

**Here Group Limited (HERE)
Q2 2026 Earnings Call
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Executives

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

Analysts

Alicc Cai, Citi
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 will now 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 second quarter of 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 details. 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 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: Okay. Good morning, everyone. Thank you for joining us today. Just over 3 months ago, we held our first earnings call as a pure-play pop toy company. We shared our vision of focused acceleration. Today, I am pleased to report that we have not only maintained that momentum, but have begun translating it into the durable long-term value we promised.

This quarter marks a significant milestone. It's our first full quarter operating as a dedicated IP trend company. We have a clear and firm strategy, and we are continuously optimizing in execution in a rapidly changing market environment.

Building on our Q1 outperformance, Q2 delivered strong results. Total revenue reached RMB 177.3 million, representing 39.4% quarter-over-quarter growth. This performance exceeded the high end of our guidance, and reflects sustained and steady momentum following our strategy.

We continue to focus on our flagship IPs to create ultimate product appeal. Our flagship IP, WAKUKU, contributed RMB 129.4 million, accounting for 73% of our Q2 revenue.

SIINONO is another potential flagship IP. It has been gaining momentum since its initial launch in July 2025. It generated over RMB 19.2 million in revenue this quarter. This is not just about product success; it demonstrates that our IP-first strategy is successfully converting more casual consumers into a growing base of our users.

This quarter, based on our observation on changing market conditions and our evolving operational insights, we improved our strategy implementation in a timely manner. We have gained a deep understanding. Product sales for a period of time are not the only metric to measure an IP's success. The ultimate goal of our operations is to build IPs that users love and that possess lasting vitality.

We expanded the sales contribution from offline distributor channels. This allows users to experience IP products more intuitively. We have opened five offline DTC stores, positioning as a dedicated venue for brand-user interaction. We are continuously optimizing the operational experience. Our online operations team has also improved our user membership system.

This quarter, we refined our core operational systems. These cover IP portfolio health, product appeal, supply chain efficiency, channel effectiveness, and user engagement. These efforts aim at building enduring value, not just focusing on quarterly revenue.

Building on the framework we discussed last quarter, let me walk you through the performance of our two-pillar growth strategy this quarter. Pillar 1: IP Ecosystem, moving from creative hits to a systematic pipeline. In Q1, we demonstrated our ability to turn IP launches into cultural phenomena. The WAKUKU-themed Street in Shanghai was a great example.

This quarter, we refined our operational approach. We identified what works and applied those lessons systematically. Our IP and product development now rely on continuously improving mechanisms, a data-driven systematic engine.

Let me share a snapshot of our IP portfolio. As of December 31, 2025, we had a total of 18 IPs. That includes 11 proprietary, 5 exclusive licensed, and 2 non-exclusive licensed IPs. This diversified portfolio forms our IP ecosystem foundation. We have established a comprehensive

end-to-end mechanism covering everything from IP planning to product production and promotion.

The WAKUKU On a Roll series launched in late November 2025. It builds on WAKUKU's proven success. It took our "daily companions" concept to new heights. We introduced a miniaturized form factor for full-scenario integration, placing WAKUKU in the entirely new category of "collectibles as everyday companions."

The market response was immediate. We achieved total omnichannel sales surpassing 18 million within one week, along with over 84,000 pre-sale registrations, over 56,000 peak concurrent online users, and over 100 million in total new product exposure.

For SIINONO, the success of its latest release is clear. The "WHISPERS OF 'TA'" Series vinyl plush doll hit over 11 million in omnichannel sales within a week, with more than 60,000 peak concurrent online users, and total exposure reaching 170 million.

An IP's journey begins at launch, but extends far beyond. This quarter, WAKUKU was invited by the Tianjin Culture and Tourism Bureau to serve as a promotion ambassador. This demonstrates our success integrating IP with cultural and tourism development.

Recently, WAKUKU also launched a co-branding collaboration with LUKFOOK Jewellery (Speaking Foreign Language). This continuously enhances IP influence.

We are planning to enrich our IPs' narrative worlds through a "light content" strategy. That's short-form storytelling that deepens emotional connections. This extends IP influence from physical spaces into narrative spaces. It expands sustained emotional engagement between IPs and fans.

Pillar 2: Omnichannel Reach. Our approach ranges from online brand visibility to offline user experiences. We are continuously deepening the connection between IPs, products, and users. Our diverse channels are not just sales points; they are portals for IP-user interaction and experience. They continuously empowering the IP ecosystem.

