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Moderator: (call turned over to) Stefan Feltens
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Operator: Good day, and welcome to the Shop Apotheke Earnings Release Q2 2021 Call. At this time, I'd like to hand the conference over to Stefan Feltens. Please go ahead, sir.

Stefan Feltens: Yes. Well, thank you for the introduction. And hello, and good morning from Jasper and from me. We have the privilege to welcome you one more time once again to our earnings release from our headquarters here in Sevenum. The last quarter as you already know of course had its challenges for Shop Apotheke.

But we can say with confidence that we have and we are making progress with putting these issues behind us, but more about this in a moment. So what do we want to cover today? We're going to start with what I was just referring to where are we with the situation in logistics, with the temporary capacity constraints we have experienced.

We're going to start with this. Then Jasper and I are going to walk you through the financial performance in the first half of the year in the second quarter. Then I will give a very short update on two key strategic initiatives. And then rest assured, we will have sufficient time to answer any questions you might have.

Similar to what we did in our Q1 call, you will be able to ask questions via live audio. In this case, please use the specific -- the separate phone dial-in number that you will see later, but they were also part of the invitation. So a quick update on logistics.

But before we talk about the status quo, just let me walk you through some of the milestones of moving our business, our activities from the old facility to the new facility. This actually started last year in October when we transferred all the orders from customers in our international segment to our new facility.

By using some of the capacity here in our new facility, and still operating the old facility full steam, we were able to -- it allowed us to post record sales in Q4 last year and again in Q1 2021. In January, we started using our new automated equipment and our automated processes.

And then the most important milestone happened in April and in May when we transferred all of the non-prescription orders from customers in the DACH region to our new facility. And then of course in May, we started to encounter a shortage of resources especially in our distribution facility in light of a surprisingly fast-tightening labour market in the Greater Venlo area.

But this is not of course limited to this part of the Netherlands. Admittedly, that is something that we had not anticipated at least not to the full extent. So where do we stand today? We have taken a number of actions in order to address our manpower shortage.

We have enhanced and changed some of our internal processes. We have enhanced and improved our -- the compensation packages. Again, there is a different competitive environment that is something that has just taken place over the last few days.

With this measure, we are confident that we will be able to attract additional talent to Shop Apotheke. And it will also help us to retain the people that are already working for Shop Apotheke. So it will help us to reduce fluctuation. In addition, we have strengthened our recruiting processes.

We have strengthened and increased our recruiting resources. We are of course -- we are doing all of this to get us back onto the Shop Apotheke growth track and equally or one might say even

more important, we want to have the capacity in place by the end of this year to be able to take advantage of the eRx mandate as of January next year, but also other opportunities that present themselves beyond the boundaries of Germany.

Our move to the new facility will actually be concluded by the end of September when we will have transferred also all the Rx orders from the old to the new facility and any or all the orders containing any cold chain products. So shifting gears, we're now -- Jasper and I are going to walk you through the financial performance in the first half of the year in the second quarter.

So what were some of the key facts of the first six months? Our sales increased in the first six months of the year by 15% to €534 million. In the second quarter, our sales increased by 8% to exactly a €0.25 billion. In Q2, we posted for the sixth consecutive quarter -- for the sixth quarter in a row, a positive adjusted EBITDA of around a €1 million.

For the first six months, we generated an adjusted EBITDA of €7 million and 1.3% of net sales. Our customer growth, the growth of our active customer base continued to increase significantly compared to a year ago. Our active customer base increased by 1.6 million.

Our strong operational performance allowed us to generate a positive operating cash flow. And Jasper is going to share more details in a couple of minutes. You of course are all familiar with the guidance update that we provided on the 22nd of July. We are now projecting a sales growth, a top line growth of 10% to 15% with an adjusted EBITDA margin at around breakeven level.

So a quick look at our two reporting segments, the DACH region and the international segment. Both segments were of course impacted by the capacity constraints we experienced in the second half of the second quarter. Starting with the international segment, the international segment still for the first six months of the year posted I can say a solid year-over-year growth of 44%.

And of course for a six-month period for the first time, they exceeded the €100 million threshold. Our DACH business expanded over the first six months by 10%, and generated sales of close to €430 million. Going back to our active customer base, by the end of June, so as of the 30th of June this year, we had exceeded the 7 million mark of active customers.

