Company: **Shop Apotheke Europe**

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Moderator: **Alexander Cordes**

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Stefan Feltens: Good morning, everybody. Jasper and I want to welcome you to Shop Apotheke Europe's Q3 earnings release. We're going to walk you through what we think was a very strong quarter for Shop Apotheke, I want to say another strong quarter for Shop Apotheke, but we also want to share with you what we're doing to make sure that Shop Apotheke is ready for the challenges of the future.

Okay, let's go to next chart. We are presenting today for the second time from our new headquarters in Sevenum, we did this the first time with the Q2 release in August. And we're now happy to share with you that not just the offices have moved, but we are now in the middle of also transitioning our logistics activities from our old facility, which was in Venlo, but actually it's a stone throw away from our new facility here in Sevenum. The first customer package was sent to a customer in Italy on the 21st of October. But we're going to say more about this in a moment.

Last time, we received a lot of favorable feedback on doing our earnings releases by video webcast. So we certainly know we want to continue with this practice. We still have a technical limitation that for right now, I know the provider is working on this, to find a solution, but right now we still cannot take via video webcast, live questions. So we want to ask you to submit once again, your questions, by the chat function. You see this on the left-hand side of the screen.

You know, we have to admit last time we were a little bit overwhelmed by the success of the chat function. So we got a lot of questions. We didn't get through all of the questions we followed up on some of them, but this time we would ask you to ask really pointed questions, meaning relatively short questions. And one question at a time, during the first go around.

If we get more questions than we can handle, we will be a little bit selective, but rest assured we're not trying to avoid any tough questions that you might have.

So jumping right into the performance of the third quarter. As I already mentioned, Q3 was another strong quarter for Shop Apotheke, driven by both strong top line growth, but also a solid bottom line performance.

Looking at the growth, we grew our top line by almost 40%, to almost €240 million in the third quarter, this was driven by one of our hallmark competencies of the third quarter, stands again for one of our hallmark competencies and excellence in execution.

The growth came from, again, both new customers, we get, 400,000 unique active customers in the third quarter. If you compared this to September 2019, we added 1.4 million unique active customers. Of course, by now we have crossed the 6 million, active customer threshold. The strong top line growth cascaded throughout our, P&L, and we once again delivered a positive, clearly positive adjusted EBITDA margin of 1.8%.

The key drivers were a gross margin expansion scale effects, and partially – then these benefits offset by one-time effect. But Jasper, in a moment is going to walk you through the details just to, you know, take pause for a moment and looking at the year-over-year improvement on a year-to-date basis for the first nine months of the year, Shop Apotheke's adjusted EBITDA improved by over €27 million from the first nine months of 2019, to the first nine months of this year.

In addition, we generated a positive operating cash flow in the same period, of almost 11 million euros. Driven or enabled by the strong development of our share price, we decided to go from early conversion of our 135 million convertible bond. The process was tightly managed and driven by Jasper, so kudos from the management team. That was really exceptional.

And as a result of this, we end up, we now have an even stronger balance sheet. I hope you agree with our conclusion that Q3 was another strong quarter for Shop Apotheke after a strong Q1, after a strong Q2, but in parallel, of course, we're working on our key strategic initiatives to make sure that we will be ready to take advantage and to take, as we always say, a disproportionate share of the opportunities that are around the corner.

We have started the transition of our logistics activities to our new facility, the internal project name is Venlo 2020. We are on track with our preparation for the introduction of e-prescriptions. I'm going to say more about this later. And in terms of our marketplace, we're looking at two dimensions. We have expanded our same-day offering under the label of Shop Apotheke Now, and we are on track to go live with the portfolio expansion, meaning offering a broader portfolio of healthcare related products beyond the traditional boundaries of typical pharmacies.

Again, looking again at our top line growth, I already mentioned the 40% growth at a group level, but if you break it down by reporting segment, we grew by 34% in the DACH region, and this includes a 17% growth of our RX business and in the international segment, the international segment grew by more than 80%. And we are now approaching quarterly sales in our international segment of €40 million. Again, the national segment comprises of Italy, of France, of Belgium, and of our business in the Netherlands.

In the third quarter, we defended or extended our market leadership positions in Austria and Belgium. And just, again, going back a little bit in time, you might remember when Jasper and I when we shared the Q4 2019 earnings with you, around the middle of March, this was just at the beginning of the Corona pandemic, we cautioned everybody and we emphasized that we are in all likelihood, going to experience capacity constraints over the coming months.

And I'm very happy and proud to report that until today, and I don't think it's going in the future, we haven't had to reject a single customer order, and again, big kudos to our operations and logistics team. They just succeeded in teasing out additional capacity by looking and improving the processes and structures workflows in our operations and along the value chain.

I already mentioned that we were close to 6 million unique active customers by the end of Q3. We maintained throughout the third quarter, a very high net promoter score of 70. I think that is reflective of our – of Shop Apotheke's focus on the end consumer and a very convincing end-to-end customer journey. Of course, our ambition is that, we want to continue to improve this, but if you're familiar with the calculation of the NPS score, you know, that the air is getting thinner the higher you climb this ladder.