Building on last quarter's the massive organic reach, our members are strong. As of February 26, 2026, our total cumulative followers across major social platforms in China reached approximately 700,000, and our cumulative social media exposures exceeded 1.8 billion. This growing digital footprint forms one of the foundations of our brand and IP-driven model.

For offline channels, we position our DTC stores as brand-users interaction and experience hubs. Since December 2025, we have opened five DTC stores in Beijing, Shenzhen, and Chongqing. To date, an additional two stores are in the preparation stage.

A notable example is the grand opening of our Shenzhen Upper Hills flagship store on February 1 this year. We invited a celebrity to serve as "Store Manager for a Day." This drew massive crowds, and it generated strong same-day sales of approximately RMB 250,000. This validates the power of our offline experiential approach.

Our Shanghai K11 pop-up generated strong social media buzz, and even became a trending topic. And this event at the mall became one of the key drivers of foot traffic and sales.

On 2026 New Year's Eve, we held "HERE 奇梦岛" themed exhibition and light show in core commercial districts, such as Wangfujing in Beijing, Gulou in Tianjin, and K11 in Shanghai. Through these landmark public spaces, we achieved high-traffic reach and deepened the interaction between the brand and the consumer.

At the same time, we are deeply leveraging the powerful and creative tools of the AI era, and innovating vigorously in the area of smart sales terminals. We expect to deploy our intelligent sales robots to more offline locations for user interaction in the near future.

The change in gross margin this quarter reflects our strategic expansion of partnerships with more offline distributor channels. We are committed to providing more interactive and tactile experiences through diversified offline channels to our customers. This deepens IP connections and strengthens user loyalty through physical engagement. We firmly believe that this strategic investment will lay a solid foundation for the Company's long-term healthy development.

Our international strategy continues to gain momentum. On one hand, as our supply chain capabilities improve, we are working with domestic distribution partners to promote overseas export sales. On the other hand, we are actively seeking local overseas partners for IP and product sales collaborations. As we continue to refine our approach, the appeal of various international markets is steadily increasing.

This quarter, we continued to optimize our organizational structure and core operating platform. We refined our cost structure. We now have a leaner and more focused team and cost structure compared to the first fiscal quarter. We are building an integrated operational system that will be a crucial competitive advantage.

On the supply chain front, our production capacity is now approximately 50 times what it was at the beginning of 2025. This progress, a further step from last quarter, lays a solid foundation for creating hit products this year.

Operational excellence provides a solid foundation for our capital allocation. We will continue to invest in high-potential IP development, strategic market expansion, and our "light content" initiatives.

We will continue to systematically build cultural assets based on IP. As a dedicated IP trend company, we are committed to continuously improving our operational efficiency and financial health. The journey of building an enduring company requires patience and discipline, and we are fully committed to both.

I'll now turn it over to Tim for a detailed review of our financial results. Thank you, everyone.

Tim Xie: Thank you. Before I go into the details of our financial results, please note that all amounts are in RMB terms, that the reporting period is the second quarter of fiscal year 2026

ending on December 31, 2025; and that in addition to GAAP measures, we will also be discussing non-GAAP measures to provide greater clarity on the trends in our actual operations.

We are pleased to report on another quarter of solid financial performance, marked by continued revenue growth and further improvement in our profitability metrics. This demonstrates the sustained successful execution of our strategy as an IP-based product-driven pop toy company.

Total revenue reached 177.3 million, representing a 39.4% increase from the previous quarter. Gross profit reached 55 million with a gross margin of 31%, compared with total revenue of 127.1 million and a gross margin of 41% in the previous quarter.

Adjusted net loss from continuing operations continued to narrow to 16.1 million, down from 17.1 million in the previous quarter. These results reflect the growing traction of our pop toy products and operating leverage we are beginning to realize in our focused business model.

Revenues for the quarter were 177.3 million, entirely generated from the sales of pop toys and related activities, compared to 127.1 million in the previous quarter. This sequential growth is primarily driven by our offline channel sales.

Gross profit for the quarter was 55 million, compared to 52.4 million in the previous quarter.

Our gross margin decreased to 31% this quarter from 41% in the previous quarter. The margin decline reflects our strategic expansion of offline channels, which generated lower per-unit margins than direct online sales. This channel diversification strategy is designed to enhance IP engagement, and strengthen customer loyalty through physical retail experiences, aligning with the Company's long-term vision as a leading IP trend company.

