Shop Apotheke

Full Year 2022

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Transcript

Speakers:

Stefan Feltens

Jasper Eenhorst

Stefan Feltens

A warm welcome to all of you. Jasper and I would like to welcome you again to our earnings release call, right here from our headquarters in Sevenum. Before jumping into the content of our presentation, I would like to say a few words about yesterday's announcement regarding my retirement from Shop Apotheke, following the upcoming annual general meeting at the end of April. The last four-and-a-half years with Shop Apotheke have really been the highlight of my professional career. It has been a real privilege to serve this unique company, to work together with a great management team, but also to interact with many of you.

It has also been a privilege to be able to witness and, within my means, to contribute to the tremendous growth of Shop Apotheke over the last few years. Looking forward, there's really no doubt in my mind that Shop Apotheke will continue on its growth trajectory and that it will deliver on its promises, as well as its potential. By the way, only one individual out of the team of five is leaving, so the other four will continue to drive the business, will ensure the continuity of our management team. And three of the remaining four members of the management team, Theresa, Stefan and Marc, have been with the company for over 20 years.

While this is not the last day of my time at Shop Apotheke, but it's certainly the last earnings release call that I can do together with Jasper. So, it's also an opportunity for me to say thank you to all of you, for your support over the last four years. For all your questions, sometimes they were tough questions that we had to deal with, but also, thank you for all the personal interactions over the last couple of years.

Switching to the focus and the content of this call, especially since this is my last call, I'm very happy to be able to present the results of 2022, a year that was from our vantage point, clearly a success for Shop Apotheke. We delivered again both components of our guidance. We strengthened our competitive position in the market place and without stealing too much, Jasper, of your thunder, I think you're also going to appreciate the guidance that at the end of our call Jasper will share with you, the guidance for the current year. The agenda, we're going to start with looking back at 2022, how did Shop Apotheke perform, then I will provide you with a brief update on some of the strategy milestones we achieved last year. And then Jasper is going to conclude, before we open the microphones to your questions, with the outlook and the guidance for 2023.

Let's have a quick look at our numbers. We, as the management team of Shop Apotheke, are really proud of what we achieved last year and we consider 2022 a success for Shop Apotheke. We met our top line guidance, we met our bottom line guidance, we generated sales of €1.2 billion. This consists of a non-RX growth of 17% and a total growth of 14%. With the double-digit growth last year, we demonstrated, we reinforced that Shop Apotheke could and did grow double-digit before corona, we could and we did grow double-digit during corona, and we could and we did grow double-digit after corona. Of course, our ambition is that this is not the last year with double-digit growth for Shop Apotheke.

Our active customer base grew by 18% to 9.3 million active customers. The main driver behind our customer growth and also our sales growth is the high satisfaction of Shop Apotheke's customers with the services we provide. Our NPS, our net promoter score, was above 70 across 2022. Our strong top line performance was accompanied by notable, sizeable improvement of our profitability throughout 2022. For the full year we generated an adjusted EBITDA margin for the business as of March last year, to be precise, this is before the impact of the acquisition of First A. Which since then has been renamed as GoPuls because this acquisition was concluded after we had communicated the guidance, so minus 0.3% adjusted EBITDA margin across 2022. In the second half of the year we showed an adjusted EBITDA margin of plus 0.9%, after minus 1.5% in the first six months of last year.

We also achieved a couple of strategic milestones that we had set out for ourselves, but more about this in a moment. Last September we, as a company and as a management team, we reinforced Shop Apotheke's commitment to sustainable development, by joining thousands of progressive companies around the globe with our statement that we want to become net zero by 2040. I know 2040 is a long way to go, but we are right now in the process of defining our concrete and measurable milestones for the coming years.

Looking back at 2022, I hope that you join me in concluding that 2022 was indeed a successful year for Shop Apotheke and 2022 positioned us very well for the current year, 2023.

Let's have a brief look, more precisely with how we did against the guidance that Jasper had provided exactly a year ago. In the upper half of the chart, you see our sales growth and our EBITDA margin, exactly as reported in our annual report. The dark blue bars, they show our total sales growth. You see that we grew every single quarter, but I want to highlight two quarters. In Q1 you see a growth of, quote/unquote, only 7%. This has to be seen against the backdrop of Q1 2021. You've been following Shop Apotheke for quite some time, you'll remember the RX bonus ban in Germany came into effect in December 2020, but hadn't yet fully impacted our RX business in Q1 last year. There's a base effect, therefore, only 7% growth in the Q1. The reverse is a little bit true for Q3. Q3 2021 we were capacity constrained. Of course this had a detrimental impact on our sales levels as a result of this, together with our underlying year-over-year growth, we could show here a total sales growth of 20%.

You're also seeing on this chart the significant improvement of our profitability from the first half of the year to the second half of the year. At the bottom of the chart you see exactly the scope of the guidance that we had provided a year ago. Here the sales growth, the dark blue bar, show our non-RX sales growth. We grew at least 15% in every single quarter. Across the year we showed a sales growth of a solid 17% in our non-RX business against the guidance of 15 to 25%, so we're solidly within our guidance range. And the light blue bar shows our adjusted EBITDA margin without the bottom line effect of GoPuls. Also here you see a very significant improvement from the first half of the year to the second half of the year, across the year an adjusted EBITDA margin of minus 0.3%, so very close to the EBITDA breakeven point. Also this in line with the guidance, we had guided towards an adjusted EBITDA from between 1.5% to plus 1.5% of sales. Again, Shop Apotheke met its guidance in both of its components.

