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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) I may now hand you over to Julia Stoetzel, who will lead you through this conference.

Julia Stoetzel - *ABOUT YOU Holding SE - Head of Investor Relations & Communications*

Good morning, everyone, and thank you for joining ABOUT YOU's Conference Call for the Third Quarter of 2021/2022. We're excited to have you all with us and hope you had a great start into the new year.

Please let me make a couple of introductory remarks. ABOUT YOU is today represented by our Co-Founder and Co-CEO, Hannes Wiese. My name is Julia Stoetzel, I'm Head of Investor Relations and Communications here at ABOUT YOU and I will guide you through the call today. Hannes will walk you through our Q3 results in just a second. The corresponding slides to this presentation have been published this morning on our IR website under the Publications section. After this presentation, he will be happy to answer your questions.

And with that, I will hand it over to Hannes.

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

Yes. Thanks, Julia. So today, we are following the usual agenda that is quick intro, update on our business, Q3 financials, outlook and Q&A. And we want to start our presentation again with a brief introduction to ABOUT YOU.

So what are we doing? First, we are digitizing the offline shopping stroll for the Gen Y and Z. We run an online fashion platform, but we're not only offering a large assortment at competitive prices and a great fulfillment experience. On top of that, we are creating an inspirational discovery shopping journey, leveraging our tech skills to create a personalized experience on the smartphone and our huge influencer network to create great content and entertainment. And that enables us to digitize the traditional offline shopping pattern, which had shaped the fashion industry over decades and centuries before.

And with that, we create incremental revenues for fashion brands. Due to our focus on inspiring customers to interact with fashion online, we generate buys that wouldn't have happened without ABOUT YOU. So from a brand perspective, we are not merely cannibalizing existing revenues. We can provide sustainable revenue growth for our suppliers, combined with strong branding opportunities tied to our discovery proposition.

On top of that, we provide the technology to help our partners grow their online business. In our heart, we're a Tech company. So aside our commerce business, we've developed a SaaS business, licensing out our proprietary technology to third-party brands and retailers. And that means that our revenues are not limited to transactions on ABOUT YOU, but also extend to the broader online fashion ecosystem. And with these 3 pillars combined, we believe we have the potential to disrupt future markets and establish leading position in the fashion industry.

And that is also what our vision is, continue to outgrow the market to become the global #1 fashion platform at one point in time. We are progressing on this journey as evidenced by our strong Q3 results. So let me take you through the highlights of our third quarter as a publicly listed company. Once again, we've shown a strong top-line performance with group revenues up 48% year-over-year. In a generally supportive but also volatile market environment, we've seen strong growth rates in all our 3 segments and high peak trading levels around Black Friday. Continued improvement in our core product and user experience translated into further uplifts in our customer metrics. Active customers are up 34% year-over-year to 10.7 million on the last 12-month basis. Average order frequency increased from 2.7 to 2.9 orders per year. And average order value increased to EUR 58.8 per order.

We continue to progress well on our international rollout. Our market entry campaigns in Southern Europe have created strong trading momentum in Q3 '21/'22 and generated record levels in new customer acquisition. Further, we've successfully launched the ABOUT YOU Global Shipping Platform in December '21, enabling us to test our commerce proposition in about 100 additional countries worldwide.

And also, our B2B segment is scaling fast. Our SCAYLE commerce engine continues to build prominence since its fresh rebranding campaign last quarter, contributing to a 109% year-over-year growth for our TME segment as a whole. As expected, our group profitability is negatively impacted by the one-off marketing investments in Southern Europe in Q3. Our adjusted EBITDA margin decreased to a negative 6% in Q3 '21/'22 versus a negative 4.1% in the third quarter last year. This is largely driven by campaign-related gross margin effects and marketing costs, which were not offset by improved fulfillment and administration costs.

On guidance, we want to reiterate our revenue guidance as we continue to expect to grow by 48% to 52% year-over-year. However, given another strong set of Q3 '21/'22 results, we believe it is now realistic to reach the upper half of this range. We are very confident to reach these goals as we see good results in our current trading, and we are well prepared to succeed in this volatile market environment.

For our adjusted EBITDA, we continue to expect a full year result of around a negative EUR 70 million as the incremental revenues are being utilized for further growth investments.

'21/'22 CapEx guidance increases to around EUR 50 million from previously EUR 34 million. This is due to slightly increased investments into our IT and logistics infrastructure as well as preponed investments from '22/'23.

