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Moderator: **Mod (call turned over to): Stefan Feltens**

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Operator: Good day, and welcome to the Shop Apotheke Europe Q2 2022 Earnings Release Presentation. Today's conference is being recorded. At this time, I would like to turn the conference over to Stefan Feltens, CEO. Please go ahead.

Stefan Feltens: Well, thank you. And also, together with Jasper Eenhorst, I want to welcome you to Shop Apotheke Europe's release of our financial results for the first six months of the year. I hope you've already had a chance to take a vacation break. If you haven't been able to do so yet, you'll be able to do so over the coming weeks.

Of course, when we look at our financial results, we need to look at them in the context of very difficult economic times over the first six months of the year and the ongoing War against Ukraine. Our thoughts remain of course with the victims of this war. Well, starting with the end in mind, based on the performance of Shop Apotheke in the first half of the year and our assumptions for the remainder of the year, our management, we continue to stand behind the guidance we had provided to you earlier this year.

Well, you're familiar with the agenda. Jasper, and I are going to start by walking you through the financial and business performance over the last few months. Then, I'm going to say a few words about a couple of strategic topics, most notably of course about the status of electronic prescriptions in Germany. And then, Jasper is going to conclude our presentation with the outlook for the full year 2022.

At the end, rest assured, there will of course be plenty of time for your questions. Well, let's start with the Business and Financial performance of the first-half year, what were some of the highlights over the first six months? Our sales over the first six months went up by 11%. After a 7% growth in Q1, we saw an acceleration of our growth to 15% in the second quarter.

This is all Shop Apotheke's business. If we just look at our non-RX business, our non-RX business over the first six months grew by 16%. Also, for non-RX, we saw an acceleration in the second quarter. In the second quarter, we posted a growth of 18%. Our adjusted EBITDA margin for the ongoing operations, meaning excluding the acquisition of First A came in at -1.5% of sales.

And in a couple of minutes, Jasper is going to provide more insights into our profitability. We also generated a positive operating cash flow of around €15 million in the first half of the year. This was driven by a favorable working capital movement. There is some seasonality of course. But also, this is the result of some purposeful and sustainable actions that we didn't just take this year, but also last year.

So, we are seeing the results in our operating cash flow this year. Certainly, one highlight of the first half of the year was a record level of all-time high customer satisfaction. That we use the Net Promoter Score, NPS to measure customer satisfaction. And we saw in the second quarter, an NPS of 74. This is an improvement compared to a year ago by nine points.

The main driver was a further improvement of our order delivery times, shortening of our order delivery times. And we all know that order delivery times are one of the most important, if not the most important driver for customer satisfaction. In addition to shortening our order delivery times, we also implemented some other enhancements to our overall customer proposition.

I can assure you that the Net Promoter Score is one of the most closely watched, monitored, and managed KPIs at Shop Apotheke. We all understand happy customers are returning customers.

And this will cascade through our financial results as well. Well, what happened to our active customer base? It grew to 8.6 million.

This is an increase compared to a year ago by 21% or by 1.5 million customers. 800,000 of the 1.5 million increase happened this year. Our expansion in Italy is fully on track. We have conveyed before that Italy is an important market for Shop Apotheke today, and will become an even more important market for Shop Apotheke in the future.

In July, we opened our second distribution facility besides the one that Jasper and I are reporting from today here in Sevenum. So, that's our second facility in Settala near Milan. Since, early August, since the 1st of August or since this week, all orders from customers in Italy are handled by and shipped from our new facility near Milan.

And last, but certainly not least, e-prescriptions, everybody knows that the eRX test phase was successfully concluded in early July by passing the 30,000 reimbursed, fully-reimbursed electronic prescription goal. Since then, we have seen an acceleration of electronic prescriptions that have been issued and dispensed.

We passed the 100,000 mark a few days ago. And we checked yesterday, we were at a 118,000 e-scripts dispensed by pharmacies as of yesterday. Well, if we take a look at everything that happened in the first quarter, I dare to say with all the disturbances that we experienced in the first quarter, I think we can be proud of how we navigated Shop Apotheke through all of these challenges.

And hopefully, you're seeing this in our sales, in growth of our customer base, in the increased customer satisfaction that we shared with you, and also in our financial results. Well, let's have a closer look at the sales development in our two reporting segments. On the left-hand side, let's start with another look at the overall sales development.

I already mentioned, sales grew by 11% to almost €600 million, €592 million to be precise, non-RX growth of around 16%. In the DACH segment, our total sales grew by a bit more than 6%. But you need to look at the two subsegments, our non-RX business grew double digit at a healthy pace of around 12%. And our RX business showed a decline of 20% compared to the first half of 2021.

This is of course the result of the RX bonus prohibition, which came into effect in December 2020, and then showed its effect in the first half last year. If we just look at the second quarter, our RX business compared to Q2 last year was basically flat. We showed a marginal decline of 3%. And since Q3 last year, we are posting.

