

Redcare Pharmacy N.V.
Q2 2024 Earnings Call
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Transcript

Speakers:

Olaf Heinrich

Jasper Eenhorst

Olaf Heinrich

Yes, thank you very much, and good morning to everybody. Also a very warm welcome from my side. Some of you who are joining via webcast probably just saw our commercials on Rx we are currently running. So we thought this is a nice intro into the day. So let's have a look into the agenda of today. It's the standard agenda. First we start with financial performance, then a strategy update on 2024 and then outlook and guidance.

If we look into the financial performance, we would like to start with some highlights. We continue our fast growth at 42%. Even if we exclude MediService, we are showing a growth above 20%. So to be more specific, it's 21%.

We are also very happy to report strong growth on eRx. As you are all aware of, eRx became mandatory at the beginning of this year. And since then, we have seen really a great adaptation from doctors' perspective. So more than 80% of the scripts being issued in Germany are already e-scripts. And since the launch of our CardLink solution on May 6, we have seen a significant increase also in our eRx business, averaging to a quarterly growth of 37%.

At the same time, we are also happy to show that our non-Rx business across all countries continues to grow strong at 20%. Our strategy remains also to grow in this area. If we look into the EBITDA, we can show an improvement in Q2 compared to Q1. So we are showing a 2.7% adjusted EBITDA, lifting the year-to-date margin to 2.4%.

And as you all know, we started additional marketing activities at the beginning of this year because of the eRx opportunity in Germany. And it worked out pretty well from a sales perspective, but we are also very happy to show that we have control of our margins. I think that is an important message we also would like to send. It's very good news also on the margin perspective.

Let's now look into the different segments. The story is pretty much the same like it has been in Q1. We are growing strong in all of our segments, International a little bit stronger than in the DACH region. On International, we show a 27% growth, and in DACH, still very good growth of 18.1%.

If we go to the next slide, you will see that this is also reflected in the development of our customer file. We are now at 11.6 million active customers, and we added in the last quarter 0.4 million active customers. And you can see, over the last year, quarter after quarter, we are adding a steady number of new active customers, and this is a very sustainable development here.

At the same time, also our NPS remains very high. We are showing a 69 here for the first half year of 2024, only slightly down to what we saw last year, being at 71. Also the AOV has come up slightly. Probably, you would have expected it to come up a little bit more because of the eRx. But please keep in mind, Rx right now is only a small part of our business compared to our core non-Rx business. Therefore, you can't see the impact right from the beginning on the AOV in a more significant way.

If we go to the next slide, you can see this is a nice picture. We are now at 17 million orders in the first half of 2024. And as described in the Q1 meeting of this year, we did a step-up at the beginning of the year. And now we are simply following the pattern which you can see from the previous years, so always very high end of Q1 and then a little bit slower in Q2.

So it looks all good. And also, the 87% from returning customers number is still in line with what we have seen in the past, showing that the quality of our customer file continues to be very good, and it also shows that overall, we are able to process the increased orders also from an operational perspective. So overall, very good picture. And now, I would like to hand this over to Jasper.

Jasper Eenhorst

Yes, thanks a lot, Olaf, and good morning also from my side. And I'm very happy to present the numbers of the first six months of the year. This is the customary table, as I always present during the quarters. So the first three columns is quarter over quarter, and then it is the year-to-date results from sales up to, and including, the adjusted EBITDA, and the bottom line, for completeness sake, the fully loaded EBITDA.

As the sub-header of the slide is already saying, similar to the past quarters, the year-over-year comparisons are somewhat skewed because of MediService, which is only consolidated since mid-May last year. So next quarter three will be the first apple-to-apple again. But actually, in the next two slides, I will actually try to make as clear as possible what the underlying development is, excluding this impact.

So to start at the top of this table, the sales were €420 million in the second quarter of last year, and we've increased them to €461 million this year. And after six months last year, €792 million, and we ended this year at precisely €1.121 billion. And that's an increase of €329 million in six months and a 41.5% growth.

As Olaf rightfully said already at the start, roughly half of that is coming from the full consolidation of MediService. But

stripping that one out, that is still remaining at 21% organic, fully organic growth of the total group. Then the gross margin and the expenses as percentage of sales are respectively significantly lower and significantly better. I will explain that on the next slide.

So let's go to the adjusted EBITDA margin, the line. 2.7% in Q2, bringing the year-to-date to 2.4% versus last year's 2.8%. And multiplying this margin with the significantly increased sales is leading to the adjusted EBITDA in absolute terms. And this stood after six months last year at a positive €22 million, and it increased this year with €5 million to a €positive 27 million.

And then finally, as you can also see at the bottom line, actually our fully loaded EBITDA did not increase with €5 million but with €10 million because we have significantly fewer adjustments this year than we had last year, because last year, there came an end to adjustments related to the acquisitions in 2021.

And with that, we go to the gross margin slide. I would like to start at the middle of the slide, the two bars there in the centre of the page. They show the decline in gross margin that we just saw in the table, from 26.5% last year to 23.4% now.