In terms of our average shopping basket value, it remains, compared to prior year, at around €67. But keep in mind, in our biggest market, as of the 1st of July this year, we had a VAT reduction of 3% VAT reduction, the numbers that the average order value that you're looking at right now, includes VAT. So if we adjusted for the VAT reduction compared to Q3 2019, you would actually see a little bit of an increase of our average order value.

Switching to web traffic, no surprise. And this is not a news to you if you follow Shop Apotheke closely, but we are with – by a significant margin, we are the most popular, meaning most frequently visited website, pharmacy website in Germany. On this chart, we're showing the total weekly visits. That's the orange line, and we're showing the year-to-date growth, the weekly rep traffic growth, versus the same week a year ago. Again, going back to the absolute numbers of the weekly web and app visits, since the beginning of the pandemic, since April, we've been consistently at, or above 4 million weekly visits, meaning that the demand that is also reflected, of course, in our sales numbers, hasn't abated yet.

We are getting questions from investors, also from journalists, you know, do we anticipate the demand is going to return to pre Corona levels? We don't anticipate this, to be clear about this, and the numbers are not indicating this at all.

When you look at the growth, the traffic growth versus prior year, you see a spike in April and May, since then, it has come down a little bit, but again, look at the scale on the right-hand side. Every week, our web traffic has grown compared to the year before, by 50% or more.

Switching now to our repeat order share, this is the green line. It remains at around 80%, meaning 80% of our orders come from customers who have placed orders in the past. It went up a little bit from Q2 from 79% to 83%, not a surprise. You might remember, we added a record number of new customers in Q2, and of course, and that is the holy grail of e-commerce. Our objective then is to make sure that these customers are going to place the second and the third order with Shop Apotheke and then the churn will come significantly down.

So the bump is reflective of the fact that the record number of new customers gained in the second quarter, have now, a large extent, become repeat customers. We think that 80% repeat customer ratio is a good level that we're also aiming for, going forward. In terms of the plain customer orders that were executed over the last three quarters, you see that we constantly have remained above 4 million, again, the demand that we experienced towards the end of Q1, and then certainly in Q2, hasn't abated yet. And I'm repeating myself, I know, but we don't anticipate that it is going to go back to pre-Corona levels in the future.

And with this, I'll hand it over to Jasper to walk us through the financials.

Jasper Eenhorst: Yes, thank you, Stefan. And good morning and think you those over the phone or in the video for joining at this meeting.

On this slide, are all the key P&L lines from sales to – and included EBITDA in the one overview. In the next two slides, I will give more color on specifically the gross margin development and the S&D development, but first, this total overview on one slide.

First, Q3, and then year-to-date. Sales, you see that last year Q3 we've achieved 170.9 million of sales. And this year we increased by almost 68 million, to 238.7 million, which is an increase of 40%.

Year-to-date, we stand on the growth of 38%, to repeat that this is all organic growth, both in the first quarter and year-to-date. So that's all growth driven by the same websites, and by the same brands, in the same countries. We achieved these numbers with – at the same time, a gross profit margin that increased in quarter three, from 18.9% last year, to 21.9% this year. So that's an increase of three percentage points compared to the comparable quarter last year. And drivers here are more favorable that's pricing, continuous sourcing improvements, and also in product mix of our portfolio.

Year-to-date, the gross profit margin is also well above 20%, 22.3% year-to-date. And that's 2.7 percentage points higher than the first nine months of last year. Selling and distribution, the next slide, in the case of Shop Apotheke, that's mainly fulfilment marketing and the last mile cost all combined. They arrived at 17.6% of sales in the third quarter, which was slightly worse than it was in the same quarter last year, as we will see in two sides, all explain because of our deliberate choice to invest in our strategy of growth through marketing, and year-to-date also the improvement is impressive from 19% of sales last year, over the first nine months, to 17.5% this year, an increased a 1.5 percentage points.

This is in part reflective of the very strong operational starts in first half of 2020, and the not so very strong start earlier in 2019.

If we then go to the next slide, administrative expenses, both in quarter three and year-to-date, at 2.6% of sales and they are well reflected scale that we have achieved here of respect of the 0.4 – 0.3 percentage mark of quarter three and year-to-date.

If you sum up all the items that I just mentioned then you get to the adjusted EBITDA and if you get to the adjusted EBITDA to millions of euros then in quarter three last year as minus 2 million and now plus 4 million, so that's an increase 6 million in year-to-date, a number that Stefan already mentioned in this key highlights at the start of the presentation. It went from minus 12 million last year to plus 16 million this year which have been rounded, increase of 27.2% of sales.

Looking at this from the adjusted EBITDA margin perspective and the margin increased from minus 1.2% over last year to plus 1.8% this year, an increase of 3 percentage points and year-to-date at a positive 2.2% increase is 4.5 percentage points. EBITDA year-over-year improvement is in the same ballpark as the adjusted EBITDA. And I want to repeat that we are very strict, we have a very narrow definition of what we include in adjustments, it is only the P&L impact of the known cash and the stock option program that we exclude and identifiable one off cost related to projects. Nothing else, that's it. No signing only adjustments, in quarter three it was in total 1.4 million and in year-to-date overview is 3.6 million.