I know you all are familiar with the definition of an active customer. Somebody will have placed at least one order over the last 12 months, the 1.6 million increase, and it increased by almost 30%. Moving to the right-hand side of the chart, starting with the customer satisfaction measured by the Net Promoter Score, the NPS.

Not surprisingly, we experienced in the second quarter some extended delivery times because of the capacity constraints we had. So we have the -- an NPS of 70 in the first half -- excuse me, an NPS of 70 in the first half of last year. There's a typo on the chart. The NPS in the first half of this year dropped to 68.

On the next chart, we're going to share some new and additional insight into the evolution of our net promoter score. Our average basket value came in at €62.57 after it had been just a bit above €65 in the first six months of 2020. The key driver was the lower share of our Rx business which generates higher average basket values.

So I already mentioned we're going to provide some additional visibility this time into the evolution of our net promoter [inaudible] 60. This is of course not what we want and what we have planned for. But again comparing this to other companies, comparing this to other industries, anything above 60 would still be considered as a reasonably good NPS.

But of course, it's not good enough for Shop Apotheke. Very encouraging, and I was referring to this earlier is that we see a recovery of our NPS. The last data point with a score of 71 is again --

once again within our target range. I acknowledge three data points don't yet necessarily make a trend.

But at least, the early signs are encouraging that the measures that we have taken are taking hold and are helping us to get out of this -- out of the valley that we experienced again in the first half of July and in June. So switching to our web traffic. The red line shows the weekly total visits to all our websites, in all of our markets.

You see a peak towards in late February and in March. Then you see a couple of weeks where the web traffic was pretty steady on the right-hand side here, and then you see a sharp decline that started in early June. Of course, this is directly related to the capacity constraints we experienced and triggered by the capacity constraints.

Of course, we reduced our marketing investment because we didn't want to generate additional orders that we would have had problems to process. When you look at our -- the blue bars which show the weekly year-over-year growth, so the growth of web traffic or the change of our web traffic was the same week a year ago.

Throughout the period that we're showing here, our web traffic has grown, albeit of course not at the pace towards the end of this period that we would like to have seen. The sharp drop from April or in April of course had to be seen in the context of the start of the corona pandemic last year in March and April when we saw a significant jump in our web traffic. And with this, I'll hand it over to Jasper to walk you through the financials.

Jasper Eenhorst: Yeah, thank you very much, Stefan. It's very clear, and good morning to everybody on the call. On this slide, we see the orders per quarter of the past two and a half years, and it's in thousands. So for example at the right side of the slide rounded, you see that we processed 4.7 million orders in the current quarter.

There are a couple of messages I would like to highlight on these slides. First of all if you look at 2019 and 2020, you'll see that we generally tend to peak in the first quarter of the year, and then have a slower second quarter. That is because of seasonality.

But [inaudible], we were aiming for more than the 4.7 million orders that we processed in the current quarter. Another key message on this slide is in the green circles where you are seeing that also in the past quarter we have more than 80% from our total volume coming from returning existing customers.

And we also at the same time have a healthy inflow of new customers continuing. And the last thing I would like to highlight here, of course with the 4.7 million we wish that it would have been a little bit higher. But it's also clearly our second highest quarter ever, even higher than our very strong fourth quarter of the past year which was at 4.4 million.

And this is showing the strength with which we entered the second quarter. To the next slide, what this shows, 10 million orders we did in total in the first half of 2021 bring us in from a number perspective. On this slide in the customary format, all the key P&L items.

And before I start discussing the sales to including the adjusted EBITDA were on the adjustments. Of course we had a quarter with turbulence in quarter two that we continued to apply. The same definition of our adjustments that is mainly the accounting treatment of our ESOP program.

And the remainder is from one of project-related costs. So for the second quarter, this was 2.6 million, the total adjustments, exactly the same number as we had in the first quarter of this year. Then going to the sales. Stefan mentioned already the above half a billion of sales that we achieved over the first six months.

And this has also given me the opportunity to tell you that the numbers improved slightly versus the preliminary numbers that we released on July 5. The quarter two growth preliminary was 7.3% in the second quarter, but it increased to 7.6% in the second quarter, and around 15%, 15.0 over the first six months.

