



Shop Apotheke Europe - Q3/2022 Earnings Release Presentation (Investors)

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Participants

Stefan Feltens (CEO)

Jasper Eenhorst (CFO)

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Operator: Hello, and welcome to the Shop Apotheke Europe Third Quarter 2022 Earnings Release Presentation Investors Call. My name is L., and I will be a coordinator for today's event. Please note this call is being recorded, and for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your questions. Participants are reminded to pre-register for the Q&A either via the link they received via the invitation or via the button on the webcast link. If you require assistance at any point, please press star zero and you will be connected to an operator. Today, we have Stefan Feltens, the CEO, and Jasper Eenhorst, the CFO, as our presenters. I will now hand you over to your host, Stefan Feltens, to begin today's conference. Thank you.

Stefan Feltens: Well, good morning, everybody. Jasper and I would like to welcome you to the release of Shop Apotheke Europe's full Q3 financials. To start with the end in mind against the backdrop of we're all witnessing this, of difficult and challenging economic times and many uncertainties everybody is facing right now, I dare to say that Shop Apotheke has delivered a solid quarter which was fully in line with the guidance we had provided earlier this year. Talking about the guidance, Shop Apotheke's management continues to stand behind this guidance and the guidance at the end of our call will be reiterated by Jasper one more time. Well, you see the usual agenda, we're going to start with a deep dive into our Q3 performance, and then we just have, literally, a couple of charts on e-prescriptions in Germany and Shop Apotheke's commitment to sustainable development. And at the very end, rest assured, we're going to have plenty of time to answer any questions that you might have.

So let's start with a deep dive into Q3. At the start of the call, I mentioned that we delivered a successful quarter in line with our guidance, but before we go for the details, let me just take a step back and let me acknowledge that we did reach an important milestone just last week with half a million redeemed e-prescriptions in Germany. Not surprisingly, of course, as Shop Apotheke, we would like to see the growth happen at a much, much faster pace. But still, I think we need to acknowledge that just a couple of months ago we reached the target that had been set up for the eRx test phase in Germany which was 30,000 processed e-prescriptions,

and as of last week, we surpassed the 500,000 mark. Right now, literally every single day, physicians are issuing, pharmacies are filling, and health insurers are reimbursing electronic prescriptions, thousands, on a daily basis. So process-wise certainly, e-prescriptions are working smoothly.

Shifting gears and looking at Shop Apotheke's performance in Q3, our sales growth went up to 20% as compared to 15% in the second quarter and 7% in the fourth quarter. Our non-eRx growth continued at an even faster pace. Looking at this on a year-to-date basis, for the first nine months, we showed sales growth, year over year, of 13.5% and sales of €877 million. Our Q3 adjusted EBITDA came in at around 1% of net sales or €3 million. This is an improvement by 1.8% points versus a year ago, versus Q3 2021, and a very notable improvement was the first half of this year. And more on that from Jasper in a few moments. Our active customer base continued to grow at a rapid pace. We are approaching nine million active customers. This is an increase by around one million customers since the beginning of this year. And more importantly, and this is one driver for our customer growth, of course, is the high customer satisfaction level at the NPS for the third quarter, stood at 73 to be precise.

And shifting gears one more time, sustainability - sustainable development is very important to what we do at Shop Apotheke. At the end of September, we made the commitment to become net zero by 2040. So we are fully committed to bringing carbon emissions down to zero along the entire value chain by 2040. More about this also later in this presentation. So looking at our two reporting segments, I already mentioned on the left-hand side, over the first nine months, Shop Apotheke's business continued to grow at double digits with 13.5% points. Non-Rxs grew at a faster pace of around 18% and our sales over the first nine months of the year were close to €880 million.

In the Deutsche region, for the first nine months, we generated top-line sales of around 10%, non-Rx grew by around 15%, and our eRx business for the first nine months declined by around 13%. The only driver, and you've heard this before, was still the eRx bonus spend. If you just look at the third quarter, our eRx business didn't just stabilise but it grew actually a little bit by 4% compared to our non-eRx business in the third quarter, 2021. And the international business grew at a faster pace, continued to be a growth driver for Shop Apotheke, growth was approaching 30%, and the total sales were close to €200 million.

So before we now switch to our KPIs, we just want to take a moment to reflect on the position that Shop Apotheke has across the seven markets in which we operate today. In Belgium, Shop Apotheke is the undisputed market leader in the online pharmacy space with a wide and growing margin versus the number two in the Belgian market. In Austria, Shop Apotheke is the undisputed market leader in the online pharmacy space with an even wider margin versus the number two in the marketplace. And in Germany, of course, Europe's biggest pharmacy market, we continue to be the largest and the most frequently visited pharmacy website in Germany, and I can say here again, with a wide and growing margin. In the other four markets in which we operate today, our business is indeed growing, but at the same time, we need to acknowledge we have not yet reached critical mass, we have not yet reached a market-leading position, but rest assured, we are working on that.

