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YOUG.DE - Half Year 2024 ABOUT YOU Holding SE Earnings Call

EVENT DATE/TIME: OCTOBER 10, 2023 / 8:00AM GMT

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PRESENTATION

Operator

Dear ladies and gentlemen, welcome to the conference call of ABOUT YOU. At our customers' request, this conference will be recorded. (Operator Instructions) Now, I would like to hand over to Frank Böhme, Head of Investor Relations and Communications, who will lead you through this conference. Please go ahead.

Frank Böhme - *ABOUT YOU Holding SE - Head of IR & Communications*

Good morning, everyone, and welcome to our Q2 2023/2024 results presentation. Today's conference call will be hosted by Hannes Wiese, Co-Founder and Co-CEO of ABOUT YOU. Hannes will walk you through our Q2 results in just a second. The corresponding slides to this presentation have been published on our IR website under the Publications section this morning. After his presentation, Hannes will be happy to answer your questions. And with this, I hand it over to you, Hannes.

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Yes. Thanks, Frank, and good morning to everyone also from my side. Today, as usual, we are focusing on the following topics: short business update, followed by Q2 financials, the outlook section and we'll close this call with Q&A. So let's directly jump into our business update, starting on Page 4 with the key takeaways of the second quarter '23/'24. We have delivered on our main targets for Q2. Top line growth accelerated slightly versus the first quarter as group revenues grew 2.1% year-on-year despite a continued difficult market environment. Adjusted EBITDA improved by around EUR 30 million year-on-year and reached a negative EUR 12.9 million in Q2.

The driver for the profitability improvement were our fulfillment costs, which declined 15% year-on-year and our marketing costs which are down 42% year-on-year, has led to a significant profitability improvement in our commerce segments. In DACH, the adjusted EBITDA margin increased by 150 basis points and in RoE by a strong 820 basis points. Despite the challenging market environment, the DACH and RoE segments were growing by 0.3% and 1.3%, respectively. All our customer KPI for the commerce business are up in the last 12 months view year-on-year. Active customers increased by 2.3%, the average order frequency by 3.4% and the average order value stabilized as expected, showing an increase of 0.1% year-on-year.

Our TME segment boosted its adjusted EBITDA margin to 23.4% in Q2 largely driven by an increasing share of high-margin tech revenue in the mix. The back of our strong improvement in adjusted EBITDA in Q1 and Q2, we confirm our adjusted EBITDA guidance to reach breakeven for the group. Measures we have implemented to date have already resulted in a significant EBITDA increase and seasonality should further support profitability in H2 and continue to be very confident to achieve our full year breakeven target. Considering a continuously challenging market environment and a warm weather-related slow start into the fall/winter season, we, however, expect group revenues to come in at the lower half of the initially guided range of 1% to 11% growth.

Let's dive into our business update on Slide 5 with another look at the macro environment. We see moderate improvements in inflation rates across Europe. Confidence, however, started to contract again in July and August. In this challenging environment, we continue to focus strongly on improving our profitability instead of going for growth opportunities. We have delivered a substantial improvement in our group adjusted EBITDA margin of 700 basis points year-on-year. We were able to achieve this improvement while we were still growing top line by 2.1% year-on-year.

One of the main drivers for the year-on-year improvement in our adjusted EBITDA were our fulfillment costs, which we are breaking out on Slide 6. The majority of savings is coming from reduced onetime costs related to the expansion of our European distribution network. Further, our various measures to improve unit economics and operating efficiencies are showing positive effects. Inflationary cost headwinds have also slowed down a bit, mainly for packaging and transportation.

