

Redcare Pharmacy
Q3 Results Call
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Transcript

Speakers:

Olaf Heinrich

Jasper Eenhorst

Olaf Heinrich

Good morning to everybody, and a warm welcome from my side. Before we get into the Rx topic, which is the majority of the meeting of today, I would like to hand this over to Jasper to give us some insights into the highlights of Q3.

Jasper Eenhorst

Yes, thank you, Olaf. Hi, and good morning, and a warm welcome from Sevenum, from my side, too. Thanks for joining today and showing your interest in Redcare. Though it is, indeed, clear that the major piece of our update of this moment is the acceleration of the Rx performance in Germany, and as of next slide, Olaf will address that and share a lot of interesting and important major achievements in that area, nevertheless, the overall performance that you're seeing here with the update that we shared with the markets last night deserves some attention, too.

Our total sales in quarter three were 21% higher than the same quarter last year, and that's a fully organic growth. And this is a continuation of the double-digit, around 20% growth that we achieved as a company already for many consecutive quarters. And with this growth withstanding, after nine months, into the year 2024, at 1.7 billion net sales.

Everything with Rx, our non-Rx continues to grow at the midpoint of our guidance, 20% fully organic, year over year, in quarter three, and also, year to date, we stand at 20% now. And later, at the end of the presentation, you actually will see that we even expect a slight increase of momentum in the fourth quarter above the 20%.

Then the Rx sales. The Rx sales in Germany were 81% higher than last year, 69 million instead of 38 million. And the quarter ended in September, with a year-over-year growth of above 100%. This all is only possible if we have the right product and an active customer base that is happy. And this active customer base increased in quarter three alone by 0.4 million customers, and we are rapidly approaching 12 million active customers. And with that, Olaf, to you.

Olaf Heinrich

Thank you very much, Jasper. Yes, so we have a very simple message for today. Our initial e-Rx results are that convincing that we decided to further accelerate our investments into Rx. That's the message of the day. If we look into this slide, I would like to highlight three topics. The first is, we already see, today, a strong inflow from new customers buying e-Rx with us.

And we have to differentiate. On the one hand, we have first-time buyers at Redcare, so they placed their first order with us, being an e-Rx order. And then, on the other hand, we are also converting non-Rx customers, so customers who

have already been with Redcare for quite a long time, and now they are placing an Rx with us.

Second bullet, we took this decision because of very positive metrics on e-Rx, and there are two metrics, and I would like to elaborate a little bit more on them later in the presentation, which is, on the one hand, the basket, the AOV, and on the other hand is the customer repeat order rate.

Taking the third bullet point, yes, we want to increase marketing, but the way we have always done it in the past, so very agile and data-driven. So, that means, we might adjust the level of investment. We might adjust the messages or the channels. This is the process we have established for the company, and we will continue to do so.

If we go to the next slide, let's talk a little bit about marketing, because we have to say, one of the initial learnings is, yes, at this point in time, we need marketing. And I would like to give a little bit more insight into this point. On the one hand, it's about raising awareness. On the other hand, it's about educating our customer. And this, all together, we are pretty much convinced, will lead to a change of mindset and a change of behaviour.

If we look into the awareness, I think it's pretty obvious what happens out there. So, the Germans, they have not been prepared for the e-Rx at all. So, they are now at the doctors' side, and instead of getting a paper script as they did always in the past, the doctor gives them, now, just the cards, or actually tells them, hey, use your healthcare card, the eGK card and go to a brick-and-mortar pharmacy, and just redeem your script.

You don't get a printout any longer. So, this is what the customers see, and now it's our job to really bring up the awareness that there's a second way to do so. The doctor is not doing the job. We have to do the job. So, that's the second way that you can use the same eGK card. And instead of going to a brick-and-mortar pharmacy, you can simply attach it to the phone and use the online pharmacy.

So, that is what we have to do. This is our job. We have to bring up the unaided awareness of the carding solution. And then, on the other hand, we have to educate the reason why. why should you do that? We all know it's pretty obvious, but nevertheless, we have to tell our future customers. And it's about 24/7 opening hours. It is about availability of information, so you don't have to go twice to the pharmacy to get your product.

You can finish the job all in one step, and at the same time, you can also save money. You can add OTC/BPC from a very broad assortment and have savings from that, compared to the brick-and-mortar pharmacy. Nevertheless, we do not need to get into the details. We love the product, you know the product, but it's about education.

