

**Here Group Limited (HERE)
Q4 and FY26 Earnings Call
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Executives

Tina Tang, Manager, Investor Relations
Peng Li, Founder, Chairman and CEO
Tim Xie, CFO

Analysts

Liping Zhao, CICC
Yikun Zheng, CITIC Securities
Di Shi, Huatai Securities

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Here's Earnings Conference Call. (Operator Instructions). We will be hosting a question-and-answer session after management's prepared remarks. Please note that today's event is being recorded.

I would now like to turn the conference over to Ms. Tina Tang, the company's Manager of Investor Relations. Please go ahead, ma'am.

Tina Tang: Thank you. Hello, everyone, and welcome to Here's earnings call for the fourth quarter and full fiscal year 2026. With us today are Mr. Peng Li, our Founder, Chairman and CEO, and Mr. Tim Xie, our CFO. Mr. Li will provide a business overview for the quarter; then Tim will discuss the financials in more detail. Following their prepared remarks, Mr. Li and Tim will be available for the Q&A session. I will translate for Mr. Li.

You can refer to our quarterly financial results on our IR website at ir.heregroup.com. You can also access a replay of this call on our IR website when it becomes available a few hours after its conclusion.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call, as we will be making forward-looking statements. Please note that all numbers stated in the following management's prepared remarks are in RMB terms, and we will discuss non-GAAP measures today, which are more thoroughly explained and reconciled to the most comparable measures reported in our earnings release and filings with the SEC.

I will now turn the call over to the CEO and Founder of Here, Mr. Li.

Peng Li: Yes, okay. Good morning, everyone, and thank you for joining us today. We closed out our fiscal year 2026 with fourth quarter revenues of RMB127.7 million, representing a robust year-over-year increase of 94.1%, and bringing our full-year revenues to RMB596.8 million.

Fiscal year 2026 marks our first full fiscal year dedicated to the pop toy business. Most importantly, this year has provided us with complete clarity about our corporation identity, our long-term strategic positioning, and the path we must take to build lasting shareholder value.

Before diving into our operational updates, I want to share the core strategic insights that are reshaping Here. We firmly believe that an enduring high-premium IP company must anchor itself on distinctive products and constant creativity, not third-party distribution channels alone. Distribution expands market reach, but it cannot answer the fundamental question of user loyalty: Why will customers remember you and consistently choose your brand?

Historically, our product pipeline and release cadence were tightly coupled with wholesale channel demand. To protect our brand from external volatility, we are shifting our business model into a strategic closed loop. This model integrates Proprietary IPs, Adaptive Product Design, and Direct-to-Consumer channels. This closed loop grants us autonomy over our Go-to-Market cadence, product presentation, and consumer experience. Our self-operated DTC channels serve as the premier theater to showcase these high-value portfolio extensions.

An industry-leading IP house cannot merely churn out what the mass market passively accepts today. This is why our DTC retail network is far more than a point of sale: It is an IP incubator and a hub to test new ideas. As a result, our capital allocation and operational priorities are focused on perfecting this DTC closed loop and optimizing our structural unit economics, rather than maximizing short-term volume at the expense of brand health.

This philosophy brings us to our core thesis on brand momentum. True brand momentum does not stem from chasing fleeting market trends, or mindlessly copying customer performance. Real long-term brand momentum is forged through design conviction and artistic leadership. Furthermore, the long-term asset value of an IP is intrinsically linked to its perceived scarcity: once market supply outpaces consumer interest, that scarcity dissolves and triggers a structural devaluation of the IP.

While we remain pragmatic about macro conditions, we maintain absolute control over our own operational cadence. We have made a deliberate, strategic choice to prioritize long-term IP asset value over short-term wholesale sales volume. This choice is heavily driven by who we are. Within the global pop toy landscape, true independent pure-play IP companies are exceedingly rare. Here Group stands as one of the very few enterprises that rigorously adheres to the path of proprietary IP incubation and self-operated execution.

Over the past fiscal year, we have proven the scalability of this model. Navigating the current headwinds requires resilience, disciplined effort, and a refusal to compromise our core strategy for short-term convenience. We will strictly adhere to the "IP First" principle. Our mission is not to generate fleeting retail transactions, but to deliver long-term emotional companionship and lasting narrative value to our users.

To fully realize this vision, we focused our execution across four strategic pillars during the fourth quarter. First, IP Portfolio Diversification and Ecosystem Monetization. We continue to curate our IP matrix across the entire asset lifecycle, boosting product innovation and brand collaborations. Our ecosystem is structurally engineered to mitigate single-IP dependency.