So I already referenced our KPIs, starting on the left-hand side, 8.9 million active customers, customers who have placed at least one order over the last 12 months by the end of September. An increase by 1.6 million versus September last year, by one million versus January this year,

and in Q3 alone, we added around 0.3 million active customers. Our net promoter score remains at a high level of 73. We succeeded in maintaining very competitive order delivery times and we're also very well positioned across a whole range of delivery options. And we're going to talk more about this in a moment. And the last KPI that we want to share, our average order value was pretty much stable, we saw really just a marginal drop from around €61 a year ago in Q3, 2021, to around €60 this year. I already mentioned that our eRx business has stabilised and as a result of this, our average order value has stabilised as well.

So I mentioned, when I referenced our customer satisfaction level, that we are very well positioned across the whole range of other delivery options. I'm starting on the left here, of course, today the vast majority of the orders that are placed by our customers are placed through Shop Apotheke's web shops or Shop Apotheke's apps. Through this pathway, we can offer our customers the broadest choice of products, a huge selection of products, but also competitive pricing. And our commitment is that we are going to deliver these orders within one to two days to our customer's doorsteps.

If a customer has an expectation to receive the order on the same day the order was placed, of course, we cannot do this for all the markets or the metro areas in which we operate from our facility here in the Netherlands. So we do this through our Shop Apotheke's Now programme by collaborating closely with selected local partner pharmacies. And lastly, the latest addition to the Shop Apotheke Family First A, if a customer has a need to get an order delivered even faster, we can do this through First A in the metropolitan areas and then delivery would be in one hour or less.

Okay. Shifting to our web traffic, you are familiar with this picture but we have added one indicator to show - to illustrate a little bit better the underlying trends. You see the blue box, you see the green line, and then you see that, and this is new, the dotted red line. I'm going to walk you through all of these indicators one by one, starting with the blue bars. The blue bars indicate the traffic growth across all of our Web shops and across all of our apps compared to the exact same week a year ago, at the end of Q2. At the beginning of Q3, you will see a prototypical peak; of course, this has to be seen against a backdrop of very low traffic levels, at the same period last year.

For those of you who have been following Shop Apotheke for quite some time, at that time a year ago, we had to drastically reduce our performance marketing activities because we had constrained logistics capacities. Of course, we are recycling this, this time now with very low traffic, and as a result of this, you see the peak. Towards the end of Q3, you see that our web traffic grows, levels out between - at between 10% to 20%, and that is pretty much in line or pretty close to our top-line development.

The Green Line shows the total, the absolute number of weekly visits to our websites, to our app, and what you see here is an elevated level in Q1. Not a surprise. Not a surprise to you because Q1 and also Q4 are the busiest periods for any online pharmacy. And then we see a little bit of a levelling off in Q2 and Q3. But we have, of course, we have looked at this in detail, this is purely driven by seasonality. And to take out seasonality, a little bit of what we are sharing with you, we have added the red dotted line. The red dotted line shows you the rolling average weekly visits over the last 52 weeks, so in other words, we added up the weekly visits over the last 52 weeks, and then we divided this number simply by 52. You see a steady

increase. And again, that is once again broadly in line with the elevate - with the top line growth that we have seen.

A moment ago, I mentioned to you that ShopApotheke.com was the most popular pharmacy website in Germany. Well, I have to admit, I didn't tell you the whole story because you've already come to expect from ShopApotheke.com being the most frequently visited pharmacy website in Germany. But in September, according to Similarweb, ShopApotheke.com was actually the most popular, meaning the most frequently visited health website in Germany, ahead of websites that offer general medical advice, or the Robert Koch Institute, which of course was very popular during the COVID pandemic, or websites that offer appointment services. So in September, Shop Apotheke was the most frequently visited health website in Germany. We just want to illustrate that Shop Apotheke in Germany, not just in Germany, but here we're talking about Germany, continues to expand and solidify its position in the German healthcare arena.

And the last chart I want to share with you before I hand it over to Jasper to walk you through the Q3 numbers, according to Google Analytics, ShopApotheke.com was also the most searched pharmacy brand in Germany, we're saying here by far. And I know it sounds like a broken record but Shop Apotheke held the spot by a wide and a growing margin versus the number two in the marketplace. And with this, Jasper, I'll hand it over to you.

Jasper Eenhorst: Yeah. Thank you very much, Stefan. And good morning to everybody who's joining the call today. On this graph, it's the number of orders per quarter for 2020, 2021, and then the three quarters of the current year, 2022. In the last quarter, Q3, we processed in total, 5.4 million orders which is an increase of one million compared to the first quarter of last year. The first quarter was somewhat soft, but still, of course, it's a significant increase. And also if you would compare the current first quarter to two years ago, so Q3, 2020, which was still the first and the full corona year, the increase from four to 5.4 is an increase of 1.4 million orders that we processed or an increase of 35% in two years.

The other thing to mention on this slide is that, again, we were able to welcome a lot of returning customers. And actually, the number that Stefan just quoted, the 0.3 million new active customers to our base is a number that we are internally very proud of. But despite the fact of adding those new customers this quarter, we have a total of 85% of the total sales that were from loyal customers, returning customers to our website, not only to our website, to place an order.

To the next slide, please. What this means for our numbers. This is the table going from sales up to and including the adjusted EBITDA. But before I talk about the table in the footnote, we make very clear what the adjustments are and equal to what you have seen in the past three quarters, and equally, I explained it, the adjustments increased year-over-year significantly only due to the booking, the accounting of 2021 business acquisition that we did as of quarter four of 2021. Apart from that, the other two customary items in the adjustments are related to stock options and a very small amount related to external project costs.