However, to the right of the slide, to have apples and apples, so excluding the mix impact of MediService this and last year, you can actually see that the gross profit margin was roughly stable, 28.1% versus 28%. And under the hood of this 28%, a lot of interesting things are happening, of course.

But in summary, to mention a couple of those developments, we achieved a continuous improvement of our purchasing conditions. We have several other positive impacts, like more platform sales and own brands and very good mix in our baskets. And it also enabled us to continue having very sharp prices for our customers, and also including more Rx sales.

Finally, the two bars on the right there is Q1, Q2. Actually, there could be seasonality there. They're the same, but this is just to show you what the normalised going-forward margin is, more or less, including MediService. So stable gross margins that was, and now we go to all the costs as a percentage of sales, so the SG&A as a percentage of sales.

Also here, to the middle. We see the improvement in the middle two bars of 2.7 percentage points, as we also saw in the table. We are benefiting there from the inclusion of MediService. If you go to the apple and apple, we have to

go to the right. And you see it's more or less the same versus last year. It's slightly increased with some 20 basis points, actually a number that we are really happy with at the moment, that we were able to achieve that.

Like in the whole economy, also outside our company, we have seen increases of minimum wage rates and general increases of wage rates, general inflation, but we really achieved significant efficiencies, which have virtually offset the impact, leading to a cost as a percentage of sales virtually the same as last year.

And besides offsetting the impacts that I talked already about, we also, of course, did this in Q1 and Q2, more marketing for Rx. But with the scale and all the efficiencies that we achieved, we were able to keep this stable.

A different slide than normally. Actually, I take the opportunity for a longer-term perspective here. It's the past ten quarters on a row, our growth and our margin development. So let's start at the bottom of the page with today's released numbers.

We recorded the eighth consecutive quarter of a positive adjusted EBITDA margin. But actually, it's also good to realise that the two EBITDA margins to the left were also as a result of our deliberate decisions back then to balance best growth and margins at that period. Because at the end, in the second half of 2021 and then what you see in the graph, the start of 2022, we deliberately decided actually to invest more to enter on the sweet spots of our marketing propositions.

So the bars there are showing the EBITDA margins. If you would have shown the EBITDA in euros, it would have gone up, as we have seen in the table. But actually, now having discussed the lower part, the key reason for showing this graph is actually the combination of the margins below and the upper graph lines, which represent our growth.

The black line might perhaps appear at first sight to be a rather dull, rather horizontal line, but actually, I find it a spectacular one, because it is showing that for ten consecutive quarters in a row, we are achieving for our total non-Rx business, which was last year around €1.5 billion, growth of double digits, between 15% and 25%.

And by the way, we could have gone back more than ten quarters. Then you would have seen the same. We have virtually always been growing double digits there. So the black line showing continuous growth of our non-Rx business.

And then the red line, that is the Rx business in Germany. And of course, we see there, from quarter one to quarter two, an increase from 7% to 37% in the last quarter, which was the average of the quarter. So the key of this slide is actually that our focus... If you can go back one slide, please, still. So our focus on fast growth is not giving us, and has never given us, any reason to not focus on our margin simultaneously.

The question is actually, could you grow that long and that fast if you wouldn't focus on optimising the product, the end-to-end processes and the customer proposition continuously? And also, the other way around, the focus on margin is in our case not coming at all at the cost of slower growth. We continued our fast growth, and actually, we've entered now the new era of eRx growth. And with that, I think I hand it over back to you, Olaf, before maybe...

Olaf Heinrich

I'll discuss the cash before you discuss. Okay, so you're welcome to. Or maybe then you take that part.

Jasper Eenhorst

Cash. Happy. No, I always want to round off with the cash. Because all the talk about adjusted EBITDA and everything, in the end, it's cash that counts. So the cash, we started the year with €204 million, and we stand at €231 million now.

The EBITDA cash is some €25 million positive, investments were some €17 million, and the very favourable working capital development is mainly the seasonal pattern, where we end a year, a calendar year, generally at an elevated working capital needs position. And with that, it's €231 million of cash at the end of June. Back to you, Olaf.

Olaf Heinrich

Thank you very much. So now we end with strategy, a strategy session. So I would like to give an update, if we can go to the next slide. To me, the header is already saying everything. That's the story. This is just the beginning of a new digital era.

Since generations, especially chronically ill patients, when it comes down to script business, they always had, let's say, a non-digital journey with their pharmacy whenever they were looking for pharmacy services. And now, with CardLink, it's the first time that the Rx process becomes fully digital. And we have received really great feedback from both existing customers but also new customers.

And now, it's really about us. It's about Redcare with all of, let's say, the value that this company presents. That is the people, the technology, the customer, the customers we already have. It's about us now to develop products and services to make use of this digital era. CardLink to us is just

the beginning, and we are really looking forward, entering into this digital era.

If we can go to the next slide, I think we also need to look into the redemption options. This slide, some you are familiar with, but as you can see on the right-hand side, we added a fifth channel. So because since June of this year, customers can also redeem their scripts via the apps of the insurance companies, so now we have five ways how you can redeem e-scripts.