Also on the 22nd of July, we've got a question about our Rx developments in Germany. Stefan then responded that the preliminary number was a decline of 26%. The final numbers are is that there was an Rx decline of 24% over the first half of the year.

Gross profit margin, gross profit margin was around 25.5%, both in the first half and in the second quarter which was well up year over year. A little bit later I have a bridge on that. Selling and distribution, it was a bit over 21% of sales. It was up over the first half, 3.7 percentage points versus last year.

And in the second quarter, it was up three point -- And now I cannot read the number, 3 point -- I can't see the exact number, 3.6% it was to be precise. And the adjusted administrative costs were around 3%, both in the first and in the second quarter. And all the numbers I just mentioned if you add them up, you get to the adjusted EBITDA year-to-date, 6.9 million positive.

But also in the second quarter, we reported a €1.2 million positive adjusted EBITDA. As Stefan mentioned already, it's the sixth consecutive quarter of a positive adjusted EBITDA margin. The gross margin, so it increased from 22.5 by three percentage points to 25.5.

And if I start with the first building block, it is also the sixth consecutive quarter that we disclosed to you that we achieved year-over-year improvements in our sourcing. Half year, this year compared to last year, an improvement of 0.3 percentage points.

Then there was a benefit of 0.6% from the net pricing and vouchers which includes vouchers related to Rx. The other one of 1.2 also had a benefit, but that's mainly mixed. It's mixed in countries and mixed from Rx and OTC. And then a more fundamental important block, a building block here of 0.9% is other.

And there is in part the fact that we had last year higher write-downs of COVID-related assortment. The main element in this improvement is the higher media and monetisation income. So in this slide everything related to the gross profit margin fell to the positive.

Then the next one please, [inaudible]. This is the expenses as a percentage of sales. From 17.5%, it increased by 3.7 percentage points. Clearly the increase came from higher marketing. On one hand, we had last year a very marketing efficient period at the start of corona.

And this year, we invested really in our marketing position. Shipping packaging increased because of the very strong growth. We achieved 44% year to date in our international business. Despite increase in operation and labour should not come as a surprise.

At the moment, we are operating two facilities and last year it was just one. And the other is mainly reflective of our increase in IT. Next one please. And then the cash flow slides. The good thing about cash is that you can talk about EBIT, net income, about adjusted EBIT or non-adjusted EBIT, but cash is what it is.

And if I start with the building blocks, then you'll see that despite some headwinds we experienced in the first half of the year, how we started with an absence of cold and flu. Then there was a lower allergy season, the bonus then on Rx and also our internal logistic issues.

But we still generated €5 million of positive operating results. In addition to that, the favourable working capital movements resulted in an inflow of €20 million. So to sum up the two, the operating cash flow was at €25 million over the first six months of 2020.

Investments at €61 million were at an elevated level. It includes the two business acquisitions of the first quarter, MedApp and SMARTPATIENT. This includes our investments in the new automated warehouse. And it includes our regular PP&E, and IT.

And of course IT because after all, we're this tech and digital front runner company. Also this year, we had in quarter one a very successful placement of convertible bonds with a zero coupon[?]. And this is the main reason for the inflow of well above 200 million.

On this slide, you see cash which is defined as cash and cash equivalents including our short-term financial assets. So we started the year well above a 100 million. And we ended the second quarter in a cash position of well above 300 million of solid cash position. And with that, I'll hand it over back to you, Stefan.

Stefan Feltens: Okay, thank you, Jasper. Well, a quick update on two key strategic initiatives. But before we go there despite some hiccups that we have and probably will continue to experience occasionally we firmly stand behind our ambitions. And we are convinced that we remain fully on track to develop Shop Apotheke to become Europe's leading customer centric e-pharmacy platform.

But now switching to the two initiatives, the first one is our same-day service. You might remember that we had aimed to cover all of the metropolitan areas in Germany by the end of this year. Actually, we achieved this ahead of schedule by the end of June.

You see here all the red dots. We are able to serve all of the metro areas in Germany with our same-day service under the Shop Apotheke Now label. We have now the opportunity to reach more than 20 million potential customers.

