Redcare Pharmacy N.V.

Earnings Release Presentation Q2/2023

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Transcript

Speakers:

Jasper Eenhorst

Monica Ambrosi

Jasper Eenhorst

Good morning, everybody. Welcome from Sevenum, the Netherlands. It's 11 o'clock local time here and Monica Ambrosi and myself are very happy to be able to share with you today's numbers we'll present. It will be followed by a Q&A session, as always.

Today is 1 August. It's also the first official working day from Olaf Heinrich, the new CEO. As of upcoming quarter three, Olaf and myself will host the presentation together. Today, very happy that Monica is here again, just like the past quarter.

Presenting from here, indeed, the agenda is straightforward. It's the same structure as always, starting with the financial performance of quarter two and with that of the first half of 2023, an update on business strategy and then our outlook for the future financial performance and the H1 2023 financial highlights.

Continued fast growth. Perhaps that's a little bit a soft cycle because actually our growth was 46% in quarter two and with that 34% over the first six months of this year compared to last year.

If you look to an apple-and-apple comparison excluding MediService that's included in the numbers as of the mid of May, everything is still beyond 20%. The growth in Q2 was 25% and with that the first half of the year 24%.

Non-Rx growth KPI for Redcare Pharmacy actually accelerated for the already above 20% growth in the first quarter to 27% in the second quarter and it's standing at 25% increase year over year, fully organic, without any acquisitions after six months.

The driver of the increase is loyalty of our existing customers, but at the same time also an ever-increasing base of active customers. We as the company, founded in 2001, we're very happy with the milestone that we've achieved in the second quarter of more than 10 million active customers.

We gained this year alone over the first six months 0.8 million customers. Compared to the second quarter of last year, the increase was 1.5 million active customers and we ended at an exact number of 10.1 at the end of June.

Equally important, the Net Promoter Score, an indicator of customer satisfaction that we track carefully, was at a high and was even above 70.

While we are growing as Shop Apotheke really fast and continue to grow double digit and perhaps even increased our momentum, bullet number four is equally important. Major year over year EBITDA improvement.

We ended Q2 at 3.2%, which was year over year, and more on that later, an increase of 5.3 percentage points, and we ended the first half of the year at 2.8, which was a year-over-year increase of 4.6%.

For us, it's important also if you look at what, for example, DACH is reporting at the moment. Even if you exclude MediService in both quarter one and quarter two, the DACH adjusted EBITDA margin, while growing 25% organically, and so a fast growth, was already between 5 and 6%.

Everything that we report today is for us a proof of our longer-term and mid-term guidance of an adjusted EBITDA in excess of 6%. Our strategy execution with fast growth, happy customers and an adjusted EBITDA margin in the mid- to longer-term in excess of 8%, that is exactly what we are executing.

MediService is included since middle May. We expect the full-year impact this year or for the seven and a half months of around 300 million and an EBITDA margin between 2 and 3%. The exact numbers for H1 were 60 million and both a net profit and an EBITDA of 1 million.

The second to last highlight on this slide is the cash inflow of 64 million. Of course, a major contributor is the positive EBITDA, the adjusted EBITDA that we achieved.

We also have the 29 million one-off related to the transaction with Galenica. There was also a part where you can see there was favourable timing and also some seasonality as to working capital movements, which might also most likely reverse in the second half of the year.

With the results of the first half of the year and our estimate of what the second half of the year will bring, we were able to raise our guidance. Non-Rx up from 10 to 20% to a growth of 20 to 30% and adjusted EBITDA margin raised to a range of a positive 1.5 to 3%. Later more on the total guidance.

Here again it's a little bit of repetition, so I tried to add some different colour here. Our fast sales growth continues. Over the six months, an increase of 33.8% for the total company. So, 33.8% over the six months, 46% in the second quarter and non-Rx, fully organic had a growth for the total group of 24.9%.

Non-RX in DACH increased with 25.5% and in international, everything that we report, it moderates the increase of 23.3%. In international, it's the average where you saw that in Q1 our growth was 18%. We accelerated that to 28%, bringing it for the first half to 23%.

Last thing for me to mention here is that Rx in DACH more than doubled and this was mainly driven by the inclusion of MediService.

But how did we achieve this from sales, Monica?

Monica Ambrosi

Thank you, Jasper. Indeed, as you mentioned in the highlights, the strong increase in some of our non-financial KPIs, including Net Promoter Score and the active customer base, supported these strong results.