And once the two things come together, we are pretty much convinced that there will be a change of mindset and behaviour, and that will open up this business for a significantly larger audience. So, it's about the first-time introduction of change of mindset and behaviour, and we have seen this also in other areas in Germany.

They love their money very much, but even the Germans, at one point in the time, they learned about the contactless payment, and now everybody is using it. And we see the same pattern here. So, we first have to do the job, and then there will be a significantly larger audience. And we are also convinced that then, the cost per new customer will come down, once this technology has been adopted, and it becomes more a commodity rather than an innovation.

At the same time, it's important that we leave this message and this change of behaviour and education to the shop uptake brand, because with this, we become top of mindset, not only on OTC/BPC, but also on Rx, and that is our main target here. Can we, please, go to the next slide?

This slide also is important to us because we strongly believe online pharmacies will play an increasingly pivotal role in the supply of medications. We have this role already today on OTC and BPC, not only in Germany, but also in a lot of European countries. And the same thing is now going to happen on Rx.

It is about accessibility, affordability and availability, and especially for chronically ill patients, immobile patients, patients living in rural areas. Online pharmacies will become a well-established alternative to brick-and-mortar pharmacies. And this, on the one hand, happens by choice. So, in Germany, there's a freedom of choice on pharmacies, and customers are making their choice. We see it already today.

And on the other hand, and that is a development we have seen over the last couple of years already, the number of pharmacies is declining in Germany. And there is a gap, and online pharmacies will fill this gap and ensure supply of medications. If we can go to the next slide, let's get back into the numbers.

This picture, I think you're all aware of, but I would simply like to reiterate it. At the beginning of the year, the e-Rx became, let's say, a mandatory nationwide tool. And since then, we saw that there was a slight increase already in Q1, but at this point in time, we had to educate our customers also, about the change from paper to e-Rx. And we only had the QR code available.

So, we saw, already, a slight increase. And then, after the go-live of CardLink, mainly in the second quarter, we saw a steep increase to 37%. And now, in Q3, we are at 81, and as Jasper pointed out, as the month of September, already on a 108% exit rate. One thing I would like to point out is, in Q3, we also had the summer break. Traditionally, there is a summer break, and we know that, also from the paper business, it's not a good time to acquire new customers.

So, usually, we don't get so many scripts during the summer, and that's the reason why we also know what the market invests. Nevertheless, in total, it's a growth of 81% in Q3. So, overall, I think it's fair to say that we are in a very dynamic growth situation on our e-Rx business in Germany. Let's go to the next slide.

We are also enthusiastic about the e-Rx opportunity. But at the end of the day, we took our decision to further step up marketing, based on compelling e-Rx metrics and some facts. And let's talk about some of the facts. Number one, customers love the product. They really love the product, and we see this when we look into the way how they redeem the scripts with us, a very high percentage are receipts for the NFC, so the CardLink solution, and only a very minor role plays with the Gematik, app of payers and the QR printout. So, it is about a digital journey. That is what the customers tell. Also, our app is clearly the number one app in Germany, in terms of downloads, but also in terms of rating. 4.8 on iOS, 4.7 on Android tells us it's a great product, and we get that feedback from the customer.

Also, our NPS is already comparable to the level we have in Germany. We only released the overall NPS on a group level, but it's already on a comparable level in Germany. And that's an achievement, because some of the steps are different than in OTC and BPC. And some of the steps on Rx are additional. So, we had to learn, but now we are on a level where we feel very, very comfortable.

But the KPIs, which are the most relevant to us to take our decision are really the bullet point numbers four and five. So, on the one hand, it's the basket, the AOV, but also the composition of the basket, because we know what is in the

basket. And so, we can see, we are reaching exactly the customers we would like to have. So, we can see, based on the product, we are talking about chronically ill patients. And we also see that they do not only order Rx, but also, to a very good share, already OTC and BPC with us in the same order.

More important, from a business model perspective, is the customer repeat order rate. And here, we see just great numbers, and that's the reason why we have introduced here, also a new side, which we will see on the next page. And I would like to talk about this now.

Before we get into the details, the overall message is pretty clear. Customers love the product, and they are placing follow-up orders with us. After five months, this rate is almost double, compared to what it had been on the paper script. And paper script also, in terms of unit economics and model, was already a great model. But we can see, five months into the business, that the percentage of returning customers is almost double.

