

Shop Apotheke
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O Good morning ladies and gentlemen and welcome to the Shop Apotheke conference call Q4 2019 earnings release call. At this time all participants have been placed on a listen-only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host, Stefan Feltens, CEO of Shop Apotheke Europe.

SF Okay, thank you very much, yes, this is Stefan, I want to welcome everybody to Shop Apotheke Europe's Q4 and full year 2019 earnings release call, admittedly in turbulent and very uncertain times, but we're going to talk, give you a little bit of an update on the evolving corona situation in a couple of moments. I'm joined today here in the room by Jasper Eenhorst, our new CFO who started working for Shop Apotheke on the 1st of February, but I'm looking at Jasper right now **[01:00]** and this probably already feels like a distant history for you. Jasper, on behalf of Shop Apotheke and on behalf of our management team, we're very, very happy to have you on board.

With this, as I mentioned, I want to give you a quick update on corona before we then jump into the financial performance of 2019, followed by some updates on our business and strategy, and I think we have some exciting news to share with you, and last but not least of course the most important part of the call are the questions that you probably have. As I mentioned before we jump into our, we think, strong performance last year, I want to share with you some updates on the evolving corona situation. We have experienced for the last **[02:00]** two, two and a half weeks, a significant, we think temporary surge of customer orders, a very significant surge. We are at this point of time working close to our capacity limit in our existing facility, we have actually established a taskforce that continuously at our logistic processes to identify any bottlenecks that we might have and then of course the task is to quickly de-bottleneck or to ease these constraints, or to remove these constraints. However, in the interest of full disclosure, this will give us an additional 2%, an additional 5%, if it works out really well, an additional 10% of capacity, meaning the up-site potential that we have over the course of this year **[03:00]** is limited simply by the constraints that we are dealing with.

We are also taking some measures in order to keep the number of orders to a manageable level, just to give you a couple of examples there, we have literally removed thousands of non-essential products from our web-shop, they are simply temporarily not available. Again, this could be non-essential products, but especially non-essential products that are so-called slow movers because we want to free up storage capacity for the products that are critical. At this point of time we have very significantly reduced our online marketing activity and as Shop Apotheke, together with the online pharmacies, are now an essential part of safeguarding the supply of pharmaceuticals **[04:00]** to our customers and the populations in the markets we

operate in, we have given clear priority to orders with prescription pharmaceuticals and with critical OTC medications. Again, all of this has helped us to handle the orders that we have received so far, I'm very happy to announce that so far we haven't had to turn down or decline a single order that we have received. We are seeing over the last two and a half weeks, of course, an uptake in our sales. At the same time, we are experiencing incremental cost, especially in our operations area. Just to, you know, give you a little bit of a picture there, with the exception of one shift, the afternoon shift on Saturday, we are now working at three shifts per day, seven days per week.

All of our employees **[05:00]** are really working tirelessly because we all feel the sense and the obligation that there is something right now that if we play, as I mentioned before, the critical role in simply safeguarding the supply of medications. So far, we have not experienced any major supply issues with the exception of two very obvious product categories. As you all know, it's almost impossible to obtain disinfectants at this point of time, it's almost impossible to obtain protective wear like face masks or latex gloves, but if we put these two categories aside, we are in very, very close contact with our key suppliers and they are conveying to us that for the foreseeable future we shouldn't expect any out of stock situations. Some of the supplies of **[06:00]** raw materials coming from China or from India or from other distant places are delayed, but again, what we just heard over the last couple of days is now suppliers are getting confirmations again from their suppliers that some products are on their way to Europe. We have also established a taskforce to focus exclusively on the health of our employees and to ensure the continuity of operations. I'm happy to report to you, and I'm looking at the time, it's 11:08 central European time, we haven't had a single case of a corona infection among our 1200 employees, knock on wood, we're doing our utmost to ensure that it stays like this. We have significantly tightened our hygiene standards and the taskforce is meeting several times a day, again, **[07:00]** just to say on top of all of this. Just to conclude, the corona update, it's as we all know, it's a very, very dynamic situation that's changing on a daily basis, it's characterised by a very high degree of uncertainty.