And of course the same-day service is especially relevant if customers have acute medication needs and don't -- and cannot and don't want to wait until the next day or the following day to receive their package. And by the way, that is also something that we closely monitor.

The NPS or the customer satisfaction of the people that use our same-day service is very, very strong. So that's a very encouraging sign for us. The other topic that's probably on our mind is the ongoing eRx pilot that was launched by the Gematik on the 1st of July according to the schedule, so that we're on time with this.

Since the 1st of July, the Gematik processed many electronic prescriptions. And the main objective is to ensure that all the e-prescription-related processes and the systems are working properly. So July 1st actually marks the start, the launch of electronic prescriptions in Germany.

It is our understanding that in the initial phases of the pilot, the emphasis was on the claims processing aspect of the electronic prescription of the eRx processes. So to ensure that electronic prescriptions flow properly and smoothly from the pharmacy through the claims processing centre to the statutory health insurer.

As far as we as Shop Apotheke are concerned, I can say with -- I'd like to say with a healthy dose of pride that we are ready. We are ready to receive electronic prescriptions. We have not yet received a prescription from the pilot. If that is the case at a later point in time, we will certainly be ready to properly process the first electronic prescription for Shop Apotheke.

I can only also in front of you now express my appreciation also on behalf and certainly of Jasper to the taskforce that has been put in place two years ago and that has worked tirelessly to make sure that we are ready. And I can say again with appreciation and with gratitude, I can say that all of our frontend and our backend processes are ready.

We are prepared for e-prescriptions. So taking a closer look at the pilot that was started by the Gematik. And as I said on the 1st of July, the Gematik talked about three phases of hyper care phase, and extended care phase and enhanced care phase based on what we have heard.

It looks as if the Gematik has moved and progressed towards the or into the enhanced care phase. The enhanced care phase of course is important because that's when the pilot that's limited to the Berlin Brandenburg region will be scaled up towards around a 100 pharmacies at the end of September and around 50 physicians.

Once the pilot is concluded around the end of Q3, then the nationwide rollout of electronic prescriptions in Germany is actually going to happen. Meaning once the pilot has been concluded, then all the physicians in Germany and of course then pharmacies at the next part in the process chain will be able to issue and to process electronic prescriptions.

They don't have to, but they can if they want to. This is of course all in preparation for the eRx mandate. Meaning that physicians in Germany starting on the 1st of January next year will be obliged to issue electronic prescriptions for the vast majority -- in the vast majority of instances.

So again in conclusion based on everything that we are hearing, based on everything that we are seeing, it seems as if the Gematik remains on track to conclude the pilot as scheduled, and then to move towards the nationwide rollout of electronic prescriptions across not just the Berlin Brandenburg region, but all regions in Germany.

So the last chart, we just want to show you again the guidance. But you're very familiar with this 10% to 15% top line growth is what we're projecting for the year. I don't think we need to walk you through the detail because we want to move to your questions.

And we want to make sure that we have enough time. Well as I said, this concludes the presentation by Jasper and by me. And we now move to your questions. I just want to reiterate. Please use the dial-in numbers that you see on the screen. And the last point from my side, please don't forget while you ask your question please be near to your webcast because otherwise we get the ugly echo. So and with this operator, do we already have a question?

Operator: Yes, we do. But as a reminder if you do wish to queue for a question, please signal by pressing star one on your telephone keypad. Again, that is star one to queue for a question. And we'll now take our first question from AT of Jefferies. Please go ahead.

AT: Hi, Stefan and Jasper. I hope you can hear me. Thank you for the update. Despite most points being pre-released, a couple of questions from my side. I would like to take them one by one. Firstly, I would like to understand your underlying growth assumptions for the rest of the year.

You stated you are back on stable operating performance again. So I'm assuming correctly that Q3 will most likely be in the same magnitude such as the second quarter with July and part of August fully impacted, and potentially a return to higher growth in Q4 ultimately depending on when you fix your labour issue.

And what could be the upside of the current guidance if you fix the issue already in August and basically have the flexibility on the marketing side to really scale up growth going forward?

Stefan Feltens: Thanks, A. And then once again, good morning. Your summary is exactly correct. That's exactly how it is. So indeed, we expect in Q4 a higher growth than in Q3 because in July our

performance was comparable from a customer satisfaction perspective much better because our delivery times are back to normal.