We see that the active customer base increased by a constant 0.4 million for the past three quarters, taking us to an active customer base of 10.1 million by the end of June, which is an increase of 1.5 million over the same period last year. Over that period, the increase was seen across all of our countries.

In terms of the measure of customer satisfaction, the Net Promoter Score, as you've already said, it's been at a high level of at or above 70 in the past quarter, and also in the first half of the year it was at 71.

In fact, anything that is 60 or above when we talk about Net Promoter Score is extremely strong and a really strong indicator of very happy and satisfied customers. The fact that for the past six quarters we have consistently been above 70 should speak for itself as to the strength of that.

Then looking at the average shopping basket value. As in the first quarter, in the second quarter there was an increase in the average of around £1 compared to the same period last year.

Moving on to the total number of orders that were received and processed during the second quarter, it was again at a very high level of 7.1 million. Quite an increase over the same period of last year, which was 5.8 million. We again are seeing a continuation of this upward trend in this KPI.

If we look at the share of repeat orders within the total, again at a high of 84% for the third consecutive quarter. Again, it underlines how very loyal customers that are extremely happy are supporting the strong results of the group.

Over to you, Jasper.

Jasper Eenhorst

Thank you, great. Here are all the numbers from sales, up to and including the adjusted EBITDA, and for reference and transparency sake, also for reference the fully loaded EBITDA at the bottom.

The header of this slide is Effectiveness, Efficiency, Loyalty and Scale, and that is recurring through the significant year-over-year achievement in improvements.

I'm very happy that we included for the first time as of the mid of May also the sales and the total contribution of MediService into the numbers.

Please note that because of MediService, the unit economics, which are prescription drug sales, so specialty Rx sales with an attractive, high average, price average order value that you see that mathematically the gross profit is very attractive in euros, it's as a percentage of sales below our average gross profit, but the inverse you see at the selling and other expenses as a percentage of sales.

So, impact on lowering the total group gross profit margin, but at the same time also lowering the expenses as a percentage of sales.

Actually, the impact on the adjusted EBITDA margin is negligible because the current performance of MediService and the adjusted EBITDA margin of the Redcare Pharmacy businesses is roughly in the same ballpark, so the adjusted EBITDA margin having virtually no impact at the moment.

Sales. In the quarter from 287 million last year, an increase to 420 million this year, 46% up. In the first half of the year, we increased exactly with 200 million from 592 to 792, an increase of 34%.

The adjusted EBITDA margin increased at the same time in the second quarter from a -2.1% fully loaded adjusted EBITDA last year to a positive 3.4% this year. Later in the bridges we dive a little bit deeper on the details. An increase of more than five percentage points.

With already a strong quarter one, the total six months together with quarter two is leading to a change from last year, -1.8, to a positive 2.8 this year, and that's up 4.6 percentage points.

Multiplying the sales and the margin is bringing us to the adjusted EBITDA. Really noteworthy is that last year Q2 our adjusted EBITDA was -6. This year it's +13. That's an increase in one quarter year over year of 90 million while continuing to grow really fast. And in the first half of the year from -10 last year to a positive 20 million gives a 32 million increase.

In reference to the fully loaded EBITDA, you actually see that the year-over-year increase is even more than from the adjusted EBITDA. That's the fact that our adjustments have rapidly declined compared to last year, mainly related to business acquisitions we did in 2021.

With that, please go to the, thank you, to the gross profit margin bridge. The underlying gross profit margin, I'm referring there to the fact that we want to show the apple-to-apple comparison, so first excluding MediService. Over the first six months 2022, our gross profit margin last year stood at 27.2 and we've achieved an increase of in total 0.9 to 28.1.

This increase of 0.9 is basically the effect of an increased gross profit margin and that's thanks to the hard work of our category management, our purchasing, our analytics, controlling, IT departments that all cooperated in improving the average margin and the total proposition to our customers with the most relevant and successful assortment.

Total increase to 28.1. Including MediService, it's 26.5. The increase, if you go to the right side of the slide of the apple-to-apple comparison of the gross profit margin in Q2 was 0.7, from 27.8 to 28.5.

On this slide, this is selling and distribution expenses as a percentage of sales. Last year after six months it was 25.7% and on an apple-to-apple base it improved year over year with in total 3.5 percentage points to 22.2.

Three blocks are important here. Of course, it's clear that marketing as a percentage of sales is lower. I'm not saying marketing is lower, but as a percentage of sales. Please remember that last year we were also pushing really for returning to even faster sales growth and this year we achieved a lot of sales growth.