We have seen an uptake in orders, we have seen an uptake in our sales as a result of this, we are incurring incremental costs and in terms of the bottom line, what we are confident stating at this point of time is that we do not expect a detrimental, negative impact on our bottom line at this point of time. So, shifting to 2019, this also probably feels to many of us like a distant memory, but again, we are proud of what we delivered last year, we delivered against the guidance that we have provided when we look at the top line, 701,000,000 euros plus 30% **[08:00]** with us in 2018, almost all of this driven by organic growth. When we look at our bottom line, at the adjusted EBITDA margin we came actually in a little bit better than our guidance with an adjusted EBITDA margin of -1.9%. The guidance was -2 to -2.3% and we want to highlight our performance in Q4 where we were very close to the EBITDA break even with an adjusted EBITDA margin of -1.0%, and to juxtapose this with Q4 2018, when the EBITDA margin was -3.8%. We enter into 2019 with a cash position well above 100,000,000 euros. That is important especially in light of the uncertainties that we are facing right now. **[09:00]** Last year we completed the integration of the two brands in the German market by migrating all of the Europa Apotheke customers to Shop Apotheke and shopapotheke.com so now we are operating in the German marketplace with one face to the customer, and I can reiterate what we already mentioned in our Q3 call: because this was meticulously planned and flawlessly executed, we are not aware of a single Europa Apotheke customer that we have lost because of this migration.

Also, quick update, our prescription sales developed last year, just a reminder for everybody, legally we can only participate in Germany in the Rx market. Rx sales went up to 188,000,000 euros at an increase by **[10:00]** 12% or 20,000,000 euros. Again, you compare this to the market development and some of our competitors, I think we can be really proud of this result and last but not least, I'm going to say more about this a little bit later, our new distribution facility a stone's throw away from our existing facility is on track and we can't wait to have the new facility which will more than double our capacity to at least 35,000,000 parcels per year. So, shifting gears just for a moment, Shop Apotheke has formally embarked on a path towards sustainable development. Not just because many of you on the phone have mentioned to us over the last 12 months that this is an issue that is gaining an importance, but the driver for us, and I can say this with a very good conscience, **[11:00]** was the commitment of Shop Apotheke's management, we are fully convinced that this is the right thing to do, especially for us as an e-commerce business. By the way, we are also frequently hearing this from our employees and that is a very healthy development. As a first step, we have brought on board a fully-dedicated resource that's going to focus on sustainable development, Anna Tönnessen is her name, you're going to meet her at the capital markets day later this year, and as a very first formal step, Shop Apotheke has signed up, has joined the United Nations global compact which requires us to adhere to and to report on a number of key principles.

Over the course of 2020, we're going to thoroughly assess our status quo **[12:00]** and this is not just limited when you look at the United Nations global compact, it is not just limited to environmental issues, it goes beyond this. We're going to identify a number of short and long-term activities and we're going to start harvesting, especially some of the low hanging fruit already, so there will of course be more to come over the coming months, over the coming years in terms of our path towards sustainable development. Going back to the numbers, we already talked about the top line, again, 701,000,000 euros, almost all of the growth was organic, but I want to focus your attention on the right hand side, the number of active customers increased by over 30% to 4.7 million active customers, and I want to remind everybody, our definition of an active customer is a customer who has placed at least one order over the last 12 months. **[13:00]** By the end of last year 4.7 million, and I can give you an update that's not just on the chart, as of today, we're very, very close to 5 million active customers. When you look at some of our customer KPI's, I can only emphasize and reiterate the headline that we have chosen here, our customers are indeed highly engaged. Just a couple of highlights, we have virtually no returns; actually, the percentage of our returns has come down even further from what it was in 2018, and also in terms of the customer satisfaction measures by the net promoter score, we are I can say back at a level of 70.