As of June 30, 2026, our total portfolio expanded to 22 IPs, comprising 13 proprietary IPs and 9 exclusively licensed IPs. Our flagship IP, WAKUKU, generated RMB47.7 million in the fourth quarter and RMB369.3 million for the full year. This accounted for 61.9% of our annual revenue.

Meanwhile, our next-generation powerhouse, SIINONO, has delivered a phenomenal trajectory. Launched only in the second half of 2025, SIINONO generated RMB27.3 million in Q4 of fiscal year 2026 alone, rapidly growing to represent 21.4% of our total quarterly revenue.

For its first full fiscal year, SIINONO generated RMB92.7 million, contributing 15.5% to our annual top line. The meteoric rise of SIINONO from zero to a near RMB100 million annualized scale in under 12 months, confirms we can systematically build and scale new proprietary IPs.

We have also built out a diversified Long-Tail Flywheel. Revenue from our "Others" IP category, which includes emerging proprietary stars like XIAO'AO, MEMIMO, FUNII, FIILA, IMPOPO PIX, and more, surged by an extraordinary 661% year-over-year to RMB39.8 million in the fourth quarter. This is up from just RMB5.2 million in the same period last year. Combined with ZIYULI's solid contribution of RMB12.8 million in the fourth quarter, this portfolio of IPs now collectively accounts for over 41% of our quarterly revenue.

On the product expansion and lifestyle integration front, we recently accelerated several high-impact initiatives. Recently, we aggressively expanded our IPs into premium daily consumer scenarios. SIINONO launched a limited-edition co-branded sparkling water with Genki Forest, and partnered with the French fashion house, IRO Paris, on an exclusive plush pendant collection.

Meanwhile, we elevated our cultural positioning via an exclusive partnership with the Museum of Fine Arts, Boston, co-developing five premium artistic works across three core IPs. Furthermore, we have formalized our partnership with the 2026 China Open, establishing SIINONO as the headline IP for this year's tournament.

New IP pipelines were another part of our strategy. We officially introduced YONNNA, a novel IP, alongside with seasonal collections for IMPOPO PIX and FLUFFY LILI. Notably, FLUFFY LILI captured strong youth engagement during the Qixi Festival via a collaboration with CASEBANG, and served as an official event partner for the prestigious 38th Hundred Flowers Awards.

Finally, in Hong Kong, our landmark cruise project at Central Pier is undergoing final decoration. We have transformed the ship into a multi-layered vertical experiential space on Victoria Harbor. Ticket sales officially launched on Ctrip on September 21, ahead of the maiden voyage on October 1. This will allow us to capture the peak tourist flows of the upcoming National Day Golden Week.

Second, Disciplined DTC Network Expansion and Scenario Optimization. Our offline direct-to-customer footprint remains the primary avenue for deepening user intimacy and validating product-market fit. At this stage, our network strategy prioritizes high-ROI unit economics and qualitative location premium over sheer store count.

We continue to manage our permanent footprint with strict capital discipline to optimize our asset portfolio. As of today, we operate seven DTC stores across four core metropolitan areas. During the quarter, we successfully inaugurated our new store at Beijing Daxing International Airport. This marks our strategic entry into high-traffic, premium transit-hub retail scenarios.

We leverage agile pop-up storefronts as a dual-purpose strategic vehicle. Beyond de-risking permanent site selection, these pop-ups function as epicenters for IP activation and immersive user interaction. A prime example is our successful activations in September at PRISMA XINJIA CENTER in Shanghai and Hangzhou Tower.

In addition, our automated retail network expanded to 25 Roboshops across 6 cities. Having completed our initial structural layout, we shifted our operational mandate from aggressive deployment to maximizing same-machine efficiency and data extraction.

Third, Operational Refinement and Digital Integration. On the supply chain, we are optimizing our procurement, warehousing, and logistics frameworks. By strengthening our bargaining leverage with manufacturers and suppliers, we have shortened our supply chain response times. This enables faster, higher-quality replenishment and boosts our supply chain resilience.

We are also consolidating data streams across our physical stores, Roboshops, and online commerce to build omnichannel data infrastructure. Our upgraded membership ecosystem tracks customer behavior, unlocking predictive insights which help us optimize our inventory.

On partner channels, our operational matrix is evolving toward deeper integration: we are transitioning channel partner relationships with traditional transaction-led distribution into high-value, customized strategic alliances, and working closely with partners to ensure our premium IP products are placed in environments that respect our brand integrity and pricing.