We are recording monthly sales, stable monthly sales, RX sales of around €10 million per month. Our International segment continue to be a growth driver with an increase of 30%. And our half-year sales approached a €140 million. International consists of Belgium, of France, the Netherlands, and of course of Italy.

So, just shifting gears and taking a quick look at some of our KPIs. I already talked about the growth of active customers, which is approaching the 9 million mark. Our Net Promoter Score is 74 in the second quarter. I can assure you, this is something that really everybody at Shop Apotheke is really proud of because on a daily basis, we think about or we torture ourselves with asking the question, what else could the customer expect from us.

Looking at our average shopping basket or the average order value, we saw compared to Q2 last year, we saw a decline from €61.5 to around €58. The main drivers were the reduction, a lower proportion of our RX business.

And you remember that the RX business enjoys significantly higher AOVs than a non-RX basket. And secondly, we saw an increase of our mobile orders. We saw an increase of the proportion of orders placed by younger customer cohorts. And these two mobile orders, and younger customer orders also tend to carry slightly lower average order values.

Looking at our traffic, what you see here is the traffic across all of our sites. So, not just Germany, across all of our sites. It covers both mobile visits and desktop visits. But before I jump into the details, let me emphasize again that looking at Germany, our website in Germany, Shop Apotheke, shop-apotheke.com continues to be the most-frequently visited pharmacy website in Germany by quite a margin.

Well, what are you seeing on this chart? The green line shows the total number of weekly visits again to all of our sites. In the first quarter, you saw very healthy levels. You see a little bit of a softening in the second quarter with weekly visits totaling 6.5 million to 7 million. Of course, this can be exclusively attributed to seasonality.

As in the second quarter, our customers deservedly so I dare to say spent more time in parks and on beaches and less time in front of the screens. The blue bars show the growth of our web traffic compared to the exact same week a year ago. When you look at the second quarter for most of the weeks, we see a growth of around 20%.

The negative growth in the second week has something to do with the Easter Week in comparison to when Easter fell in the year before. At the end of the month, you see a spike where the traffic growth came up to 50% or more. This has to be seen in the context of what happened at the end of last year when for good reasons, we purposefully reduced our performance marketing which at the time then resulted in a reduction of our web traffic. And with this, I'll hand it over to Jasper to walk you through the details of our financials.

Jasper Eenhorst: Yeah. Thank you, Stefan. And good morning to everybody on the call. This is the customary slide we always show with the number of orders per quarter. And as you can see, we continue to grow dynamically our number of orders. If we start at the right of the graph, the first two quarters of 2022.

Then if you add up those two quarters, then you're getting close to 12 million orders that we processed over the first six months. If we then go to the left side of the graph to the gray one, that's 2019, only three years ago. It took us 12 months to do 12 million orders, and now only six months. Also, this graph makes clear that there is the seasonality that also you referred to already, Stefan, where often quarter two and quarter three is somewhat lower than quarter one.

And then, we have another peak in quarter four. That's the same. This year, you only see that in 2020, there was only a slight stepdown from quarter one to quarter two. But then quarter two was really the peak of COVID coming to Europe. Going a little bit more to the numbers that we achieved this year.

So, close to 12 million orders, and a strong growth of close to 90% year over year. But the number, I want to point out is that in the last quarter despite welcoming [inaudible] so many new customers in total, 0.8 million alone in the six months. 83% of our total orders in quarter two, 83% of our total orders in quarter two came from repeat customers.

So, returning customers, an expression of the loyalty of the Shop Apotheke customers to our proposition. To the next slide please. What those numbers bring us, and this is the customary overview of the P&L. It's the adjusted numbers for the ongoing business. So, it's just the adjusted numbers, but it is excluding in this case, First A acquired a little bit later than when we gave guidance this year.

The total numbers that we achieved in Half One includes a couple of costs that will not repeat in the second half of the year. This weekend, we opened our new website in Italy. 1.5 weeks ago, we opened our warehouse in Italy. The preparations for those two projects are in the cost and the sales, and the efficiencies will be in the second half.

Other examples are our launch of our Marketplace in Austria, that also took place in this first half year. Okay, in this table, we have the sales up to and including the adjusted EBITDA margin. Sales increased over the first six months by this 11% or 10.8% to be precise for the total group. And it accelerated to 14.7% in the second quarter.

Later, I will show you the variances bridges of this gross profit margin, and S&D as we always do, but first a little bit the high level [inaudible]. Again, we have been successful in expanding our gross profit margins. In the gross profit margin of 2020, in quarter two and in the first half of 2022, there are no significant positive or negative items.

So, the number is basically what the reported number is. The year-over-year increase, which I'll say later is also impacted by the fact it's a little bit inflated the year-over-year improvement because we had some negative one-offs related to the Corona assortment, like masks last year. But that's not impacting this year's number. Later more.