Next slide please. And then the gross margin, as I said already from 18.9% last year to 21.9% the same water this year. I want to start with the negative one, which is the minus 2.1% in older [?] and this is virtually entirely related to a similar item we also addressed in the second quarter and this is the write down we had to absorb from specific corona-related assortments. Where in hindsight, in the heat, at the start of when corona came to Europe in March and April, we were too eager in getting the right assortment in serving our customers and doing a good business and in hindsight, we paid too much for those inventories. At this moment, at the end of quarter three, this is our best estimate of the fair market value that we have in our advantage. So, we are clearly head out.

This was the item of older [?], if we have start at the start, how we went from the 18.9% last year to 21.9% now, sourcing seems to be a small walk with the huge older blocks we have on this slide but normally, according to my definition, 0.6% improvement is an impressive improvement in sourcing. Elements impacting the improvements are better conditions with our partner suppliers, more direct delivery instead through a wholesaler and also already – and in the future more favorable impact of – on brands [?].

Now, we get to the thick improvement of net pricing. Well, basically, you are seeing here that in the total portfolio, in the total proposition of Shop Apotheke where we continuously try to optimize our entire proposition, we did not need to be as aggressive in promotions as we have to be in the third quarter of last year. That's the main driver. And on top of that, it's one of the items we focus on in getting the proposition of which assortment and pricing are very important elements in the most optimal shape. Country and product mix includes the fact that we are growing with [inaudible] faster than RH, so of course, the mathematical outcome in euros we are also very happy with RH sales. All in all, including this one off year-over-year improvement of 3 percentage points.

Next slide please. And then this setting and distribution expenses as a percentage of sales, 17.4% last year, slightly worse this year. Here I start at the left with marketing, marketing was 1.2 percentage points higher than last year. It's reflective of our strategy to invest in accelerated growth. We have already presented a total numbers, I think is a very good strategy that we are following at this moment. But similar throughout, I am of the numbers thereafter, because in this times where we have the capacity constraints, where we are opening a new facility, where we are in the corona situation, we are in a roll to keep the operational costs of shipping, packaging, payments, operational labor at a better level to last year. And that's I think an achievement we are really proud of. And the operational labor, of course, if you go under the root then you will see that there are increases related to COVID that are starting cost increases for our operations but we were able to offset those through efficiency, scale in the departments that are in operational labor.

The other element here is nothing to do – has nothing to do this year. This is actually just the fact that we cycle and we think we had in IT-related expenses last year which by the way we had in Q3 and Q4 last year. The underlying key message of this slide is all the operational costs are well in the control in these challenging times and we spend more on marketing because that's our strategy. Next slide please.

On this slide, the adjusted EBITDA both in euros in millions and as a percentage of sales from a negative territory last year to a positive territory both in Q3 and year-to-date and a year-to-date increase is more than €27 million at least.

Cash. We have more cash at the end of the quarter than we have at the start of the quarter. The total balance of cash in cash equivalent including all the short-term financial assets was 157 million at the end of quarter three. And if you go from the left to the right, start of the quarter three, end of the quarter, we generated 4 million of cash from our operating results, our working capital needs improved by 1 million, we invested 16 million mainly in our new facility then of course also in IT. And the financing element here is a positive one because there wasn't in-flow related to our ease of [?] plans offset by the regular interest and new payments. All in all, almost 57 at the end of the quarter. And this give me also the opportunity to say a few words now that we're talking about cash balance sheet about the earlier incentivized conversion of the [inaudible].

It was a very favorable momentum for us looking at the total situation of our balance sheet and on the market and all the amount that there was a possibility in a win-win situation with a large institutional investment in our convertible [inaudible] to have to book this further. Earlier, this will improve – it has improved already as you will see in the fourth quarter. Our balance sheet is even more robust as it was before and as a side effect as of 2021, we will see related to this convertible [inaudible] significant reduction off the interest expenses. It must be no longer [inaudible] of 4.5% on this long [inaudible] is the way. That was it, Stefan. Let's move to the second part.

Stefan Feltens: Well, thank you, Jasper. Well, then, so far about, you know, our Shop Apotheke euro performance in the third quarter, I just want to give you a quick update on what we are doing to be ready for the future. If we look at, you know, what is at the end of our journey? What do we want to be in a few years from today? We are starting with what Shop Apotheke actually is today. We are not exclusively but predominantly, we are an e-Pharmacy retailer today. And our ambition is that over the coming years, we're going to develop into an even more customer-centric e-Pharmacy platform. In other words, we're convinced we are a good pharmacy today. We want to further solidify and leverage our strength and in the future, we want to become, we want to be, we will be an even better pharmacy.

At the core of Shop Apotheke's success is of course been our relentless focus on our customer and when I talk about the customer, I mean, the end consumer. And if we become a better pharmacy, we're going to give our customers more and more reasons to return to Shop Apotheke in Europe for their healthcare needs. This is going to improve our customer's loyalty and increased customer loyalty is going to translate into higher customer lifetime values and of course higher customer lifetime values are going to translate into tangible bottom line improvements over time.