But from a total capacity perspective, we started Q3 as the end of Q2. So growth in Q3 is lower. And it's our best estimate what our guidance is a full year growth of 10% to 15% with a higher growth in Q4 returning. Yeah.

AT: Okay, thank you. The second question would be on your pure German underlying performance. Could you clarify how many of your 7 million active customers are German based?

Stefan Feltens: Well A again, we don't disclose this. What we disclose is the total number of our active customers. Germany of course is by a wide margin our biggest market, but we don't disclose the breakdown by country.

AT: Okay. And lastly on your same-day delivery service, could you provide more insights. How many pharmacies are on board and how the incentive structure is built up for brick-and-mortar pharmacies and on the Shop Apotheke side? That would be interesting. Thank you.

Stefan Feltens: Yeah. So we decided to roll out our NOW Service Master[?]. And that was because of the very good and promising results we had in our first tests under the radar screen and then the live test, both from a financial perspective but also from a customer satisfaction perspective.

The exact numbers, yeah we don't disclose. In the total P&L, they're not significant yet, but from a business case perspective they are very positive. And as to the margin structure, I think you will understand that we will not share what the exact margin structure is.

But it's the classical win-win-win where you will see that the pharmacist is happy with the additional sales. We get a fee for the additional sales and a customer is paying to us. And we handle the last mile. And we handle the payment process. So that's the basic structure.

AT: And maybe [inaudible] yeah, definitely. Maybe a follow-up. Is it structured on a subscription fee or is it take rate based? Will you extend the same-day delivery for Rx as well in the future?

Stefan Feltens: There is no subscription. But if there's appetite for subscription, then we might do a subscription. What you're now seeing is that our RedCare loyalty programme patients, the customers. They pay a lower delivery fee than our other customers.

And your second question was on the subscription. And right, yeah it's absolutely our intention. There are some challenges there still to make that possible. But with the introduction of eRx, it's absolutely our intention that that's also possible through this marketplace same-day delivery NOW service, yeah.

AT: Okay, perfect. Thank you.

Stefan Feltens: Yeah, thank you. Yeah.

Operator: We will now take our next question from OC of Kepler. Please go ahead.

OC: Yeah, hi good morning again. A couple of questions, we'll take them also by one by one. The first one I appreciate the colour on the net promoter score. I was just wondering if you could help us understand how much your delivery times increased by on average over these times.

I think looking at the last calendar weeks of Q2, maybe weeks 23, 24, or to 27. Can you give us -- shed some light on how much more time it will take -- it took for you to deliver packages on average?

Stefan Feltens: I don't have the data in front of me. O, I can share my own story. I placed an order in late June. And it took over a week in order to get the package. And I placed an order when I returned from vacation around the middle of July. And I got the package the next day.

So again, there was a significant extension of our delivery times. But I have to -- I don't have the data, the precise numbers in front of me. But Jasper, do you have any colour there or?

Jasper Eenhorst: Yeah, it's a fully [inaudible] question there, because indeed one, sometimes and the world is very simple. One of the main reasons for an NPS whether it's high or low is do I get it delivered in the time that is promised to me.

So this is indeed the main reason for the decline we had there. And indeed normally, we have a certain percentage internally that we want to deliver on the next day and so ordering and then delivering the next day. And we significantly [inaudible] with that.

As always, we prioritise the Rx orders because of the necessity for customers to have that. So the delay was more in health and beauty orders we had in the past weeks. As of now, we are back on track with our SLA to the customers.

OC: Okay. And so maybe a related question would be perhaps your average time when usually or where you want to be currently in terms of the delivery time between the order and the delivery to the end customer. Can you maybe give us a rough idea of where you want to be?

Stefan Feltens: We want to have the significant part delivered the next day after you order. And we promise the customer generally that they will receive it between one to two days.

OC: Okay. And then second question on --

Stefan Feltens: [inaudible].

OC: Yeah.

Stefan Feltens: [inaudible] what we promise, yeah.

OC: Yeah, that's a perfect transition. Just among these logistic problems, have you prioritised the German or the international market? Is there anything there or was this hitting both?