So, a healthy improvement of the gross profit margin, higher sales, higher gross profit margin bringing us more income from the sales that we achieved. On the other hand, S&D increased significantly as well, both up in the first half and in the second quarter by a total of 4.3 percentage points. Also, later more on that.

But already now a couple of remarks. The majority of the year-over-year increase is because of our investments, our decision to invest in marketing to bring us in the best position for the opportunities that we are seeing across Europe and also particularly in Germany. And of course, there is a little bit of an apple and an orange in the year-over-year comparison because last year particularly, quarter one 2021 was a full lockdown quarter.

Later, a bit more. [inaudible] is up as a percentage of sales, 0.2% of our total net sales. Actually, if you would exclude the business additions we did in 2021, the underlying administrative cost as a percentage of sales would have been stable year over year despite the fact of the many activities that took place that we executed this year.

Like expanding the marketplace in Germany, opening the marketplace in Austria, and a lot of attention to improving our last-mile with for example also the success of Shop Apotheke now in Germany. If you would add up all the numbers I just quoted, then you get to a -1.5% after six months in 2022. For full transparency's sake, all these adjusted numbers for the continuing operations, also at the bottom line, the fully loaded total group EBITDA numbers.

And one remark there, if you look at the first column. So, last year, the first six months of the year, they were in total from €7 million to €2 million. There were €5 million of adjustments. And this year from -9% to -23%, it increased to €40 million. So, the adjustments increased from €5 million to €40 million. There's no increase in employee stock option costs.

Actually, it went down slightly. There is no increase in other adjustments. The only reason for the increase is the IFRS 3 business combination accounting that we started to do in quarter four of last year. That's a non-cash item as you will see later in the cash flow bridge. Before I go to the next slide, what's the summary for me if we look at this slide.

I think, we are internally very happy with the fact that with the high customer satisfaction scores that we achieved, growing customers, repeat customers, we have been able to expand our gross profit margins. So, in total, we increased our gross profit. And we have been spending effectively and wisely in marketing in order to be in the best positions for all the growth opportunities that we are seeing across Europe, in particular with the eRX in Germany.

We go to the next one. This is a slide I showed you two quarters ago. So, I want to repeat the messages that I explained to you then. And the two blue arrows are changes compared to what we presented two quarters ago. So, first the key messages. The vertical axis is the adjusted EBITDA margin. And the horizontal one is the sales growth.

The rest is all the elements that are in the DACH segment. And blue was in the International segment. So, if we start with the largest bubble and the bubble being illustrated for the total sales, then we see that the large bubble of DACH non-RX continues to grow fast, around 12% year to date we saw. And it's continuously in positive territory.

Also, this quarter, also in quarter on, the total adjusted EBITDA of the DACH segment is a positive one. So, DACH continues to grow fast. International is growing even faster. It goes to 30%, but certain elements of International are profitable, but some elements like for example Italy are not profitable. And that's why the total of International is still at a negative adjusted EBITDA margin.

We see no fundamental difference in the unit economics here. And the only reason for being at a negative adjusted EBITDA is because we invest in growth. And we still don't have the same scale as we have in DACH. So, those are two largest blocks. Then to the upper left, there's the first change. There is the Paper Rx.

Paper Rx is even already having a higher margin than our non-RX, eRX or even has a higher margin than our Paper Rx. So, it's nicely [inaudible] adjusted EBITDA margin. It used to decline by 30% to 20%, but it moves to a sales growth of around 0, -3% to 4% in the second quarter. So, it totally bottomed out.

To the right of this graph, you see our investments that we have been doing and are doing in a couple of things. The [inaudible] proposition and First A, that's clearly investments in debt proposition for our customers. The MedApp is entering a new market, namely the Rx market in the Netherlands, and the owned marketplace that's now live in Germany.

And in Austria, that is actually a promising, new possibility for new revenue, and new income, and also, the addition to our overall proposition. Now discussing all the levels, of course all the elements I just discussed benefit from our growing share of our successful own brands, but the key message from this slide is we are investing in growth in our base, in our base that is already operating at a positive adjusted EBITDA margin.

And at the same time, we are making investments in other growth opportunities for the midterm. The next one please. Now back to the bridges for the gross profit margin and later the S&D as a percentage of sales. So, as I said already, we have an increase that's significant of 1.6 percentage points. But in the other block that you're seeing here, it's somewhat inflated by the fact that we had slightly negative one-offs last year.

But that's not impacting the 27.1% that we report after six months. Starting at the left, again, we are very happy with showing you sourcing improvements that we have been able to show you for many consecutive quarters of 0.5% compared to the same period last year, 0.5% better sourcing conditions, more direct deliveries instead of via the wholesale.