These effects combined, we had a reduction of our fulfillment costs by 15% year-on-year. While we substantially lowered our marketing expenses again in Q2 '23/'24, we also continue to invest into our branded proposition as highlighted on Slide 7. COOPs with influencers continued to be a key driver with numerous drops from international artists. The Q2 COOP launches featured well on celebrities such as actress Millie Bobby Brown or basketball world champion, Dennis Schröder. In the last quarter, we also ran numerous campaigns with a strong emphasis on strengthening the ABOUT YOU brand and driving shop conversions. Further, we were leveraging ABOUT YOU branded events again to drive image and awareness. The ABOUT YOU Pangea Festival, for instance, took place in mid-August, spanning over 4 days and featuring a large variety of activities and artists. We also achieved a major milestone for SCAYLE. We've completed the already announced spin-off of the Tech business to further drive growth and flexibility. Since August 18, SCAYLE is now separately an entity within the ABOUT YOU Group. As shown on the left-hand side of Slide 8, we only separated the Tech part of the business to set up the new SCAYLE GMBH as a 100% SaaS company. SCAYLE Media, and fulfillment services will continue to be offered. This, however, as an integrated part of the ABOUT YOU branded service portfolio.

Currently, around 300 employees work for the newly founded SCAYLE Tech company and more than 140 domains are already powered by SCAYLE, with many more to come as SCAYLE continues to onboard enterprise clients. Let's now move on to our financial update, starting with our top line on Page 10. We grew our group revenue by 2.1% in Q2, which is a slight acceleration versus Q1 and corresponds to EUR 439.6 million in revenue. I'll take a closer look at our segments to analyze top line dynamics. Starting with DACH, where revenue was broadly flat in the second quarter. While consumer sentiment in Germany improved steadily throughout our Q1 '23/'24, we had to observe a reversal of this trend in the second quarter. This also negatively impacted revenue dynamics in Germany in Q2. Austria and Switzerland in turn showed a more positive revenue performance in Q2. In the Rest of Europe segment, revenue increased by 1.3%. It is a slight acceleration versus Q1 but of course, still below our own ambitions. We observed a relatively wide range of growth rates in the individual countries and regions in Q2 '23/'24. This is due to country-specific differences in macro factors, the varying impact on revenue from cost measures, comp effects from the prior year quarter and continued differences in the maturity of the markets. Moving on to our TME segment, where revenue declined by 3% in the second quarter.

Top line performance, however, varied across the different TME divisions. In Tech, revenue developed positively, driven by the go-live of new clients for SCAYLE. In Media, revenue declined as brand partners reduced their marketing campaign budgets due to the difficult market environment. And the Enabling segment on the contrary, revenue increased slightly, supported by moderate price increases for the Fulfillment by ABOUT YOU services. Let's now on to Page 11, where we see our customer engagement metrics for the commerce segments, which are all up year-on-year. We were able to grow our active customer base to 12.6 million in the last 12 months, which is an increase of 2.3% versus Q2 last year. LTM active customers are, however, slightly down versus Q1 '23/'24, which relates to the changing market environment we faced over the last 12 months as well as an increased cost focus. The average order frequency increased by 3.4%, reaching 3.1 transactions per active customer over the last 12 months. This positive development is supported by structural effects in the customer cohorts. Average order value stabilized as expected and increased slightly by 0.1% year-on-year. This is largely due to RRP increases and positive effects from unit economics measures. With that, let's move on to our bottom line on Page 12, where we can see the profitability improved strongly across all our segments.

But let's start again on the left-hand side of this chart showing our group adjusted EBITDA with a margin improvement of 700 basis points versus Q2 last year. Driven by our efficiency measures, the total year-on-year improvement of our adjusted EBITDA reached EUR 30 million in Q2. After the positive EBITDA in Q1 '23/'24, our EBITDA turned negative again in Q2, reaching minus EUR 12.9 million. This was expected and relates to the seasonality pattern of the business. Moving on to our segments. Our DACH business improved profitability, reaching an adjusted EBITDA margin of 1.9% in Q2 '23/'24, up from 0.4% last year. The increase was mainly the result of a decline in the fulfillment cost revenue ratio due to operational efficiency measures. A lower marketing cost to revenue ratio due to tighter marketing efficiency targets further supported the EBITDA margin. Moving on to our RoE segment, where we increased our adjusted EBITDA margin significantly by 820 basis points year-on-year. The main driver for the improvement were reduced investments in new market entry and scaling campaigns as well as the nonrecurrence of onetime costs related to the rollout of the European distribution network. Our RoE EBITDA still remains negative at minus 10.6% in Q2 '23/'24.