In the interests of full disclosure in Q1 last year, we faced some challenges, we saw as a result of this a dip in our **[14:00]** NPS score, but then starting in Q2 and continuously throughout the year, we got back to the level of 70 where we wanted to be. Now, on the next chart just a snapshot of our web traffic, not surprisingly we saw an increase in our web traffic last year. Total visits added up to 134,000,000, this compares to 93,000,000 visits in 2018, which is an increase of more than 40%. In terms of our orders, in terms of our repeat orders and then also in terms of the basket values, we processed orders last year totalling 12.2 million. This compares to 8.7 million orders in 2018. **[15:00]** Our share of repeat orders over the last three quarters was continuously above 80% and I can quote our new CFO Jasper, when he joined Shop Apotheke, the share of repeat orders, being about 80%, that is one of the KPI's that impressed him most. In terms of our average basket value, by the end of Q4 we were at around 68 euros, which is a little bit of an increase versus Q3 and the earlier

quarters last year. When you look at the average of 2018 and compare this to 2019, there's a little bit of a decrease at two key drivers. Number one is the full year consolidation of Q3, which has lower basket values and our non-prescription business moved faster **[16:00]** than our prescription business, and the average basket values of our OTC basket is also lower than that of a prescription basket. And with this, I'm very happy to hand it over now to Jasper to walk you through our financials and to give you a little bit more flavour on our financials.

JE Well, thank you Stefan and good morning everybody. Well, from my side, it is a pleasure to be part of this great team and great company. Coming from Aalte Hesse within the Netherlands and Belgium alone, to major e-commerce brands, namely Robert Hank online and bull.com and having served as the CFO of market leading e-growth shares the past years, it is great for me to leverage my e-commerce experience into the benefit of Shop Apotheke. There are striking similarities between the two companies, it's the focus on the customer, the dynamics of the distance model, past growth, very dynamic competitive environments **[17:00]** and customer centricity combined with data-driven decision-making. And next to that, there's a profound wish to do better every day. The start has been great, meeting all the dedicated and very skilled colleagues of Shop Apotheke. Please let's go to the financials now. The key financials, all on one page. In the first columns, it's the full year 2018 and then 2019, and next to that, it's quarter 4. I will commence on all individual lines, starting with sales and then up to and including the adjusted EBITDA margin. On sales, as Stefan already said, in the full year our sales increased by 161,000,000 to 701,000,000, a growth of 30%. So, 2 percentage points were due to the full year inclusion of new drive that was required in mid-2018. If we then go to quarter 4, **[18:00]** sales increased by 41,000,000 up 27%, and this was all organic. The growth profit margin, the next line, was up not less than 1.3 percentage points year over year, and in Q4 even 1.7 percentage points. In a bit, on the next slide, I will commence on the underlying developments. Now, to the selling and distribution cost as percentage of sales. This is generally rated on a full-year basis, year over year, by 1.4 percentage points. But please note that in Q4, the year over year variance was -0.7% points. Well, those of you following us closely know that the full-year number has been impacted by some operational challenges that we saw in the first quarter of 2019, and then of course all of you will be aware of the fact that in 2019 we deliberately **[19:00]** invested in marketing to drive and successfully show effective and smart marketing to drive organic growth in sales and customers. Then to the line, admin as a percentage of sales. You see a nice leverage over here, on the full year it is 0.4% better to -3.0%, so year over year, 0.4% better than the year before, and you might also note that in the Q4 year over year variance, the year over year improvement is somewhat deflated by the non-repeat of higher legal advisory fees in the fourth quarter of 2018. In absolute euros, the adjusted EBITDA, if you can see in the table, was in quarter 4, millions of euros better than the year before. And all the numbers I commented on, they boil down to the adjusted EBITDA margin and as **[20:00]** already stated, are staying down at -1.9% for the full year, which is 0.3% better than last year. And you see, in the Q4 column, the year over year, 2% improvement to -1.0.