The second block is actually a relevant block because there you see that the net pricing and product mix in this period was a negative one. And this is mainly reflecting that in a couple of our markets, we have passed on the underlying cost price inflation slower almost entirely to our customers. The next one to me is not so relevant with the mix of Rx and OTC because the flipside of this is often in the S&D.

So, all-in-all, strong improvements in line with what we have shown in recent quarters of the gross profit margin up to a new level. On the other hand, there is a significant increase of the selling and distribution expenses as a percentage of sales. Marketing is explaining more than half of it. Of course, there is an apple and orange in comparing this number to last year because last year, particularly the first quarter of the year was a full lockdown COVID quarter, and this year everything was luckily open again.

But this marketing is of course our decision to be in the best position for both the eRX opportunity and the great opportunities we see in Europe. And apparently, referring to all the numbers that Stefan quoted already and also to the order growth and Stefan was talking about the customer satisfaction, we have been spending this marketing very effectively.

At the same time, this number is also impacted because of International growing faster than DACH. All these numbers, all the four blocks you're seeing here are impacted by the fact that we have a slightly lower basket in a certain trend. And if you compare quarter two to last year, there's actually a significant lower basket.

But to the best of what we can analyze internally, we saw some indication in quarter one that customers tended to leave some items of non-essentials outside of the basket. But we did not really see that in quarter two. So, the decline in year-over-year basket, we could not attribute to a slowdown in customer confidence.

And actually, we saw from quarter one to quarter two a slight increase as a result of the actions we took to focus on the average basket. What we are seeing in the year-over-year comparison is the fact that we have more younger customers, and younger customers tend to have a smaller basket. And we also see that we are successful in getting more people to mobile.

But also, mobile tends to have lower average baskets than from desktop. So, that average basket is impacting the cost performance. And then of course, also, we have not been immune for certain increases because of inflation and energy costs in shipping, and particularly also in packaging[?].

The operational labor costs that you're seeing here, we aim for this to be a green one, a year-over year-improvement in the upcoming quarter three and quarter four.

Next please. And then cash. So, luckily with cash we don't talk about adjustments ongoing operations, and all kinds of other things. Cash is what it is. When we come to our balances, we started the year with well over €280 million. And at the end of June, we still have closer to €260 million. And we have this amount, which in total €31 million of investments is included the acquisition of First A, where we paid €5 million.

And the remaining is regular Capex, particularly IT, but also the opening of a new distribution center and regular [inaudible]. The first two blocks together, that's the operating cash flow. That's our EBITDA results. And that's changes in working capital that was after six months of positive [inaudible] €28 million of cash generated by working capital improvements.

Just as Stefan said already, there are real underlying improvements that we achieved. But there's also seasonality in it, where in quarter four we will probably need to increase our inventories as far as these always do because of the winter before that. So, all-in-all, a positive operating cash flow. We have been investing. And we had a total financing that was slightly lower in total costs as last year. I think we go to you again, Stefan. Okay. Let me -- yeah.

Stefan Feltens: Thank you, Jasper. So, the coming minutes I want to give you a brief update on a couple of topics that are of strategic relevance. Of course, first and foremost, where we stand with electronic prescriptions in Germany? Secondly, what is the status of our forays into the Italian market? And finally, what is happening with our marketplace?

So, starting with electronic prescriptions, I'm repeating myself here. We've successfully concluded the test phase. It's old news. More important, a couple of days ago, [inaudible] from the German

Health Ministry could declare that we passed the 100,000 mark of redeemed e-prescriptions, e-prescriptions that have been issued and filled by the pharmacy.

Now looking into the future, the rollout of e-prescriptions in Germany, the start of e-prescriptions in Germany is going to start on the 1st of September in two regions in Westphalia-Lippe, which is part of North Rhine-Westphalia and Schleswig-Holstein. These two regions cover around 11 million people in Germany or 14% of the German population.

Also, as of the 1st of September, all pharmacies in Germany, local pharmacies, but also online pharmacies will be ready to accept, and to process electronic prescriptions. On the 1st of December, a second set of six federal states are going to go live with e-prescriptions. And the remaining federal states in Germany are going to follow on the 1st of February next year.

Not surprisingly because you've been following Shop Apotheke, we are receiving and processing e-prescriptions on a daily basis. And literally every single day, we are receiving electronic prescriptions. Our processes, our systems continue to work flawlessly. And we can't wait to get started to move full steam ahead with the go live of e-prescriptions in Germany.

So, just a couple of words about the Electronic Health Card or the eGK. The eGK will be one of the three means for patients to transmit electronic prescriptions to the pharmacy of their choice besides the Gematik app, and a paper printout, and then patients taking a picture of the QR code, and sending it again to the pharmacy of their choice.

We at Shop Apotheke, of course, we are supportive of all options if they are safe, if they are convenient for patients to transmit electronic prescriptions and the eGK could play an important role in this contract. At Shop Apotheke, we support our industry association, the EAEP or the European Association of E-pharmacies in their discussions with the German Health Ministry to ensure that all options including the eGK option will be non-discriminatory in nature, and are not going to limit to constrain the freedom of patients to choose their preferred pharmacies when they want to transmit an electronic prescription.