Looking at the two reporting segments, the DACH segment and the International segment. Starting with the DACH segment, we posted sales of €940 million, so with the DACH region we're approaching the €1 billion mark. Our total sales grew by 11% in the DACH region, our non-RX sales grew by 15% in the international segment, consisting of Belgium, of France, of Italy, and the Netherlands. Sales grew by 24% and totalled more than a quarter of a billion euros last year in our International segment.

Before I hand over to Jasper, three of our KPIs. I already talked about the number of our active customers grew from 7.9 million at the end of 21 to 9.3 million at the end of last year. It's only now a question of the time, when in 2023 we're going to reach and surpass the 10 million active customer mark. A reminder for you, I know most of you know this, an active customer has placed at least one order during the preceding 12 months. Our net promoter score here, to be precise, across the year, at 72. We set a new all-time high with our customer satisfaction last year. Not all e-commerce companies and not all online pharmacies publish their NPS, but I would be very surprised if we had such a ranking, if Shop Apotheke were not right among the top performers.

Our average basket value, or the AOV, came down a bit from 21, it was €61 per basket in 21, to around €58. The only driver was the faster growth of our non-RX business and our non-RX business comes along with a slightly lower average order value than our RX business. Jasper, let’s have a look at the numbers.

Jasper Eenhorst

Stefan, thank you very much, and I'm happy to do so. Good morning to everybody on the call joining us again today. This is the customary slide with the number of orders in thousands per quarter. You see that in quarter four 2020 we achieved around 4.4 million orders in 2020, the fourth quarter. We increased that a year later to 5.5 million and this year we have set in the most recent quarter, the past quarter four, a new record of 6.3 million orders processed in one quarter. Looking back at 2020, which was the peak of the COVID year, you basically see that the increase of 4.4 million orders in the fourth quarter to 6.3 now is an increase over the peak year in corona of 43%, 43% more orders.

Also on this slide you see that actually each year, there is customary seasonality, where we set new records in the first quarter. Then we have the seasonally lower second and third quarter, and then we set it again in quarter four, and then the history repeats itself at new quarters aimed for in the next quarter. Last year, as Stefan already showed clearly and also explained, in 2021 the quarter three was somewhat lower when we were capacity constrained, but we recovered quickly from that last quarter.

If you look at the last bar with the 6.3 million orders that we did, something that makes us very confident is that fact that of the 6.3 million orders, 84% of orders came from returning customers to Shop Apotheke. If you add up the four columns of 2022, then you get to in total 23 million orders that we processed the past year. So, what numbers did we achieve with that, what financial numbers?

Here you see the adjusted numbers for the ongoing business. In the fourth quarter of 2021 we achieved 288 million of sales and we had an adjusted EBIT of minus 10 million, which was an EBITDA margin of minus 3.5%. This year in the fourth quarter, we increased our sales by 13.8% to 328 million and our EBIT was a positive 3 million, or 0.8% of sales, so a year-over-year improvement from quarter four over the quarter four the year before, of 430 basis points. The main driver of it was an improvement by 320 basis points, it was profit margin, but also, there was a very significant improvement in the selling and distribution efficiency of 170 basis points. A slight offset was in admin expenses because, of course, we need the right people and the right teams to achieve those impressive results, but actually, there were also some non-recurring negatives in the 3.5% admin in Q4 2022. That’s the picture year-over-year.

If we then go to the fourth column, then the improvement from the first half of the year to quarter four of 230 basis points, actually was in part coming from the gross profit margin, but the main driver was increased efficiency and scale in selling and distribution cost as a percentage of sales. The last two columns, before I go to the next slide. In 2021 we achieved 1,060 million of sales and we had an adjusted EBITDA margin of minus 0.5. It seems to be a slight improvement to 2022, going from minus 0.5 to minus 0.3% of sales. But I think, Stefan, as you already showed very clearly in your graph, this is a very different picture from the first six months of 2022, to the big improvement over two percentage points driven by efficiency to the second half of 2022.

If you then go to the next slide, on the gross profit margin, the improvement from 25.2% year-over-year to 27.5%. Drivers of the gross profit margin, and I think it's the 12th consecutive quarter that we're able to report this, were improved sourcing conditions. The number two is the network pricing promotions and assortment. Number three is also mix and then other is some structural improvement, namely the first positive impact from our market place sales. But the major impact of the 1.1 improvement actually is a non-repeat of some negatives we have in 2021, related to the corona assortment. All in all, a solid 27.5. You also see that there is some improvement from the first half of the year to quarter four, namely 0.7%.