With our new distribution center, we are really going to enter into a new era for Shop Apotheke, but you might be wondering why are we showing you a picture here on the left-hand side of loading or delivery docks? We just want to illustrate with this picture the magnitude of the change. At our current facility we're actively using five loading or delivery docks. In our new facility, we are going to have over 40 loading and delivery docks. Meaning, and this is just one indicator and we're going to talk more about capacity on the next chart, but this means that we will be ready for the growth that we anticipated over the coming years in the non-prescription area in Germany, in the other markets in which we operate today and potentially, additional markets we're going to enter over the coming years. But also, we will in terms of the expected growth triggered by the introduction of e-prescriptions in Germany, again, starting next year, but then going into full swing at the beginning of 2022 with e-prescription becoming mandatory.

So just to be a little bit more specific, we talk – we're talking about capacity. In our current – no, I would say our old facility, we have around 20,000 square meters on one level. In our new facility right here in Sevenum we're going to have almost 50,000 square meters on two levels. In terms of packages sent per day, we, on average, we send around 39,000 packages a day in our old facility. Here in Sevenum, we're going to have capacity in excess of a hundred thousand packages a day. And this translates in an annual capacity of being able to handle more than 35 million customer orders every year. And this is of course, before we continuously improve our workflows or processes, our systems. So there's probably more that will eventually be teased out of this new facility. By the way, the picture that we are looking at here, I have to admit is a little bit outdated. Of course, construction has of course been finalized for internal logistics, equipment is up and running. We're putting right now the finishing touches on this equipment.

This is a little bit a transition from the old facility as a little bit like, you know, an open heart surgery. We cannot just stop everything and, you know, focus for two weeks on transitioning everything from the old to the new facility. Therefore, we are going to stretch the transfer over an extended period of time of six months or even a little bit more. We are right now in the process – I've already mentioned that we shipped the first package to a customer in Italy on the 21st October, many, many more that customer orders have left our new facility. Of course, since the 21st October, but why are we doing this? Why are we right now already transitioning the business in our international markets from the old to the new facility? Well, we wanted and we need to create space in our old facility to be in a position to fully handle the Q4 demand, but more importantly, to be ready for another expected jump in the month of January next year. We wouldn't have been able to do this if we hadn't provided some relief already to the existing – to the old facility.

In January, we are also going to start the new intralogistics equipment. We're going to have a much, much higher degree of automation for those of you who had visited our old facility, you probably saw a very efficient, but almost completely manual process. In our new facility, we're going to have a much higher degree of automation. The degree of automation is going to get close to 50% and this, of course over time is going to translate – it's going to yield a lower cost per customer order. The whole transition will be concluded in the second quarter next year and the last country that is going to transition is our biggest and our most important market of course, Germany. We want to be a hundred percent sure that the software works properly, that the equipment works properly before we move orders from our customers in Germany.

Well, our new facility is not just about capacity, higher degree of automation and lower cost per customer order, it's also about providing and inspiring open space environment for our employees that work in an office setting. You might remember that we moved the offices in the month of July and I can tell you that that our workforce was – that the new office environment was very well received. I dare to say, enthusiastically, received. Well, unfortunately at this point of time, many of these employees are not in a position to benefit from the new open space environment for obvious reasons. Many of them are working from home, but while they were here, we already witnessed a higher degree of collaboration across departments, within departments and improved communication flow.

Also, in this respect, again, this wasn't important move for Shop Apotheke. And the new facility is also an important step on our sustainability journey, but it's only one step. I want to emphasize again, that the management of Shop Apotheke, we are committed to sustainability, not because it's fashionable, not because some of you are making this an issue for us. We are fully convinced that this is the right thing to do and it's our responsibility as a corporation to make our contribution. Again, on the journey towards the sustainability, our efforts have already yielded, you know, a first rating upgrade. You might have seen that our ESG MSCI rating was upgraded to triple B. Again, that is not the key motivation for us, but it's nice that our efforts are recognized also in this way over the coming quarters and years, we will certainly share more tangible benefits and results that come out of this sustainability initiative.

Well, talking about a journey, looking at our strategic journey and looking at what we are doing today to make sure that our strategic ambitions will be filled with life, sustainability is part of our strategy. But we also have a couple of key strategic initiatives that we want to share an update with you on that we are starting with our own brands. You certainly remember that too, in 2018, Shop Apotheke acquired new three functional food company based in Berlin. That business is developing very nicely and I can say that this was certainly a very successful acquisition. The management of team of [inaudible] is also in charge of developing our RedCare label. You might remember, we started the RedCare brand in February with launching a nasal spray and paracetamol, since then, many more products have been edited every quarter, and we're going to add more RedCare products in the – in the future. Our RedCare business is developing as we had anticipated and it looks very promising for the future.

In terms of our marketplace, I've already alluded to this. We are looking at this in two dimensions. First, we have our same day offering under the brand of Shop Apotheke now. Remember we had a – we concluded, we successfully concluded a pilot program in the right rural area and we continued offering same day in the right rural area that covers everything from the Bonn-Cologne area, up to the – to the City of Dortmund. In the third quarter, we expanded our same day offering to two additional metro areas in Germany to Munich and to Berlin, more metro areas are going to follow until the end of the year. And next year, we'll be in a position to cover all of the metro areas in Germany with Shop Apotheke now. Of course, we're not going to stop at the borders of Germany, but again, that's something we'll talk more about in the future.