At this point of time, the EAEP is in discussions with the German Health Ministry to ensure that an option eventually is implemented that will also allow online pharmacy, that will also allow Shop Apotheke Europe to fully partake in the eGK opportunity of the eGK pathway. Well, the second topic, Italy, we mentioned in the past that Italy is an important market for Shop Apotheke in terms of the sheer size of the market.

Italy is after Germany, and France is the third-largest pharmacy market in Europe. In terms of the sheer size, Italy is important for us. Italy has a very low online penetration rate in the pharmacy space. It's still in the single digits. And the online space from a competitive perspective is still pretty fragmented. In order to serve our customers in Italy better, we already mentioned this.

We opened our new distribution facility in early July. The first package left the new facility on the 4th of July. And as of this week, all customer orders are going out from our Settala facility near Milan. This resulted in significantly shorter-delivery times. This is something that will be appreciated by our customers in Italy.

And it also significantly reduces our carbon footprint, the carbon footprint of our business in Italy. Well, and the last quick update I wanted to share with you is on the marketplace. You might remember that we went live with our marketplace in Germany last December. Since then, we have been busy onboarding new merchants and onboarding new products.

As of the end of July, we were offering an additional 40,000 products to our customers in Germany through our marketplace. Just to put this into perspective in total before we launched the marketplace, we were offering around a 100,000 products to customers in Germany as of today. And this is growing on a daily basis.

We are already offering an incremental almost 50% of our original product assortments to customers in Germany. At the end of June, I think on the 29th of June to be precise, we started. We launched our Marketplace in Austria initially with 5000 products, but similar to what we have seen and will continue to see in Germany, the product assortment, the number of products we offer through our Marketplace partner is going to grow rapidly over the coming weeks and over the coming months.

And of course, Austria is not the last market in which we are going to operate the marketplace. The Marketplace over the coming years in the future is going to account for a growing and a significant part of Shop Apotheke's overall business. And of course, coupled with very attractive unit economics because the Marketplace is an asset-light business model.

Well and that's what I wanted to share with you, I hope I could convey to you that we have a strategy, a detailed roadmap for implementing our strategy. We are reliably executing against this roadmap. We are ready for e-prescriptions. We make progress in markets beyond the boundaries of Germany. And we are expanding our Marketplace business.

There's a lot of other stuff that's going on. Medication management will become very important in the context of electronic prescriptions. We continue to improve our send offering via our 'NOW! Program'. We continue to work on co-operations with other healthcare providers. But again, these might be subject to future updates in the context of future earnings releases.

Well, I think that is what I wanted to share about some strategic topics, the outlook for the year.

Jasper Eenhorst: Yes, yes, very well, very well. So, the last slides are for me, the guidance. If you could go to that slide please. So, we know of course that many, many things have changed since we gave our guidance, geopolitical, customer confidence, inflation, inflation from the perspective of the end consumer, and inflation from our cost base, and also interest increases.

Nevertheless, based upon the results that we achieved over the first six months of the year based upon the start of July and based upon the visibility to the extent that we can have for the second half of the year, we can confirm our full-year guidance on all elements. And to repeat what our full-year guidance is we think that there's more than a billion [inaudible] or non-RX, and more than a billion sales of Rx is our base -- of non-RX.

Non-RX will grow by between 15% and 25% for the full year. Sorry, I was a little bit struggling with my words. I will repeat. So, the growth of our non-RX are between 15% and 25% on a full-year basis. Rx, we predicted to bottom out. Well, we certainly did so. And the adjusted EBITDA margin in the range of -1.5% to a positive response of 1.5%.

We also reiterate. With that, we have done our presentation. And if you can go to the next slide, time to ask questions, looking forward to questions. And if you go to the next one, there are the details, the same details as always to ask your questions. Thank you.

Operator: Thank you. If you would like to ask the question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions.

We'll take our first question, CJ from HSBC. Your line is open. Please go ahead.

CJ: Yes, good morning, guys. Thanks for taking my questions. I'd like to take them one by one if possible. First on the current trading, the quarter is almost done. It'd just be interesting to hear your views as to how the quarter has been going. I'm particularly curious whether International could also grow 30% or more in the current quarter.

So, any color you have? I think, you also gave a comment with respect to €10 million a month on PRX[?]. The line was bad on that one for me. So, maybe you could repeat that comment as well?

Speaker: Hi, CJ. Good to speak to you again. As you're seeing, the current quarter is almost done. Probably, you mean the current month. We just had July. It's a bit forward looking what you were saying. But I can repeat what I just said. We started well in July. Of course, we can only talk around sales there.