On the digital front, our cumulative social footprint continues to scale in a positive flywheel, and we have shifted our KPIs from vanity follower metrics to deep engagement quality. Our online platforms function as a strategic bridge, converting digital community engagement into physical DTC foot traffic, and reinforcing offline experiences with online loyalty.

Fourth and finally, Talent Acquisition and Organizational Capability Building. To execute our closed-loop strategy, we continue to build our team, onboarding top-tier industrial experts across premium store operations, product design, and core brand operations.

Before I hand the call over to our CFO for a granular financial review, I want to address our bottom line results directly. Our financial loss this quarter was heavily impacted by a one-time, non-operating income statement item driven entirely by market valuation adjustments. This historical accounting revaluation is non-cash in nature, separate from our ongoing core operations.

Operationally, our performance reflects our necessary upfront investments in design capability, next-generation product innovation, and targeted brick-and-mortar storefront and pop-up expansions. Concurrently, as we proactively optimized our business model and navigated a challenging retail sales environment, our revenue scale was affected by lower sales through traditional channels. Cost and expense optimization is underway across all operational segments. While revenue and cost trends are not yet fully aligned, we expect that gap to close over time, as our revenue stabilizes and our cost structures are optimized.

Looking forward, we are committed to balancing capital stability with operational momentum, with a near-term mandate to drive toward sustainable profitability at an early date. At the same time, we will maintain a steady, uncompromising cadence in operating and incubating the proprietary IPs our users love.

I will now turn the call over to Tim for the detailed financials. Thank you.

Tim Xie: Okay. Thank you. Before I go into the details of our financial results, please note that all amounts are in RMB terms unless otherwise stated. The reporting period is the fourth quarter of fiscal year 2026 ended on June 30, 2026. And in addition to GAAP measures, we will also be discussing non-GAAP measures to provide greater clarity on the trends in our actual operations.

In the fourth quarter, our total revenue was 127.7 million, up 94.1% year-over-year, but down sequentially. The year-over-year growth was primarily driven by higher sales of both existing and newly-launched IP product lines in our pop toy business. On a sequential basis, the decrease was mainly due to a challenging market environment and the lower channel sales.

Cost of revenue was 94.7 million, compared to 43 million a year ago and 107.9 million in the third quarter. The year-over-year change was mainly due to higher IP product costs in line with revenue growth, as well as increases in logistics, labor, and the IP licensing expenses. Sequentially, the change was primarily due to lower channel sales.

Our gross margin was 25.8% this quarter, compared to 34.7% a year ago, and 34.5% in the third quarter.

Total operating expenses were 216.1 million for the quarter. To break this down, sales and marketing expenses were 56.2 million this quarter, broadly in line with 57.7 million in the third quarter, compared to 19.1 million a year ago. The year-over-year change mainly reflected higher advertising and promotional expenditures and increased employee compensation. These investments supported targeted marketing for our brands and IP products. They also supported the continued expansion of our multi-channel sales capabilities.

As a percentage of total revenue, non-GAAP sales and marketing expenses, which exclude share-based compensation, were 43.9% this quarter, compared to 29% a year ago and 35% in the third quarter.

Moving to research and development, R&D expenses were 9.9 million this quarter, compared to 9 million a year ago and 9.5 million in the third quarter. The year-over-year change was mainly due to higher product design-related expenses as we continued to invest in our design team. Meanwhile, employee compensation and other service fees remained broadly stable during the

quarter. As a percentage of total revenue, non-GAAP research and development expenses, which exclude share-based compensation, were 7.7% this quarter, compared to 13.5% a year ago and 5.7% in the third quarter.

General and administrative expenses were 25.8 million, compared to 19.7 million a year ago and 33.6 million in the third quarter. The year-over-year change was mainly due to higher share-based compensation expense. Sequentially, the decrease was driven by lower salary expenses and the lower share-based compensation expense. As a percentage of total revenue, non-GAAP general and administrative expenses, which exclude share-based compensation, were 14.4% this quarter, compared to 26.3% a year ago and 13.8% in the third quarter.

As a result, our net loss from continuing operations was 169.6 million, compared to 21.8 million a year ago and 34.1 million in the third quarter. Our adjusted net loss from continuing operations was 37.7 million, compared to 19.3 million a year ago and 22.9 million in the third quarter.