What does this mean for Redcare customers? For Redcare customers, they can still place their orders directly with us. Directly with us means they can use our app, through the CardLink solution, and then place the order in our app. But they can also use a paper printout if they get a paper printout from the doctor or if they request a paper printout.

And then they can use our own channels, like our web or our app, where we have the scan functionality in that channel. And that is how they can do their shopping with us. And at the same time, they now have additional channels, like the gematik app or the insurance apps. So they can also find us in those apps, because by law, we are also listed in those channels.

The barriers to entry are different for the different redemption options. So if you look into the eGK plug-in, so the solution for brick-and-mortar and the CardLink solution, here you can simply use the German health care card without a PIN.

For the other channels, like the gematik app and insurance apps, you need the either digital ID or the eGK card plus a PIN. And we all know, the distribution of digital IDs and also eGK plus PIN remains very low in Germany. So overall, a lot of options for our customers to shop at Shop Apotheke.

If we go to the next slide, we would like to, one more time, explain how simply CardLink works. It is really as simple as paying by card. You simply open up our app, click on the CardLink button, and then you have to receive the SMS code, present the card. The smartphone is reading the card, and then all of the orders will show up in the basket.

It is really about, after, once you have done it one or two times, it only takes a couple of seconds from opening up the app, attaching the card, copying the SMS code into the system, and then you are in the process of simply ordering, like you have been doing this prior on non-Rx orders. So it takes a couple of seconds, very easy, and that is also the feedback we get from our customers. Once you have done

it, it is completely easy, and it is a great solution compared to non-digital solutions.

If we now go to the next slide, I would like to talk a little bit more about the product itself. Because to us, customer centricity has always been our major value proposition. And therefore, to us, it's important that we have a very competitive product in the market.

And I would like to point out some of the highlights of our product. So first of all, 24/7. So it sounds so easy, but what we have actually experienced is that a lot of customers are placing their order either on Saturday or on Sunday. So we saw the same kind of pattern in the non-Rx business in the past, but customers or patients are using the 24/7 also on the eRx business. So again, Saturday and also Sunday becoming strong days to collect orders, and it shows customers are using the 24/7.

Next thing is the real-time availability. I don't know if you are fully aware of the fact that especially if you are a chronically ill patient and you receive a script from the doctor and show up in the pharmacy, in a lot of cases, the product is not available. So you show up and the pharmacist tells you, sorry, right now, it's not available.

In our app, you can simply attach the card, use the scan functionality, and then we show you in real time if the product is available, and if the product is not available, how long it takes us to organise the product and then when we can send the product to you. So it's real-time, fully digital information, and that adds a huge value, especially if you are a chronically ill patient.

Next thing is the preferred medicine choice. The way it works in the German system is a doctor is prescribing a product or an ingredient, and then based on the contract your payer or your insurance company has set up, it might be as a portfolio approach or portfolio availability. So that means the payer is reimbursing maybe three different products, if we talk about a generic product. So then they offer from three different brands the choice.

And what you can do as the customer in our app, you can select on your own. So that means you are in control, you are empowered, and you can decide which brand you want to choose, and you can do this in real time. And then you also get the information, if there's a change in co-payment or not. So in total, we are really using the advantages of having a fully digital journey compared to having a not digital journey.

And the last thing I would like to point out is we are always talking about scan functionality and NFC. NFC has been around for quite a long time, but what we really have established here is that this product is not just an NFC scan functionality. It has an approval from gematik. It also has an approval in terms of data security from the BSI and the BfDI.

So this is not just a scan functionality. It follows the highest standards in terms of data security which are required from the regulator in Germany. So overall, it's really a great product, and it's a major step forward, especially for chronically ill patients.

If we go to the next slide, let's talk a little bit about the future potential. And I think what we should do is just to stay with the facts. What we can see here is, we just want to remind you of that, we are talking about a €55 billion market. So the Rx market in Germany is a €55 billion market. And we have increased our market share since January from 0.27% to 0.45% by the end of June.

So if you consider that June number as our run rate and calculate the 12-month sales level out of that, we would end up on €250 million compared to the €151 of 2023. So with the achievement on the market share, we already have a significantly higher sales level than we had prior to the launch of the CardLink solution.

If you add one percentage point of the market, that would lead to an additional €550 million in sales. And that shows you how significant this opportunity is and what just one percentage point market share can move in terms of sales level.

On a more strategic level, of course, I think it's fair to say that we cannot predict the future. Now, we certainly have to do the job to educate the customers, to communicate about the solution and to initiate change of behaviour. And we have done this in the past. When we talk about the non-Rx business, we have done this very successfully. And now, it's our job to also do this for the eRx.

But again, this journey only started a couple of weeks ago, so we have to see, going into the future, what's going to happen. And by having said this, I think we should move on in the agenda. And next one is outlook and guidance, and I would like to hand this over again to Jasper.