This results on one hand, from challenging market conditions in some of our RoE markets. On the other hand, we also continue to invest into growth and brand building in the top performing international markets. On B2B, our TME business achieved an improved adjusted EBITDA margin of 23.4% in Q2, up from 8.8% last year. The margin increase is largely driven by positive mix effects with a higher share of high-margin Tech revenues in the mix. Let's now move on to Page 13 and take a closer look at the key cost lines of the group. Starting with the gross margin, where we saw the expected decline versus Q2 last year. Gross margin is down by 410 basis points, reaching 35.1% in Q2 '23/'24. This, as our measures like the new 3P commission model and the increasing share of high-margin Tech revenues only partially offset the continued pressure on gross margin resulting from elevated inventory levels. Although we had a relatively slow start into the fall/winter season, we continue to expect inventories to further improve in the second half of the year. And we also expect a year-on-year improvement in the H2 gross margin from that despite a continued promotional environment. Next, our fulfillment cost ratio, which declined by 470 basis points to 23.8% as discussed in the business update section. I then move on to our marketing cost. Marketing cost ratio declined by 680 basis points to 9% in Q2 '23/'24. The decrease is mainly due to the reduction of market entry campaigns in new markets as well as a more conservative ROI steering. Lastly, our admin and other cost ratio increased by 40 basis points to 5.2%. This increase is largely due to positive onetime effects in the prior year period. Total admin costs continued to show a positive trend and are slightly down compared to Q1 '23/'24.

All these factors combined resulted in the increase of our group adjusted EBITDA margin by 700 basis points to a negative 2.9% margin in Q2 '23/'24. It is as the significant efficiency improvements in our marketing and fulfillment cost lines more than overcompensated remaining pressure on gross margin. Let's now take a look at our cash flow drivers on Page 14. Our net working capital remains in positive territory and it's at EUR 40.6 million at the end of Q2 '23/'24, which is an increase of around EUR 50 million versus last year.

This is because our stock turnover is not still back to where it should be and other net working capital levers are not yet fully compensating this. CapEx amounted to EUR 12.2 million in Q2, which is slightly above last year levels, mostly driven by investments in software and IT infrastructure as well as in influencer brands and incubators. Moving to our cash position on Page 15. When I first look at our operating cash flow, which is a negative EUR 31 million in Q2. The development is largely seasonal as it results from the negative EBITDA as well as working capital dynamics related to the inflow of the fall/winter collections.

CapEx translates into investing cash flow and our financing cash flow is at a negative EUR 12 million in Q2, largely driven by payments for our leasing agreements relating to our logistics network. We ended the quarter with cash and equivalents of EUR 148 million. This cash position in combination with the undrawn back up loan facility of up to EUR 97.5 million gives us enough liquidity buffer to flexibly navigate through the current environment. Let's now move on to the final section of this presentation, the financial outlook. Let's start with top line, where we are narrowing our guidance today to the lower half of the 1% to 11% growth range in FY '23/'24.

Our revenue guidance was based on the expectation of a steady improvement in the market environment throughout the year. Unfortunately, this is not what we currently observe as consumer sentiment moves back to a more negative trend and the market conditions remain challenging. Further, we are facing unusually warm weather conditions, which have caused a slow start into the fall/winter season with our September revenues down year-on-year. Top line comps should however slowly ease over the next months, and hence, we remain comfortable with the lower half of the guided growth range.