On the operational front, total operating expenses were 93.2 million for this quarter. To break this down, sales and marketing expenses were 52.8 million. These expenses mainly included advertising and promotion expenses and staff compensation to support brand building and customer acquisition efforts across multiple platforms.

As a percentage of total revenue, non-GAAP sales and marketing expenses, which exclude share-based compensation, changed to 29.6% this quarter from 21.7% in the previous quarter.

Research and development expenses were 9.1 million. These expenses were mainly consisting of IP design and product development expenses. As a percentage of total revenue, non-GAAP research and development expenses, which exclude share-based compensation, changed to 5.1% this quarter, compared to 12.5% in the previous quarter.

General and administrative expenses were 31.3 million. These expenses reflected our operational functions, including employee compensation, professional service fees, and other operational expenditures.

As a percentage of total revenue, non-GAAP general and administrative expenses, which exclude share-based compensation, changed to 12.7% this quarter from 23.2% in the previous quarter.

Our net loss from continuing operations was 25.4 million, compared to 25.8 million in the previous quarter. Our adjusted net loss from continuing operations was 16.1 million, compared with 17.1 million in the previous quarter.

Basic and diluted net loss from continuing operations per share were 0.16 during this quarter. Basic and diluted adjusted net loss from continuing operations per share were 0.1 during this quarter.

Regarding our balance sheet position, our accounts receivable amounted to 32.6 million as of December 31, 2025, primarily attributable to revenue from our offline channel sales.

It's worth noting that despite significant revenue growth from offline channels during this quarter, our accounts receivable balance actually decreased markedly compared to September 30, 2025. This improvement reflects our intensified efforts to enhance customer engagement, management capabilities and strengthen collections discipline.

Our inventories were 111.8 million as of December 31, 2025, representing a significant increase from the prior quarter. This was primarily driven by enhanced supply chain capacity and efficiency, as well as inventory built proactively in anticipation of the Chinese New Year factory closures and new product launches in the upcoming quarter. We view this as a strategic move to ensure we are well-positioned to meet upcoming demand.

Looking ahead, we remain excited about the growth prospects for our pop toy business. Based on currently available information, including our pipeline for the upcoming IP releases and seasonal demand, we expect revenues from our pop toy business to be in the range of 140 million to 150 million for the third quarter of fiscal year 2026, and in the range of 750 million to 800 million for the full fiscal year 2026.

These forecasts reflect our confidence in the pop toy market opportunity and our ability to scale our IP portfolio and expand internationally.

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

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). The first question today comes from Alice Cai with Citibank.

Alice Cai: Just one quick question. The revenue guidance for third quarter suggests a quarter-over-quarter decline of about 15% to 20%. And is this primarily due to seasonality or are there any specific adjustments due to IP launch schedule for the upcoming quarter?

Tim Xie: Thank you for your question. Indeed, both factors have contributed, but the core method is that we are actively building momentum for subsequent growth. Firstly, regarding

seasonality, given that our current business primarily operates through a distributor model, distributors naturally slow down their operations and inventory stocking during the Spring Festival holiday. This is within our expectations, and represents a common seasonal fluctuation in this industry.

And secondly, regarding the recent pace of our product launches, this is not an adjustment, but rather, a proactive arrangement based on our annual planning. Our products are typically planned three to six months in advance, the dynamic optimizations made based on market feedback. Currently, we are fully prepared for our product pipeline in the coming quarter, and beyond, with major new products expected to launch successively starting from this end of March.

Therefore, what we are seeing in the short term is a normal seasonal peak. From a medium-to-long-term perspective, this is proactive management on our part to welcome a new product cycle, and optimize inventory and channel pace.

Thank you for your continuous attention.

Alice Cai: Thank you, very helpful.

Operator: Liping Zhao with CICC.

Liping Zhao: (Speaking Foreign Language). I'll translate myself. So my question is about the cooperation of other companies in the future. We noticed that the Shenzhen Yiqi has recently established a joint venture with Enlight Media. Does this partnership mean you will be working closely with Enlight Media in areas such as content creation and IP development?

Tim Xie: Hi, I think Mr. Li will answer the question. (Speaking Foreign Language).

Peng Li: Okay. I will answer the question in Chinese and Tina will translate for me. (Speaking Foreign Language). Okay, Tina.

(Translated). Thank you for your interest. Our partnership with Enlight Media underscores a key priority for us: the critical importance of content to our IP strategy. First, over the past year, we have successfully tested and confirmed a commercial path from IP images to pop toys. By focusing on core IPs to create hit products, we have built a solid foundation centered on the product strength.