But the key thing of those adjustments is that they are all for the majority, the far majority, most cash items. So of course, our P&L reflects the correct and the best representation of the financial results but if you look at the EBITDA, EBIT, and net income, actually the adjusted EBITDA, adjusted EBIT, and the adjusted net income, as you can find in our internal report, are

much closer connected to our operational and to our cash performance. And exactly for that reason to once again emphasise to be as close as possible to our real cash performance we make those adjustments.

Now going to the table, Q3 last year, Q3 this year, the better or worse year-over-year, then Q3 compared to the first six months of the year, and for reference, the nine months of last year and the nine months of this year, but later, I've also bridges in explaining the letter to. In Q3 2021, we get a total of €238 million, and this year that increased by 19.6% to €284 million. We achieved that with a significantly increased gross profit margin that was, year-over-year, three percentage points higher. Comparing quarter over quarter, that's mainly the net impact of product and pricing mix. And the remainder compared to the quarter of last year is actually impacted by a non-repeat of some negatives related to the CORONA assortment last year. And apart from that, we continued to see and benefit from better sourcing conditions and more media income. So three percentage points up compared to last year, but also 0.9 percentage points better than the first six months of this year.

Then to the selling and distribution as a percentage of sales, this quarter, it ended at 23.8% with an increase of 1.1% point to the same quarter last year. And this is mainly, as a percent of sales, and this increase compared to last year is mainly the last mile and the remainder is from IT and labour. And the interesting thing is compared to last year, well, actually we see, of course, inflation and costs, our operational cost as a percentage of sales were lower than last year and marketing did not increase. So there's a lot of work. So let me summarise again, the increase compared to last year is mainly because of last mile cost, that increase, and actually, our operational performance can influence us even better than last year.

And then a very important number on the S&D as a percentage of sales is the 1.7% point improvement compared to the first six months of this year. S&D[?] has basically been revolving around 3.2% to 3.3% percentage of sales. In any of the numbers I just mentioned, last year, Q3 was a -0.9% margin, this year it's plus 0.9%, an increase of 1.8% points. From minus two to plus three is an increase of 5 million and more over this margin of this quarter of 0.9% is 2.4% points higher than the first half of the year.

In gross profit margin, on this slide, you see the increase of the gross profit margin from 25.4% after nine months last year to 27.4% this year. Number one of the building blocks is improvements in sourcing. Number two, it's a small number for the impact of net pricing and product mix after nine months. Roughly, half is coming from net pricing and half is coming from the increased impact of our platform business models. Then there is mix, mainly the eRx-OTC mix, and the remaining relatively large block is, again, mainly related to the lower piece of negatives related to CORONA that we saw last year. To the right side, again, this 27.4 is the gross profit margin after nine months. But from the end of Q2 to Q3, there was an increase of the gross profit margin of 0.9%. Fixtures. Then the selling and distribution cost as a percentage of sales.

Before I walk you through the changes, I think it's also very relevant to take a helicopter view, because actually from our perspective, Q1 2021 is quite a while ago. Imagine, for example, in quarter one of 2021 we were still in the full Corona period, there was much more paper than eRx, we hadn't that app in the Netherlands yet. We didn't have Smart patient in Germany, our core business still needed to move to the new distribution centre, and we hadn't even the

distribution centre in Italy yet that we opened in the past quarter. But still, these are the numbers for the nine months of this year compared to the nine months of last year.

But many things have happened since. If you start with marketing, marketing is generally our decision, how fast we want to grow, balancing sales and margins. But in this comparison, as you see here, it's also relevant to note that Q1 2021 still had a lot of paper Rx, did have a lot of CORONA, and in Q2, as Stefan also just mentioned, we reduced our marketing because of our capacity constraints back then.

More substantial remarks I can make on the shipping, which is the next one because we do see an increase of shipping costs and the last mile cost as a percentage of sales. We see some higher fees and we see some mix from the fact that we have more same-day deliveries and we grew internationally even faster than we grew inland. Operational labour, in this comparison, -0.2%, but as I already pre-announced, in Q2, definitely we were able to realise it. If you look at Q3 versus Q3, despite inflationary pressure, costs pressure, we actually have lower operational costs as a percentage of sales this Q3 compared to Q3 last year.

And the last one other is mainly related to IT. The most important to mention here on this slide is that compared to the cost as a percentage of sales after six months, which stood at 25.5%, we lowered our costs by 1.7%. We increased our focus on efficiency and we also took out costs in order to achieve these numbers. What does it mean for our cash? We ended, in our balance with cash and cash equivalents, well above €200 million, and we stood at €228 million, to be precise. And after the nine months of this year, you see the first two blocks together is that our operating cash flow was basically at plus €0.3[?] million, and then we invested €44 million, which includes acquisitions, the opening of our distribution centre in Italy, but it mainly relates to the core of our business, and that is investments in IT. The financing here is half interest and half related to leases. All in all, well above €200 million. And with that, I give it back to you, Stefan. Okay.