Basic and diluted net loss from continuing operations per ordinary share were both 1.07 during the quarter, compared to 0.12 a year ago and 0.21 in the third quarter. Basic and diluted adjusted net loss from continuing operations per ordinary share were both 0.24 during the quarter compared to 0.10 a year ago and 0.14 in the third quarter.

Separately, we recorded a goodwill impairment charge of 124.1 million this quarter related to our acquisition of Letsvan. This was mainly due to lower-than-expected financial performance amid macro headwinds. The original goodwill from this acquisition was 187.6 million, and after the impairment, our remaining goodwill balance was 63.5 million as of June 30, 2026.

Now moving to capital allocation, our Board approved a US\$20 million ADS repurchase program in June. As of September 16, 2026, we had repurchased approximately 0.4 million ADSs for approximately US\$0.7 million under the program. We will continue to assess share repurchases and other capital return opportunities alongside our investment needs, with the goal of maximizing long-term shareholder value.

Looking ahead, as we continue to invest in our self-operated system, we will remain disciplined in allocating capital across our different formats, closely evaluating the unit economics of each one and prioritizing investment toward those with the strongest long-term potential. We remain committed to strengthening our IP and product capabilities, while improving operating efficiency over time.

That concludes my prepared remarks. Operator, let's open up the call for questions.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Today's first question comes from Liping Zhao with CICC.

Liping Zhao: (Speaking Foreign Language). My question is about the new IP. What plans do you have for the exploration, incubation, and commercialization of new IPs?

Peng Li: (Speaking Foreign Language).

(Translated). In terms of new IP discovery, incubation, and commercialization, we have developed a systematic approach that takes our IPs from zero to one with, as we mentioned, 22 properties. We build our capabilities around the full lifecycle of IPs from discovery to incubation to commercialization. Every stage has its own approach and a dedicated team.

At the same time, we selectively bring in international IP collaborations. These partnerships allowed us to gain valuable experience in product development and market operations, which we then feed back into our own original IPs, creating a positive cycle that strengthens our core over time.

Let me make it more detailed. On the discovery side, we maintain both original in-house creation and collaborations with artists. Our IP portfolio has now expanded to 22 properties, spanning a wide range of styles from cool-cute to adorable to fashion-forward. We continue to bring in talented, emerging designers and artists to keep our creative pipeline fresh and diverse.

On the incubation side, we use both data and emotional connection to guide our work. We look at the real-time sales and user feedback from our DTC stores and Roboshops to shape our IP designs. At the same time, we give each IP its own personality and emotional appeal.

SIINONO is about imperfect but adorable; WAKUKU is a free and brave little wild-child. SIINONO launched in the second half of last year, and cross-IP user overlap is still growing. This tells us our zero-to-one incubation model works. We will bring the same approach to IMPOPO PIX, building a repeatable process as we go.

On the commercialization side, we are advancing both our core IPs and our newer ones. For our flagship IPs, we keep rolling out new products to strengthen our base. For our newer IPs, we are driving cross-industry collaborations and expanding into more scenarios. For example, SIINONO has been very active on partnerships this year. We teamed up with Genki Forest on a limited edition white peach sparkling water, collaborated with the Museum of Fine Arts, Boston, on the co-branded products; and partnered with the French fashion brand, IRO Paris, on an exclusive plush pendant series. SIINONO will also take a part as the official partner IP at 2026 China Open.

On the new IP front, FLUFFY LILI rolled out themed a campaign during Qixi Festival, and also, teamed up with the phone case brand CASEBANG. FLUFFY LILI also served as the official event partner for the 38th Hundred Flowers Awards. New large-scale figures are also being released on a regular basis.

Across all these initiatives, from beverages to fashion, from arts and culture to sports events, and from seasonal campaigns to lifestyle merchandise, our IPs are steadily making their way into a broader range of consumer and everyday life scenarios.

So we believe the pop toy industry is shifting. It is no longer about single product hits. It is about who can consistently incubate IPs with real character and stories, and operate them well. That takes time and discipline. This is a concrete reflection of what we mean by putting long-term health first. Thank you.

Peng Li: Okay. Thank you. That is all for the questions.

Liping Zhao: Thank you, Mr. Li. That is very clear.

Operator: Yikun Zheng with CITIC Securities.

Yikun Zheng: (Speaking Foreign Language). My question is about our offline channels. Can we have some update on the current situation of our offline channels? And what is our expansion plans on offline channels given the recent fluctuations in industry segments?