In terms of the other dimension of our marketplace initiative, the product expansion, meaning us offering a broader portfolio of healthcare related approach customers, again, we always come up with the example of contact lenses, which we are not selling today as Shop Apotheke, but we'll be offering to our customers through a marketplace partner in the future, but there's just one category we're making progress, we are on-boarding marketplace partners. We'll go live in the coming months. At this point of time, it is still a possibility that we might go live the first marketplace partners before the end of this year.

In terms of our, you know, online doctors service and telemedicine corporation, you certainly remember that we started our cooperation with Zava last year in December as a fulfillment partner. Since March, our customers are able to access an online doctor consultation through the Shop Apotheke customer journey with Zava and this is also the business is developing as we had anticipated. We are already processing every day, hundreds of digital prescriptions that come out of the corporation with Zava but the main focus at this point of time is on gaining experience, understanding what works, what doesn't work from a customer perspective and to continuously enhance the product that we are offering to our customers.

And if I had to rank order the strategic initiatives on this list, of course, in terms of importance, the one at the top of the list are the preparations for the introduction of e-prescriptions in Germany based on everything that we're hearing. And we are constantly talking to key players, to [inaudible] remains on track with introducing the telematics infrastructure and the e-prescription ad as we had anticipated. And of course, also our internal preparations are fully on track.

Talking a little bit more about our internal preparations. We already established a task force, we call it the ERX [?], it's first task force in 2019 to do what is necessary, to be ready for the introduction of e-prescriptions. The task force is actually is an agile product team. Throughout this year, we have added participants to this task force, again, acknowledging that this is the single most important initiative for Shop Apotheke.

We split the task force into two sub teams. The first one focuses on the front end, meaning to ensure that we offer the best in class customer journey, not only for non-prescription products, but also for the e-prescriptions going forward. Just last week as a management team, we looked at the first set of click dummies to get an idea of what this customer journey is going to look like. The second sub team focuses on the back end processes to make sure that all of our systems, all of our processes are optimized for the launch of e-prescription.

Just to give you, you know, one example at our new facility here in Sevenum, we are introducing a whole new warehouse management system. All the features that are required for handling the e-prescriptions by a warehouse management system are already reflected in the software that is about to go live.

For those of you who've been following Shop Apotheke for an extended period of time, you remember that we are involved with RX [?] market and the RX business for almost 20 years. Most of the experience came from Ahoop [?] Apotheke, which was fully integrated into Shop Apotheke in 2017. We are also managing five patient support programs addressing five chronic diseases under the brand label of Smart. Again, what I want to say is we don't just understand the markets but we also understand the needs of patients, of RX customers. And that will be reflected in the customer journey that we're going to offer.

Electronic prescriptions or let's say digital prescriptions, another novelty for Shop Apotheke. I already mentioned that today we are handling hundreds of digitally received prescriptions through our corporation with Zava. Furthermore, when we get a paper prescription today – and you see why I'm here on the left hand side, after we have opened the envelope, every data point on this paper prescription is prints transferred into an electronic data set. So internally once this has happened, we are already handling digital prescriptions today. The picture that we always use is that – and when you come to our facility, you're not going to see anybody in our fulfillment center that is walking around with a stack of paper prescriptions and then filling boxes. All this is already handled electronically.

And last, but certainly not least, we're constantly talking to all the players of almost all the players in the market assessing where that makes sense for them, for us to join forces and to do something together. And just in Q3, we joined the TK pilot, that is number one, a political statement we want to make. Number two, we want to gain some experience because there are some electronic prescriptions that will be received through the TK pilot, but also – and those of you who are following all the pilot programs closely, you know that at this point of time, the volume that is going through any of these pilots is very, very small.

Okay. So before I hand over to Jasper again, to walk you through our guidance update for 2020, a quick regulatory update from our side. You might remember in August with the Q2 release, we walked you through the legal framework and the timeline for the introduction of e-prescriptions, if you have any questions, please go back. Everything that we said three months ago is still valid. But now, of course, we're talking about the VOASG, the law to strengthen local pharmacies in Germany.

The law passed the lower house of the German parliament, Bundestag, at the end of December. It's very likely that it's going to pass the upper house of the German parliament, the Bundestag at the end of November. And sometime in December, the law will go into effect. That's our assumption at this point of time. Of course, the VOASG contains two stipulations that are relevant for online pharmacies, the RX bonus ban [?], as well as the temperature control requirements. Let me start with the temperature control requirements because that's a little bit more concise.

And I just want to be crystal clear there, we are complying with all the requirements, the temperature control requirements today. We will comply with all the temperature control requirements in the future. We have carefully looked at the law and based on everything that we have read, we don't anticipate any or any significant impact on our operations, but also not on our financial. So that is more a clarification the way we understand it.

Now, let's talk about the RX bonus ban, that's a little bit more controversial in nature. Let me start by stating that we are 100% – we remain 100% convinced that this RX bonus ban is a violation of European law. There are certain reasons, but I don't want to speculate too much why the German government went for the bonus ban. The non-compliance with European law was emphasized by several legal experts during a hearing of the VOASG at the German – at the Bundestag in September. But again, at this point of time, we are assuming that the bonus ban, that the law will go into effect in December and the bonus ban will come into effect into November.