On the adjusted EBITDA, we are confirming our breakeven guidance on the back of a strong profitability improvement in H1. We continue to execute on our profitability measures and seasonality should further support profitability in H2. In Q3, we hence expect another strong year-on-year improvement in profitability, and we expect the adjusted EBITDA to return to positive territory again. Let's move on to CapEx and net working capital where our guidance remains unchanged. CapEx is expected to be around EUR 30 million to EUR 50 million in FY '23/'24, and net working capital is expected to remain broadly around the levels seen at the end of our FY '22/'23. With this, -- let me close our Q2 presentation. Thanks for joining us on this exciting journey to become a profitable growth company. I'm now looking forward to answering your questions. So moderator, handing it back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question comes from Anne Critchlow from Societe Generale.

Anne Critchlow - *Societe Generale Cross Asset Research - Equity Analyst*

(technical difficulty) to FY '24/'25 and how much you would expect 1P to contribute? And then my second question is about inflation, whether you're still seeing opening price mid-single-digit inflation for autumn/winter and also what you'd expect for spring/summer?

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Okay. Yes. Thanks for the question. I'm afraid I haven't gotten the first part. Let me start with the second part, and then we maybe repeat the first one. So inflation on RRPs, yes, we still expect a slight increase in Autumn/Winter '23 year-on-year. We had initially expected a further increase for Spring/Summer '24. This looks like this is not the case based on the latest figures from the orders coming in. So I would rather expect price levels to be -- like flat to maybe even slightly declining going into 2024.

Anne Critchlow - *Societe Generale Cross Asset Research - Equity Analyst*

And then the first question was about revenue growth and your expectations into FY '24/'25, whether you're still seeing double-digit revenue growth potential and how much you'd expect 1P buying to contribute to that? I guess you're buying for the 1P channel at the moment for spring/summer.

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Yes, clear. Yes, our ambition is to get back to double-digit growth levels. And we also think that's feasible towards '24/'25 if the environment improves. And we also continue to expect 3P to grow slightly overproportionately. And the key driver here is Fulfillment by ABOUT YOU. And this is deliberately so basically steering of the supply side and based on demand patterns that we see and of course, also agreements with.

Operator

The next question comes from Nicolas Katsapas from BNP Paribas.

Nicolas Katsapas - *BNP Paribas Exane, Research Division - Research Analyst*

I have 2, please. The first one is just on sort of near-term trading. I wanted to understand the weather and consumer sentiments, obviously, played a role in September being a bit weaker across the industry. Maybe you could confirm if that's true for you. But looking beyond that, how important do you think Cyber Week, Black Friday trading period becomes when September has been sort of so soft. And do you see some operational risk there, let's say, because you're sort of driving more sales into a shorter peak period.

And then I appreciate your thoughts on that. And then the last question I have is just on gross margins. How quickly you think you could recover back to your historical gross margin in your Fashion segment. Yes.

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. Thanks for the questions. So the first one on Q2 -- Q3 trading patterns. Yes, September was definitely challenging, driven by warm weather conditions and also deteriorating consumer sentiment.

So our top line was down in September. Indeed, now we need to see an acceleration in growth in October and November, to show positive growth rates in our financial Q3. We believe that's still possible. I mean it's going to be a challenge, but it's still possible and it's also possible from an operational perspective. So we do have definitely enough stock and fulfillment capacity to deliver on accelerated revenues in October and November now. And in terms of the gross margin...

Nicolas Katsapas - *BNP Paribas Exane, Research Division - Research Analyst*

Sorry, I was just going to interject, if maybe you could elaborate on Cyber Week and Black Friday, sort of you don't see any trouble or you don't expect there to be sort of overly intense Black Friday period based on what you just said?

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

No, not much more intense than usually. I mean I think over the last years, Black Friday peak has already flattened a bit given pre-Black Friday campaign patterns and so on. So it's not just the Cyber Weekend, which drives the peak. It's more like the entire November which is also healthy, I think, from an operational perspective. So I wouldn't worry about any bottlenecks on the operational side.