But, as we will see on the next slide, the major improvement from the first six months to the second six month of 2022 is an improvement, a decrease, as you see on the right-hand, of 210 basis points from the efficiency of our selling and distribution and marketing expenses as a percentage of sales. In this case, the bridge from the cost, which is a deterioration of 22.6% to 24.5%, is a little bit of an apple and an orange because the marketing was also including the effect that we reduced our marketing last year summer, when we were somewhat capacity constrained. Also, there was a bit more tailwind of corona in the year 2021. That's about marketing, but that's the full-year picture in quarter four, this looks much better.

Shipping and packaging, minus 0.6, this is all mix. This is mix for the fact that we deliver higher services to our customers at the moment. More last-mile options with NOW!, for example, and also some mix between the countries on an underlying basis, also here, we were able to actually offset the inflation that we have been seeing by better terms and more efficiency. Content is actually the operating lever where we were flat, or 0.1% improvement, where we absorbing some underlying wage inflation and we were absorbing the opening of a new distribution centre in Italy, and year-over-year achieving a slightly improved cost as a percentage of sales. And other, there's actually not something interesting to mention.

If you go to the next one, we ended the year 2022 and started the year 2023 with a very solid cash base, 180 million. If you look on the balance sheet, you will see that between 80 and 100 million of this is in the other financial assets because that's money that we put for a better return on fixed deposits. But if you add what we name cash and cash equivalents, it's 180 million. We had the operating result negative last year, mainly because of the first six months. Then there were some variances in working capital. We had a high level of investments in 2022, like we had in 2021. We picked and executed our strategy in our CapEx in 2021 and 2022 because we successfully added the capacity that we wanted for our strategy and we have put a couple of very important IT projects, it's the marketplace, it's the NOW!, it's structural robustness to be ready for E-RX and for our volume ambitions in the IT landscape. We have done that and, with that, we ended the year with 180 million of cash. Stefan, that's a good moment to hand it back to you.

Stefan Feltens: I think we should keep in mind on the pervious chart, the free cash flow last year was minus 89.

Jasper Eenhorst: Minus 89, yes. If you add them up, minus 89, we might come back to that.

Stefan Feltens: More on that later. Over the next couple of minutes, before Jasper walks you through the guidance for the year, I want to briskly walk you through a couple of our strategy milestones that we achieved last year. We saw another increase of our customer satisfaction level, meaning another increase of our NPS versus prior year. We went live with our first distribution facility outside of the Netherlands, of course I'm referring to the facility near Milan. We increased, we saw a significant improvement of operational productivity here at our main site in Sevenum. We successfully launched our marketplaces in Germany, as well as in Austria. On a continuous basis we're adding partner merchants, but also and more importantly, products. With the aim to offer eventually a very broad range of healthcare and beauty related products to our growing customer base. We delivered against our sustainability commitment and, as we mentioned before, we re-enforced this commitment by joining the net zero community. Lastly, Germany is continuing to make progress towards the nation-wide introduction of electronic prescriptions, but more about this in a moment.

I already highlighted that our NPS last year was 72, this compares to 68 a year before. The single most important driver of our customer satisfaction is the time that it takes us from the customer placing an order until this order arrives at the customer's home. Especially last year, it was a focus for us to work with our logistics service provider, to analyse the whole journey and to identify opportunity to shorten delivery times. We succeeded in shortening delivery times. Rest assured, we're monitoring this closely and rigorously. In addition, we offered additional delivery options through our partner pharmacy, through the Shop Apotheke NOW! programme in Germany, but also in Austria. Then, of course, we added the 30 minute delivery option through the acquisition of GoPuls in the metropolitan areas of Germany. Needless to say, with the opening of our facility in Italy, delivery times to our customers in Italy came down significantly and this, from one day to another, had a significant favourable impact on our NPS.

The share of our orders that is placed by returning, by existing customers is around four-fifths, but that also means that still around 20% of our orders, and this is exactly within our target range, are placed by new customers. So, Shop Apotheke is confuting to gain new customers, of course that is critical for growing the business.

Lastly, just looking at our website, or in this case, particularly at shopapotheke.com, our website in Germany, shopapotheke.com was the number one healthcare website in Germany. Not just the number one online pharmacy website in Germany, this is something, quite frankly, you've come to expect from us, but the number one healthcare related website in Germany in 2022. Capacity wise, we are very well positioned for the growth this year and for the growth in the next two years. Our main facility here in Sevenum, systems and processes are really running smoothly.

Our KPIs are all moving in the right direction and we're moving from one all-time high in terms of the customer orders we process in a single day, we're moving from one record to another record. It's now happening with a certain regularity, that we process more than 100,000 customer orders a day. As mentioned before, we opened our new facility in Milan. Of course, the facility in Milan has, with very limited additional investment, the capacity to handle a multitude of our current business in Italy. We mentioned to you in the past that, going forward, Italy is likely to be a growth driver for Shop Apotheke.

When we started our sustainable development programme at Shop Apotheke a few years ago, at the end of 2019, at the beginning of 2020, we set the goal for ourselves to reduce our Scope 1 and Scope 2 carbon emissions by the end of 2025 by 8%. I think we've conveyed this before to you, you've heard this, we actually achieved this already by the end of September 2022, so more than three years ahead of schedule.