On the next slide, more on the growth profit margin. Year over year, the growth profit margin was up 1.3%. More than half of it was due to improved purchasing. And purchasing is of course related to direct better curves. That, for example, also includes fewer inventory ride downs due to debtor cooperation with our supplier and wholesale partners. Next to purchasing, we see a benefit of 0.1% on pricing and product mix. Though this is a small number, there actually is a whole world of storage **[21:00]** underlying it, with country mix, product mix, pricing, promotions. But all in all, for me it is important that sometimes I have the feeling there might be a perception

that online pharmacies will drive prices of the total market down. But we don't recognise this. We see that, year over year, we actually have a slight positive impact of the total mixed pricing. And the last three, there was the full year benefit inner growth profit margin of the full year inclusion of no drive. This 0.5% plus, please keep it in mind when we go through the next slides.

This slide shows the total selling and distribution costs as a percentage of sales, and it deteriorated by 1.4% points. Close to half, must increase marketing, has already said it was a deliberate and very successful **[22:00]** choice of ours to drive organic growth. Additionally, we also see some pressure in shipping costs going up. And the 0.2% operational labour was actually mainly related to the first quarter of 2019. And then you see the full year impact of New Drive, where we saw a plus 0.5% across the profit margin, and the flip side is the plus 0.3% in the percentage points and the costs as a percentage of sale. So, all in all, our selling and distribution costs increased by 1.4% is mainly due to more marketing. Then there was an impact of Q1, and we see a slide in the anticipated increase in shipping.

Two more slides on the 2019 numbers from my side. We go now to the adjusted segments EBITDA in millions of euros in absolute terms. On this slide **[23:00]** at the bottom, you see we continue to invest in our international segments to have a Europe preference, and you see that we continue to generate very positive EBITDA in millions of euros in the Germany, Austria, and Switzerland segments. The measures of this side to me, is that in both segments, in Q4, we were better than the same period the year before.

Then the last slides, the adjusted EBITDA margin for Shop Apotheke Europe, on the slides, you see first the first half of last year and this year, and then the second half of last year and this year. And firstly you will see that, generally, at Shop Apotheke our second half of the year is better than the first six months of the year. And this is due to seasonality and our marketing calendar **[24:00]**. But the more important message to me is that our second half of 2019 was not only better than the first half, but it was also better than 2018. And both in terms of percentage of sales, as in millions of euros. So simply stated, as Stefan said already, we ended the year strong, and we are in an upwards trend. Stefan, back to you

SF Okay, thank you Jasper. So we want to give you now a quick update on the things that are going to happen. The milestones we are going to reach with Shop Apotheke in 2020, and I think they will be important stepping stones in filling our strategy with life and executing our strategy.

Before we look into the future, just at a glance, I don't need to go through everything that is mentioned on the charts, but this is... Shop Apotheke have been **[25:00]** a success, we have solid foundation, and we can now use this foundation as a springboard in order to continue to develop Shop Apotheke from where we are today. We are a pure e-pharmacy retailer, as of today, and we are going to become more and more a customer-centric e-pharmacy platform. That is not going to happen within a month or within a year. That is a multi-year prospect. But that is the ambition we have. And when we talk about a customer-centric e-pharmacy platform, these are not just buzz words. They are really the core of Shop Apotheke's past and future success. Everything we do today focuses on providing a better experience, a better end to end journey to our customer, with our web shop as well as our **[26:00]** mobile app as the platform onto which we will build to provide additional products, and to provide additional services to our customers.

So what does this mean? What is actually going to happen in 2020? And as you can see here, we are going to reach, we're going to have a couple of really important milestones over the remaining ten months, and we also have an announcement to share when I talk about one of these milestones.

So, starting with the marketplace. The marketplace, as we have conveyed before, is going to launch in the second half of 2020. But the focus will be on providing a broader product portfolio of healthcare-related products to our customers. The first contracts with some of our marketplace partners have been concluded. Just to illustrate this with an example, currently **[27:00]** Shop Apotheke is not supplying contact lenses to our customers. Of course, there are retailers that would love to reach our 4.7 million or, as of right now, almost 5 million active customers through our marketplace. Altogether, we have identified over 10 healthcare-related product categories that will all be a part of this marketplace.