So, what do you see on this slide in detail? Let's look into, let's say, the May cohort. So, on the upper end, you see the 2024 numbers. On the lower end, you see the 2023 numbers. The May cohort is the red one on the right-hand side in the upper area. So, the way this works is, we look into a number of customers we acquired in the month of May. So, whatever the number looks like, it doesn't matter. We call that the cohort of May.

And then we look into what happens month after month. Are they returning, or are they not returning? Because if they are not returning, it doesn't make any sense to spend marketing on those customers. So, then it was great to have new customers, but doesn't mean anything. The model needs the returning customers.

So, what you can see is, already in the month zero, which is the month of May, a couple of those customers already placed a second order, and then, month after month, this is increasing, and they get, compared to the same cohort from last year, where we still had the paper out there, it's widening and widening.

So, what we can see, they really love the product. It's almost double. And, of course, what does this mean? It means the lifetime value and the lifetime sales of the customers will also double. So, you can expect, based on what we see today, that in the next quarter, in the next year and in the lifetime perspective, this becomes significantly more valuable because of that number.

And that has been the main reason for us to decide already, now, to step up our investments. So, if you look into the numbers of Q3, but also of Q4, and if you only look into the EBITDA, you can do that, but what you have to do is, you have to look into what happens here. And we are generating high values by investing now. And you will see this going forward.

In the next quarters and years, you will see a fast growth because of this ratio and also a very effective profitability of the e-Rx business. Having said this, I would like to hand this over to Jasper, who will then give you some insights for what this means to our P&L and guidance.

Jasper Eenhorst

Thank you, Olaf. It's very clear. Yes, last night, we published our guidance because of our decision to accelerate in the e-Rx opportunity in Germany. And we do this out of strength, and we do this, based on the very convincing facts, as you just showed a couple of them. We also took the opportunity, because it's now already the first week of October, to narrow down some of the ranges of our full-year guidance at the same time.

And I think it is probably not needed to say, but still, I want to reiterate that, excluding this decision, we are, and would have been, fully on track of the track record of the past years and also of our guidance, meaning that we are growing double digits, solidly around 20% quarter after quarter, while the sector is dynamic, the world is dynamic, and the economy is dynamic.

We have this double-digit organic growth rate already for many consecutive years and quarters. And at the same time, underlying, you also see the continuation of our margin, reflective of efficiencies, digitisation, benefits of market leadership and scale in general. Always based on the increasing base of active customers.

But now, going from the left, which is our old guidance and our new guidance since last night, we expect for the full year 2024, that our sales will end up slightly higher than we predicted at the start of the year. And our new guidance is total sales between 2.35 and 2.5 billion. Our non-Rx, which was growing, year to date, as I said on the first slide, 20%, we expect, for the full year, that the low point is at 20%, and it could also be somewhat higher.

Mixed service continues to grow, but we think, by the lower half of single digits, instead of the mid-single digits, and specifically reflective of our increased marketing, the adjusted EBITDA margin, we lowered from 2 to 4% to a positive between 1.2 and 2.2%. And I think you will

understand that we will not give exact guidance as to what we will do on Rx in the coming months in the fourth quarter. It's too dynamic to give exact guidance on.

Well, all in all, this is our guidance for the remainder of the year. We are very happy that we were able to share this with you last night and also now in the call. And I think we are looking forward to the questions at this moment, if any. Thank you.

Operator

We will now begin the question-and-answer session. Anyone who has a question may press star, one on their telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question.

In the interests of time, please limit yourself to two questions only. Anyone who has a question may press star and one at this time. The first question is from CJ with HSBC. Please, go ahead.

CJ

Good morning. Thanks for taking my questions. First, coming back to the guidance and the indication, is there any sort of colour you can, maybe, give us on the margin in Q3? I know it's only a trading update. I get that. You also flagged that, during the summer break, you did a little bit less marketing, but is there any sort of colour you can, maybe, give us about Q3 profitability, knowing that the numbers are not ready, just to get a bit of an idea?

I guess, what I'm trying to get at is a better understanding of how much of the guidance cut on the EBITDA side is related to Q4 performance. Yes, and I guess, a similar question, what I struggled a little bit with, the guidance is very precise, 1.2% to 2.2% on the EBITDA side. It's not 1 to 2, it's not 1.5 to 2.5, so maybe there is a bit more colour you can give on, let's say, the EBITDA contribution or the marketing spend that you would expect in the fourth quarter? I guess, that's where I'm coming from. Thank you.