Stefan Feltens: Thank you, Jasper. And as we mentioned at the beginning of the call, this time we keep the strategy of the general business update pretty brief. We are focusing on e-prescriptions and then we are going to say something about sustainable development at Shop Apotheke. So starting, of course, with e-prescriptions, that's top of mind, not just for you but for all of us, on the left-hand side, you see the graph. We are seeing a steady growth in the number of e-prescriptions, in this case, it's e-prescriptions filled by pharmacies. In parallel, that's something you're not seeing on this chart, but we're also seeing a steady growth of doctors that are issuing e-prescriptions.

Last week, I just want to reemphasise this again, because we think it's really an important milestone, we passed the half-a-million mark of e-prescriptions. At the same time, of course, we need to acknowledge if we would love to see the graph on the left-hand side, to grow at a much, much faster pace or we would like to see an even steeper curve. Exactly today, I think two weeks ago, we went to a physician's office in the West-Herr Labor[?] region to see, firsthand, how are e-prescriptions working on a day-to-day basis. And we talked to a physician, she issued, on average, 150 to 200 e-prescriptions every single day. She does not issue paper prescriptions anymore.

And according to what she showed us, what she told us, e-prescriptions are working very smoothly. Patients, once they get used to them, they like them. And it did not just bring

disruption, it did not just bring disruption to our office, but it actually helped her to further enhance internal workflows or processes. For example, there is no physician assistant that has to run anymore after the doctor in order to capture a signature. So for her, e-prescriptions are working very, very smoothly.

Stefan Feltens: We at Shop Apotheke together with many other participants. Of course, we try to convince more and more physicians of the benefits, once you have adopted e-prescriptions, of the benefits of electronic prescriptions. And we are talking to regulatory - regulators, we're talking to the market, we're talking to a lot of other market participants in order to address some data privacy concerns that have been raised but also to address questions that have been raised by physicians in terms of, again, what does this mean for their practices and for their day-to-day processes? These discussions, the discussions with all different types of market participants, they are literally going on on a day-to-day basis. I personally was in Berlin for a couple of meetings last week; I will again be there the week after next week. But this is of course not just done by me, a lot of individuals at Shop Apotheke are totally focused on making prescriptions a success.

At the same time, I cannot disclose exactly what we have proposed to the various players in this discussion right now. What I can tell you is when we outline the proposals that we have made, again, in order to address some of the concerns that have been raised over the last few months, I think the proposals are very well received. But I would, quite frankly, I think I would jeopardize the success of these conversations if I disclose too many details in public right now.

Well, in closing, when we look at e-prescriptions, they are working smoothly. We are confident that they will continue to penetrate; the eRx market in Germany will continue to see a steady increase of prescriptions. And we remain confident that e-prescription will be a very significant catalyst for this growth going forward. Well, without any doubt, e-prescriptions, and you can talk to anybody at Shop Apotheke and I'm pretty confident you will get a very similar answer, there are the top, top, top priority for everybody at Shop Apotheke.

At the same time, we have some other priorities as well. And one of the other priorities is our commitment towards sustainable development. At the end of September, Shop Apotheke, in Europe, joined the growing number of large and small companies to commit to becoming net zero by 2040. We are fully committed to decarbonising our entire value chain and to making sure that we become, sorry, that we succeed in decoupling our business growth from our emissions. So in 18 years, in 2040, Shop Apotheke in Europe will be a very, very different company from what it is today, will be much, much larger, but our business growth will be decoupled from emissions which will simply be zero by 2040.

Well, we're not just talking about 2040, our sustainable development initiative was started two years ago, in 2020, and we have already achieved some very tangible, some very hot benefits. We had, in 2020, we had set out a target for ourselves to reduce our carbon emissions, our scope-one and scope-two carbon emissions by 80% by 2025. As of the end of September, we can say with a lot of confidence and a little bit of pride that we have already achieved the target to reduce our scope-one and scope-two emissions by 80% by the end of September this year. Both of our distribution facilities in the Netherlands and in Italy with which to have been switched to 100% renewable energy to ensure that we continue to establish ambitious internal goals, to continue to make progress. And to rigorously also monitor our progress against these

goals, we have compiled, reviewed, and discussed our first very, very comprehensive ecological balance sheet for the first time, based on the numbers for the first six months of the year.

Going forward, this ecological balance sheet of sustainable development will be part of how we operate from Apotheke, it will become part of our forecasting processes, will become part of our annual planning processes, it will become part of how we do things at Shop Apotheke. So I hope I succeeded in conveying to you that sustainable development for Shop Apotheke, it's not an empty shell, it's something that's very close to our heart, and it will continue to impact, it already has, and it will continue to impact how we do things at Shop Apotheke in Europe.

Jasper Eenhorst: What this as a close anecdote in line with what you just said, is that in 2020, with the move to the facility where we're presenting from our main central distribution facility, for ecological reasons, we decided to totally not use any gas in this facility. So there you see nicely how the business model, and actually sustainability, goes hand and hand because not having any gas is actually also financially a huge benefit this year that we had taken.