Secondly, and this is an announcement I want to share with you, just a couple of days ago, we started our online doctor service on our website. I am sure some of you are closely monitoring our web shop. Hopefully most of you are customers of Shop Apotheke. But if you have paid attention, you have seen that we are now linking from our website and our mobile app to one of the leading online doctor service providers. We have entered into **[28:00]** a cooperation with Zava, who is one of the major players in the online doctor services in the digital healthcare market. Again, the linking through our website started just a couple of days ago, but the cooperation with Zava started already last year in December. We were a viewer fulfilment partner of Zava, meaning we received some prescriptions from them without linking to Zava through our website. But just a fulfilment service already resulted in us now processing several hundred incremental prescriptions every single day. So we think this is a very interesting and dynamically developing business segment, not just for Zava, but also for us.

Also, just a month ago, we introduced, in addition to the two own brands **[29:00]** we already had through the acquisition in 2018 'New Three', and another own brand Beavita that came together with New Three. We have now launched our RedCare private label brand. The first two products, a nasal spray and paracetamol are actually available in our shop. They have started very, very well. Admittedly, there was some help through the current Corona situation. But over the course of 2020, many more products will be added to our private label. The product before you... the aims are obvious, and we have talked about this in the past. Number one, that these are products that can only be purchased in our full Shop Apotheke. And number two, when we look at a private label paracetamol, comparing to a paracetamol from one of the established suppliers **[30:00]** there is a significant margin difference.

By the way, the whole project, the own brands, the private label project is fully managed by the New Three organisation. So we are leveraging the expertise that they have brought to bear, with the acquisition of New Three.

And last but not least, a quick update on same-day delivery: we concluded, as we mentioned in the past, our pilot programme in Germany. This year, we are going to expand same-day deliveries to more metropolitan areas. The objective there, of course, is to cover another customer use base, to make Shop Apotheke more and more the one-stop shop for your healthcare needs. We are going to share at our capital markets day later this year many more details about these strategic initiatives and some other things that are going on at Shop Apotheke **[31:00]**.

So now switching to one of the most- or probably the most- important value driver for Shop Apotheke over the coming years: the launch of electronic prescriptions in Germany. We are, in terms of the timeline, very confident that the technical specification of the telematics infrastructure will be finalised by the middle of this year, by the end of June. This is of course driven by the Gmatics. Our understanding, we are under the impression that it will take them around a year to put these critical components of the telematics infrastructure in place that would get us to mid-2021. And then, based on a recent pronouncement from the Gmatics, meaning that there will in all likelihood be a central e-prescription app that will be developed and released by the Gmatics, and the sense that we have, in terms of the timeline, we are now assuming that we as Shop Apotheke, will start processing a notable, sizeable number of e-prescriptions starting in late-2021, early-2022. That is a little bit of a pushback compared to what we have conveyed in the past. Again, it is tied exclusively to the pronouncement around the central e-prescription **[32:00]** app. Of course, this doesn't change anything in terms of the basic opportunity e-prescriptions present, not just for us at Shop Apotheke, but for the healthcare system overall.

Without going into too many details, our approach towards e-prescriptions is very similar to what we have demonstrated with everything that we have done so far, and are going **[33:00]** to do in the future. At the focus is the patient and their needs. Everything that we do and everything that we develop aims at providing a superior end-to-end journey to our Rx customer, to our non-Rx customer, but also in the future to our e-prescription customer. So you see there is a notable difference compared to what else you are seeing in the marketplace. Our focus is exclusively on the end customers. I just want to remind everybody, in Germany- and right now that is the only e-prescription market in which we can participate- only the patient has the right to choose his pharmacy. It is not the doctor, it is not the insurance company. In Germany, on the replicatory **[34:00]** framework in which we operate, it is only the customer, the patient. And we want to make sure that when the customer gets an electronic prescription in the future, that he always thinks about Shop Apotheke first, because nobody will be able to provide a better end-to-end service.