Equally important and making us very proud are the second and the third building block that you're seeing here. Because despite the fact that we are in an inflationary environment for labour and also for energy cost over the past years, you can see that the total of shipping and packaging was virtually equal to last year as a percentage of sales and actually increased 0.1 percentage points.

You see that several initiatives and developments have worked together there. For example, you see that we worked together with last-mile service providers on pre-sorting the orders before we ship them to them. You also see the benefits of us growing and the scale that we are achieving being successful across Europe.

Also, what Monica already said, the average basket value increase of the euro is helping to improve the numbers on this slide.

Operational labour, same story. It's reflective of an increased efficiency that we have been able to achieve in our logistics distribution centres. All in all, an apple-to-apple increase of 3.5% at this point. If you include MediService, it's even 1.4% better, ending after six months at 20.8%. The 3.5% over the first six months is an increase in the second quarter of 4.3 percentage points, what you see at the right side.

There was a lot of margins. If you then go to the cash flow slide, please. We started the year on 1 January with 180 million of cash and cash equivalents. That's in the definition our cash, but it's also including short-term fixed deposits, for example, so the other financial assets.

We started with 180 million and we ended at 244 at the end of June. Building block number one of the four, the adjusted EBITDA of 22 million is resulting in a 90 million inflow of operating results over the first six months.

Then a very positive working capital development of 58. But please note that the end of June was the favourable timing as to the payables position that we had both at the MediService and at the core of our Shop Apotheke. A part of this will most likely reverse in the second half of the year, but underlying developments also of working capital are developing strongly in line with the past two years.

Investments in total 35 million. Of that, 18 million is really the IT and our regular investments that we have been doing as Redcare across our operations. The remainder, or to be exact, 23 million is related to the one-off of the acquisition of MediService.

Financing, actually a positive number of 22 million. There are, of course, the lease payments. The interest payments are included there. It's a positive number because there are some non-recurring plus of 20 million related to shares issued in relation to the transaction with Galenica for MediService.

I repeat with what I started. We started the year with 180 million. We are standing now at above 240 million of cash and cash equivalents.

Switching from the finance to the general business strategy update. Our highlights over the first six months. In quarter one already we were promoted by MSCI to an AAA rating for our sustainability.

We already stood at an AA as Shop Apotheke, but in quarter one we were awarded with a AAA, which is the highest category that MSCI is applying and with that we are according to their standards in the top four in our industry globally. In the top four as to sustainability, social and governance.

Also in this first half of the year, we rebranded Redcare Pharmacy after almost 20 years of Shop Apotheke to Redcare Pharmacy on the corporate level.

We started a strategic partnership with Galenica, reflected in the joint venture that we are having with MediService in Switzerland. We announced this transaction in March and after the approval of the competition authorities, we were able to close the deal as of mid-May. Later a bit more on that.

Also in the first half of the year, Stefan Feltens ended his period of four years as CEO of Shop Apotheke and we are happy that today is, as I said already, actually the first official working day of Olaf Heinrich as the new Redcare Pharmacy CEO.

Also here, reflective of our valuation, we were promoted to the MDAX. And then very important, the last bullet point, a bit more on that later. In June and also a bit more in July, but on 22 June all the shareholders of Gematik, they announced the full support of making e-Rx the standard in Germany.

On 22 June they said now that there is the health card solution, we will support the doctors, the pharmacies where needed with the aim to have e-Rx available for everybody in Germany before the end of the year to be ready for the expected mandatory use of e-scripts by the start of 2024.

Monica.

Monica Ambrosi

Thanks again, Jasper. Starting off with the change of the new name and the corporate brand in the second quarter. At the beginning of the quarter at the AGM this change was approved and then it was successfully executed during the remainder of the quarter.

The official launch of Redcare Pharmacy occurred on 13 June when at the Frankfort Stock Exchange, where we are listed, the ticket symbol changed to RDC to reflect our new name. This was also marked by a bell-ringing ceremony on the day.

At the same time, our new corporate website was launched and this website not only reflects the new name, but also the new brand identity and logo.

Then also a highlight of June, simultaneously, on 19 June, to be precise, we were again promoted to the MDAX family of indices following the higher valuation of Redcare Pharmacy.

Just to remind everybody about why the new name, why the new brand. It's because we feel that it is a better reflection of who we are and what we do.

It is also a reflection of our vision that we are guided by on a daily basis as a pharmacy, which is until every human has their health. To make this vision more concrete, our role as the one-stop pharmacy is to guide people through their health.

Now, we also want to reflect this focus that we have on care in our local brands, in our local shops, which is why from the beginning of September, starting with Germany and Austria, the existing shops will receive a new brand identity.