The outlook in guidance, next slide, please. Basically, what Stefan just said, we are very happy. We want to thank all the people in Shop Apotheke also for making this possible that we are able to, in this very exciting dynamic, many challenges ongoing, the outside world environment, we are able to once again reconfirm with confidence the guidance that we gave to you at the start of the year. So for our ongoing business, as of the start of the year 2022, we expect to continue to grow our moderate expectations to 25%. ERx, we're going to give guidance and adjusted EBIT margin between minus and plus 1.5 percentage points. Mid to long-term, also unchanged. And as you can see on the left side, we added the target which is the net zero by 2040. And though that sounds very far away, Stefan has just explained how much we get already in scope one and two already in the past one and a half years. So with that, please operator, could you go to the slide to ask questions with the slightly hopefully improved procedure to ask questions?

Operator: Thank you very much. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Or you could pre-register for the Q&A either via the link you've received via the invitation or via the button on the webcast link. Thank you. We'll now take our first question from C. of HSBC. Your line is open. Please go ahead.

C.: Yes, thanks, everyone for taking - yeah, thanks, everyone for taking my questions. First, I want to get back to a comment that you Stefan made earlier with respect to the discussions you are having with the market participants. And I understand that you said that you could not discuss too many details, but I'll be curious, and maybe I just didn't get that, what particular parts are you discussing? Is this in relation to the privacy concerns to EGK in general, changes to the phased rollout, I mean, what sort of discussions are you having at the moment?

Stefan Feltens: Yeah. C., thanks for the question. Yes, the discussion focused on two topics and they're closely related. How does the - how is the e-prescription, and it's not the e-prescription, it's the token, it's the QR code, how the code can be transmitted from the doctor to the patient? And secondly, how can online pharmacies also participate in the solution? So that is the focus of the discussions we're having right now.

C.: And I know, again, within the lines of what you can say, I mean, still today, a lot of paper scripts are sent via fax. I mean, if this is something that is being brought up, I mean, what

sort of, I mean, is there - there is nothing, no pushback to be said on that. I mean, why now after so many years, is the token which has been the sort of fundamental foundation of the whole eRx's setup, why is this now all of the sudden becoming a topic of discussion? I don't know, I just don't get it, it amazes me, to be quite honest.

Stefan Feltens: Yeah, but C., we're also - we're asking the question ourselves as well. When we talk to physicians, and again, Jasper and I, we went to who is in support of prescriptions two weeks ago, and what she said is, again, she loves it, it's so much easier for her, but there was one but that she had and it was that she still has to print out the prescription. It's not an insurmountable obstacle but it's something that she didn't like and probably many other physicians don't like. So we have sketched out a way to transmit the QR code to the doctor, from the doctor to the patient, without having to print anything at the same time. And I think I shared this anecdote in the past.

We think for patients to start with something that they can put their hands around, meaning a paper printout at the beginning, at least that might actually increase the trust patients have in paper prescriptions because they can still read exactly what the doctor has prescribed. And I'm going back to the start of the COVID vaccinations when we went to a restaurant, at least in Germany, you saw a lot of people with their paper certificates coming into the restaurant when they, at the time, when they had to show them. A couple of months later, you didn't see this anymore or you hardly ever saw this anymore because people got used to using the app. I think we're going to experience something very, very similar once paper - once electronic prescriptions have been introduced. And again, the doctor we talked to, she was very excited when she talked about a 75-year-old patient that successfully used dematic[?] app for the first time.

There are some groups that do - that you have to jump through in order to get there but once the patient was there, the doctor issued the prescription, and literally, a fraction of a second later it appeared in dematic[?], in the e-prescription app of the patient. And again, once people get used to it, it's working smoothly.

C.: Okay, that's understood. And now the difficult question, I mean, first on, I mean, you gave the example of this one doctor, I mean, she does 150 to 200 e-scripts a day then she basically accounts for 2% of all of the e-scripts that are issued nationwide and I mean, in response to probably what is 9,000 or 10,000 doctors. So that's obviously, the initial adaption is poor, to say the least. It seems that the doctors are not willing to take this up unless they're being forced, and so far, there has been presumably no force. Do you see any chance this is maybe also part of the discussions of anything on the horizon that the doctors will be forced into this framework? Because the way it stands right now, I'm not even sure that we will necessarily see a nationwide rollout in the second half of next year if the numbers keep where they are. So, yeah, any sort of views on that?

Stefan Feltens: C., of course, that's a political decision. Our sense is that the current health minister, the current government in Germany, they want to do this in a collaborative approach together with the physicians. They want to convince, they want to address the concerns. Some of these are legitimate concerns that have been raised by physicians. It is our sense that they don't want to mandate this and force physicians to use prescriptions, but they want to convince them and want to bring them on board. Again, C., these discussions, especially with physician associations, they are ongoing as we speak.

C.: And so, I mean, what is your current expectation for the nationwide rollout? I mean, we all know about the current set of terms with respect to phase one, phase two, and phase three. I'd be happy to pick your brain on that because you're probably also doing the same math that we are doing. And yeah, maybe we're missing something.

Stefan Feltens: Yeah, I think the original timeline that came out of the Dematic[?] shareholder meeting a couple of months ago, I think that is, at this point of time, is not going to happen. We're not going to see an additional six federal states or regions in Germany to officially start with e-prescriptions on the 1st of December. What we have stated before is we are confident, we remain confident that we're going to see a nationwide rollout in Germany sometime next year. At the same time, the - what we are seeing right now, every doctor across all of Germany who wants to issue electronic prescriptions can do it today. There is nothing that prevents him from doing this. It's just not part of this, right now, the pilot region is limited to Westphalia[?], but in the coming months, additional regions are going to join.