Olaf Heinrich

Jasper, would you like to give it a try?

Jasper Eenhorst

Yes, absolutely. Thank you, CJ. Yes, of course. In our business, growing as fast as we are doing, we always re-emphasise, we give full-year guidance and not quarterly guidance. But still, I can give you some colour. At the same time, we don't know, even, our September numbers. We are wrapping up September, and we focus our results on the November bank in total, but it is continuing as it was continuing.

So, it is just that I feel very comfortable that, after nine months, we stand into the range of the 2 to 4 that we gave

to the markets. What we announced today is our decision related to a continuation of the intensified marketing into the fourth quarter. So, there is still some colour there in total. That is the only reason for the update, and it has nothing to do with our year-to-date performance. But still, we need to wait until we have counted all the numbers, but there is not any triggering event there.

As to the 1.2 to 2.2, yes, that sounds a bit precise. Why not 1.3, etc.? But this is really the result of our careful estimation of all kinds of scenarios that we run. How much Rx sales do we expect? How much marketing do we assess, etc.? It's, at the moment, our best estimate. We're taking the best decision for the value creation, mid-term, longer term, short term, for the company.

With the level that we want to do, we think this is, in the end, the outcome of our margin for the full year, and that's why we actually gave it that precise, because, actually, all our scenarios ran into that range.

CJ

Understood. That's helpful. Thank you.

Operator

The next question is from AN with Morgan Stanley. Please, go ahead.

AN

Good morning. Thanks for taking my questions. My first one is on the EBITDA margin, bigger-picture question. You previously said you would be, or were committing to be, profitable in 2024, regardless of the e-Rx trends. Does this mean you could have spent more, but you wanted to keep to this commitment? And how is this shaping your thinking about margins for next year?

Would you be more willing to sacrifice on the margin to go to break even, or even a bit of a loss in order to get to, say, 50 to 100% Germany e-Rx growth? Just some thoughts on the mid-term or near-term next 12 months, cost spend?

And then the second question is also similar to the first earlier question on the marketing spend. Maybe another way to ask what was asked is, if your growth in September was 108% on your existing marketing investments, why do you need to spend more? And if the demand is driven by repeat orders, i.e., existing customers, then arguably, those are already your acquired customers and not new customers.

So, yes, just some thoughts around your desire to spend more here?

Olaf Heinrich

Jasper, you will give it a try on the first question? I will try to do it on the second.

Jasper Eenhorst

Yes. Thanks for that, AN. The updated guidance is the consequence of our decision to do what we believe is best for the company. So, we did not take into account, oh, it needs to be minimally above 1%. That is the consequence and the mix of, actually, our underlying strong business non-Rx in Germany and all our other countries, a continuation of that. And on top of that, the investments we want to do now, because of the momentum, and we will get back to that more, I think, in quarter four, for the remaining year.

So, that is the reason. We do what we think is in the best interests of all stakeholders, including shareholders there. As to the 2025 margin, you are asking the question, we have the clear guidance to the mid and longer term, for the company, of an adjusted EBITDA margin in excess of 8%. And we feel, always have felt and increasingly so, perhaps, very comfortable adjusted EBITDA in excess of 8%.

But how exactly 2025 will look like? We are not knowing at the moment, and we are not disclosing at the moment. So, we have 2024, and then later, we get into the new year.

Olaf Heinrich

So, can I give it a try on the second one? I like the question a lot, and the question is always, how much do you want to invest into, let's say, cohorts? And then the question is always about lifetime value of those cohorts and payback periods. So, that is a decision you always have to make. And, of course, we can also adjust those decisions, based on the learnings we have.

So, far, we have seen great earnings, especially on the customer repeat order rate. I think we could even stop marketing in Q4 and would see an increase, based on the model. So, because we have, now, all of the new customers in, and as I pointed out earlier, we will see the repeat orders, and therefore, additional orders will come in. But this can't be the end of the story.

As long as we can generate great customer lifetime values, we will continue to grow. And that is the strategy. So, the strategy is to really grow into this business, as we have done it, on the OTC and BPC. And because of that, we will always need new customers to come in, as long as we have good breakeven periods and great customer lifetime values.