But, of course, the names will remain the same, so shopapotheke.com will remain the same, but they will now better reflect the new brand identity with the new logo and colouring that you are seeing already, also in today's presentation.

Jasper, you want to get back to e-Rx?

Jasper Eenhorst

Looking forward to that and that's further improvement to our existing shops that's already happening very soon. Thanks a lot for that.

Then this slide, it's showing this factual situation of e-Rx in Germany. The low points that you see there have to do with complications there. That's not really relevant there.

What I wanted to point towards, but I saw in some analysts reports this morning also, is as of 1 July, which is totally to the right of this graph, when the health card solution was introduced, you saw that the average of around 8,000 e-scripts submitted in total Germany increased, despite the fact that also holidays started in Germany, to around 13 or 14,000 already.

A very significant increase of the usage of e-Rx, but of course, it's only scratching the surface of the total opportunity that's there in Germany.

But it's a promising step in the right direction. It's also a clear reflection of the actions that have been taken by both the Ministry of Health also in a draft law and by the Gematik, which I alluded to already before. Nice increase. More to be expected most certainly in the second half of the year.

MediService included in the numbers, as I said already, to remind you also here for the rationale of the view. We are so happy with the deal that we are with a strong partner of Galenica now able to work together with MediService, who we are really seeing as having a loyal base of Rx customers, being experts on what we name specialty Rx, and combining that with our expertise of being a pure e-commerce pharmacy player should lead to an even increase in proposition for our Swiss customers specifically. Really nice and we're getting started there in the corporation in all kinds of aspects already.

To be clear on the numbers, 300 million this year. That's for seven and a half months. Even if you don't assume virtually any growth, next year there will be a 450 million on the full-year base included in our numbers and with an adjusted EBITDA margin at the moment between 2 and 3%.

Very nice. One of the first things you could notice already is that at shopapotheke.ch, but MediService now, you see an increased assortment of Swiss-specific products.

If you go to the outlook and the guidance. It was already in our press release this morning and at the start of the presentation, but to make things clear and put it in total perspective.

We as a company, we believe in the great opportunity of an online pharmacy in Europe in the non-Rx part and in the Rx part.

We also say that in our business, we're stating that for years we have a mid to low return adjusted EBITDA margin guidance of in excess of 8%. That is unchanged, unchanged from recent developments, unchanged from the inclusion of MediService. That's the point where we are working towards.

In the current year we increased our guidance for non-Rx, which was last year 90% of our total sales, so everything Rx, non-Rx, to grow this year between 20 and 30%, quite much up from the 10 to 20% that we had as a challenge at the start of the year.

With that, total net sales of Shop Apotheke would enter between 1.7 and 1.8 billion in 2023 and the adjusted EBITDA margin, already at the start of the year we had the ambition for the first time in the history of the company to achieve a positive adjusted EBITDA since the listing. We are increasing that now to a low point of 1.5 and a higher point of 3%, so between 1.5 and 3% of sales.

The free cash flow we left unchanged between -20 and +20 million. Of course, compared to the start of the year, we will get more free cash flow because of MediService. We will get more free cash flow because of our higher sales and our increased margin. But at the same time because the free cash flow definition is including, in our case, working capital fluctuations.

At the exact timing we didn't want to limit ourselves in executing and creating the most value for all the stakeholders as to working capital and we want to be able to also in October, November, December, if needed, that we do what's best for the company in total.

That could be at a certain timing as to an event because of the dynamic situation of the market and sometimes expected increases of prices, that it can be interesting to, for example, also seeing the fast growth and being prepared for quarter one, to build of some eventualities as a certain scenario.

Yes, free cash flow is looking better than it looked at the start of the year, but we kept our guidance here because we don't want to give up our flexibility to do what we think is best to do for the value creation of the company.

With that update of the guidance, we have come to the end of the presentation and we are ready to take first questions, please.

Operator: Ladies and gentlemen, at this time we begin the question-and-answer session. Please follow the registration on the webcast page to receive dial-in numbers.

Anyone who wishes to ask a question may press star followed by one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star followed by two.

In the interest of time, please limit yourself to two questions only. If you are using speaker equipment today, please lift the handset before making your selections.

Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question comes from AT from Jefferies. Please go ahead.

AT: Hi, Monica and Jasper. I hope you can hear me.

Jasper Eenhorst: Yes, clearly.

AT: Perfect. I would like to take my questions one by one. The first one is, it's very good to see that your efficiency and scale play out across all metrics. Could you talk a bit more about your future operating leverage that you see in the business for OTC and Rx?