It's really more like the demand side, which at least presently is causing us a bit of a headache. And then on gross margin, I mean, principally, if the environment improves towards '24/'25, I think we should also be able to slowly get back to historical levels, that is not just supported by a more healthy inventory position, but by many measures that we have already implemented like new 3 commission schemes, higher share of high margin, B2B revenues in Tech and so on. So I think as soon as the environment improves, the demand levers are more in sync with inventory levels (technical difficulty).

Operator

The next question comes from Georgina Johanan from JPMorgan.

Georgina Sarah Johanan - *JPMorgan Chase & Co, Research Division - Analyst*

It was just a quick one on the gross margin, actually, please, because I remember that you've talked about how historically Q4 benefited effectively, I think, from some volume rebates, which are now spread more evenly through the year. At the same time, there's, of course, like an incredibly weak comparative when we go into Q4. So could you just help us understand like the underlying seasonality of the gross margin between Q3 and Q4, please, just to help with our understanding of that shape?

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. I mean the skewed profitability towards Q4 from these onetime bonuses and on, I think this has already been more like flattened in the last financial year. And generally speaking, in a normal environment, I would say, Q3 gross margin should definitely be higher than Q4, given that Q4 is end of season sale period. I think the pattern that we've observed last year that Q3 and Q4 were more or less in line was really related to the extraordinary external impacts and the consumer sentiment environment that we've seen there. So usually, Q3 should be above Q4 and this is, I think, also broadly in line at least with the historical pattern that we've seen also for the mature commerce segments.

Operator

The next question comes from Emily Johnson from Barclays.

Emily Johnson - *Barclays Bank PLC, Research Division - Research Analyst*

Hopefully, you can hear me. Apologies if any of these are repeats. My lines being a bit dodgy. The first question I had was just a quick one. How negative was September? Then my other question, one is on kind of general competition/consumer behavior. Have you seen any change in spending patterns over the last quarter or so. So for example, have you noticed any difference between price points or different brands on your own platform any change in external competition and the likes of Shein or Temu or any change in the use of credit or Buy Now, Pay Later products, for example. And then the second kind of bigger question was on fulfillment costs.

So you mentioned that you've seen deflation in some of those elements in the last quarter, which helped with your margins. Can you give a bit more color on those fulfillment cost decreases across the fixed and variable elements. So I'm particularly interested in your expectations for last-mile delivery costs into the second half of this year and into next year, given the wage increases at a lot of couriers and the increase in volumes from some of those international competitors that I mentioned.

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. So let's start with September. Yes, it looks like September revenues were down by a mid- to high single-digit percentage range. We do not yet have the full transparency. There's, of course, also uncertainty on returns and so on, but it looks like this will be the corridor. And then on consumer trends, behavior, I said, we definitely had a delayed start into autumn/winter, given the weather pattern, and this means also prolonged period of spring/summer end of season sale.

So I think promotional intensity was higher than usual, driven by the prolonged spring/summer period, but also by consumers more actively seeking discounts, which is also a pattern that we usually observe if consumer sentiment goes into more like a downward trend direction. So full price sales, not on a level as high as they should be for September. Could this be related to competitors? I don't think so. I mean, we definitely see these Asian players being very active in the market, and this is definitely something that we are taking seriously, but I think not at a scale that this would have an imminent impact now on our existing customer base in terms of how they shop.

And the last piece on fulfillment costs, it's not exactly deflation that we see. But I think more like inflation coming down, and this has been partly overcompensated by also increasing RRP levels in some categories. Last mile effects, I think mostly at least what we see, currently relate to more like relaxed fuel costs. And the described effects in terms of volume. I mean, some carriers, I think, are asking for extra fees for the peak period now in and around Black Friday. I think this is not really related to competitor volumes also. This is a general trend that we had also observed already over the last years.

Operator

The next question comes from Nizla Naizer from Deutsche Bank.