And that is the case, and therefore, we, of course, will continue to do so in December. And we will also continue to do the same thing next year, but we haven't determined the level for next year.

AN

Okay, Perfect. Thank you.

Operator The next question is from CS with Hauck & Aufhaeuser. Please, go ahead.

CS Good morning, everyone. Thanks for taking my questions as well. I've got two. The first one is on the Rx business. Could you maybe talk a little bit about the PRx business and provide an indication about the growth, year over year, in the segment? And maybe also, how much is this, at the moment, in per cent of total Rx sales? Would it be fair to assume that it's around, maybe 10% of Rx sales at the moment?

And also, could you share, what's your thought on your current market share in the online Rx market in Germany? And the second question is on marketing. Could you, maybe, provide an indication how much incremental marketing you have spent in the first half or in the first nine months, please, this year, on e-Rx? And would it be fair to assume this number was around, maybe 20 million in the first half?

And could you also, maybe, talk a little bit about the marketing mix? So, how much is television, in per cent of total marketing? How much is out-of-home performance, marketing, etc.? Thank you.

Olaf Heinrich So, a lot of questions. We will try to give some of the answers. Maybe, I start first, and then you take this over, Jasper. Is that okay for you? So, the PRx, that was the first question. The way I interpret this question is, is it about GKV or PKV or is it about e-Rx or PRx? So, I think it's a combination of both. So, for all of you who are not so much aware of that, there are two segments on the Rx business.

One is the GKV business. This is where the e-script has been introduced. And then there's the PKV, which is the privately insured business, and there is still no e-script, which has been introduced. So, therefore, at this point in time, we still receive paper scripts from the privately insured and, to a very, very small extent, still also from the GKV business. Because, as you all know, let's say, the share of e-Rx is not 100% on the GKV business.

It has surpassed, I think, 85, 90%. So, there are still also some paper scripts out there in the GKV business. But if you add those two things up, then we still have our paper scripts. And we do not really give any details into the share. But I think the background of the question is, yes, there is a share, and it's higher than 10%, so that means our growth on the GKV is even better than what we show here as total growth.

But we do not want to get too much into the details, because over time, this will phase out anyway. Therefore, we think we should keep it on that level. But, yes, there is a paper script, which is part, which is not growing, and therefore the e-script part had to have a higher growth rate.

On the second part, I think this was a little bit more about how much marketing we spend on the channels. On the channels, of course, as you can imagine, we do not really want to give any insight because we consider marketing as one of our core competencies and don't want to share that with competition, because, again, we strongly believe that our marketing is exactly the right marketing.

And that's also the reason why we are growing. So, there will be no further insights and details on our marketing strategy, in terms of volumes invested. Maybe, Jasper, I can hand this over to you, but I think the answer will be exactly the same.

Jasper Eenhorst

Yes. No, I have nothing to add.

Olaf Heinrich

Yes. So, sorry for that. No details into marketing strategy.

CS

And on your market share in online Rx at the moment, any indications you can give?

Olaf Heinrich

Yes, last time in Q2, we introduced, first time, the market share. And if I recall it right, it was 0.45, yes, end of Q2. Now, of course, this has increased significantly because of the growth you saw. And we will give this update in our Q3 earnings release, which will take place on 5th November. But, yes, of course, it went up.

CS

All right. Thank you so much. All the best.

Olaf Heinrich

Thanks, CS.

Operator

The next question is from OC with UBS. Please, go ahead.

OC

Good morning. Thanks for taking my questions. A couple of questions. The first one, it's a little bit unclear to me, for some reason, German Rx consensus for next year came down from about 500 million in early September to below 400 million this year. Yet, if I look at your implied guidance for the fourth quarter now, this year, it's around 120 to 130 million in German Rx.

We have to guess a bit, because we don't have the base number in Swiss Rx, but annualised you would, basically, come back to that 500 million. So, I'm just wondering if you're comfortable with that 500 million number for next year. And another way to ask this question, if you don't want to comment on the specific number, is, are you confident

that you will keep the patients whose business you captured in the fourth quarter?

And then the second question would be on MediService. I was just wondering, what are some of the main drivers for the MediService growth to be below expectations? And is that including both Rx and non-Rx in Switzerland?

And maybe just a follow up, if I may. I just wasn't clear. In the speech, you talked about marketing spend with existing customers. Can you clarify what you meant by that? What do you spend on marketing with existing repeat customers?