But it would really be speculative to say another six states are going to enter in two or three or four months, we simply don't know. But nobody, again, we've had, we are having - we've had and we're having many, many conversations. We haven't heard from anybody that they - that we should go back to the drawing board or we should stop this. Everybody sees the benefit, but there remain a couple of obstacles that need to be addressed and that need to be overcome.

C.: Okay. Perfect. Thanks a lot for your time.

Operator: Thank you. We'll now take our next question from Walker Borth[?] of Shop Apotheke. Your line is open. Please go ahead.

Speaker: Yeah. Thank you for the bank[?]. I would like to start with the consumer sentiment drop, which we all - which we see here in Germany and across Europe, how do you see this consumer sentiment drop impacting your business in the moment? Is there or is there any impact in any way, for example, higher price sensitivity or higher demand for private labels? That's the first question. And the second question would be on the adjusted EBITDA in 2019 and 2020, you reported a positive EBITDA in the fourth quarter, which was always better than in the third quarter, so would you expect to follow this pattern which you showed historically in the fourth quarter this year? So is fourth-quarter adjusted EBITDA better than in the third quarter, as a kind of healthier calculation? And the last question would be on your cash, where do you think to end up with cash at end of the year just for confirmation? Thank you.

Stefan Feltens: Yes, thanks for your questions. Number one, on the impact of customer sentiment, we, of course, watch this very closely but I think the summary at this moment for us is we are active in seven markets where we are growing in quarter three and year-to-date by double digits in each of the seven markets at the moment. And of course, you see sometimes some things happen there but in sum, the best conclusion is that until now in the markets where we are active, which is health care and medicines, we don't see significant impacts of recession or a change in consumer behaviour. So that's the best summary of what we're seeing at the moment. So no impact at the moment at Shop Apotheke. At the same time, you also see that we are increasingly focused on our costs from Q2 to Q3 because we want to be prepared for everything. But in responding to your question, we don't see a significant impact.

Adjusted EBITDA, what's Q4 going to be? I got this question this morning a lot already, but I can only say we have a full-year guidance, we are very happy that we can reiterate that

continuously, but that's all we are going to say about the expectations. The only thing I can add there is that the start of October was good, not exceptionally strong, not exceptionally bad, it was a continuation, the start seems to be good. But that does not say a lot about Q4, we still have Black Friday and December, who knows about the cold and flu season, et cetera. So I cannot answer that question for you about the forecast. And the same goes a little bit for cash because we have our guidance on the growth of our normal and the adjusted EBITDA and we don't have any guidance on cash generally in Q4, that's always the case.

We have a thing which is named in Germany [German 00:48:26 - 00:48:28] the winter before item where we generally build some inventories in order to do very good promotions in January and February. Probably you will see that also this quarter again. So that's the seasonality that you might see in working capital increase requirements in Q4 but Q4 that's then reversing to the positive in the first quarter of next year.

C.: Yep. Got the message. Thank you very much. And, yep, all the best. Thank you.

Stefan Feltens: Thank you.

Operator: Thank you. We'll move on to our next question from OS. Your line is open. Please go ahead.

OS: Good morning both, it's OS speaking from Barclays. Thank you very much for taking my questions. Just a quick clarification, when you said that you remain confident in the nationwide rollout of the eRx's next year, but you also said that your sense is that there won't be a mandatory rollout next year. So what would actually be then different next year in that rollout? So are you saying that you're confident that there will be rollout, but it will definitely not be mandatory? Because kind of in my mind is voluntary is one stage, next stage would be mandatory without penalties, and the third stage would be mandatory with penalties. But if it's definitely not going to be mandatory next year, it's going to be - what would actually drive the e-prescript adoption than next year?

Stefan Feltens: Well, I mentioned that, and I know that you have your conversations there as well; our sense is that the current government does not want to go for a mandate, they don't want a force. That could change tomorrow, nobody knows, but that is what we are - what we've been picking up. I mentioned that we are, of course, we are seeing an increasing number of e-scripts, not as - the process is not as fast as we would like to see. We see more doctors coming on board and issuing e-prescriptions. This trend is going to continue, and if some of the concerns that have been addressed by doctors, if they are going to be addressed, at least, I think if there is a solution that is on the horizon, and we're not talking about year, but we're talking about months in order to address some of the concerns that have been raised, we remain confident that more and more doctors are going to adopt e-prescriptions and are going to start issuing e-prescriptions.

Although the benefit of e-prescriptions, and now I don't want to go back to the very beginning of the e-prescription conversation, but they're so obvious in terms of drug therapy, safety, in terms of efficiencies that can be gained at some point of time, these issues are becoming much, much bigger. You know that Germany is facing a huge deficit; the public health insurers are facing huge deficits. So I think all of this is coming into play and will result in an accelerating trend of e-prescriptions that are being issued. But again, we at this point of time, we don't assume that there will be a mandate coupled with, because we have a mandate today, it's in

the law, but coupled with sanctions, that is not the assumption that we use when we look forward.