Jasper Eenhorst

It's often used as a jargon that the companies aim for scale or etc., advantages of scale. But in our language, this is to us very concrete. It basically is that our fixed costs increase significantly less than our sales are increasing. That's what we always expect and have been seeing over the past years also, and now with the good sales development increasingly so.

So, scale is very clear. There are all kinds of costs and whether it's marketing related or it's head office related, that will scale when you achieve fast sales growth. That's there.

In efficiency, there are several things, but what I would like to point out is that our two distribution centres are really running very well at the moment. Robust quality, quick delivery to the customers and also resulting in a very good number of units per hour. That's a clear one.

Apart from that, there's also in all kinds of other areas where we try to, while staying as a company as flexible as possible, to adopt our propositions as much as possible if that's needed. We try to also keep simple our operations, keep centralised what can be centralised. If it's needed, we localise, but by keeping things simple and centralised, you also achieve efficiencies.

Sometimes for that you have to make some investments, which we did over the past years, and now we are reaping the benefits from that. And more to be expected in line with our guidance in the coming years. It will never be a straight line, but the direction where we're going is as clear as it has always been.

AT

That's understood. My second question is on your gross margin bridge that you show on page ten. Just from my understanding, the 28.1% is excluding MediService. So, is it calculated excluding the 60 million sales so we can calculate basically the joint venture gross margin? Also, what is your expectations for the gross margin for the full year with the full six months' contribution of MediService? Thank you.

Jasper Eenhorst

First, I can confirm it's exactly what you're saying. The 28.1% is the core business of Shop Apotheke and that's the year-over-year increase of, I say it now by heart, 0.9% I think that we had there.

Then the other one as to what the impact on the gross profits, but the same question is, of course, what the percentage of sales is. I can there, AT, only refer to the fact that you see in the second quarter on the same slide, on slide ten, you see what the impact of MediService was. That was for one and a half months.

One and a half months of the three months of the second quarter you see what the impact there was. I leave it up to you, please, to extrapolate what the impact then can be, but it depends on how fast the other parts of us are growing, how fast they are growing. But that's an indication of what the impact is also going forward.

AT — That's understood. Maybe a last one on the free cash flow. I understand that you didn't change the guidance and you gave the reason for that. But could you comment on the working capital needs for MediService? Do you also expect some kind of inventory backup in the fourth quarter?

Jasper Eenhorst — I'm inclined towards saying we never comment on the individual operations, but in this case I can only comment that I think there is less of seasonality at MediService than we are seeing in our own B-to-C business.

Because it's more related to chronically ill patients that's more stable over the year, except for holiday periods. Each month there is a slight peak at the start of the month, but not like what we traditionally pre-COVID used to see in some of our major markets with the cold and flu season as more in the first quarter of the year, what you are referring to, and we need inventories that at the end of quarter four.

I think directionally you should expect less or not at all that seasonality for the MediService business.

AT — Thank you.

Jasper Eenhorst — Thank you, AT.

Operator — The next question comes from AN from Morgan Stanley. Please go ahead.

AN — Good morning, Jasper. Thanks for taking the question. The first one is just on the complaint you filed with the EU Commission with your peer against the use of eGK. How successful do you think you can be in this court appeal given your mixed success with regulators in the past and what were you hoping is the ideal outcome here?

My second question is related to the question around profitability over the midterm. Do you have any updated thoughts around this over 8% margin expectations? I think you previously mentioned that the MediService business should maintain a lower margin versus the core in spite of

	the good unit economics.
	The 8% would imply your ex MediService could deliver upwards of 10% EBITDA margin over the midterm. Is this the right way to think about it or do you think you can improve MediService profitability over time as well? Thank you.
Jasper Eenhorst	Thanks for a relevant question. Thank you. The second one, yes, I can confirm that's exactly how you look at it. The only thing I can add there, it's a little bit mathematical what we're doing now talking about the MediService impact. Because, actually, from the MediService Corporation we also will have an improved shop.ch performance and overall the cross-fertilisation.
	There could be a quite different margin profile of MediService going forward. But apart from that, what you are stating, that we will compensate the lower than 8% margin in the core of MediService, that would be correct, A.
	With that, to the first one, the complaint. Here Monica I will also take this one. It's in the basis very simple. It is the core principal in the German relevant law that there is the free choice of the end patient, the consumer, the German people to select the pharmacy of their choice.
	Now there is a new methodology in addition to the already existing paper printout of QR codes of the Gematik app, and that's the health cards. That's also possible to use as a patient in Germany.
	But technical experts say it's not at all difficult to also use these cards easily with your smartphone and order online, order online to a physical pharmacy if you don't have to go through the pharmacy first before and you can only pick it up, or to an online pharmacy.
	That last part is, however, at the moment not included. At the moment it's only that you have to walk with your card to the pharmacy in order to get your prescriptions. Method number one and number two stay in place. But we basically say this is not the best solution for the people in Germany.
	You also want to open up the health card solution for easy ordering online and that now the online method is discriminated versus the physical method with the cards. That's what we emphasised in asking for an adjustment of that in the respective law.
AN	Great, thank you.
Operator	The next question comes from B from Baader Bank. Please go ahead.