At the same time, we want to be transparent, the vast majority of our carbon emissions are not Scope 1 and Scope 2, they are Scope 3 and there is still a lot of work that we need to do. At this point in time we have started a couple of pilot programmes with some large manufacturers, along the whole value chain, end to end, to assess the current level of carbon emissions. To fully understand what drives the carbon emissions and eventually, of course, to reduce the carbon emissions. We are committed to decarbonising our business and, just to reinforce this, to underline this, we joined the community of thousands of progressive companies around the globe, with our net zero commitment. We're aiming for this by 2040. I know that's a long way, some of us are not going to be with Shop Apotheke anymore at this point in time, but we are right now in the process of specifying what does this mean in 23, in 24, in 2025.

A couple of weeks ago MSCI informed us that we maintained our AA ESG rating, in a couple of subcategories we actually made some progress. At the same time, we know that there's still more work that needs to be done on our side, to be considered for a AAA rating.

Where do we stand with e-prescriptions in Germany? Let me start by saying e-prescriptions in Germany simply work. As of today, more than 1.3 million e-prescriptions have been issued by physicians, dispensed by pharmacies and reimbursed by statutory health insurers in Germany. We, as Shop Apotheke, are literally receiving the e-prescriptions every single day. We mentioned this to you before, our systems, our processes are working and, at no surprise to you, we cannot wait to get started with e-prescriptions nationwide in Germany in earnest. We are assuming a significant increase in the number of e-prescriptions in the second half of this year, together with the launch of the option to redeem electronic prescriptions through the electronic health card or, as it's known in Germany, the eGK.

Of course we, as Shop Apotheke, are fully aware that the eGK option doesn't necessarily work for online pharmacies. But at the same time, the other two options, to submit the e-prescription QR code to the pharmacy of your choice, hopefully Shop Apotheke, via the e-prescription Gematik app, or via the paper printout, are also available, will be available. And of course, through these two options we, as an online pharmacy, as an e-pharmacy, will be able to partake in the e-prescription opportunity. It is still our assumption that, certainly after the nationwide introduction launch of e-prescriptions, that especially the paper printout is going to play a very, very big role and is very convenient. You take the paper, the paper contains the QR code. You take a picture with your smartphone and you send it to the pharmacy of your choice. At this point in time, looking at the nationwide adoption of e-prescriptions across Germany, it is our assumption, also with the most recent statements in the German press, that we're going to see a nationwide mandate for e-prescriptions in 2024.

Enough said about last year and about our strategy milestones, let's look at the guidance.

Jasper Eenhorst

Thank you, let's look forward, indeed. Let me start with the first of the two guidance slides, which is a reiteration of our mid- to long-term guidance of the adjusted EBITDA margin. This unchanged, we still expect an adjusted EBITDA margin in excess of 8%. Actually, you see that we consistently report positive adjusted EBITDA margins each quarter in our DACH segment, but also there we see ample room to improve. Let me quickly address the drivers on the gross profit margin, whether it is the sourcing or the optimisation of promotions, new assortment or own brands, we see room for improvement there and we are working on that consistently, and gradually you will see the impact there.

Media income, it's of course reflective of the strong positions we have in most of our countries, with high traffic of the leading websites in a very valuable market with valuable customers. Marketing as a percentage of sales will certainly come down on a structural base over the coming years, just already allowing for the effect of achieving scale. Operational and overhead efficiencies, particularly in the international segment, going to a next level of scale. In the international segment, which is in our case the Netherlands, Belgium, France and Italy, you actually see that we are doing exactly what we have done successfully in DACH already. And the only thing we need to get also there positive and continue to grow fast, is to scale in order to leverage our total business model there.

On top of that, e-prescriptions for most in Germany, but also in the mid to longer term, we wouldn't be surprised if developments on RX will take place in one of our other countries, though there is nothing on the short-term agenda there. Then, why we have a guidance not of an adjusted EBITDA of 8%, but in excess of 8%, is the fact that if our marketplace and platform continue to increase as fast and good as they are doing at the moment, they could be a substantial contributor to our bottom line adjusted EBITDA margin.

Let's go more to the near future, the coming months, the full year 2023. Before I talk about the details, though they are relatively clear, I would say let me first take the big picture. The big picture is that we expect to continue on our many years' track record of organically driven double-digit growth of our business. But, in addition to that in 2023, we want to do this at a positive adjusted EBITDA margin level. And, in addition to that, with the black zero on the free cash flow level. That's the big picture. We will continue to grow fast, but we will achieve positive margins. We give this guidance excluding the impact of a potential surge, so a very fast increase of E-RX. The record of E-RX that we receive each day is included here, but the not-unlikely scenario that perhaps there will be more of an increase in the second half of the year 2023, that will come on top of the guidance that we are providing to you here today.

To start with the first bullet, we expect to continue to grow everything. But our non-RX business, which is at the moment more than 90% of our total business and last year was 1.1 billion, we expect to continue to grow that between 10 and 20%. This is of course reflective of each of our seven countries' ongoing shift of customer preference from off- to online and our successful propositions in those countries. So, a continuation of our double-digit growth. But for the year, and you mentioned the number already, Stefan, in 2022 we had a free cash flow of minus 89 million, for next year we aim for zero, with a range of minus 20 to plus 20 million. And the range is there reflective, just the same as the EBITDA margin range, whether we will have some headwind or some tailwind during the year. Also, flexibility to manoeuvre, but our aim is of course the mid-point.