However, what this means for us and how we are going to respond to this isn't clear yet. We are waiting for the response from the European Commission. The European Commission has – the position was very clear in the past, but at the end of the day, we acknowledged that this is a political decision. But again, if you ask me right now, our the assumption is that the European Commission will initiate infringement proceedings against Germany. But again, that is out of our hands.

Secondly, we're waiting for the position that the statutory health insurers in Germany are going to take. That is not clear yet. We know that in the past, they're also explicit – we're very explicit that they think a bonus ban would be a violation of European law and they are committed to complying with European law. But again, that is an unknown at this point of time.

Just to be clear, we have not yet decided what we are going to do. Will we continue to offer bonuses to our patients or will we stop offering bonuses to our patients? Depending on what the European commission does. The position that the statutory health insurers are going to take, that will be a risk and reward assessment that simply because these positionings are not known yet, that we cannot do at this point of time.

But assuming, assume that we would stop offering the RX bonuses to our customers, what would happen? Well, this is – this would not be the first time that we go through the experience because until the European Court of Justice decision in 2016, we had several years when we were not able and not in a position to offer RX bonuses to our customers. What we saw at the time is that our RX business didn't grow anymore. That is the best reference point for us at this point of time.

But keep in mind, right now the growth driver for Shop Apotheke is our non-prescription business. We grew by almost 40% in the third quarter, our RX business grew by quote unquote only '17%', but it's probably a safe assumption that we're not going to see a growth or any significant growth if we decide not to offer RX bonuses to our customers anymore.

Last little reference point there. Keep in mind our competitors in Germany, the mail order pharmacies in Germany, they haven't been able for the last few years to offer any RX bonuses and they also have a sizeable RX share. So that the RX bonus is certainly one driver of our RX business but it's not the only driver.

And before I hand over to Jasper to talk about our guidance update, keep in mind that the growth reduction in the RX segment would be temporary in nature. This is all going to change with the introduction of e-prescriptions starting next year. But then coming into full force in January 2022 with introduction of e-prescriptions, the use case, the primary use case for RX customers is going to shift from being monetary in nature to being a convenient space.

And with this, I'll hand it over to Jasper to walk you through our guidance upgrade.

Jasper Eenhorst: Thanks, Stefan. Yeah, just one slide. And in these exceptional times we again erase our guidance for the current year this morning. And the full year sales growth, we now expect for the year to be north of 35%. And remember the total picture where at the start of the year, it's actually our third raise this year because at the start of the year, we have the guidance of sales growth growing around 20%. Now we highered it to at least 20% then to at least 30%. And as of this morning, we say it's going to be north of 35%.

And at the same time before your adjusted EBITDA margin, we started the year with an ambitious ambition to continue the very fast growth with also breaking even on the adjusted EBITDA level instead of breaking even, which is around zero. This morning, we raised our guidance to the expectation of an adjusted EBITDA margin for the full year of around the positive 2%.

And then the third bullet on this side, we continue to invest in customer acquisition. I basically say it in simple words that we are at this moment in an intense situation and we are growing very fast and existing customers buying more and we acquiring new customers. And from both segments of customers, we got continuously very high customer satisfaction scores. And at the same time, we are not ignoring the bottom line. We are also significantly improving there. And what I want to express with this for [inaudible] continue the investment in growth is that we also focus on all aspects of capacity to increase there and then all aspects of IT to increase there.

We go to the last bullet on the slide. That's our long term target profitability. It's EBIT, let's say that at this moment we are around an EBIT of a positive zero and our long term target profitability remains unchanged in excess of 6% is our targets [?].

That's it for the guidance. Let's go to the Q&A. Okay?

Another view by the way from our new facility, just to give you a flavor, we're starting with a question from OC. Could you give us a sense of the share of COVID-related products in your sales mix? Yeah, Jasper?

Jasper Eenhorst Yeah. Hi, O. Thank you. I think the best summary is seeing the magnitude of growth and the magnitude of the improvements, the impact of COVID-related assortment excluding the one-off is a positive one, but it is magnitude of both. Yeah? Our growth in the same ballpark – would've been in the same ballpark and our margin improvement also where we did not have COVID-related assortment.

Stefan Feltens: Okay. So the next question is from MZ. 2020 organic growth was very high held by COVID, will you be able to show positive organic growth next year assuming that the COVID tail will disappear? So I'll take this.

You know, we're not talking about guidance for 2021 yet but we are committed to continue to grow on our growth trajectory. Again, we got the same question after Q1, after Q2 and our growth hasn't abated yet. We have not gone to return to pre-COVID levels, so we feel very confident that we'll continue on our growth trajectory next year.

The next question is from XY. Logging into capacity needs beyond the new facility, can you update us on the land? You may have already bought lease for facility number three which may be necessary at some stage as ERX [?] become a reality in the future?

Jasper, do you want to?

Jasper Eenhorst: Okay. Thanks, U. We hope we're going to be in that – having the need to address this question in the near future. For now, we have a good capacity at our new facility.