B | Hello. I'm B, thanks for taking my questions, from Baader Bank. Congratulations with all the impressive results.

I would also like to ask two questions and start with a gross profit follow-up. Thanks for building the bridge here in your presentation. A more general question. What would you say is the data of the Rx product gross margin than the non-Rx product gross margin?

Or in other words, which impact should we calculate on the gross margin given that the Rx share should increase going forward? A bit more your thoughts on that would be helpful. Thank you.

The second question is on the private labels. Redcare is now the new name of the group. That is also the umbrella name of your private label assortment. I know this is still very tiny.

However, what sales contribution comes from private label and what is the potential would you expect to come from private label? I think this comes also with interesting gross margins, but more to hear from you would be helpful. Thank you.

Jasper Eenhorst | Thank you. The line was not very clear, so is the first one the impact of Rx on the gross profit margin? Is that the core of your question?

B | Yes, basically.

Jasper Eenhorst | Rx and OTC have a quite different profile in unit economics. If you summarise it and make it simple, generally with Rx you earn more euros for euro cents, bottom line. Rx is having attractive unit economics.

But because of the relatively high value of Rx, gross profit margin as a percentage of sales is generally somewhat lower than OTC is. But at the same time, your expenses will also be leveraged by the higher sales. That's basically what it is.

If there is a significant increase of Rx, it will mathematically lead to a lower gross profit margin as a percentage of sales in our total numbers. It will also improve our expenses as a percentage of sales. That's what it is.

Also internally, and you must do that, if you want to make a scenario of our future, you always have to take those three into account and then the growth of Rx and the growth of non-Rx, and then the sum of the two is what the total company is looking like. But it is how it is.

Monica Ambrosi | And the second part of the question I think was related to

Redcare and our private label.

Jasper Eenhorst: Oh, yes. Thanks for that. Indeed. By the way, we have four private labels, nu3, Beavita, Skintist and Redcare. Redcare is really a core private label for the core of our proposition as a pharmacy.

I think if you want to be a very successful retailer that we are totally confident that besides the very strong A, B and C brands that we are having and that we are known for, it's also important to have a strong own brand. We have a lot of sense for our own brands and it is successful already. But I think in the future there's much more to be expected also in that area.

It's an end situation and having the choice for everybody, but also all those people that trust us, that they have for certain products, a nice, own brand alternative as a Redcare product.

B: And sales contribution and percentage of group sales to what you sell under the private label?

Jasper Eenhorst: Generally, own brands are having a clearly above average gross profit margin.

B: Thank you and I apologise for the bad line. Sorry. Thank you.

Jasper Eenhorst: It's fine. Thank you for the questions.

Operator: The next question comes from CS from Hauck Aufhäuser Investment Banking. Please go ahead.

CS: Good morning. Also from my side, congrats with the fantastic results this morning. Just one question left from my side and this is on marketing.

The marketing ratio improved by almost 300 basis points year over year in the first half. My question would be, how much of this is really driven by the relative weakness of your competitors and should we expect a sequential increase in marketing cost again in the second half?

Then a second question on this topic. What would you say, how aggressive are you already in promoting the e-Rx at the moment and should we expect another rebound in marketing spending also going forward in 2024 when the e-Rx is going to be mandatory? Thank you.

Jasper Eenhorst: Thank you. I think in looking at the year-over-year improvement, you could also say perhaps we are at a more normalised level now compared to the situation where we were pushing last year in marketing. That's also explaining.

I think it's reflective of the strength of our customer base and reflective of the strength of our propositions that we're having that you're seeing improvements there. There's also momentum on the market.

I don't comment, and I hope you understand, on competitive developments. I can only tell you that we have double digit growth in each of our seven countries. We improved our margins and also marketing as a percentage of sales I would say by heart also in each of the seven countries, but at least in our main markets for sure.