Jasper Eenhorst

Yes, thanks again. And though it is a repetition, actually, I'm very happy to be able to repeat our guidance for the current year. We still expect a growth of around 30% to 40%, which is total growth, including everything, ending up at sales of

around €2.3 to €2.5 billion for the total group.

Our current largest share of our sales is coming from non-Rx, and we expect that to continue to grow double digits, between 15% and 25%. MediService, part of our group as of last year, we expect to grow by mid-single digits and the total group adjusted EBITDA at a positive between 2% and 4%.

And actually, as Olaf just explained, great opportunity ahead of us. We're working on it every day and every hour. We're looking forward to it. We get energy from it. But it's clear that Rx is far too dynamic to give you guidance for the current year on what it precisely will be. Actually, that's the total guidance for the year. And with that, I think it's time for Q&A. And the first one is coming by phone, I think. Okay, I give it to you, Operator, please.

Operator

Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question.

If you are watching the webcast, you can click the question mark icon and type in your question in the text field. In the interests of time, please limit yourself to two questions only. Anyone who has a question may press star and one at this time. One moment for the first question, please. And the first question comes from CJ from HSBC. Please go ahead.

CJ

Yes, thanks for taking my questions. So first, could you help us understand a little bit the customer mix within the current Rx orders? So I'm trying to get a better understanding on how many more PKV versus GKV orders have been going through your system in the second quarter, just also to understand how the relative performance was to your closest peer. And if you could give us a little bit of colour on where your AOV within the current Rx order stands, that would also help. So I'll take that as one question.

And then the second question on the running quarter. I think you mentioned a couple of weeks ago that the exit rate was somewhere, for Rx, in the range of 80%. Can you just give us a little bit more colour on how July fared, given we are nearly done? Thank you very much.

Olaf Heinrich

Jasper, do you want to take it? Yes? Can you cover it? Yes.

Jasper Eenhorst

Yes. Thanks for that. Yes. PKV, GKV. So for the English speakers, private and publicly insured. All I can say there is

that I think the privately, that's at the moment not digital, so that's a stable development. And the growth is coming from the publicly insured, from the €50 million of the €55 billion market. So if things continue like that, if the future is as I think and most of us believe it will be, then the share of GKV, public, will significantly increase over PKV in our numbers.

The AOV of Rx, yes, we get a lot of questions on that, but I can be very simple on that. Yes, the Rx order is significantly higher than our OTC order is. It is double of that. And more precise, I don't want to give it that number. So a good, nice, large basket.

Yet, if 80% started to live their old life, I think it's important to stick to the facts there. So everything that has been stated, and that's important, I think, we realised in Q2 a 36.6% growth, around the 37%. That 37% is a growth that accelerated at the moment that we had put the product live that Olaf just explained.

That's the NFC solution and the attractive customer journey. That we put live in the mid of the quarter. So the 37% is, of course, the average of a lower start of the quarter and a higher end of the quarter. But what exactly the end is, it's undisclosed, what we are seeing there. But it is higher than the 37%.

Olaf Heinrich

I think it's fair to say we had 6% growth in Q1.

Jasper Eenhorst

Yes.

Olaf Heinrich

And there wasn't really a reason why that should change in April. So therefore, somebody can do a calculation, but we do not really give any more details into that one.

Jasper Eenhorst

Exactly, yes.

CJ

Okay, clear. Thank you.

Olaf Heinrich

Welcome.

Operator

And the next question comes from VB from Baader Bank. Please go ahead.

VB

Yes, this is VB, Baader Bank. Congratulations on the great results. I would have two questions, first, on your impressive customer trend. You're steadily winning new customers, as you showed us.

My question would be, do you also see that you already win new customers via the Rx offer? So are you able to win new customers via Rx products who never shopped at Shop Apotheke before? And how do you see the cross-selling potential? So if a customer buys for the first time an Rx

product, does he also put a non-Rx product on top to it to make the basket even larger? So your experience here would be my first question.

And the second question would be on the redemption options that you showed us on page 17. And thanks for these details. My question would be on the insurance app option. How does that process work, and how do you benefit from the insurer apps? So basically, how do you receive the e-script orders via the insurer apps? Thank you.

Olaf Heinrich

Do you want to take the first one?

Jasper Eenhorst

Yes, I'll do the first one.

Olaf Heinrich

And I take the second one? That all right?

Jasper Eenhorst

Yes.

Olaf Heinrich

Yes.

Jasper Eenhorst

Yes, VB, thanks. Yes, absolutely, we see new customers coming to us for the first time. I leave it only directional. So we have seen new customers who never shopped with Shop Apotheke Redcare before. We have seen converted OTC and BPC customers trying Rx for the first time. And we have seen paper Rx customers shifting to eRx.

I prefer to not further precise it. But if you see our number, that we achieved an increase in total of several hundred thousand of customers, 0.4 million, and that cannot be the magnitude that was where the needle of the new Rx customers moved it, because we did in the end only achieve €50 million of sales in the second quarter. Cross-selling potential, you do first, yes?

Olaf Heinrich

Yes, of course. So cross-selling potential? Of course, there is a cross-selling potential, and we see this already. So our customers who are ordering Rx are also ordering OTC with us. But of course, that is one part of our strategy, and I described earlier the product.