And before we get to our guidance, just as I mentioned at the beginning, a quick update on our new distribution system. We are on track. You might remember in previous presentations, we shared with you some computer illustrations, some graphics. Now we can actually show you the building is up and running. Construction is almost completed. We are going to take possession of the building formally in April. We are going to move almost all of our offices in June. We are going to start transitioning logistics activities **[35:00]** in December. And starting in December, we are going to see some relief on our capacity constraints, the transition of our logistics activities is going to last over a period of 5 months, meaning that the new facility will be up and running, will be fully operational, in Q2 next year- in Q2 2021. Once the new facility is up and running, we are going to decommission our existing facility, and are going to return it to our landlord.

Of course, the new facility, as we have conveyed in the past, will more than double our capacity, but the new facility is also going to look very, very different from our existing facility, because it will have a much, much higher degree of automation. The automation of our existing facility is close to 0. We have a very efficient **[36:00]** but very manual process. In our new facility, the degree of automation is going to get close to 50%. And with this, I will hand it over again to Jasper, who is going to share with you our guidance.

JE Thank you, Stefan. Our three items of guidance is the 2020 full year sales growth will be around 20%. And we reiterate our guidance, if you adjust it, EBITDA will break

even in the current year, 2020. This guidance on the two metrics was all pre-Corona, and before Corona entered into Europe, we at Shop Apotheke already started the year well. We saw a continuation of the Q4 trend. And now, with Corona, we will for obvious reasons not speculate on tomorrow, next week, or next month **[37:00]**. We only know that, here to date, we saw it had a positive impact on our sales growth, and we expect it will not have a negative impact on our EBITDA.

And then number three of our guidance is our long-term (37:19) guidance profitability. And also here, we reconfirm our ambition to achieve the profitability of an EBIT in taxes of 6%. This was it from our side. I think it is time for Q&A now.

SF Facilitator, please open it up for questions.

O Ladies and gentlemen, if you would like to ask a question, please press 9 and the * key on your telephone keypad. In case you wish to cancel your question, please press 9 and * again. Please press 9 and the * key now to state your question **[38:00]**.

The first question comes from OC. Please go ahead.

OK Hi, thanks very much for taking my question. A few ones from my side. First of all, could you perhaps go back to the growth margin development that is focusing on Q4... to maybe shed some more light on that growth margin development, specifically in the quarter?

JE Yes, thank you O. Here is Jesper, I think what is important in Q4 in light of the growth profit margin is that we store the benefits of better purchasing. As I mentioned already, for the full year, there was an impact of 0.7%. Within Q4, that was more in the numbers than it was for the full year

OK Okay, thank you very much **[39:00]**. Could you come back also on the 5 million euros adjustment to EBITDA?

JE Yes, the full year. Actually, O, thanks. I am happy that you asked this question about the adjustment. I want to be very clear here: we have a very strict definition on what we adjust and what we do not adjust. Of course, we have to adjust the EBITDA because we think that is the best reflection of our underlying operational performances, and we actually only adjust for, and have always done so, for number one. The stop option programme of our employees is obviously because it is no cash. And then number two, it is one-off costs related to projects. So, for example, one-off expenses related to opening our new facility, or exit or enter a country, or do an acquisition. That is it. And actually number three is that if we have another **[40:00]** non-recurring one-off item of several millions, we will probably also adjust for that. But we have never done so, I am not aware of that, not in 2018 and 2019, and if we would ever do so, we would of course very clearly explain what we have adjusted for. But that has not taken place. So it is the stop options and it is the one-off project-related costs.

And then if you look at the full year 2019, the 5 million is more than half- over 60% related to the stop option programme- and the other part relates to one-off consulting spent in the last quarter related to 2020, and the others to other projects including, for example, the exit of Spain, and some other one-offs related to projects. But that is less than half of the total adjustments.