If it would have had any impact on total level of Shop Apotheke, that's not even that relevant. This will also not impact or change in the second half of the year, but still we look at it is always what is the best thing to do.

It could very well be that in October or November we increase marketing, we decrease, etc. What is key to understand is we did not reduce our marketing. Our marketing as a percentage of sales improved.

On promoting e-Rx, that's too much forward-looking for me. It depends too much on the scenario and we have all kinds of scenarios that could take place. Does the end consumer understand? Is the government informing? Do we need to inform?

It's all kind of possibilities that I would say we are already so marketing driven as a company and specialised there that it will largely also be a shift of our current marketing instead of an add-on.

I think the building of trust for non-Rx customers and the loyalty that we have seen and the return rates, as Monica talked about, they are actually all also let's say nice starting points for when there is a possibility to finally easily also order the prescription medications in a way that is nice for the patients in Germany.

CS — Thank you very much. All the best.

Jasper Eenhorst — Thank you, CS.

Operator — The next question comes from OC from Credit Suisse. Please go ahead.

OC — Good morning, Jasper and Monica. I have a couple of questions on profitability, please. You've given us the new EBITDA guide for this year.

Firstly, it would be just for giving the integration of many stories to get the building blocks or how you think about building blocks of that guidance. Where should we expect gross margin, S&D and admin as a percentage of sales? Would you be comfortable with around 26%, a bit of 21, a bit of 3% would be the first one?

Jasper Eenhorst: It is clear, we want to have the flexibility there and that's too much in the details also for us to disclose. We are giving topline and EBITDA guidance and even free cash flow guidance as a company, but what we do in between we don't give guidance on.

OC: Fair enough. Then I just wanted to follow-up, but similar question, to be honest, but maybe you can add a bit of colour there on maybe an updated answer on the building blocks of your long-term guidance now with MediService. Would you be comfortable quantifying anything on gross margin, S&D, admin or not at all?

Jasper Eenhorst: I think that is too much for today's call, but it's also not that difficult and I've shared with also other colleagues at the company on many occasions.

But I think perhaps that that answer to your question is if you already look at what... At the moment 80% of our sales are coming from DACH. DACH is growing over 25% on an organic base, so very much growth investments we are having in DACH at the moment still.

Now already we are operating there in an adjusted EBITDA margin between 5 and 6% and I would say that should give quite a lot of comfort about the mid- to longer-term guidance. I think that's really the best answer, I would say.

Also, if you look at our international segment where our growth accelerated to 28%, last year it was a -10% adjusted EBITDA margin in Q2. It's now a -5%. So, it was halving there, so you see the same thing happening there.

What are the building blocks? The building blocks are the same as what we achieved now year over year. It's across the entire P&L where you will both see the need to select the most effective investments that you're making, focus on efficiency, on a good gross profit margin and efficient use of your costs and skill and loyalty.

OC: That makes sense. Then just a last one on how you're thinking about the phasing of e-scripts this year. There's been a couple of questions on this.

But your EBITDA guidance implies you have some wiggle room in terms of marketing investments in H2, so I'm just wondering if you think we should expect those rather concentrated in Q4 or already in Q3?

Jasper Eenhorst: Monica, I'll also take this question. It's again a financial

	question. In answering your question, we are not aware in Q1 or Q2 that there were any significant negative or positive non-recurring elements there. The result that we report in Q1 and Q2 is the result as it is.
	What we are now doing is that we are significantly upgrading our guidance with a low point of 0.5 up to a low point of 1.5. There is, as you can see in the number, flexibility.
	Perhaps we need flexibility to better execute. Perhaps there's something happening on the markets that we need... It's a dynamic market still. The overall world is dynamic and that should be looked at in the range that we are giving for the second half of the year.
	The key point is we increased our expectations for the year. It's a clearly positive number and we want some room just to reflect the dynamics of our business and also keeping the flexibility if we need any flexibility. But it's not that we are aware of certain cost increases that will for sure bring the current margin down.
Operator	The next question comes from JK from Deutsche Bank. Please go ahead.
JK	Hi, Jasper. Hi, Monica. Thanks for taking my questions. My first question is on your DACH segment. What were the biggest contributors to the strong sales performance in this segment in Q2? Was it a further increase in the online penetration, further market share gain or a normalisation of the allergy business following subdued demand in recent years?
	In relation to this, my second question is on your new non-Rx guidance. What gives you the confidence that you can keep the strong sales momentum in H2 given that your coms [?] are getting tougher, at least in the flu business?
	Then finally, on your underlying gross profit, you mentioned that your underlying margin benefited from 120 basis points due to a more favourable product margin. Does this include any price increases from your side?
Jasper Eenhorst	Thank you. Not only DACH. It is DACH and international, which is in our case the Netherlands, Belgium, France and Italy. In all seven countries we were growing, answering your first question, significantly north of 20% in the second quarter.
	I think you can only achieve growth and the overall P&L numbers as we did if you're not only focused on new customers, which rightfully you emphasised also, Monica, but if you also keep your existing customers really satisfied

and hope that they will show great loyalty. It's a sort of momentum in DACH that's looking peculiar and it's across the countries in DACH that we are seeing there.