OS: Got it. That is very helpful, thank you. One more question on kind of the competitive environment in the German market right now. Your key competitors is clearly advertising less aggressively right now, have you seen any kind of changes to your customer acquisition costs so far, or are you seeing any in October so far?

Stefan Feltens: Although we don't comment on these kinds of questions related directly to our competition, we try to, what we do already for so many years, to have the best possible proposition that's leading to the best contribution for order and that's what we continue to do. And sometimes as you get more, sometimes there's less competition. And that's all. I think you will understand that I don't comment on that directly.

OS: Fully understand. Thank you.

Stefan Feltens: Thank you.

Operator: Well, now move on to the next question of OC. Your line is open. Please go ahead.

OC: Yes. Hi.

Stefan Feltens: Hey, Good morning, O.

OC: Yes. Hi. Good morning, Stefan. I have mostly one question left, I was just wondering why you are not giving guidance on the group top line now that eRx has stabilised year on year? A kind of related subquestion is are you expecting any impact from eRx or from how you apply the bonus topic in Q4, and is there any update on the topic of these bonuses that you could provide?

Stefan Feltens: Yeah, O., again, now, just because at the start of the year with the paper and the unpredictability of eRx that we also discussed in this call, no, there's not anything ongoing there. What's very clear is that we are seeing already Q3 last year, Q4 last year. Q1, Q2, Q3 this year, we see the paper actually bottomed out. So we feel very confident about the current level that we're having. So there would be no reason to not include that. But we didn't know that at the start of the year so we included, in our guidance, that we expected a bottoming out and the ER rates at this moment predicting that we have all our scenarios there. But I think you will fully understand that we don't give guidance on that on a quarterly or on yearly basis. So that's related to the guidance. So it's nothing, not a negative, but it's a positive reason that we do it for normal numerics. And we don't see any change in paper rates at the moment ongoing compared to the last quarter. And then something on the bonus.

Jasper Eenhorst: Yes. Well, O, you've been following us, of course, for a long time, nothing has changed, we remain convinced that the bonus ban enacted by the German government or the German parliament is a violation of European law. That will be decided through the legal pathway. Legal proceedings are ongoing. So initially, of course, this will be in front of a German court. Depending on the decisions by the German court, then the question is whether this will have to go to the European level or not. But this is ongoing as we speak.

OC: Okay. Thank you.

Operator: Thank you. We'll move on to our next question from JK. Your line is open. Please go ahead.

JK: This is JK from Deutsche Bank, thanks for taking my questions. I would like to start with some questions about your margins. Obviously, great to see that you were able to increase your gross profit margins again, but how much of this is sustainable, in your view, and supports the margin in future quarters? And with regard to this question, you mentioned in your press release that it is partly driven by procurement improvements, have you already exploited the full potential here or do you expect to achieve further improvements? And then secondly, a question on your adjusted EBITDA margin. I understand that we can't just extrapolate you or your margin in Q3, but are there any upcoming projects in the foreseeable future that could burden your margin again similar to what we have seen in the first half of 2022? And then finally, very briefly, given the slow uptick in e-prescription, do you plan to maybe temporarily reduce your marketing spending in this regard?

Stefan Feltens: Starts with the marching one.

Jasper Eenhorst: Yeah. Hi, J., good morning. Again, there's not anything unsustainable in what we achieved in quarter three margin-wise, but that is also not saying that it will be the same in other quarters because the price is a very important element in the overall proposition we have. And in the same basket as marketing and all kinds of other costs, also price, we consider in continuously optimising what we think is working best. In the first quarter, we have, according to my definition, a very large increase of 0.3 million active customers, high customer satisfaction, and growing everywhere and gaining market share. And we get to this proposition as we have. So that's the first half of your question. There's not anything unsustainable in that, though there are many parts that we decide upon almost on a daily basis what are the right levels. So it can go up, it can go down. Sustainable, of course, we have purchasing savings, optimisation of our assortment, and also increasingly, media income and income from our platform models.

Procurement improvements, I think I addressed that if the question was I think I addressed it there. And then the last one before I hand over to you is about the adjusted EBITDA margin, let me - can you remind me what your question was there?

JK: Sure. Do you have any upcoming projects like you had in the first half of the year?

Stefan Feltens: Not anything significant to mention. I think you refer to the fact that we have, of course, in the first half of the year, we opened our marketplaces, we opened Italy, et cetera, and I think it's a rather stable business that we have in Q4 compared to all the projects we successfully launched in the first half of the year.

JK: Great. And if I may, so the margin you showed in the recent quarter, is it a good indication for future quarters?

Stefan Feltens: I can. No, I can only refer to the full-year guidance. That's all we have on margins.

JK: Okay, great.

Stefan Feltens: But it is reflecting this and it is - that it is relatively easy for us to take some action and be in sustainable cash flow, positive territory.

Operator: Thank you. Now move on to our next question from A. -

Stefan Feltens: Sorry. There was one more question about the eRx, whether there's an opportunity to reduce eRx marketing spending because there is a slower uptake than we had anticipated, at this point of time, our marketing spending on eRx is minuscule. We are doing a little bit of CRM type of activities in the regions where eRx are more widely available, but once eRx is going to move ahead full steam, then what we're going to see is a shift of the marketing spend that focuses on non-Rxs today to eRx. So you're not going to see any drastic changes from one quarter to another because of eRx is delayed or it's going ahead full steam.