So, actually, if you look into the details of quarter two, April was a bit challenging for us, but May and June were stronger. And with the strength of the end of quarter two, we entered July. And up to now, we don't see any peculiar changes ongoing there in the trading environment. So, that's continuing in line with what we just expect.

Paper Rx, €10 million per month. It's not really worthwhile. I think in the big scheme of things to give a lot of color there. If I bring it to a likelihood, it's a bit more likely that it will be slightly more than €10 million per month. Then, it will be slightly less than €10 million per month. Yeah, that's what we currently believe, yeah.

CJ: Got it. And then on -- oh yeah, International.

Speaker: Yeah. Sorry, International. Yeah, International being able to grow faster. Yeah, we only give guidance on the total company perspective. In the preparations for the opening of the distribution center, there was some both in June, but also in July which is in the next quarter. And we had a certain slowdown in Italy because of our preparations. We hope that's going to accelerate again later in the year.

CJ: Got it. Then my second question on the Electronic Health ID. This is arguably super important, right. If this is established as a primary means that people will get their e-script, and you're “cut off” from that, this could have a material impact on the total addressable market. So, I'm just trying to pick your brain here in maybe as much detail as you can get at this point.

And understand that we had this last quarter already, discussions about trying to establish the non-discrimination also by forcing legal action. Yeah, maybe there is some incremental color you can give because this seems to be going ahead. And what I can't fully grasp is whether essentially the government could say look, there is two other ways, two other methods to get the e-script to you guys.

The paper is perfectly fine. The Gematik app is working. So, if you don't have a soft token on the eGK, that doesn't really yeah prohibit anything. So, I'm just trying to pick your brain on that angle.

Speaker: Yes, CJ, at this point of time, nobody knows we have three pathways. We have the Gematik app. We have the paper printout and the QR code. And we're going to have the eGK. At this point of time, nobody knows what patients are going to prefer in a couple of years from now.

But let me try to add a little bit of color. The EAEP is in discussions with the healthcare industry right now. It is our sense that there was some, that both the Health Ministry was very receptive of the concerns. And now in terms of the proposals that are being developed to ensure that this is non-discriminatory. That if the eGK is going to play an important role, in the future, all players, online pharmacies, and local pharmacies need to be able to participate equally in this.

At this point of time, when you look at the timelines that the Gematik has communicated, the pilot is going to go live sometime in the fourth quarter. And the eGK on a broad scale might be used sometime next year. I'm not familiar with any more precise timing at this point of time. But again, our effort is focused on ensuring through our industry association that if this is a safe and convenient option that we are in a position to participate in this as well.

CJ: Okay, got it. And then on the 25% number that came out last night and this morning with respect to the first phase of the trial in the first two test regions. It seems that everybody who's commenting on this so far seems to believe that 25% of the eRX as a percentage of the total scripts issued seems like a punchy number.

And that could delay the further rollout to the next six or seven states. Yeah, I know it's another picking your brain question, very, very difficult to answer. But maybe you do have a view. Is it possible to achieve that 25% in two months in your view?

Speaker: Well, CJ, this is of course a moving story. I just saw, but I haven't read it yet. There seems to be some press release from the Gematik. I haven't read it yet. So, I need to be a little bit more cautious. I don't know, whether there's really a [inaudible] between Phase 1 and Phase 2 of the rollout that Phase 2 can only start if these criteria have been met.

Quite frankly yesterday, when we heard that they're discussing about a 25% eRX share, we were actually quite excited because it's also a sign that now everybody believes in e-prescriptions. All the shareholders of Gematik are now also vocal about promoting e-prescriptions, making it happen. And I think to have an aim out there that 25% should be based on electronic prescriptions, I think in half a year, we're going to laugh about the 25% because I'm confident we're going to see a much faster adoption rate, whether we're going to see in the two test -- not test regions, in the two regions we're going to start in prescriptions in Germany whether they're going to achieve this within two months, again, it's speculative. But my understanding is it's not yet clear whether there's going to be [inaudible] between achieving the criteria and moving to the next set of federal states in Germany.

CJ: Okay, that's fair. Then last question I promise. With respect to market shares in the eRX, I understand that you guys do not want to disclose how many e-scripts you have processed so far. I'm sure most people on the call would probably appreciate the number. But I guess we can't force you. Maybe you can still give a little bit of color. You said you won market share. Did you also win market share in eRX in your view? I'll try it this way.

Speaker: Yeah, yeah. The reason we disclosed it in [inaudible] yeah, in quarter one we were representing the full-year numbers is just because we want to be transparent. We wanted to be clear. We wanted to substantiate that we all the time said that we were ready for eRX. So, we said yes, we're ready for the process.

We got reimbursed on the insurance company. Everything is working on our side from the customer. And then we released the number. What subsequently happened is that number was extrapolated a lot. And we also consider it actually quite a sensitive information for competition also what the exact number is.