Now let's jump right into our business update. This is a chart that many of you are familiar with summarizing our growth strategy along 4 key levers: core product improvement, footprint expansion, category optimization and scaling our TME business. And today, we want to give you another update on how we are progressing on these levers. So on to the product side where we want to start our business update with a recap of this year's Black Friday campaign. In comparison to previous years, the design of the 2021 campaign schemes was less centered around the Cyber Weekend as such. This gave us the opportunity to integrate app-only pre-campaign to push app-installs and to better exploit demand throughout the entire November.

As a result, we also slightly flattened peak demand on the Black Friday itself. Peak orders still increased by 42% compared to 2020, which means we processed 777 peak orders per minute in 2021. All in all, we would consider our 2021 Black Friday campaigns a success, although we perceive the market environment as not ideal. On the plus side, we've again reached a significant all-time high in revenues on Black Friday and we've acquired a record number of new customers. We had great system stability during peaks despite significant increases in traffic and order volume. And the previously mentioned app-only pre-campaigns generated #1 App Store rank in several of our key markets.

Negatives for Black Friday 2021 include an increasing Black Friday fatigue with consumers, that is we observed less of a hype around Black Friday than in previous years. Further, the entire November was characterized by increasing COVID cases and restrictions in many of our core markets, which caused volatile demand and consumer uncertainty. Maybe because of this, we also observed comparably high price elasticity around Black Friday with consumers gravitating towards higher discounted products.

Now let's move on to a clear positive, the result of our footprint expansion in Southern Europe. Our market entry campaigns in Italy, Greece, Portugal and France were all successfully executed and created great trading momentum in our Q3 '21/'22 as indicated by the chart on the left-hand side. The campaigns also generated an extremely high number of new customers. Our 5 markets in Southern Europe accounted for 23% of total new customers acquired in Q3 '21/'22 with relatively low customer acquisition costs for this scale. And our new Southern European cohorts are of great quality. Rolling 30-day frequency, that is the number of orders per customer in the first 30 days after initial transaction, is around 10% higher than the group average for our Q3 '21/'22 cohorts. We are seeing this great momentum continuing today, and hence we remain very bullish on the ramp-up of our new Southern European markets over the next years.

Another strategic footprint initiative for us is our Global Shipping Platform. An MVP version of it, that is a minimum viable product for our global proposition, has now been launched in December '21. So today, we can celebrate that a slim version of ABOUT YOU is available in English and Spanish language in about 100 countries outside of Europe. Orders are being fulfilled from our European network and we already see a strong order ramp-up from global consumers. And most importantly, we are generating very interesting data points on select countries and regions.

Now what will be the next steps here? Firstly, we are working to optimize the global proposition in a 360-degree approach, that is enlarging the assortment, optimizing customer experience, setting up new marketing channels and so forth. Secondly, localized test versions will be launched for promising regions, featuring, for instance, localized content, further optimized logistics and local payment types. Thirdly, based on the data points generated here, we will be able to take elaborate decisions on potential local investments in these regions. Throughout the process, we are ensuring the ABOUT YOU service quality worldwide, that is free shipping, convenient returns, secure payments and much more. We are looking very much forward to the next steps here, and we'll keep you posted on our insights.

Let's now move on to our supply side where we want to give you another brief update on the key effects that we see from supply chain disruptions. Key message is our view from the last earnings call has not changed and we continue to see limited effects on our business. If we look at the left-hand side of this chart, we see that our core assortment grew again by more than 40% year-over-year as per end of December '21. And the shape of our spring/summer '22 delivery curve is also in line with our expectations and compares relatively well to spring/summer '21 where the delivery rate was only 2% higher at this time of the year. That means we see some slight delays, but all in a manageable and expected range.

Another proof point for our well-working supply side is that we are ramping up our exclusive Co-ops in line with our plans as showcased by recent highlights on the right-hand side of this chart. We are increasingly serving a broad range of genres here ranging from top-tier influencers like Kendall Jenner over Local Heroes, Premium and Sports influencers. With that, we keep attracting diverse demand to our platform while creating even stronger connections with our customers. So, all in all, we continue to believe that the supply chain disruptions we expect will be rather an opportunity for us to accelerate market share gains because our business model has proven to be very robust in terms of volatile supply.