As to market share numbers, I prefer to not comment on that because there are no official numbers, though there are some indications what the total market is, which would lead to certain conclusions, but it's still, it's no factual information for me.

I can only look at our own numbers and in our own numbers we are seeing that we are continuing to increase our base of active customers in Germany, that the customers are very satisfied and that we have a great share of loyalty.

That's what I'm seeing in our numbers and that's also actually making the bridge to your second question. What is giving us the confidence? Well, it's exactly that.

It's the way how we look at what the customer behaviour is, how their reactions are to our proposition and to our marketing that we are applying. We try to then make the scenario of the second half of the year and including that estimate, we felt comfortable about the raise of the full-year guidance.

Or in other words, to make it more simple, we don't see any slow down at the moment or any one-off events like there was a big allergy season. But I don't know, that was at least not the driver for our performance there. It was overall.

As to the product margin, can you please remind me what the question was, the third one?

JK: Yes, sure. You mentioned that your underlying gross profit margin...

Jasper Eenhorst: Oh, yes. There's a lot we can comment on that. If I'm reading in the newspapers or with some more specialised press what the inflation, for example, in the supermarket division has been, I can only share with you, that inflation level we have not seen.

Not at the purchase prices and not at our retail prices. Our inflation over the past two years has been significantly smaller. It's single digit. It's low single digit, in the lower half of the single digits directionally in total.

Of course, we have increased some prices if the purchase price was increasing, but in each country we optimise what is the best at that moment. But the driver of our improved performance has nothing to do with increasing just the prices because we increase prices. That is not the driver, no.

JK — Great, thank you.

Operator — The next question comes from SS from Kepler Cheuvreux. Please go ahead.

SS — Hello, Monica. Hello, Jasper. Just one follow-up question. Hello. Just one follow-up question on the appeal you filed.

Did I understand that from your answer correctly that you stated that there are technical experts who suggest it would be easily implementable for online pharmacies to have access via the electronic health card? Did I understand that correctly?

Jasper Eenhorst — The core of the consensus is that we now say with method number one and method number two you can clearly choose whatever pharmacy you want to go to as a consumer, as a customer, as a patient in Germany. That's clear.

Now there is a third methodology and that is the health cards. With the health cards it is not made possible that you can also easy order online. You have to walk to a pharmacy with that.

What I understood from the experts, we cannot do that alone because that is of course the technical infrastructure that is by the government and by the Gematik. That is not the most challenging and rocket science part to also make that possible.

Technically it is possible, but I cannot tell you how much effort that will be or not. It is not like this is not possible because technically it's not possible.

It's at the moment something that is not in scope and we think together with some other industry leaders, we think, taking the perspective this is not what is in line with the law where there should be free choice for the end patient in Germany to select whatever pharmacy they want to go to, whether it's off- or online.

SS — Thank you.

Operator — The next question comes from CJ from HSBC. Please go ahead.

CJ — Thanks for taking my question. A quick one on e-Rx. I assume you would not want to comment on how many scripts you have processed in Germany. I'm just curious if you can say, for example, in July or in the recent weeks if your own trends are similar to the moving average you have shown on whatever chart, 19, if this is possible as far as this is concerned.

Jasper Eenhorst	You were implying that already by the way you were asking your question there. I really cannot. I don't want to answer on that, CJ.
CJ	All right. Thank you.
Jasper Eenhorst	Thank you.
Operator	In the interest of time, we have to stop the Q&A session and I hand back to Jasper Eenhorst.
Jasper Eenhorst	Thank you all very much. Thank you, Monica. Thank you for all the listeners for your questions. Again, I repeat how happy we are to be able to report on behalf of the entire company, Redcare Pharmacy, today's numbers for you. Thanks a lot for your very high interest for Redcare Pharmacy. With that, I would like to close and looking forward to staying in touch with all of you. Have a nice day. Thank you.