Stefan Feltens: No, the prioritisation that we did as Jasper just mentioned is based on medical necessity to prioritise Rx orders. And it means because we are serving Rx almost exclusively in Germany at this point of time. But besides that, there was no prioritisation by country.

OC: Okay, fair enough. And then you said during the presentation that you moved the non-prescription part to the new facility in May. Is the prescription business still in the old facility currently?

Stefan Feltens: That's correct. I guess the prescription orders and the cold chain orders will be moved -- will have to be moved by the end of September. And that will be the last -- these are the last orders that are currently processed in our old facility.

OC: Okay, fair enough. And then I was just wondering if you could come back to -- there were reports that you received a letter from the EU commission explaining they would stop the infringement procedure against Germany concerning the Rx pricing and the issue with the Vor-Ort-Apotheken-Stärkungsgesetz. Are you now going to take legal steps on your own against this German law or no?

Stefan Feltens: So O, you're right. We received a letter from the European Commission. Now there's an opportunity for us to reply to this letter. I don't know whether you have access to this letter. But at great length, the European Commission outlined and explained why the bonus ban is a violation of European law.

But then they pointed because of opportunity reasons they proposed, the decision hasn't been made yet. But they are considering to stop the infringement proceedings. And again, that's what you are alluding to. They're encouraging us to pursue the topic through other means.

And that is what we have been considering for quite some time. At the same time again since the beginning of the year, this is nothing fundamentally new. We've been dealing with the bonus prohibition. But again, that is what we are doing right now. We are drafting the reply to the European Commission.

So of course our position is and that's what the commission, what they have stated is it's their responsibility to ensure the enforcement of European law. They might make a different decision in this specific instance. But then, we need to consider the other legal options that are available to us.

OC: Okay yeah, on your own. Okay, and finally two questions, sorry for that. But just on the adjustments to EBITDA, I understand it's primarily I mean -- so it's primarily the employee stock option plan. But can you work out the expected number over the full year or maybe so the total adjustment. I think the number was roughly the same in Q1 and Q2. So I'm just wondering if that should also be the case for Q3, Q4?

Stefan Feltens: Yeah, now the exact numbers and also the table with the exact details are also all split out in the interim report. We started doing that by making a full transparency. What you will see there is that close to 70% of the total adjustment is related to the ESOP program.

And the ESOP program is based on the accounting treatment of the [inaudible] and is reflecting the fact that our share price increased so much the past year. That's a non-cash item, but it's the correct accounting treatment. So that's about the level and indeed because you determine this value at the moment of branding. That means that you can expect the same number for the coming quarters, yeah.

OC: Okay and final one, sorry again, but on finance expenses. I just wanted to confirm the online payment expenses part of your financial cost that -- would that be fair to assume that it's roughly 60% of those financial expense?

Stefan Feltens: No, actually it's much lower. The main elements there is as you know because we discussed it before, there is the financing expenses related to our new convertible bonds would be [inaudible]. But it's the accounting treatment cash wise, we don't pay interest, but it's in there.

So it's the convertible. It's net interest that we're paying. Importantly, it's the operating lease financing element that we're paying. So it's our lease of our building and then there's a smaller part related to payments, yeah.

OC: Okay, fair enough. Thanks a lot.

Stefan Feltens: Yeah, you're welcome. Thank you for the questions, Oo.

Operator: And as a reminder if you wish to queue for a question, please signal by pressing star one on your telephone keypad. It appears there are no further questions at this time. I'd like to hand the call back to you.

Stefan Feltens: Okay, well we're not surprised that there are not too many questions because again we've been in contact with you over the last few weeks. We just want to conclude with again acknowledging the hiccups that we have talked about. And I think we were transparent.

It looks like we are on our road towards recovery with our operational, as far as our operational performance is concerned. More important is the readiness that we have achieved in terms of being able to process electronic prescriptions with front and backend second processes.

And by the end of the year and that's what we're focusing on now is we want to have the capacity in place to be ready to take advantage of the opportunities that will present themselves in 2022. We want to thank you for your time and for your interest in Shop Apotheke.

And you know how to reach us if you have additional questions. So please, we know you're not shy to reach out to us. Thank you. Have a great day.

Jasper Eenhorst: Thank you, bye.

Operator: Thank you. That now concludes the call. Thank you for your participation. You may now disconnect.