The driver of achieving free cash flow next year, there are three elements. It's the EBITDA, it's working capital, it's investments. But the year-over-year major contributor is the adjusted EBITDA margin, which is our third guidance here. It's the total Shop Apotheke and not growing concern, ongoing operations, it's total Shop Apotheke adjusted EBITDA margin in the range of a positive 0.5 to 2.5%. And we're going to achieve, we aim for those EBITDA margin improvements as a continuation of what we achieved already in the second half of 2022, driven by not only a better sales performance and better gross margin, but also by significant efficiencies and scale in our selling and distribution expenses as a percentage of sales. So, this is it for the year 2023. It's now time to go to the questions, Operator.

Operator: Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question, may press star followed by one on their telephone keypad. 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. As a reminder, if you have a question please press star and one at this time. One moment for the first question, please. First question is from the line of AT with Jefferies. Please go ahead.

AT: Hi, Stefan and Jasper. I hope you can hear me. Good to see you again with strong results, sadly for the last time in your combination. Thank you very much, Stefan, I have two quick questions and I would like to take them one by one. The first one is on your free cash flow breakeven guidance. Could you give us some input on some moving parts? First, on your gross margin profit level, which increased heavily over the last three years, do you see this level of around 28% as achievable also in 23? And on your operating cash flow seasonality, is it fair to assume that we see the same tailwinds like last year, i.e. a strong Q1 followed by a weaker Q2? Lastly, on the … sector, your maintenance CapEx guidance for 23 and also on the adjustment on the EBITDA level, if you could give us a total number as a guidance, that would be great. Thank you.

Jasper Eenhorst

Those financial questions, I will take, A. Hey, good to talk to you again. The main driver of getting from 2022 free cash flow to the black zero in 2023, is the EBITDA improvement. The improvement will not only be in the gross profit margin, but also in the gross profit margin we aim for. We want to keep some flexibility in which elements, but we internally basically say we want to achieve scale and efficiencies in each of our P&L lines, but you will most certainly also see them in selling and distribution as a percentage of sales.

To your CapEx, we don't give guidance for that. The reason for that is that we say we want to have several ways to roam, in this case to the positive or black zero free cash flow, and we want to have some flexibility there. But as I also mentioned during the presentation, the level of investments you have seen in 21 and 22 are part of those investments we successfully completed, so the level will be significantly lower. And let me give some more concreteness there, we really think that CapEx as a percentage of sales is going to be 3% or below 3% in 2023 of our total sales. That's our CapEx, not really guidance, but that's our expectation for the CapEx, below 3% of net sales in 2023 is a likely scenario.

The adjustments to the EBITDA, you asked for the absolute amount of adjustments. It came significantly down, so improved a lot from 2021 to 2022. It was at 33 million negative in 2021 and by 21.6%, so 22 million, in 2022. It's very likely because of the reduced impact of IFRS 3 business combinations or the non-applicability of that, that it will come down further. Just to be clear again, taking this opportunity, we adjust for this EBIT because the elements that are in the adjustments, 95% are non-cash accounting entries. The adjusted EBITDA is very close to the cash EBITDA and that's the reason why we adjust for that. We are very conservative on that, it's only for your stock options, it's IFRS 3 non-applicability, and there's a little bit of external costs related to projects.

AT

Thank you, very clear. Lastly, on the eGK topic, we have seen some news flow regarding a new scan function directly from the doctor's terminal and a potential online eGK solution with double authentication and e-ID. Could you comment on this further … that seem to be very convenient for patients? Could you also comment on the current competitive environment that you see in German and cross-border because the current trading

	supporting the web and app traffic that we see looked quite positive from our side? Thank you.
Stefan Feltens	A, on the eGK, especially on the scan solution, that is something that is driven by the E-Rezept Enthusiasten by the E-RX enthusiasts and through there, which is an association of people that believe in the digitalisation of the healthcare system in Germany. We know that there are tests ongoing at this point in time. There was in the press recently some statement from the Health Ministry about this, but it's too early to say if and when this is going to come. If there's an opportunity for us to support this and to help, of course we'll do this. The way we understand it, it would be a fully digital solution to transmit your e-prescription to the pharmacy of your choice. We need to keep in mind, the eGK option is not the ideal option because it requires the physical presence of the eGK, of the electronic health card, in a local pharmacy. If the product, for example, is not available in the pharmacy, the patient has to come again. Everybody acknowledges it's an important option, but it cannot be the only option. In terms of the scanning solution, all we know it's in multiple physician practices, the tests are ongoing.
AT	Perfect. And on your current trading?
Stefan Feltens	Say it again, please?
Jasper Eenhorst	On the current trading. The line is not very strong, A.
Stefan Feltens	I can say this much, two months and a few days have passed since the beginning of the year and the management team, and Japer and I, we are fully standing behind the guidance Jasper just communicated a minute ago. There is no reason for us to doubt that this is a very reasonable sales projection and sales guidance.
AT	Perfect. Thank you very much.
Operator	Next question is from the line of CJ with HSBC. Please go ahead.
CJ	Good morning, everyone, and thanks for taking my questions. I would also like to do them one by one. First, on your International business, I was a little bit surprised by how much it decelerated. It's actually weaker than the OTC business in Germany, despite the ramp-up in Italy. I would also like to pick your brain on consensus expectations for EBITDA. There is quite a significant improvement from minus 25-ish to minus 4 in consensus, so I was just curious whether you could give us a bit of an idea of how much the business could grow and how much margins can improve, realistically, in the International segment?
Jasper Eenhorst	Morning, thanks for the question. The International, I basically here can say International sounds very exotic here, it's the Netherlands, Belgium, France and Italy, nice adjacent countries.