One of the core features of the product is that we have a one-click solution. That means the customer usually also, if you look into a brick-and-mortar situation, if your customer enters a pharmacy with a script, usually they also have a need for OTC and BPC. And of course, that is also what we try to foster in our app.

The second question on the redemption rate, I will give it a try, but it becomes a little bit more detailed, so please try to follow me on this one. So the one thing is, on the insurance app, and that's what I pointed out, it's not so easy for a customer to use the insurance app to redeem an e-script

because the authentication is either digital ID or eGK plus PIN. And the total number of digital IDs in Germany right now is at 1.3 million. You can see this in the gematik dashboard, and it's not really growing. So we're only talking about a small portion of the population.

But let's assume you have that digital ID or the eGK plus PIN, and then you access your insurance app, then within the insurance app, there is a section, it's called eRx, or I want to retrieve my script. And within this section, all of the pharmacies are listed, discriminatory-free. And the basis for that, the legal basis for that is the Digital Act or Digital-Gesetz, which passed in February of this year.

So that means all of the pharmacies are in that payer app. So that means if a customer from Redcare or Shop Apotheke wants to find us in that app, they can use the digital ID, enter the insurance app and then select us out of the list of all of the pharmacies which are listed. Again, by law, all of the pharmacies have to be listed. So that's the way it works. But that's only one part of the story.

The second part of the story is, as I always call it, something like a black hole or let's say a product which is not on the level of what we have in our app. Because what happens is the customer is then just saying, I want to select this one pharmacy, maybe the Redcare Pharmacy, and then we receive this as an order.

It's a digital order coming in, but the customer in the app of the insurance, in the insurance app, does not have the opportunity to use all of the other stuff I described earlier in the product. So there's no availability shown, no choice of preferred medicine or anything like this, payment option. All of that is not available in that app of the insurance company. We simply get an order which is forwarded into our order system. So therefore, the product itself is not on the level than it is if you shop with us on our app.

And that is a similar situation on the gematik app. And the gematik app also has... All of the pharmacies are listed. But again, you can only forward it into a pharmacy, without having all of the features I described earlier for our app. I hope that's understandable, because it really had to be in the details, but those are the differences on the redemption rate.

VB

Yes, thanks a lot. That was a good explanation and very helpful. Thanks a lot and all the best.

Operator

And the next question comes from JK from Deutsche Bank. Please go ahead.

JK Good morning and thanks for taking my questions. I would like to come back to the Rx growth rate. I understand that you don't want to speak about specific numbers for July, but could you confirm that you did not lose any market share in the German Rx market in July?

And then secondly, could you elaborate a bit on the sequential margin improvement for the group in Q2 and specifically for your International business? On the International business, is that purely a volume leverage, or have you shifted some of your marketing budget from International to the German Rx business?

Jasper Eenhorst Yes, we discussed this yesterday and today. We really said we only focus on the first six months. So JK, we cannot say anything on the Rx development later this year. It's just a few weeks out, and we are looking forward to Q3 and Q4, when we can give a new update. Yes?

Olaf Heinrich Yes, that we'll give you that then.

Jasper Eenhorst Then, thanks on the compliment on the margin developments there. No, International, in the end, it's a small word, but it's very important in our business model. In the end, it is scale that you're seeing there in International, why we are having better margins there.

Because actually, we are growing very fast, as Olaf presented already. We are actually gaining market share in our major countries there. We have market-leading positions already in our largest countries there. And that is leading, indeed, to a combination of growth and improving margins after you achieve a certain scale and market leadership.

JK Okay, great. Thank you.

Operator And the next question comes from OC from UBS. Please go ahead.

OC Yes, thanks. Morning again, Jasper. Good morning, Olaf. Two points I'd like to ask you about, ideally, the first on Rx, the second on profitability and cash flow. The first on Rx, I just wanted to understand a little bit better the starting point you are using for MediService.

When you talk about the mid-single-digit growth, obviously, there's some currency effect there. I think if I look at what you've done in Q1 and Q2, rather going towards a €480 million run rate for the full year, is that about where you see it land this year? That would be for MediService.

On Rx still, I was wondering also about the average basket. It's up 1.4% quarter on quarter. Could you qualitatively

