risk by reducing the amount of working capital tied up in inventory. We have adopted cost-effective measures, focused on brand and product margins, and implemented strict cost management.

As we move forward, we have been actively extending our physical events to foster meaningful offline interactions. We organized various events, including Hypegolf Invitational in Seoul, Hypefest Aranya in China and Hypebeast Flea in London. These events helped convert our online followers into a focused customer database, strengthen brand awareness and deepen community understanding.

Slide 9 - FY2025 Strategic Priorities
Looking ahead, our strategic approach involves three key directions to set a clear course for the future. To ensure profitability and company growth, we will continue to prioritize operational efficiency, product enhancement through technology and community building. This will allow us to invest in product development, content improvement and a data-driven CRM program for our community.

Now I would like to turn the call over to Patrick to give more details on our results.

Patrick Wong - CFO
Thank you, Kevin. Good morning, everyone. Let us begin with consolidated results. Overall revenue for the 2024 fiscal year amounted to HK$896 million, for a decrease of 7% compared to HK$960 million for the prior year. Gross profit for the year amounted to HK$414 million, representing a decrease of HK$92 million or 18%, and also reflected a decrease in gross profit margin from 53% to 46%

However the company's overall profitability improved compared to FY2023. Due to cost efficiency exercises conducted during the year, both selling and marketing and administration and operating expenses decreased compared to the previous fiscal year, by 21% and 7% respectively. Thus we recorded an EBITDA of HK$72.9m in fiscal year 2024, a 21% improvement compared to 2023.

In the fiscal second half, our revenue reached HK$456 million, representing a 4% increase compared to

HK$440 million in the first half. Specifically, media revenue increased by approximately 15% in the second half compared to the first half, while second half e-commerce and retail revenues decreased by approximately 17% compared to the first half.

Supported by a comprehensive cost efficiency exercise conducted by the Group, both selling and marketing expense and administration and operating expense recorded a significant savings in the second half compared to the first, and thus EBITDA reached HK$58.6M in the second half, which is more than a fourfold increase as compared to the first half.

Before delving into details on our business segments, I would like to review some insights on our balance sheet. As at 31 March 2024, we had inventories of HK$78 million, accounting for approximately 12% of our total assets. This represents a decrease of HK$36 million as compared to 31 March 2023. Correspondingly, our inventory turnover decreased from 202 days in fiscal year 2023 to 197 days for fiscal year 2024. Such decrease in inventory was driven by the effort in rightsizing the inventory portfolio within our e-commerce and retail segment.

Bank and cash balance held was HK$183 million, 10% higher than as at 31 March 2023 mainly due to cash generated from the operating activities with the reduction of inventory to a sustainable and optimal level.

Accounts receivable turnover for fiscal year 2024 was approximately 87 days compared to 84 days in fiscal year 2023. This is mainly due to a slightly 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 get cash and to mitigate credit risk. Management does not consider there to be a material risk on collectibility of our receivables balance.

Moving on to our segment results. Media revenue amounted to HK$608 million in fiscal 2024, a decrease of approximately 6% against the comparative of HK$644 million in fiscal 2023. Gross profit margin decreased from 58% in fiscal year 2023 to 54% in 2024. This was mainly due to increases in campaign costs associated with physical “in real life” sales executions produced by the Group in 2024.

As mentioned, slower media campaign executions in the APAC and North America regions as well as a decrease in luxury client spend in the EMEA region dampened revenue in the first half of 2024. An improvement in performance in the second half of 2024 led by a global increase in Media campaign executions improved revenue from the Media segment in the second half to HK$325 million, a 15% increase compared to revenue recorded in the first half.

Gross profit in the first half of 2024 was HK$153 million, compared to HK$174 million recorded in the second half. Other than the impact of increases in revenue in the second half, comparatively the improvement in gross margin in the second half of 2024 was also driven by a comprehensive cost efficiency exercise conducted by the Group in the second half, which includes reviewing and downsizing the Group’s people and processes to drive a more efficient operation to improve margins and profitability.

Region-wise as a breakdown, the U.S., EMEA and APAC markets accounted for 42%, 24% and 34% of our total media revenues in fiscal year 2024, respectively. APAC market showed recovery as indicated by a 12% increase in media revenues compared to the previous year. Such increase was offset by softness seen in US and EMEA markets as discussed previously.

Moving on to our e-commerce and retail segment. In fiscal year 2024, revenue from the segment decreased by 9%, from HK$316 million in fiscal 2023 to HK$287 million in fiscal 2024. This decline was primarily driven by the increase in promotion and discounts deployed in the course of rightsizing the Group's inventory portfolio.

We observed an increase in the average order value of approximately 7%, to HK$2,000 per order in fiscal year 2024, against a decrease of 13% in the total number of orders in fiscal year 2024. Throughout the fiscal year, we fulfilled approximately 121,000 e-commerce orders.