Our strategy is the same, our belief in it is the same. The numbers are still relatively smaller, so sometimes you have a passthrough increase, sometimes a lower increase, but nothing that you should see behind it. You should see behind the fact that quarter four growth was lower than it was in quarter one last year. It is what it is, we are aiming to accelerate that again. Our strategy remains the same there and sometimes customer behaviour in a country is very different from one country to the other, that's why we like to have the portfolio approach. And we have seen that a little bit in Q4, that some of the DACH regions had a bit more positive momentum than some of the other regions, but they will likely be different in another quarter. So, actually, there's not anything to comment on, besides to acknowledge that the growth in Q4 was somewhat lower, but it is what it is. Your second question, I didn't really understand.

Stefan Feltens — EBITDA consensus.

CJ — EBITDA consensus, it seems a significant improvement in profitability in 2023, I'm just curious how comfortable you are with the minus 4 that consensus expects for absolute EBITDA in International.

Jasper Eenhorst — For International, you mean, that I understand. We only give guidance on total company level, so I don't even know what the consensus for International is. On total company we think it's going to be a positive number, clearly positive between 0.5 and 2.5% of total sales.

CJ — Then another one, pivoting back to the E-RX. A lot of comments with respect to it being mandatory sometime in 2024, maybe even at the end of 2024, together with the EPA. I always find them to be very strange because, you know this, it's effectively mandatory already today and has been for more than a year. What do you actually expect to change? Do you think that there are going to be repercussions introduced to doctors who don't use it, what's going to change? I understand what the eGK solution would do is probably increase the adoption. You also seem very confident that this will drive up the number of tokens printed on paper, but that's another thing that could already be done today. What do you think this does that will increase the adoption by doctors? Do you think the Ministry of Health will start being a bit more rigorous in ensuring compliance with the law?

Stefan Feltens — C, I think there's a wide recognition in billing that the mandate didn't work because it came without teeth. It is our sense that the political realm they are assessing, what does it mean to have a successful mandate, what would be required? There are several options that are being discussed right now. It's too early to say what the outcomes of these discussions will be, but what we heard is the next mandate will be a success. But again, this is

	now purely speculative on my side, to say is it going to be an incentive, is it going to be a sanction if doctors don't issue electronic prescriptions? I don't know. But again, there's a recognition that the last mandate, and you're right, according to the law, since the beginning of 22 doctors are supposed to issue an electronic prescription in Germany. That didn't work out, but again, there's a recognition they have only one more try.
CJ	Let's hope laws are starting the become enforced in Germany again. Good luck. Thanks, guys.
Stefan Feltens	Thank you.
Jasper Eenhorst	Quickly go to the next one.
Operator	Question is from the line of VB with Baader Bank. Please go ahead.
VB	Good morning. Thank you for taking my question. Congratulations on the figures and all the best for you, Stefan, for your future. I have three questions. First is on the consumer trend. Consumer demand is subdued, how do you see consumers reacting on the more challenging environment? Do you see them trading down or do you see them putting a lower number of items per order or how do you see consumers trends evolving on that? The second question would be on the International business, could you provide us with some details regarding regional differences, do you see regional differences, what are the highlights, lowlights, in regards to trends? Perhaps some colour would be helpful here. The third one is on investment into logistics. Italy is on-stream, any expansions on new warehouses which you have relayed in the planning process? To say going forward, when is the next step to come, any meat on the bone in that regard? Thank you.
Stefan Feltens	I'll start with consumer trends, if that's okay. In total consumer trends, it's a little bit too early to say how this is all going to play out. Of course we all understand money might be a little tighter, but I know Jasper is always emphasising, that might be an additional reason to come to Shop Apotheke because of the very competitive pricing that we offer on a very wide range of products. All we can say at this point in time, we alluded to this already, a little bit more than two months are under our belt and we have not seen any surprising trends. At this point in time we think we're very well positioned, also in terms of being able to attract new customers to convince them to place their second, third and fourth and many more orders with Shop Apotheke. Again, that is why as of today, Jasper just communicated the guidance of double-digit growth in our non-prescription business.

Jasper Eenhorst: Absolutely. That is exactly, we have the same hypothesis as you had in your questions, that we don't see any signs, if you look at the data, in our business of any trading down or lower baskets because of the reasons that you mentioned. The hypothesis is clear, that we don't see anything there.