- comment on whether your Rx basket is up higher than the 36.6% growth you showed in the quarter? And then, yes, maybe I'll take the cash flow and profitability separately.
- Olaf Heinrich Do you want to take this maybe on MediService?
- Jasper Eenhorst Yes, I... Yes.
- Olaf Heinrich And on the Rx, you might need to clarify the question.
- Jasper Eenhorst Yes. Oh, you also didn't get it fully.
- Olaf Heinrich Yes.
- Jasper Eenhorst Okay. Yes. On MediService, no, we don't have specific guidance there. There's also impact of Rx that you rightfully say can be positive, that can be negative. We gave relatively clear guidance there, because we said there is less seasonality in MediService than there is in our overall non-Rx business.
- As a company, last year, we did €370 million with MediService in seven and a half months. So €370 million dividing by seven and a half months times 12 is more or less giving the number of last year. And we say a mid-single-digit growth. And that's the number.
- And you asked, indeed, the question, if I can confirm what your exact outcome is there. But this is what it is, because it's also up to you what the exact number is of the mid-single-digit growth and what the FX is.
- On the Rx, there was something about the basket that I did not fully get your question, Olivier. Could you please repeat it?
- OC Yes, sure. So the average basket, Rx and non-Rx together, is up about 1.4% quarter on quarter. I see also obviously the eRx sales up 36% year on year. I'm just trying to understand if you can comment on the growth rate without giving a number on your Rx basket specifically.
- Jasper Eenhorst Okay, yes. Yes, mathematically, it has a positive impact. But still, it's only €50 million of the total €560 million, so it's a minor impact. The Rx basket is clearly much larger than our OTC basket, so it will have the impact. But actually, what you're seeing in the increasing basket, as Olaf presented, is actually that we are able, with our propositions across the group, to grow and not jeopardise our average basket value.
- So basically, it's more driven by the strength of our total business than our average basket. And yes, there will be some positive impact of Rx, but we expect it will be more in future, if Rx indeed is materialising the way we think it will.

- Yes.
- Olaf Heinrich Yes. And just to add to this, of course, the Rx baskets are significantly higher than the non-Rx baskets. So it's only a question of time to get to a different mix situation here. And then you will see the impact.
- OC Okay. And just a final one on the Rx side, so on the basket. So when I think about the 36% year-on-year growth, should I think that most of this is driven by the volumes of prescriptions you are getting or by the price aspect, due to your average basket in Rx being possibly higher than last year? That's what I was trying to get at.
- Jasper Eenhorst It's more than explained by volume.
- OC Okay, fair enough. And then, on profitability...
- Jasper Eenhorst One question, because there are more ...
- OC Yes. And on...
- Olaf Heinrich Yes. It is definitely not by basket. It's definitely not by basket. It's really by volume. So, yes.
- OC Yes. That makes sense. And then, on profitability and cash flow, I just wanted to make sure I get things right. So you're slightly below free cash flow levels shown last year. I think there's a working capital effect that was pretty significant last year as well. I think, from your comments, I'm gathering that you're expecting a normalisation of the working capital situation in the second half.
- Can you just talk a little bit about the sequential development beside this of free cash flow this year? And I also wanted to understand if you had any initial thoughts on the capital structure, given you've got a put on the convertible bond coming in January 2026. I just wanted to gather your thoughts there.
- Jasper Eenhorst Yes. Oh, yes, absolutely. Yes, no, Olivier, we don't have any guidance on the free cash flow. So it's the numbers as we reported it. Last year, we have proven that we have the ambition to be there neutral, and we had a slight positive free cash flow generation.
- Our business model is more or less the same, but we have quite detailed guidance on different levels still, just at EBITDA, for example, but we don't have guidance on the free cash flow for the current year. Having said that, we always continue also to focus on the working capital optimisation where possible. No guidance there. And then...
- OC Right.

Jasper Eenhorst

As to the capital structure that you say, yes, we have a convertible bond there. The convertible bond is not at a level that it's at this moment converting. So there could be a potential repayment. But we will update you at the moment when there are any developments there.

How we look at it now is that with all the capital that we raised in the past years, actually, we have been very careful with that capital. It has enabled us to absorb certain fluctuations that have brought us to the current level, with fast growth and solid margins. So that's where we stand. We just saw, actually, we're still north of 200 that we have in total, so we have a nice cash balance. But what we do with our total capital structure, we did not communicate anything on that at the moment.

OC

Okay, fine. And then final one, very final one, just qualitatively looking into the second half. There's obviously an increase in your growth rate in Rx that is assumed. If you had a choice between gaining market share, given you have somewhat of a first-mover advantage versus other players coming onto the market, and profitability, can you help us understand what you're thinking is here? Is there a minimum level of profitability you don't want to go below? Anything there would be helpful.

Olaf Heinrich

Maybe I can give it a try. So I like the question a lot, because I think that is one of the most relevant questions. And we are constantly exchanging about that question, especially in the board here. So there is no definite answer to that one right now. So again, we are looking into the situation, and if we have the feeling that it makes more sense to accelerate the growth, then we will do so, and if not, then we will not do so.

The good thing is, and that was what we were all trying to show in the Q2, we have control of our margins. So whatever we do on the marketing level, we know what we are doing. And the decision if to accelerate or not, that has not been taken right now. But of course, that is one of the main questions we have to answer.

OC

Okay, thanks.

Operator

And the next question comes from MH from Warburg Research. Please go ahead.

MH

Yes, hi. Good morning and thanks for taking my question. I would like to come back quickly on MediService. Yes, you have elaborated already, but if I'm not mistaken, you have stopped communicating the profitability of MediService. And in Q1, it was a little bit below what the original guidance was. And I was wondering whether you can comment on the

second quarter. Maybe you can give us just an indication whether it was contributing to the overall margin or diluting. That would be my first question.