During the same period, average unit value increased by 5% to approximately HK$1,000. This is driven by the growth of AUV from the brands under streetwear and accessories.

In fiscal 2024, gross profit for our e-commerce segment decreased from HK$131 million in fiscal 2023 to HK$86 million in fiscal 2024, representing a decrease of HK$45 million or 34%. Gross profit margin decreased from 42% in fiscal 2023 to 30% in fiscal 2024.

The Group's main focus within the e-commerce segment is to improve the division's long term profitability and reduce segment risk by decreasing working capital tied up in inventory, onboarding more cost effective channels for product procurement and distribution, focussing on brand and product gross margins and adhering to stringent operational cost management.

While fiscal year 2024 presented some 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 we will continue to nurture relationships and empower our audience engagement across our platforms. Our goal is bridging the relationships between brands and our audience and 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 growth, sustainable and profitable momentum, and deliver value to our shareholders over the long term. On behalf of the company, thank you to all of our investors for the continued confidence in Hypebeast. Then, 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 could you elaborate a bit on the growth potential for the media business going forward? Are there any specific initiatives you are looking at, or do you think that business is ex-growth now?

Kevin Ma - Chairman & CEO
I think we are going to take a more conservative approach due to the economic situation, high interest rates and slower consumer spending. So we are going to take a more of a wait-and-see approach and like we said, lower our costs so we can save up some resources for opportunities moving forward. Obviously, there is stuff that we are going to continue doing, for example, on the media side, we are continuing to strengthen our brand, our content. Go into different content formats, such as video. And in addition, we are also going to focus more on converting our existing website users, or social media users into more of a Hypebeast user. Building up our technology and our CRM, so we can remarket and reach out to our user database more efficiently.

Another thing that we are going to do is to implement different AI technologies in helping streamline and also improve the efficiency of producing our content. Whether it's through translations, or even generating content itself. There are a lot of different things in the technology side to really help improve and hopefully increase our user, our readership and our customer base.

Patrick Wong - CFO
I wouldn't say we are ex-growth. But I think, as Kevin said, we are taking a more measured approach in terms of how we approach where we place our investments. Obviously, the momentum in the past was quite rapid in terms of growth, looking at maybe 3 to 5 years ago. We are looking at a more moderate pace of growth moving forward, but we are still actively launching initiatives, mainly through the media business, to continue promoting the brand and brand executions globally.

Kevin Ma - Chairman & CEO
I just also have one more thing to add on that. We also are experimenting with new business units. For example, we launched our distribution and merchandising business unit approximately 2 years ago, and we've had some good success. This way, we complete the whole ecosystem, where we not only market the brands that we talk about. We obviously currently sell some of the brands that we talk about through HBX, but we also can make and distribute brands, not only to our own retail platform HBX, but also to different stores, different retailers around the world. Having more sales channels is kind of the strategy. So we are growing that part of the business. It's called Hyperoom.

And then finally, hopefully, we are also developing our in-house private label brands. This way, we can have more control on the products itself. And then also might have higher margins, but that is going to take some time. So there is different stuff that we are working on.

Host
The next question is could you explain a bit more how you came up with the dividend amount and also what is your thinking around dividends going forward? Do you have a new dividend policy now?

Kevin Ma - Chairman & CEO
First of all, we wanted to have a dividend policy because we wanted to give back to our shareholders. We have been able to increase our cash balance, our balance sheet. I think our balance sheet is pretty strong. We want to reinvest the capital that we have gained into different various types of business. But we also want to redistribute it to our shareholders that have supported us throughout all these years. So hopefully, it's going to continue.

Patrick Wong - CFO
The calculation would be tied to our free cash flow generation, and that number is in the disclosures as well. Looking at the business, the anticipation is - and this isn't putting out any forecasts on anything - but we have looked at our business with the shrinkage in terms of inventories from the E-com business and the cash generating abilities of the media business in mind. The anticipation is that the free cash flow on a positive basis is sustainable year to year. In other words, we are generating positive free cash flows for the foreseeable future. That is how we are determining the dividend policy moving forward - it would be a calculation based on free cash flow and a distribution from that amount.

I think for us, on the capital allocation basis, if you look at historically what the business has done, a lot of the growth initiatives that we talked about can primarily be internally funded using cash flow from operations. So we are not out there needing money. In fact, as Kevin said, we have the ability to strengthen our treasury in a significant way on a year to year basis. Part of that is because we have excess capital after allocation to our projects. We would like to allocate some of that to shareholder returns, and that is the vision and the strategy moving forward.

Host
Thank you, Patrick and Kevin. If there are no further questions, we will end here today. Thank you everyone for attending the fiscal year 2024 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.