Olaf Heinrich

Shall I give it a try, and then you can say on this, Jasper? Yes, good morning, Olivier. Thanks for your question again there. I think your first question is implying that you feel significantly more bullish about 2025 than, you are referring to a certain consensus that seems to be at a low, and I think that is your question, yes. I leave it at what we disclosed today, what our growth is that we achieved in Q3, and we cannot talk about 2025 yet.

We know the huge market that we have in total, and we know our current momentum, I would say, yes, as we have there.

OC

Are you confident to keep the patients you capture in Q4? Basically, it's a question around stickiness, right?

Olaf Heinrich

Yes, that was the whole core of our presentation, that, based upon the facts that we are seeing now, not only the 20 years-plus that we are in business, but then, in addition to what we now see with the increased digital convenience for our customers, actually, the return rate is so very promising. So, that is actually exactly the reason also for the new customers in Q4, that we do what we are doing.

And maybe to add to this, all of the previous models on Rx, they have been built on the KPIs, which we were used to. And again, the main KPI for the modelling is the second purchase rate, or the return order rate, and that one has significantly increased, almost doubled after to five months. So, you know what that means to the model. If that rate doubles, the model doubles.

So, therefore, all of the indications we have are clearly showing it's going to be better. So, we don't have a fear that we will lose those customers in the next four hits, while further, we see more sales coming out of those customers we won in Q3.

Jasper Eenhorst

And of those customers, you will see a fraction in Q4 and a multiple in the coming years. That's the expectation. And

thanks for it. Though it's not the major take of today, on the MediService question, also an important element of total Redcare. This element in the sales growth that you're seeing is for, also our partner there, Galenica, close to the market already.

Also, the change in legislation, which is leading to a move to more generics in Rx, which actually could benefit, perhaps a bit, the margin. But there are also some other changes there in total. But the average price is somewhat lower of some of the products that they are selling.

That's one of the elements, and with the lowering, we are not saying they are not growing, but we just say that, if you added the mid-single digit, you're a little bit too optimistic, compared to what we expected at the start of the year. And we lowered it. It's somewhat because we have more visibility on what the end will be of the year.

OC Okay, but is that a one-off, or is that the new growth rate going forward?

Jasper Eenhorst No, we don't have any guidance on the growth rate of MediService. And the third one was, please remind me... I think we answered it already.

OC Well, okay, maybe I missed it, but during the speech, you talked about marketing spend and existing customers.

Jasper Eenhorst Oh, yes, I know already.

OC I wasn't sure what you were referring to here.

Jasper Eenhorst Yes, okay, to be clear there, because, for us, a new customer of Rx, that can be an existing OTC/BPC customer, or it can be a totally new customer to Redcare, and that's what we were pointing out there. So, new Rx customers to us can both come from our existing base of OTC/BPC customers or be totally new. And of course, it can be a shift from paper to e-Rx.

And the main thing that we wanted, and Olaf was saying, wanted to emphasise, is that we're seeing an inflow from both totally new people to shop uptake, and from what we can name converted customers.

OC Okay, that makes sense. Thanks a lot.

Jasper Eenhorst Yes. Okay, thank you.

Operator As a reminder, if you wish to register for a question, you may press star and one on your telephone. The next question is from JM with Belerian Capital. Please, go ahead.

JM Good morning, guys. So, I have two questions. So, I'll start with the first one. So, your e-Rx growth of 108% in September, did you significantly ramp up the marketing spend in the month of September? And if so, to what sort of degree? Just to try to understand a little bit of the gearing in there, please.

Olaf Heinrich So, of course, what we were trying to point out is that, in Q3, we have this combined growth of 81%, and in September, 108. And because, in August, especially in August, there's always the summer break in Germany, we reduced the marketing spend. And of course, then on the other hand, we increased it in September. But we do not give any more details on that one. But it's fair to say that September marketing investment cost was higher than the one in August.

JM Okay. Could you see leverage coming through from the marketing spending in September, though? As a percentage of sales, did it go down, versus just for the month of September? I'm just trying to understand how profitable the growth is, to try and understand, in case someone can think, oh, yes, you grew 108%, but you increased your marketing by, whatever, 115%, or, so?

Olaf Heinrich Okay, understood. Maybe I will try to give an answer. The way the model works is not that we have the target or the aim to be profitable on the first purchase. It's not the case. Our model is different, so that means we have to invest to bring a new customer on board. There are costs for that. And then the model starts to work, and the model has some key drivers.