SF O, perhaps just to reassure everybody that yes, they have been **[41:00]** very clear and very strict from day one, and we haven't done this in the past to be clear, but

there are very clear definitions of what can be moved in the adjustment, and there is very little flexibility... room for interpretation. So we are very happy on the very strict guidelines that Jasper has put in place there.

OC Okay, great to hear. A couple of nagging questions. First of all just on the market, given the current situation, we are seeing some wholesalers in Germany come under pressure this month due to increased pharmacy orders, although there is not any sign, as you said, of a supply shortage. Can you tell us maybe a little bit about the sensibility of the growth margin to, let's say, 1% change in procurement from direct purchasing to working with an external wholesaler? I understand **[42:00]** direct purchasing is a very big part of your procurement. But if you needed to increase resorting to wholesalers, what would be the impact?

SF Yeah, O, at this point in time, we are in very close contact with our top wholesalers that we are working with. I can tell you, because this was one of the wholesalers that was in the news the past couple of days, we are not working with NOVEDA. They are owned indirectly by the local pharmacist associations. They would not ship out the single package of anything. But with the wholesalers we are working with, they have not indicated to us at all that there would be any supply constraints over the coming months.

Of course, if we shift... and now we are talking more about our newer market. If we shift from indirect purchasing, meaning **[43:00]** through wholesalers, to direct purchasing, directly from the manufacturers, that is the biggest lever that we have on our growth margin. So if our direct purchasing percentage would go up a little bit as a result of this, that would certainly not have a detrimental effect on our bottom line. Quite the opposite. But, again, at this point of time, we are working closely with the wholesalers. We have not heard from anybody that they will not be able to supply us in the future.

OC Okay, no, I am just wondering about the opposite effect. You having to resort, as you did in Q3, to forced orders?

SF Yeah, again, there is no reason at this point in time to assume that we are deviating from the assumptions in terms of direct, or indirect, from what we have **[44:00]** reflected in our plan, acknowledging, and I am going back to our statement, this whole situation is unprecedented, and it is characterised by a high degree of uncertainty. But as of today, there is no communication that we have received, and we are in very close, daily contact with all of our key suppliers, including our key wholesalers.

OC Okay, thank you very much. And final one, sorry to use.. for taking so long: I am just interested in hearing your thoughts on the type of journey we could expect from RX customers. If you have no RX bonuses and no e-script, I am thinking of your company history, prior to the IPO the company's change as a result of the move by Germany to apply the ??? onto you guys. Do you have any thoughts on this, or?

SF O, again, we are sticking by the position that we have conveyed in the past. We are convinced that the **[45:00]** draft laws that, again, still haven't reached either chamber of the German parliament is in violation of European law. It is our understanding that also the new European commission is sharing this position, they are promoting this position. We know that there has been some movement on the part of the Christian Democrats in Germany to move this into parliament. We don't know what the position of the Social Democrats is at this point of time. We just... as I said, we know that the

German Ministry of Justice has raised in writing concerns about the compliance of such a provision with European law. So nothing has changed for us.

If such a law came into effect, we are going to look at the legal options that are available to us. If we decided and, again, we haven't made such a decision, that we would adhere **[46:00]** to such a ban, at least temporarily, of course that would hamper our growth in the RX market to a certain extent. We think we will still make progress, but it would be below what we have reflected in our current projections. But, again, we don't think this law is going to come into effect, and we have not decided how we are going to respond if this were the case.

OC Okay, thanks a lot.

O And the next question comes from CM from Erasmus. Please go ahead.

CM Hello, thank you for taking my question. I have two. First, can you maybe elaborate more on the drivers on reaching Brexit. You have mentioned marketing decrease, but is there anything else? And also you mentioned about some incremental cuts linked to the Coronavirus. Can you also elaborate **[47:00]** more on that one please? Thanks.