International business, I'm not commenting on the specific countries. We reported two segments. What's perhaps interesting to know is that in last year, in our seven countries, all of our countries achieved double-digit growth. That's perhaps the only thing I can say there. There are regional differences in customer behaviour, there's not a lot I can comment on. We steer in two business segments there.

Investment in logistics, we're well prepared for the growth that we expect. We can be very flexible if we need to at capacity. We are in good shape now, there's no reason to think that suddenly there will be a big increase in CapEx on the short term because of capacity addition needed, perhaps that's the background of your question, you don't need to presume that. If we need to add capacity, we will find ways how to add capacity. We think we are very well set up at the moment, but of course continuously we think in scenarios of what could happen and then we act proactively on what's happening there. But there's nothing big that you should assume in your model in the near-term future on any capacity big investments. Also, in 2023 and at the moment that we speak, we make investments in capacity continuously.

VB: Thank you, I got the message. All the best, thank you.

Operator: Next question is from the line of DA with Stifel. Please go ahead.

DA: Good morning, gentlemen, thanks for taking my questions. This is DA at Stifel. I just have one question on International market, in particular on Italy, given the investment in the warehouse you made last year. Can you please provide us a little bit more colour on the trends you've seen last year? And if you can, I presume not, but just give an indication on the level of turnover you reached as a percentage of sales last year? Related to this, could you please mention also what are your expectations of growth in Italy this year? I remember you once flagged that you were seeing triple-digit growth in this country and I would like to understand if you have seen a normalisation over the past few months? Thank you very much.

Stefan Feltens: Thank you for your question. As Jasper mentioned, we don't talk about specific countries, we are reporting in two segments. But we've talked about Italy in the past. We are very well prepared for future growth in Italy. We have stated, and we fully stand behind this, that Italy will be a growth driver for Shop Apotheke going forward. The capacity that we have, I think I mentioned this in the call, can handle a multitude of our current business.

	What makes the Italian market attractive for us is, number one, it is still a pretty fragmented market, there's no dominant player. No surprise here that Shop Apotheke has the ambition to become the market leader in Italy.
	Secondly, the online penetration in Italy is still relatively low. When we look at the non-RX business in Germany, the last datapoints that we have seen is significantly above 20%, the online share of the non-RX business in the German pharmacy market. In Italy it was, based on the data that we have, during corona it went up to a solid 8%. Since the opening of local pharmacies, it's come down to 6%. If you now juxtapose the 6% online penetration, non-RX in Italy to 23% in Germany, the online penetration in Italy over the coming years is only going to move in one way and we want to take at least proportionate share of this opportunity.
DA	Thank you. Maybe just a follow-up. Can you please mention, according to your calculation, what is your market share currently in Italy, please? Thank you.
Jasper Eenhorst	There are no official numbers. Of course we have internal certain estimates, but that's our internal management information and not something that we can effectually publish.
DA	Thank you.
Operator	Next question is from the line of AN with Morgan Stanley. Please go ahead.
AN	Good morning and thanks for taking my questions. My first question is on the mid-to-long-term guidance of more than 8% margin. What, in your view, is mid to long term at this stage and can we expect that to be 2025, if you can give some thoughts there? My second question is on the International business. I understand you don't want to disclose segmental profit, but is it fair to assume your International segment continues to be in ramp-up mode in 2023, some more investments? Then if I could just quickly follow up on the question previously on free cash flow guidance for 2023. What exactly gets you to the lower end of this range? Do you have any sizeable CapEx or M&A projects that you are reviewing for the year? Thank you.
Jasper Eenhorst	Mid to long term, thanks, A, for your question. What we always state internally and externally, it would be too far out, we're not allowed to give such guidance. We say mid to long term, and it doesn't mean in eight or ten years, because what the world then looks like nobody knows, but it's also not in one or two years. I'm not going to be more precise, but it is in the foreseeable future that we aim for that.
	On the International business, yes, it's fair to assume that we will continue to be there and scale up in 2023. We have a guidance

	on the total company, so we will more than absorb that. On the free cash flow, I think the best answer there is the same as I want to give also on the adjusted EBITDA margin, which is the main driver. That we have the guidance, but we have a certain range also with free cash flow reflective of whether we will have some tailwind or some headwind. Also, to have a little bit of flexibility on manoeuvring. In all cases is the mid-point and then we have a range reflective of the dynamics of the quite uncertain world that we're all living in. That's the main reason, it's not like we have a scenario which will bring us to one of the outer sides of the range because then that will be our mid-point, and that's not the case. The mid-point is the mid-point.
AN	Thank you very much and all the best, Stefan.
Stefan Feltens	Thank you.
Operator	Next question is from the line of JK with Deutsche Bank. Please go ahead.
JK	Hi, Stefan, hi, Jasper, thanks for taking my questions. My first one is on your 2023 margin guidance. You spoke about the efficiencies you want to achieve, but what have you included in your outlook in terms of inflationary cost pressure? It would be helpful if you could further break down your expectations on the impact of inflation on wages, distribution costs and procurement costs? Then secondly, I wanted to come back to Alex's question on the current trading. Have you noticed a slowdown in your flu business, given that many people bought cough and cold medicine in Q4? I was wondering if they now order less in Q1 compared to Q1 in 2021? Finally, on the expected rollout of E-RX in H2, what you mentioned earlier, does your 2023 margin guidance include a step-up in marketing spending for E-RX? If so, could you quantify the amount?
Jasper Eenhorst	J, we need to give you very short answers, seeing the time. If you have any more questions, then please don't hesitate to reach out to us. Inflation, as far as we think in scenarios and we can estimate what the impact is, that's all included in our guidance, is what we do there. What exactly we assume there, is for me not adding value to disclose that. In the improved EBITDA guidance, there's of course our best estimate of what inflation will do, included there. Current trading?
Stefan Feltens	I don't have the details in front of me right now. There is of course seasonality. I wouldn't be surprised, but again, I don't have the numbers in front of me right now, if we have a slowdown in cough and cold because also, the cough and cold season is coming to an end. You were right, there was certainly some stocking up last quarter, but then there are other segments that are benefiting from seasonality. I can only come back to in general, we are encouraged by what we have seen so far this year, and