And the most relevant driver is, are those customers, those new customers returning, because if they do not return, we are losing money because the first purchase is negative, because the contribution margin we get from the first purchase is lower than what we invest, in terms of marketing to bring on board this customer.

So, therefore, the model has to work. And what we have shown is that the model works. It works significantly better than the paper model from previous years, and even the paper model has already worked. So, what do I mean when I say the model has to work? They have to come back, and they have to place additional orders with a certain basket.

We see the baskets are there. We see they are coming back, and based on that, we can do a calculation looking into the future. And that calculation, with all of the knowhow we have and the fact we are seeing, tells us what is the

lifetime value of the customer. And the lifetime value of the customer, that is what is the most relevant number.

And then we take a decision, how much money do we want to invest in a new customer? So, for sure, with the first purchase, there is no breakeven, but there is a breakeven period. So, after a couple of orders we receive from that cohort, the entire cohort becomes positive, and after that, in the years after, all of the contribution margin we get from that cohort is adding value.

That's how the model works. Therefore, we do not give any details into this marketing as a percentage of sales. But at the same time, it also doesn't make any sense. So, therefore, it comes down to payback period. And here, we feel really comfortable about what we have seen, especially because of the high returning customer rate.

JM

Okay, sure. Thank you so much. So, my second question, I guess, is for Jasper. So, I realise you've made a, in my view, rightful decision to invest for the profitable growth that's coming. But we're now coming up towards the end of the year, and you've taken quite a big decision on marketing spend, increasing it.

When you look out into outer years, in particular, for instance, next year, so, if you look at revenue consensus for this year, give or take 30% and for next year, 20% revenue growth, if you extrapolate the current growth rates in e-Rx, which you guys are seeing, and hence the confidence you have in increasing your marketing spend, if these trends continue like this, consensus has 20% revenue growth for next year, or 21%, which is a meaningful deceleration on the revenue growth for this year.

So, rationally, I don't understand how revenue growth should slow down next year, and in particular, this dramatically, given your core business is growing at 20%. So, actually, I would expect your revenue growth next year, at least to stay the same or even accelerate from here. So, without commenting or guiding on next year, can you just comment directionally on my line of thinking, please?

It's very much, why should we expect a massive reduction in revenue growth rates next year when you're seeing these huge growth rates? And if so, and your core business being very steady at whatever it is, 20%, and even if it drops a couple, a few points, you still don't get that ten-percentage point decline. You get, actually, an acceleration. So, without commenting, my question is, can you comment on that, please? Just your general thinking, please?

Olaf Heinrich

Yes, thanks, JM. for sharing your analysis and thinking. I think it's more of a statement that you're making, instead of asking a question, but I can follow exactly what you are doing. I would normally say, well, if a company expects to grow 20% organically, what a great company. And you say, actually, based upon how we are currently doing, how we're doing in other countries, the Rx opportunity, is that not positive enough?

But as you said already yourself, we are not doing any prediction on 2025 here. We, the whole company, the management major shareholders, we always said that everything that we are doing the past years and up to, and including, now, we're really happy and grateful with what we have been achieving, which we also think is just the start of the entire European opportunity that we are going after. And I think that's it, yes.

JM

Okay. All right, well, guys, thanks so much, and well done. Continue doing like this. I suspect, if you keep doing this, we'll see a revenue growth in the 30s next year. So, push to through on the 20s, which is still very good. We need to expect your core business to grow by 10% next year, in order to hit the consensus numbers, which would be the worst year you've done so far for your non-Rx. But anyway, let's see. Hopefully, you continue doing like you are. Guys, thanks so much.

Olaf Heinrich

Thank you.

Operator

Ladies and Gentlemen, that was the last question. I would now like to turn the conference back over to Olaf Heinrich for any closing remarks.

Olaf Heinrich

Yes, well, thank you very much for all of your questions. I think it's fair to say, we enjoyed it, like always. Because, great questions, but also interesting time. So, let's see how the next couple of weeks and months are coming in. The good thing is, we will see you soon. My understanding, it's 5th November. So, on 5th November, we will give some more insights into the Q3, including EBITDA.

But also, there was this one question on the market share. So, there will be an update, and we are looking forward to meeting you again on 5th November. Thank you very much for joining.

Jasper Eenhorst

Many thanks.