JE Thank you. Coming back to your first question, I think my main answer there would be that it is a continuation of the trends that you have seen already in the fourth quarter, so in Q4, which included for example some obvious relief on pricing. In addition to that, we expect that in 2019 we will achieve additional purchasing improvements, and we will see the benefits of scale. The years thereafter, we will also see some more efficiency gains in operations, for 2018. What was your question? These are the main drivers.

SF In terms of, if I understood your question correctly, your second question in terms of Corona, I just want to reiterate what I mentioned: we have seen over the last two and a half weeks, so in a pretty short period of time, a surge in **[48:00]** orders. Of course, these orders are going to generate incremental growth margin, but in terms of the magnitude, I want to emphasise this: we are capacity constrained at this point in time, and in order to serve all of these orders, we are incurring incremental costs, especially in our operations area. Additional shifts, overtime, we are hiring contingent workers, but we are confident dating at this point of time is that the Corona situation based on what we know today, with the surge of orders, does not have a negative, a detrimental impact on our bottom line. It could be a slight positive impact, but really it is too early to make a firm statement there at this point of time. If I got your question right?

CM Yeah, okay, thanks.

JE Can I shed a little bit more colour, to come back to your first question. I mentioned scale. Also note that within scale **[49:00]** there is also the fact that we expect scale in our marketing, in our overall attempt to balance growth and marketing. So there you will also see a benefit in 2018 profitability compared to 2019.

CM Okay.

O And the next question comes from AR. Please go ahead.

JE We don't hear anything. A, you might be on mute.

AR Can you hear me now?

JE Yes, very well.

AR Thanks for taking my question. I have got a couple. So you mentioned that you are running at the capacity's constraints with the surge in demand. I just wanted to see, how far is your 20% top line growth guidance from your actual max capacity? So **[50:00]** how much flex is there? And then second, around your new logistics facility, how should we be thinking about capex, and how that should be phased between 2020 and 2021? And then finally, you gave some comments around the timing of these scripts. Just want to see if you think this might have any impact from COVID19 in any way, and how we should think about that?

SF So I will take the first and the last question, and then the capex question, Jasper will take. So in terms of our capacity constraints, I am sharing a little bit of internal details here. When we developed the plan for this year, which is the basis of course for our guidance, the conclusion was we couldn't grow more than around 20% because we have capacity constraints. Under pressure, and of course **[51:00]** we are under pressure right now because we are experiencing a surge of orders, miracles can happen. So we are identifying, we are de-bottlenecking our processes, and we can push this a little bit further. But, again, we are not talking about now we can go beyond our guidance by 20-30%, nothing even close to that. We are very close to our capacity, that was the conclusion of the plan. That was the reason why we settled on around 20% year over year growth. But, again, right now we are finding ways to squeeze out a little bit of incremental capacity.

In terms of the RX timing and Corona, we are not aware of any implications there. But, again, it is a very quickly evolving situation that could change tomorrow, but we **[52:00]** are not aware of anything. Going back also to O's question, the question is whether the German parliament will continue to operate over the coming weeks. If there were really a push to discuss this RX bonus stipulation in the parliament, that could be delayed as well. But again, A, specifically, we are not aware of any link between Corona and electronic prescriptions.

JE Yes, and into the capex, I assume that you were referring to the cash out related to the capex, but let me give the total answer. The total assessment for the new facility will be in the ballpark of around 100 million. But this includes 40 million of the capitalisation of operating leads, so that is the non-cash item. So excluding this, the cash assessment will be around 50 to 60 million and **[53:00]** two-thirds will be in the current year, and one-third will be next year.

AR Great, thank you.

O Thank you for your questions. At the moment, there are no further questions, so let me hand back over to Mr Stefan Feltens.

SF Okay, so then I want to thank you again for the time. Again, uncertain, turbulent times. If there were any significant updates, we would find ways to quickly share them with you. If you have any more questions, you know how to reach us. So thank you very much, and we will talk to many of you soon. Bye bye **[54:00]**.

END