that's why we are very comfortable with the guidance that Jasper just communicated.

Jasper Eenhorst

The first one you had, about the market, I think the main point is if E-RX is coming, that we suddenly say we don't do any marketing, let's do marketing for E-RX because it's such a big opportunity. We are doing a lot of marketing every day and it will be a shift also, largely, off the message that we have indeed marketing. And actually over the past years, all the marketing that we're doing, talking about customer loyalty, returning customers, that's all actually because OTC is a very attractive business, but in the back of our head, also to be best prepared for E-RX. And the larger our base of active, happy customers is, the better we are prepared for E-RX. That could be one of the ten scenarios we have, requiring a couple of million more of marketing, of course if that's needed, but it depends on the circumstances, etc. It will also largely be, most probably, a shift instead of a significant increase.

Then on the expectation on the second half, we don't give any guidance on E-RX, except that we have it included in our mid-to-long-term guidance. The exact timing in the coming months, that is too uncertain to give guidance on. We need to leave it at that, I think. Or one more, you say? Okay. Operator, there's apparently still one pending question.

Operator

The final question is from the line of OC with Credit Suisse. Please go ahead.

OC

Good morning. Thanks for taking my questions, and a special thank you to Stefan and best wishes for the future. I would have a couple left. Not a guidance question, but just on e-script volumes. I know you don't disclose the number of e-scripts you redeem anymore, but would your expectation going into Q3 and H2, be that you over-index or under-index, as we see perhaps first customers be more digital native, if I could pick your brain on that? Then the second question would be on the stake of your top shareholder and voting pool agreement. I've seen it went down from 26-ish percent to slightly over 25. I just wanted to know if you could give us a sense of is it a function of your regular issuance of stock for compensation or if there's anything else going on there. A related follow-up on this, if you're moving away from stock-based compensation going forward or not?

Stefan Feltens

Perhaps I start with the voting pool. O, this is something we don't manage, we don't control. That is something you need to talk to the administrator of the voting pool. I wasn't even aware that this has come down a little bit, because again, it's not in the focus for us as a management team. In terms of stock-based compensation, we think that has worked for Shop Apotheke very well in the past and there is not intent at this point in time to do

	something differently or to change, to replace the stock-based compensation with other compensation components.
Jasper Eenhorst	On the E-RX guidance volume, I wasn't clear.
Stefan Feltens	I also didn't fully understand. O, what is the exact question on the E-RX, could you please repeat?
OC	Sure, yes. The question is, essentially, do you expect to over-index or under-index on the incremental volumes we see in e-scripts as the ramp-up goes? Meaning, do you expect your market share to be in line with what you have in online RX currently or slightly below? I'm just interested in the beginning phase of that ramp-up.
Stefan Feltens	This is from my viewpoint not relevant. We are best prepared for it, and that's what we do, and at the moment it surges, it increases faster, then everything starts. What is happening now or in the pre-phase, it is for me not really relevant.
OC	Thanks.
Jasper Eenhorst	You're very welcome. There's one other slide, please go to that. Now that I've got you all on the call still, before… Most probably, Stefan, you will thank everybody for participating again on the call today and all the questions. I would like to invite you, actually, for a short webcast on an update on our rent strategy coming Wednesday, next week Wednesday, the 15th. It's a short presentation that will be hosted by Monica Ambrosi from Investor Relation and myself, and via the regular channels you will receive an invite in the coming days. I hope you've got time to join.
Stefan Feltens	Jasper, thanks. In conclusion, I hope that you were a bit reassured by the performance that we demonstrated last year. I hope you are confident in the guidance that we provided to you. We fully stand behind the guidance, again, reinforced by what we've been seeing so far this year. As I mentioned at the beginning, it's probably the last time that I'm going to talk to the broad investor or financial community of Shop Apotheke. Thanks again for all the interactions in the past, for the challenges that you provided to us, but also the reassurance. I'm probably going to be able to touch base with some of you over the coming weeks, before I then retire, initially from the management board at the end of April, and then from Shop Apotheke after some handover by the end of May. Thank you very much. Have a nice day and if you have more questions, you know how to reach out. Bye-bye.