Second, we have always stressed that the vitality of an IP comes from continuous content support. They are equally important and inseparable. We focus not only on selling the physical products, like the blind boxes and the plush toys, but also in the long-term development of our IPs. So we are now enhancing our IPs through the suitable content forms. We're doing this by bringing in excellent content talents, and cooperating with the top industry partners like Enlight Media. Our goal is to add a cultural meaning to our IPs and strengthen emotional connection between users and the IPs.

Finally, the joint venture with Enlight Media you mentioned, is exactly one of the specific projects to carry out our "Product and Content" dual-drive strategy. We hope to explore more possibilities for our IPs in areas like film and television content and derivative development

through such cooperation. As for our specific future plans, we will disclose them to the market when there is substantial progress. Thank you.

Peng Li: Okay. That's all, thank you.

Operator: Yikun Zheng with CITIC Securities.

Yikun Zheng: My question is about our operation strategy. The company was very successful in IP operation last year. So are there any new strategies for IP operation and marketing in this year?

Tim Xie: Okay. Thank you for your question. I'll take it. This year, the core keyword for our IP operations and marketing strategies is a comprehensive upgrade from maybe we can call that "opportunistic creativity" to a "systematic IP factory". This is reflected in three key areas. The first one is on the product front. We have built a replicable assembly line for IPs.

Extreme product excellence is the foundation of everything. Through our Product Committee mechanism, we rigorously select IPs based on three dimensions: the visual distinctiveness, storytelling potential, and audience resonance, ensuring that every character we launch has a generic makeup to become a classic.

Concurrently, we have established a complete process from "discovery and incubation" to "development and launch", and then to fulfill the "full lifecycle management", making it possible to replicate and sustain hit products. The great product in itself is the best nourishment for an IP. We continuously strengthen our in-house teams and integrate outstanding external resources, injecting vitality into our IPs with product excellence.

And secondly on the operations front, we have developed an iterable omnichannel marketing methodology. Over the past year, we have continuously summarized and optimized our operational experience, forming a replicable playbook that we constantly refine and iterate. This year, we will flexibly deploy differentiated marketing strategies based on the unique characteristics of different IPs and products. Whether it's celebrity collaborations, brand co-branding, crossovers with major sports events, or integrated online-to-offline user engagement activities, our goal is to leverage precise operational support to ensure great products are seen and loved by more people.

And third, on the content front, as just discussed by Mr. Li and the Citi analyst, we are opening a new chapter of "light-content empowerment for IPs". And this is a crucial step in our journey from purely physical space to narrative space, and from product moments to sustained storytelling. Through appropriate content, we infuse our IPs with cultural substance and emotional depth, transforming them from mere trendy toys into cultural symbols with stories and vitality.

This multi-dimensional empowerment – across product, content, operations and branding – has one ultimate goal: to build truly enduring evergreen IPs. So that's our operation strategy so far. Thank you.

Yikun Zheng: Thank you.

Operator: Di Shi with Huatai Securities.

Di Shi: My question is about our channel expansion. I wonder how it's performance of our recent flag stores reaches our expectations on what's the channel expansion plan in year 2026.

Tim Xie: Okay. I'll answer your question. Thank you for your interest in our store operations. Regarding our offline stores, I will address this from three dimensions: the short-term performance, strategic positioning, and future plans.

Firstly, regarding short-term performance, our newly-opened stores have generally met, or even slightly exceeded our internal expectations. Since late last December in last year, 2025, we have opened five DTC stores in Beijing, Shenzhen, and Chongqing. Although they have been operating for just over a month, their overall performance has been solid, and they have broadly achieved nearly breakeven – a commendable result for newly opened stores in their initial phase. Of course, due to differences in customer profiles across various shopping districts, we are continuously fine-tuning the operational strategies for individual stores.

Second, regarding strategic positioning, we value these stores not only for their sales contribution, but also, and more importantly, for their role as brand landmarks and user touchpoints. Our offline direct-to-sales stores are core scenarios for fostering deep interaction between our IPs and users. To this end, we recently established a User Operations Center in our company, aimed at integrating online and offline data and planning more cohesive interactive activities with our IP platform and the product launch pace.

And a crucial component of this strategy, the value of our stores for brand showcasing and user connection far exceeds mere sales figures. Thank you.

Di Shi: Thank you very much.

Operator: Since 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: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.