And then just a minor point, but you mentioned that you are planning to open a new warehouse to deliver to the Austrian market. Can you give a little bit more detail on timing? And I suspect it's rather OpEx than CapEx, but maybe you can comment. Thanks.

Olaf Heinrich

Yes, okay.

Jasper Eenhorst

Yes, thanks, MH. I fully understand both of your questions, and also the MediService one. I always prefer to immediately answer, but I don't want to provide more details than we disclosed in our interim report and any financials. So MediService is part of the total group and part of our total margin there. So that's the maximum we disclose. It's part of DACH.

By the way, there is a direct and indirect MediService impact, of course, because MediService, the company, MediService, for example, if you go now to our redcare.ch website, you already see a lot more assortment, also specific Swiss assortment through our partnership with Galenica and with MediService.

Actually, we significantly expanded our proposition, our product, our product range that we have on our Swiss website, and that is benefiting our non-Rx growth that we have in the DACH segment for Switzerland, as part of. A lot of words and not giving an answer to your question, what it exactly is, but it is just not... We talk segments in total, and it's part of the DACH segment.

And then distribution, yes, thanks for noticing that. It's the first question we get in this call on it. Yes, indeed, perhaps it's a little bit like, and some of you know that, some two years ago, we decided for a dedicated distribution centre in the north of Italy. And one of the main reasons there is to deliver faster to our customers, to improve our proposition with faster delivery and getting happier customers, etc. And that was very successful in Italy.

And basically, you see that the Austrian market is also very important to us. We are doing the same over there, starting with it, having signed the necessary contracts there. And, okay, we don't give any timing there, but it's reasonable to assume that we aim for opening it somewhere next year. That is reasonable to assume.

As to the CapEx and OpEx, actually, you said it will be mainly OpEx. No, there will also be CapEx, because it is the

opening of a distribution centre, and we need the shelves and the other things that we have in there. But if you look at the trend of the past years, and you had a certain level there, there's not really, I think, in your DCF, to assume anything relevant there. We will spend a couple of million this year and next year for the opening of the distribution centre, and we're very happy with that. It's continuously improving. Yes.

MH

Thanks.

Jasper Eenhorst

Yes. Welcome, Michael.

Operator

And the next question comes from AN from MS. Please go ahead.

AN

Hi. Thanks for taking the question, Olaf and Jasper. Just two very quick ones from me. The first one is on the non-Rx guidance of 15% to 25% growth. Clearly, you've come in bang in the middle of this guidance range in the first half, and as you've shown in the slide deck, this range has tightened in the last year. So I guess at this stage, is there any motivation to not narrowing this range for the year, given the visibility you now have? And I guess, would you say the bottom end of this is probably less likely at this stage?

And then the second question is just a housekeeping one on the adjustments to EBITDA. What do the external project expenses relate to, and are you expecting a similar level for the second half? Thank you.

Olaf Heinrich

Yes, the project costs.

Jasper Eenhorst

Yes. Yes, that's correct. We have said when the projects are completed ...

Olaf Heinrich

Oh yes.

Jasper Eenhorst

Yes. Okay, thank you. Yes. Actually, yes, it is rather around the 20% of the past. Yes, but still, the opportunity in Europe is so large from the total pharmacy market, and we cannot impact everything there. And it's also reflective of the dynamics that we say, let us hit a certain range there still, from 15% to 25%.

And it makes us feel more comfortable giving that direction than a precise one. And if we would say it's 20%, and then we have 19.5%, they'd say, yes, it's below your guidance. It's between 15% and 25%. The numbers, of course, in absolute terms, they get each year rapidly much larger to be able to report this growth. So the stable around 20% is each year much more euros that we're adding there. But it's just not the market at the moment, any dynamics, that we would not get the range. Then the second one was...

AN The adjustments to EBITDA.

Jasper Eenhorst Yes, the adjustments to EBITDA. Yes. So basically, adjustments to EBITDA, I normally don't like adjustment to EBITDA, because just give me a total EBITDA. But we have a clear reason for it. And the reason is that actually, I want to get to the EBITDA which is the equivalent of cash to me. So that's why the major thing that we correct for actually is related to employee stock option programme, which is, from our perspective, a non-cash one.

But you talked about the other project-related external costs that we have. Yes. What's there is that if we have certain projects, for example, in the past we had M&A projects, and sometimes we completed the transaction and sometimes we did not and then we made external costs for those projects, then we had them also not in the operational result but in the adjustments.

And also, when we did the rebranding to Redcare, which was a major project, and in capacity expansion projects when sometimes there were things we could not capitalise, but we paid to an external party, so not internally costs, we also had them as a third column and always disclosed which product is concerned in the adjustments to EBITDA. It's not a relevant category to really impact your DCF. There's not a reason to assume that this will increase significantly, AN.

AN Okay. Thank you very much.

Jasper Eenhorst Yes. Thank you. Yes.

Operator Ladies and gentlemen, this concludes the Q&A session on the telephone. We will now switch to the written questions. Please wait one moment until we continue with the written questions. Please hold the line. The conference will continue shortly.