So, we already give you a lot of information by saying actually there is almost no day, every day we receive e-prescriptions at the moment. So, that's what we are saying at the moment. And why this number, if you won't release it, does it make any sense. Just two quick remarks. On one end, we already know what pharmacies are.

So, then our share is too high. On the other hand, we didn't do any marketing yet. So, the number is too low. It is now. It was the first phase. And now the rollout is starting. And the number of what is your share in the total market only becomes relevant when we are entering the next stages.

CJ: Okay, I appreciate it. Thanks, everyone.

Speaker: Thanks, CJ.

Operator: Yeah. We'll take our next question, AT from Jefferies. Your line is open. Please go ahead.

AT: Hi, Stefan. Yes, very good to see you. I hope you can hear me. A couple of questions from my side. And I would also like to take them one by one. Secondly, firstly on your first day here, we have seen in the cash flow statement a €5 million payment. Could you talk about the deal structure in general in terms of earnout and the accounting timing for the cash flow?

And secondly, I assume you have also seen it on the slides, First A is still a highly-dilutive business. Could you clarify if this is already included in the full-year guidance of the -1.5% to 1.5%? Thank you.

Speaker: Yeah, we disclosed what we had to disclose in those deals. It was the half-year report after six months. So, we get all the details in the interim report. And indeed, until now we paid €5 million for First A. Yes, all the remainder is part of the [inaudible], and then depending on the results.

And we also have the opportunity if we want to do this with equity instead of with cash. So, for the current year, there's nothing else to mention on this besides that information that you correctly took out of our disclosures. Your question on the guidance. In order to be as clear as possible, we gave guidance at the start of the year for what we could give guidance on.

And by definition, we cannot include M&A there. So, we gave guidance for the ongoing business at the moment there. That's what you also made explicitly. Not that we should really do an acquisition and then we make because of the acquisition, our sales guidance or something like [inaudible] guidance.

So, this guidance relates to the excluding M&A activities that we're having. And that's why we reiterated the -1.5% to 1.5% adjusted EBITDA. On top of that, there's this relatively small acquisition offers [inaudible] in the interim reports that that will according to our best estimates not have an impact larger than 0.5% of sales on our EBITDA in 2022. I think, that's the inflation you asked for, AT, yeah, yeah.

AT: Yeah. Secondly, on your current view of the market in general, how do you see competition marketing and pricing developing in the third quarter so far?

Speaker: Well, I think everybody is dealing with the cost price increases. We're seeing that also selling prices are following the cost price increases. What we have seen with Shop Apotheke, we're seeing with some of our competitors with a certain delay. Besides this is nothing in the third quarter that would be surprising that would lead us to question again the guidance that we just reiterated.

AT: Okay. Lastly on the eGK, we know from several Gematik meetings that this is a clear priority for the BMG to make this discrimination free in line with the BSI requirements. And the timeline seems to indicate that the project should go live end of Q1 2023. And you're currently in very constructive discussions, I understand. But what if you don't find a solution for the eGK in time, would you file an objection to block this way?

Speaker: All options, all three options need to be non-discriminatory. And they cannot constrain the choice of patients to choose to send e-prescriptions to their preferred pharmacy. And for the time being, AT, I'll leave it at this. I think, that's pretty explicit.

AT: Okay, perfect. My last one would be again on the targets that we have seen coming out over the last two days actually. So, it's now official press release from the Gematik saying that in the three months of the first period, they want to have 25%. Are you aware of any incentive programs for the doctors? Is there anything planned that you know about?

Speaker: Well, we know. But there's nothing from the Health Ministry or from the Gematik, at least not to our knowledge. But there is the initiative of the E-Rezept [inaudible]. They continue to incentivize. They try to excite, to enthuse participating pharmacies and doctors to start getting used to issuing e-prescriptions.

Whether there will be a new program through the E-Rezept [inaudible] we don't know at this point of time. But again, to our knowledge, there won't be an incentive from the government.

AT: Okay, perfect. Thank you.

Operator: We'll take our next question. JK from Deutsche Bank. Your line is open. Please go ahead.

JK: Hi, thanks for taking my questions. I would also like to ask them one by one. And I would like to start with your cost expectations. So, I understand that you expect lower costs in H2 compared to H1 given that you rolled out your Marketplace to Austria, and opened your new distribution center in Italy. And are you able to quantify let's say the tailwind you expect in H2 from sequentially lower costs?

Speaker: No, no, no. It's [inaudible] and bottom line is just EBITDA margin that we guide on. Yeah.

JK: Okay, okay. And then secondly, yeah --

Speaker: We have some tailwinds entering the second half because of the elements you just mentioned. But I don't quantify it any further, yeah.

JK: Okay. And then secondly on your margin guidance for 2022, would you be willing to trade off a few percentages of your topline growth in order to reach the midpoint of your margin guidance in 2022?