Fathima Nizla Naizer - *Deutsche Bank AG, Research Division - Research Analyst*

Great. I have 2 remaining questions from my end. The first is on the TME margin. It was exceptionally high in Q2. I just wanted to understand if we could continue at these levels the rest of the year? And could you remind us again the rationale behind making SCAYLE a separate legal entity? And have you seen any benefits as a result of the move already? And my second question is on the DACH market, it seems like online growth is stalling. Are you seeing off-line growth sort of accelerating on the ground when you look at sort of what's happening in reality? Are people shopping more but not shopping online? Or is it the overall market sort of deteriorating? Could you give us some color on maybe the dynamics that you're seeing in your largest market. That's it for me.

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Yes. Thanks, Nizla. So first on TME margin outlook. I think TME margin should continue on a positive trend year-over-year. whether it will remain exactly on the Q2 levels? I'm not sure given that there were also some positive onetime effects in the Q2. But the key driver is definitely the higher share of recurring Tech revenue. So I'm positive that we will continue to see a positive development year-on-year. Then next on SCAYLE -- legal entity, what was the motive? I think not just 1 motive. On the one hand side, we wanted to basically structure the operations or give more structure to the operations for tech and commerce here having this in a separate entity definitely helps also, of course, flexibility -- flexibility for the team, but also flexibility and optionality to potentially onboard further investors separately to SCAYLE in the future.

And I think that all goes quite well in terms of a team spirit in terms of execution. So the whole spin-off process went relatively smooth. So kudos to the project team. And I think also right now, we're at a point where we have 300 FTE team, (technical difficulty) management team driven and, yes, going for the next growth opportunities.

Switching gears to DACH, I presume, whether this is only online or off-line? It looks, at least to us, both channels are adversely affected by the current consumer sentiment trends. So it's not just online but presumably also offline, which is down in fashion more lately, which also, I think, is due to the unusually warm weather conditions, yes, but there's news that online is down by I think double digit in Germany for the calendar Q3, which seems high to me. I wouldn't expect off-line to be down by a similar degree.

Operator

The next question comes from Yashraj Rajani from UBS.

Yashraj Rajani - *UBS Investment Bank, Research Division - Associate Analyst*

So 2 quick ones from me, please. Just again on gross margin. So the first one is, you mentioned that there was some offset on the gross margin decline from change in commission tables and higher share of Tech revenues. Could you give us some color on what the quantum of that offset was so that we can get a sense of what the absolute decline was, just basis promotion. And the second question was more in terms of Q3 and Q4. Do you expect some of this to obviously annualize and continue? And what gives you confidence that you'll start to see some recovery in terms of promotion, given inventory levels obviously still remain very high?

Hannes Wiese - *ABOUT YOU Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. So I would estimate the 3P and higher Tech share, probably 1 to 2 percentage points uplift on the gross margin from that. I mean this is probably the combination of all the measures that we've implemented. It was not just 3P. So as mentioned, a slight increase in the Fulfillment by ABOUT YOU services. So gross margin support in 1 to 2 percentage points, which relate not to sale of goods, I would expect.

And the year-on-year improvement that we target for the H2. On the one hand side, that relates to comp effects from last year. So I think H2 '22/'23 was particularly low gross margin shape because of inventory pressure, even in higher consumer sentiment being even more down, unexpected.

And yes, all that kind of came together. So I think that's not the case right now. The current inventory position is somewhat elevated, but the composition and also the expected intake over the next months is definitely much healthier than what we've seen last year. So I would still expect a year-on-year improvement in the gross margin. That said, to your point, probably gross margin is not going to bounce back to normalized historic levels now in H2 given the arguments that we've discussed.

Operator

With this last remark, we will be ending by the Q&A session. Frank will address you with a few final remarks.

Frank Böhme - *ABOUT YOU Holding SE - Head of IR & Communications*

Let me close our presentation by saying thank you for your support and for joining us today on our conference call for Q2 2023/2024. If there are any further questions, please feel free to contact the IR team directly. We are looking forward to seeing some of you during our upcoming virtual roadshow. Have a good day. Bye-bye.