What is important is that with all the teams here internally, actually, we know now what's the total time is to get a new facility up and running, even the mechanized one, where are we making the step change now. So we are well in time, we don't have another [inaudible] yet but we feel very comfortable and not an issue at all in any capacity where we think that is needed and we will do so on and in time.

Stefan Feltens: So the next question is from A. Topic e- script, listening to [inaudible] and the PSX arose with its e-health text subsidiary are starting the e-script earlier at broader scale venture property and is this correct? Any comment on this would be appreciated.

Well, A, of course, we're not commenting on, you know, what our competitor is doing or is not doing. It's a fact today that the number of prescriptions that are coming through these pilot programs are very, very small. Again, it's about gaining some experience. And all of these pilot programs are going to go away with the introduction of the telematics infrastructure and the introduction, the launch of the telematics to central e-prescription at – in Germany.

Jasper Eenhorst: Let's go to another one please. Yeah.

Stefan Feltens: Done. Done?

Jasper Eenhorst: You can just take one.

Stefan Feltens: Can we go to the question from A.

Jasper Eenhorst: It is on.

Stefan Feltens: Can you please tell us CapEx guidance for 2020 and '21? Any change here?

Jasper Eenhorst: The short answer is no, not any change but I can repeat also what the changes here. We have only two elements of – that are significant in our CapEx that is IT. And that's a facility change [?] in total of the cash out for the new facility is 55 million of which two-thirds will be in this year and one-third will be next year and change an IT similar to past years, but it will grow in line with our sales growth.

I hope we will not achieve scale there. I hope we can invest as much as possible in IT, which is both in line with IT. So all in all, excluding the facility, we are a typical e-commerce player that is very low cost intensive, capital light.

Stefan Feltens: Let's go to another question by somebody else. We have – let's go to C. What level of efficiency savings should the new fulfillment center provide once fully wrapped [?]? Jasper, do you want to take this?

Jasper Eenhorst: Yeah. Do not talk about – thanks for your question, C. Do not go to guidance of 2021 yet, because the statement already says we don't have that guidance yet. But the picture I can share with you, we were very happy with reports of free year-over-year flat operational cost as percentage of sales. And the expectation for the coming month – so let's say quarter four, quarter one, quarter two next year, I think it's roughly – let's assume the current level of our operational costs when you see and so many deficiencies to start balance with the first efficiency coming in from the utility. And after Q2 next year, we will see improvement is our expectation on the operational cost as percentage of sales. This is an element you can get through to 6% EBIT on the longer term if we don't specify it.

Stefan Feltens: Question from M.

Jasper Eenhorst: This works well if the [inaudible].

Stefan Feltens: Yeah, yes, yes. At current tax [?], what's your projected payback time? And what level of payback time would you decelerate marketing spending? What are your actions to make clients – to make sure clients develop the habit to auto buy at Shop Apotheke?

Jasper Eenhorst: Yeah. M, thanks. Yeah. Also here if it's not 20 years, then 10 years of experience that we have here. This is what we do in the old day. We're looking at customer cohorts and based upon the cohorts, we predict what the customer life value of those customers is. So we continuously take in decisions, what we want to spend in which marketing, yes or no, and that way we optimize exact timings on payback, we don't provide, exact cost of acquisition, we also don't provide. I only can tell you that in payback is not something like which is wishful thinking. It is a very clear and in the foreseeable future balanced off cost of acquisition and [inaudible].

Stefan Feltens: Okay. So we have a question from A. Congratulations on your Q3 run today. Thank you. Two questions, if I may. Well, we'll see. The first one regarding your RX growth rate and strategy, I understand you're not disclosing RX anymore, but could you give us more color on the development in Q3? I thought, A, we gave color. Again, we increased versus last year our RX business in Q3 by 17% and also on a year-to-date basis, the growth was also 17%. You might remember we were above 20% in Q1 when people stacked up in preparation for COVID, we saw a dip, if I remember, to 12% in the second quarter.

Jasper Eenhorst: 15%, yeah.

Stefan Feltens: 15% and it went up a little bit again to 17%. But the 17% is the number for both Q3 and the first nine months.

Jasper Eenhorst: Yeah, and A, you were right, it is on one of the free materials that we distributed today but it was not very clear in there, it was unintentionally, but we are open on this, we release the RX growth each quarter.

Stefan Feltens: Then – okay, let's go with the second question in A's writing. The second one will be on your logistics limitation in Q4, could you give us more details on what products are moving and what are the implications for your gross margin and expenses? So I'll start with the type of products we're moving and then Jasper is going to say something about the gross margin and the expenses. We are moving the international segment and the international segment in our new facility is handled according to our 'old processes' meaning it's a very manual process but as I mentioned before, the intent is to free up capacity in our old facility to make sure that we can handle the Q4 demand but also the jump that we anticipate for Q1 next year.

Jasper Eenhorst: I think you settle – yeah, mathematically at the moment that there will be a bonus plan, our gross margin will improve, that will happen there, but it's more important now that we anticipate all the possible scenarios that could take place of each one of them but there are also other scenarios and – yeah. And as to expenses – and I think you will refer to the 2021 in the second half of next year, we expect to see the efficiency from moving to the new [inaudible] would you go to the S question I see there?