Tim Xie: Okay. Thank you. I will answer your question directly in English. Currently, we have opened 7 DTC brand stores across 4 core cities in China since the end of last year. This quarter, we opened a new store at Beijing Daxing International Airport, marking an important step into transportation hub scenarios, and effectively reaching high-value business and travel consumers. Each DTC store is integrated into our self-operated brand system with a unified IP expression, serving not only as a sales channel, but also, as a core space for user interaction.

Regarding our store opening cadence, we are firmly committed to a quality-over-quantity approach. We prioritize the operational quality of each store over the number of stores we open. For us, DTC stores are the foundation of our relationship with users.

Regarding the Roboshops, the initial rollout phase is largely completed. Our focus has shifted from deployment scale to operational efficiency and refined operations. These machines extend our offline presence and generated real-time consumer insights, helping us better understand product preferences and purchasing behaviors, and informing our assortment and placement decisions.

In terms of expansion strategy, we remain disciplined in site selection and focused on refined operations. The Daxing Airport store validates our transportation hub approach, and the Hong Kong Central Pier IP-themed boat experience, expected to launch early next month, represents another new scenario exploration.

We will not open stores for the sake of opening stores. Every new store plan goes through a strict ROI review and site evaluation before we move forward, especially under this challenging market environment. We only consider replication after confirming the unit economics are sound. Yes, that is our approach.

Yikun Zheng: Thank you, Tim. It's very clear.

Operator: Di Shi with Huatai Securities.

Di Shi: (Speaking Foreign Language). My question is about our inventory. So what is the performance of our sell-in and sell-through in the most recent season? And how do we expect to manage our inventory in the future?

Tim Xie: Thank you for your question. Regarding our revenue composition and the inventory dynamics, the channel inventory did run higher than our normal operating range this quarter. The underlying cause is not attributable to any single product line. Instead, it reflects a structural mismatch between a cooling macro environment and our historical operating pace. Historically, we relied heavily on our distributor network to gauge end-market demand cycles.

As the consumer market cooled, the limitations of this traditional wholesale model became apparent. Our direct visibility into real-time end-customer demand was not precise enough, creating a temporary gap between our sell-in pace and the actual end-market sell-through.

Additionally, when evaluating our inventory balance, it is important to consider the unique operational characteristics of the pop toy and the IP industry. To prepare for our packed pipeline of upcoming product launches, and to support the incubation of new IP products, a substantial amount of strategic front-loaded manufacturing and advance stockpiling is structurally necessary.

These forward-looking buffers, designed to secure our upcoming release calendar, represent a deliberate and healthy component of our current inventory composition. This friction is precisely why we remain firmly committed to our transition toward a self-operated closed loop. We have already initiated a series of proactive, disciplined measures to optimize our inventory structure.

The first one is leveraging omnichannel synergy to accelerate sell-through. We are significantly increasing product exposure and localized touchpoints through our scaling DTC online channels, premium DTC stores and Roboshop network. Concurrently, selected assortments have been strategically integrated into promotional pipelines for our high-engagement pop-up events and experiential offline initiatives to accelerate organic consumer sell-through.

Secondly, intentionally sell-in moderation for scarcity control: We have deliberately moderated our shipping pace to wholesale distributors. We prefer to absorb a short-term compression in wholesale revenue to give the channel sufficient room to clear existing stock in a healthy way, rather than overcrowding the channel for short-term gain.

Thirdly, targeted channel clearing programs. Across select partner channels, we have introduced high-value bundle offers and tailored purchase incentives. This drives faster inventory turnover while preserving our core brand equity and pricing integrity. We view the current inventory pressure as temporary and fully manageable, but working it down structurally will take time. And the exact trajectory will depend on macro retail conditions. We do not anticipate a rapid market recovery in the near term, and we will not resort to aggressive clearing measures that undermine our brand premium.

I think the most important thing is that backed by our interest-bearing debt-free balance sheet and highly resilient liquidity profile, we possess the financial durability and strategic patience

required. This inventory episode has only reinforced our determination to minimize channel reliance and strengthen our self-operated capabilities.

Going forward, we will fully leverage live data from our DTC storefronts and Roboshops to build more accurate demand forecasting models, optimizing our production and shipping pace from the source to prevent similar mismatches in the future. Thank you.

Operator: Thank you. As there are no further questions, I'd like to hand the conference back to management for closing remarks.

Tina Tang: Thank you again for joining our call today. If you have any further questions, please feel free to contact us or submit a request through our IR website. We look forward to speaking with everyone in our next call. Have a nice day.

Operator: Thank you. That concludes today's presentation. You may now disconnect your lines and have a wonderful day.