Speaker: This is what Shop Apotheke has been doing for 20 years. We always balance growth and investments in our margin. There's not something changed from that. No. So, there needs to be a fundamental good reason to take actions. And that was not in your question. We will do so, when we think that the marketing is not effective or efficient or it's not the right moment to do it. Yeah.

JK: Okay, understood. And then finally on the supply chain situation. So, I heard from several pharmacists that it's increasingly difficult to get sufficient supplies of certain OTC medicine. Are you witnessing similar issues at the moment? And if so, does that slow down yourself?

Speaker: We are also experiencing some supply chain challenges. At this point of time, when you look at the overall business of Shop Apotheke, it's not of a material nature. But again, we can't predict what's going to happen in the future. We are through our procurement department in very, very close contact with all of our major suppliers.

Some of the shortages, when you look at some, especially the infant or the children's cough and cold products, that's well known. But even for these types of products, we are in the process of securing additional supply. So, yes, we are not immune to what's happening in the world, and what's happening to our competitors. But at this point of time, it's not having a material impact on our business or our growth.

JK: Okay, great. Thank you.

Operator: We'll take our next question, GO from Berenberg. Your line is open. Please go ahead.

GO: Yeah, good morning. Just one question please on the eGK. Could you tell us from a technical standpoint, are there any ideas already in the room to make the e-prescription on the eGK non-discriminatory or have there been any proposals how you could technically solve that?

Speaker: Yeah, I can answer in the affirmative. Yes, there are several options, but they're being discussed with the Health Ministry at this point of time. And I don't want to jeopardize these discussions. So, we can't say more about this.

Speaker: [inaudible] do we have another question?

Operator: Yes. We'll take our next question [inaudible] from K. Your line is open. Please go ahead.

Speaker: Yes. Hello, gentlemen. Just two questions from my side. Thanks for taking them. Also, a follow-up question on the Electronic Health Card. If there would be no solution and it would be rolled out as announced that there were three transmission possibilities. And online pharmacies would not be able to partake in the Electronic Health Card transmission, do you see a risk that your assumption for online penetration in eRX, and also your medium-term EBITDA margin guidance would be of risk?

Speaker: [inaudible], thank you for the question. I think, I at least partially answered it already. All options need to be non-discriminatory. They cannot constrain the choice, the freedom of choice of our patients. And if that's not the case, then we need to have a different discussion. But at this point of time, we remain convinced at Shop Apotheke and through our industry association that all options including the eGK need to be non-discriminatory.

Speaker: Okay. Yeah, thanks. And the second question is regarding also your margin guidance. I'm sorry, if I didn't understand it clearly. But the -15.% to plus 1.5%, this is excluding the First A acquisition effects. So, ultimately, my understanding is wrong, you provide a guidance for an adjusted EBITDA. And then, you are now defining a new adjusted EBITDA excluding First A. So, effectively, you're reducing your guidance. Am I understanding this correctly?

Speaker: Yeah, thanks for asking the question. If that was not clear to you, then it's our mistake it wasn't clear. We should communicate very clear. But it's totally incorrect what you were saying because at the start of the year, we clearly said that this is the guidance of all three elements for our continuing operations.

We always said that. And it makes a lot of sense because the alternative would be that with every M&A transaction that you will do, you also need to revise your guidance. The guidance is based upon what we had as a business at the moment that we provided the guidance. And luckily, we are able after six months despite the challenges to reiterate that guidance on all elements.

On top of that guidance, we disclosed as much information as possible, and as required on smaller acquisitions that we did. We did not change the definition of our guidance.

Speaker: Yeah. If you were to acquire a company and you would have a significant increase in sales, you would also adjust your guidance. So, to me, it's a bit of a cherry picking here if you don't adjust it downwards.

Speaker: Okay, I don't agree. I only agree with you that if it's significant, of course you'll have to do something else. I do agree. But if it's a significant thing, then if your prior guidance isn't relevant anymore, then that's [inaudible]. But I hear what you're saying. But to me, the intention here was the contrary.

The intention was to not cherry pick. The intention is to give a stable guidance that's not influenced by any M&A activities that could take place during the year.

Speaker: Okay, thank you very much.

Speaker: Yeah, thank you [inaudible]. Yeah.

Operator: This concludes today's question-and-answer session. I will turn the conference back to Mr. Stefan Feltens for any additional or closing remarks.

Stefan Feltens: Okay. Well again, thanks for your time. Thanks for your interest in Shop Apotheke. The presentation that we shared with you will of course be available on our website. If you have additional questions, if you want to have additional conversations with Jasper or with me or with both of us, you know how to reach us.

Please take advantage of this. We'd love to continue to stay in contact with you. And we'd love to either gain or to retain you as supporters and investors in Shop Apotheke. Thank you very much. Have a great day. And we'll be in touch.

Jasper Eenhorst: Yeah, thank you very much. Okay, great. Indeed, yeah.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.