Stefan Feltens: So we have a question from T. What are the chances of newer laws being introduced? And if so, what tools can the government use? I have to admit, I'm not 100% clear, the law that's on the table right now is the VOA SG and again, we've communicated that we assume that this law will go into effect in in December, we have not yet decided how we are going to respond specifically to the bonus ban.

Jasper Eenhorst: Yeah, and also from a border perspective, I think it's fair to say that perhaps contrary to what sometimes we believe is the insurance companies and also the governments are actually generally also in favor of a more competitive situation in the total healthcare system in Germany. It's not that they try to make our life more difficult, there's of course a lobby for physical stores that prefer if their online growth is slowing down but in general terms, there is not a situation where we did that we don't feel supported by the government.

Stefan Feltens: Well, we a question from T could you please comment on customer behavior of the cohorts won in the COVID-19 period? Are churn rates similar versus previous cohorts?

Jasper Eenhorst: Well, we cannot say what the future could tell, we only know [inaudible] that there's a – I said in Q2 also, sometimes things are fairly simple. In this case, what is simple is that often, high customer satisfaction relates to a high number – high loyalties or the low churn and that's what we are seeing until now and today is the best prediction for tomorrow but of course we don't know it for sure but everything is in green light here also with the specific customers gained from the COVID-19 [inaudible] thanks, T.

Stefan Feltens: We have a question from [inaudible]. Could you please comment on the impact of the RX ban voted last week by the Bundestag and how much does it represent of your turnover this year? Well, I think we we've talked about the RX ban, in terms of the share of RX business, last year we reported RX sales of €188 million. This year, I think it's fair to say and safe to say we're going to be beyond €200 million and again, our assumption going back to when we experienced a bonus ban in the past, is that it will be very difficult to grow this business. But again, that will change with the introduction of e-prescriptions in '21 and then becoming mandatory in January '22.

Jasper Eenhorst: Can you go down a bit more because those persons, we already addressed the questions from.

Stefan Feltens: Okay, then. Let's go back up again to the top. Let's go back. Yeah, let's take the question from D. [Inaudible] indicates there are two major consortiums launching marketplace based offers recent in Germany in cooperation with local pharmacies. Both of these have significant number of local pharmacies who have agreed to join the platform, how much of a competitive risk do you think is competitors are in ‘21 or ‘22? How material can their market share be in the medium term?

Well, I’ll, I’ll start and then Jasper, please chime in. This is a very dynamic environment, nobody – admittedly, nobody knows exactly how is this all going to play out. I just want to emphasize, we will continue and we’ll get even better at what we’ve been successful with in the past to focus on the end customer, our ambition is to offer the best in class end to end customer journey for RX customers going forward and we are confident that this will allow us to continue to gain market share in the RX segment. We’re watching of course the activities of these consortiums very, very closely but again, I don’t want to comment on competitors’ activities at this point of time.

Jasper Eenhorst: Yeah, very clear, nothing to add. Yeah, if you can go to the question of U please, I see there. Are there any further risk of write-downs due to lower prices in Q4 or have you seen most of it already? Thanks for the question, U. No, yeah, of course we did not like this item in the result of quarter three but this is really – it will be a surprise if we have to take more in quarter four because this is really our best estimate what we think the value of this decision should be. Yeah, I think we take two more, because otherwise we’re really running out of time.

Stefan Feltens: We have a question from Y –

Stefan Feltens: We have a question from Y – let me go back, yes, can you comment on slower RX segment please? 70% in the quarter seems a lot slower than the overall business. Thanks. Yes, Y, that is correct but that is not – no news and that was the same in Q1, the same in Q2. We are growing our RX business, that’s something that we are proud of but our non-RX business is growing at a much faster pace. But again, that is something that we have also disclosed in the past. And we’ll take a last question.

Jasper Eenhorst: Yeah, can go down a bit?

Speaker: H?

Jasper Eenhorst: Yeah, it's good.

Speaker: Let's go to the question from H.

Jasper Eenhorst: Oh, he doesn't see the – sorry, H, you had technical difficulties. H, please know that the presentation will also be on our website and also the entire presentation, the [inaudible] will also be on the website. Sorry for that if you had any difficulties there. Let's take a business question.

Stefan Feltens: Then let's go to one from – second question from O. This one, yes. Could you give us some color on the cost differential for your order shipped on temperature-controlled conditions and orders that are not shipped under temperature-controlled conditions? Please. There is a significant cost differential obviously but again, we don't think that – we are convinced that we don't have to – that we will not have to ship more of our deliveries under tight temperature control requirements, meaning maintaining a cold chain throughout the delivery process in the future versus what we are doing today.

Jasper Eenhorst: Anything else?

Stefan Feltens: Nope. Okay, then I want to thank everybody for joining us today. Again, I hope you agree with us that this was a strong successful quarter for Shop Apotheke. Hopefully we gave you some confidence that we are on track with our strategic initiatives, especially with our prescription – with our preparations for the introduction of e-prescriptions and again, if you have any further questions, I'm sure you know how to reach us. Thank you very much.

Jasper Eenhorst: Thank you, Bye-bye. Yeah.