Operator: Thank you. We move on to our next question from AT. Your line is open. Please go ahead.

AT: Hi Stefan and Jasper. Good to see you, I hope you can hear me. A couple of questions from my side. I would like to take them one by one. My first one is on the sentiment you're currently getting from the BMG, do you feel that e-script is still a high priority for the Health Minister, and would you actually go to court if the government does not proceed in time to introduce the e-script according to law? The first one.

Stefan Feltens: I didn't get the second part, A., of your question, whether we would go to court.

AT: Yeah. If you would actually sue kind of the government for not introducing the e-script in time according to law.

Stefan Feltens: That is not something that we have considered at this point of time. And the sentiment that we're getting when we're talking to the BMG, nobody even between the lines, even if we really try to push them, would give up on e-prescriptions, it's quite the opposite. Again, you've been following this whole story for quite some time. They compared to the last government, they take a more collaborative approach but also the recent public statements by the Health minister, they were almost like enthusiastic about the benefits that e-prescriptions are going to bring to the German health care system. We're not, even between the lines, we're not picking up any kind of softening of the enthusiasm around e-prescriptions. But it's a different approach.

AT: Okay. My second one would be in the adjustment for [inaudible], and thank you for being so transparent this quarter. My question is basically on the absolute level in Q3 versus Q4 upcoming, should we roughly assume the same amount?

Stefan Feltens: Yeah. You can assume the same amount roughly. Yeah, absolutely. Yeah.

AT: Okay, perfect. Thank you.

Stefan Feltens: Thank you.

Operator: Thank you. And we'll take our last question from AN. Your line is open. Please go ahead.

AN: Thank you for taking my questions. Can you hear me?

Stefan Feltens: Yes, A., we can hear you here.

AN: Great. So my first question was just on the new distribution centre in Italy, could you give us an update on your expectations for the ramp-up, and should we see this gross acceleration take place in Q4 itself, or is it more of a H1 2023 event and then Q4 sees another slowdown in

growth? That's my first question. And on the second question was around purchasing behaviors. Not sure if it's possible for you to implicitly detect this but have you seen any signs of downtrading toward a kind of lower-priced brands or alternatives? And perhaps in that vein, could you talk about the performance of your own branded or the RedCare segment and whether that's seen any benefit in the quarter? Thank you very much.

Stefan Feltens: Yep. So in terms of Italy, I'll start with Italy, so Italy is ready, the DC is ready to scale. Of course, now the customer demand has to scale as well. We've been growing very, very nicely. As you know, we don't disclose country-specific information but Italy is growing at a very aggressive pace so it's certainly above what we disclosed for the international segment in total. But this is not a game that's going to be played from one quarter to another, this is something that we're going to see developing and continuing to grow over the coming years. But again, all the capacity, the infrastructure in order to scale very, very quickly is in place. And it was a very smooth growth, going live from an operational point of view.

Jasper Eenhorst: The second one about purchasing behavior by our customers, in part addressed already in a prior question, basically, in summary, we say we don't see a significant impact at the moment but, of course in detail, we see things that are really relevant for us to optimise. At the start of the year, there was, in quarter one, we saw actually that some customers in the highest price segments like vitamins or things to live a healthier life or a little bit less popular, that actually, that decline faded a bit into Q3, that was not there anymore.

So perhaps contrary to what your expectation could be and what also my hypothesis is, continuously we don't see a significant impact there but of course we as a total company known as we in all our communication focus a lot on the price of our own brand alternative, on our broad assortment where you can make your own choice in what price category you want to shop. It's apart from how we optimise, it's not an unlikely scenario that actually in the increasing recession area where we potentially could be in, it doesn't seem to be the best place to have an online pharmacy web shop that is significantly better priced than offline alternatives. So that could also in part lead to some positive to Shop Apotheke or has potentially already to some positive for Shop Apotheke. But in the mix, your question was with our assortment, the impact is, what I can disclose, is not significant.

AN: Great. Thanks. And if I could slip in one last one on Paper Rx, could you give some guidance on what sort of run rate you're seeing in Germany Rx sales this quarter and how you're thinking about the trajectory for 2023?

Stefan Feltens: Yeah. For each quarter, you can take €30 million or a little bit more or around €30 million. Yeah.

AN: All right. Thank you very much.

Stefan Feltens: Thank you.

Operator: Thank you. That's all the time we had for Q&A. I will now hand it back to Stefan Feltens for closing remarks. Thank you.

Stefan Feltens: Okay. A little bit over time. So thanks for your interest in Shop Apotheke. Again, I hope we could convey to you that we had a solid quarter. We reiterated our guidance, this is something you look at different industries, you're getting different messages there, but we're very happy that we are in a position to confirm, to reiterate guidance. And I just want

to just close by reiterating what you just mentioned, looking forward, the pharmacy space, the healthcare market, if we get into recessionary territory, probably is not the worst place to be in. And with this, I want to thank everybody again and wish you a great day. Bye-bye.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]