Olaf Heinrich Yes. So maybe we will try to answer the questions. So the first one, can everybody see the question?

Monica Ambrosi No.

Olaf Heinrich No. Can you read it out, Monica?

Monica Ambrosi Sure. The question we had is from Muller's Invest, JM. How many e-prescriptions did you redeem with the CardLink solution? Amount, not revenue.

Olaf Heinrich Oh, this is a nice question. But actually, very sorry, we do not want to give the details on the different channels. But what we can say, and which is obvious, is that the majority of the, let's say, eRx order is coming in, the vast majority, via the CardLink solution.

But of course, as I pointed out earlier, we still have also other channels. We have the printout. And so therefore, some customers are even sending in their QR code, so the e-script, via post. So we still receive some letters in the morning, and we open them up, and there are e-scripts in it. Then again, some customers are placing via using the QR code, and the vast majority is on the CardLink solution. So then there, we have another question. Would you like to read that one out?

Monica Ambrosi

Yes. CC asks, what sort of eRx are coming in? Are there many prescriptions of patients with chronic diseases?

Olaf Heinrich

Yes, I think this we can clearly answer. Most of the prescriptions which are coming in are from chronically ill patients. The entire model is about really plannable medications. So that means customers are happy to wait one day for their medicines. So most of our Rx customers are chronically ill patients. Nevertheless, we also have acute patients, but the majority clearly is on the chronic.

Monica Ambrosi

Then we have a question from YS. He has technical issues, so he's asking, could you talk about the slight decline of the NPS? Is this driven by the introduction of CardLink and customers getting used to this?

Jasper Eenhorst

Yes, I hear the hypothesis there, but let us just explain it. To me, really the key point, Yannick, and thanks, by the way, because it's really important in our model to focus on this, but to us internally, it is rounding. When it was 72, we also didn't say it's much more than 70. But at 86, 96, 77... So there is not a real explanation that we have there in total. Actually, we were really happy that we were again around 70. That's the key message.

Olaf Heinrich

Yes. Maybe to add to that, of course, we are tracking also by customer type. Then, what we pointed, we are also tracking the NPS by customer type, so let's say if you're a non-Rx customer or an Rx customer or an eRx customer, using QR code, using CardLink. So we have those numbers. We are following up on those numbers.

But the overall message, and that's also the goal, we have very happy customers also on the eRx. So it's not the case that eRx is driving it significantly down. It is just in the range of what we consider as being a great NPS.

Jasper Eenhorst

Yes. So this is a nice question, I have to say, here. I see somebody is asking, in the first half, in this year, probably, 270 local pharmacies apparently closed, representing lost sales, and we only got a small part of that. But is there any comments just in general you want to give on this

- development?
- Olaf Heinrich Yes, maybe... Yes.
- Jasper Eenhorst Because we look at it slightly differently.
- Olaf Heinrich Yes. Monica, again, would you like to read the question out so that everybody has full understanding of the question?
- Monica Ambrosi Yes. In the first half of the year, 270 local pharmacies in Germany closed, with at least €500 million Rx sales revenue to redistribute. So only €13 million landed in your company. That's 2.6%. Isn't it a step back?
- Olaf Heinrich Well, I like the question a lot, but maybe the answer is a little bit broader to that. Look, the number of pharmacies in Germany is coming down. It had been, just a couple of years ago, 20,000, and it's now 17,000 and still declining. And at the same time, and that is probably also the background of the question, the number of scripts being issued by doctors stays the same.
- But even with the 17,000 pharmacies, or roughly 17,000 pharmacies we are having today, the proximity for a customer to reach out to a brick-and-mortar pharmacy hasn't almost changed at all. So there's a good distribution of the brick-and-mortar network, so that means there is no reason to only use the online channel.
- Going forward, we think that we will be part of the healthcare system in a way that if the number of pharmacies comes down further and the proximity from a doctor's office to a pharmacy becomes larger, then we can play a vital role in making sure that there's access to healthcare and to a pharmacy. And that is the role of the online world. But right now, there is still a very high number of brick-and-mortar pharmacies out there.
- I think our job, and that's what we were trying to explain earlier, is really it's now about the digital journey. So we have to educate and convince customers to really use the digital-only way. And that will take some time. And of course, if we see the number of pharmacies going down further, then we will also participate from that. I hope that answers the question a little bit.
- Operator Ladies and gentlemen, this was the last question. I would now like to turn the conference back over to Olaf Heinrich, CEO, for any closing remarks.
- Olaf Heinrich Yes. Well, thank you very much for all of your questions. Jasper, we really enjoyed it.
- Jasper Eenhorst Yes.

Olaf Heinrich

Very detailed questions, also close to the business model. So it's always great having these sessions with you. And right now, it's a great time for this company, very exciting, and we are really looking forward to trying to give you all the updates you were asking for, questions on July and things like this. We will try to give you the updates then in the Q3 call. So please keep on following us and joining us then in the Q3 call. Thank you very much.