Moving on to our B2B segment with another update on the recently rebranded SCAYLE unit. Here, we've made significant progress on the product side with the release of a new version of our SCAYLE commerce engine. Major upgrade is an improved infrastructure set up running on Kubernetes and Docker containerized infrastructure. This new cloud infrastructure is fully automated and enables much faster setup times for our growing number of new clients. Further, we've integrated an add on store for external off-the-box integrations to fulfill client requirements much more flexibly and efficiently. And we've improved internationalization and localization features as well as the back-end navigation logic for our clients.

Good progress also with our SCAYLE go-to-market strategy. By partnering with leading agencies, some of which is showcased on this slide, we are growing our lead funnel and generate additional development capacities to integrate a growing number of new clients. Further, we are also growing our internal sales team. We've onboarded seasoned SaaS sales specialists, growing our SCAYLE sales team to a double-digit headcount with more than 8 years of average experience with renowned companies like Microsoft, SAP and Commercetools. And with these advances in our core product and go-to-market, we believe we are in very good shape to drive another strong wave of growth for our SCAYLE unit.

So far on our business update. Let's now talk about our financial performance in the third quarter '21/'22. On top line, we continue to see high growth rates across all our segments. But let's start with the group trading on the left-hand side of this chart. Following on an already strong Q2 '21/'22, we grew our revenues by 48% in Q3. This leads to a 55% growth in the first 9 months '21/'22, which corresponds to EUR 1.3 billion in revenues.

Looking at our segments. We continue to see healthy growth in our DACH region where our revenue growth accelerated to 27% year-over-year. This was largely driven by well-executed marketing measures, including the WOOHOO and Black Friday campaigns as well as the adjusted ROI steering on the back of strong customer lifetime values. Q3 growth in DACH could have been even higher if consumer demand had not been negatively impacted by COVID related restrictions and uncertainty in the second half of our third quarter.

In the first 9 months of this fiscal year, our DACH segment achieved a revenue growth of 31%, keeping up the strong growth momentum of last year.

Moving on to our Rest of Europe business. Despite a tough comp from last year and our increasing scale, our Rest of Europe growth accelerated quarter-on-quarter and achieved a year-over-year growth of 68% in Q3 '21/'22. Rest of Europe growth was enhanced by our market entry campaigns in Southern Europe, which effectively took place during this quarter. On a 9-month basis, our Rest of Europe revenues are up 75% year-over-year, which is in line with the guidance provided at listing.

On TME, our B2B segment continues its hyper growth momentum and generated remarkable growth of 109% in the third quarter. This is driven by several core product improvements, structurally higher revenues with existing clients as well as the acquisition of new clients. On a 9-month basis, our TME business is up by 136% year-over-year. This, however, still needs to be seen in the context of a softer 9-month '20/'21 when B2B spending was only starting to pick up from the adverse effects of the pandemic.

Once again, our Commerce growth is underpinned by our strong cohort data as we continue to see positive developments in all last 12-month customer metrics. Active customers are up 34% year-over-year from 8 million to 10.7 million, indicating the strong growth potential in the current footprint. Order frequency increased from 2.7 to 2.9 orders per year as a result of extended assortment, enhanced customer experience, higher brand awareness and cohort age structure effects. Average order value increased from EUR 56.1 to EUR 58.8 per order, largely driven by positive basket effects relating to COVID. While these effects are increasingly fading out, they remain visible, especially in the last 12-month perspective.

Moving on to our bottom line, which is characterized by significant growth investments in Q3. Let's start again on the left-hand side of this chart showing our group adjusted EBITDA margin at a negative 6% in Q3 '21/'22 versus a negative 4.1% in the third quarter last year. Key driver of this decrease are one-off effects from campaigns, which we will discuss in a second for the Commerce segment. On a 9-month basis, our group adjusted EBITDA is at a negative EUR 56 million, which is in line with our negative EUR 70 million guidance for the full year.

On segments, our DACH business continues to generate healthy margins despite our accelerated growth. Adjusted EBITDA margin in Q3 '21/'22 was 5.5% compared to 8.1% in the third quarter last year. The reduction in EBITDA margin is attributable to elevated marketing spend as a result of the ongoing adjusted ROI steering as well as one-off effects from the viral WOOHOO campaigns in DACH. For the first 9 months '21/'22, DACH EBITDA margin is at 5.8%, slightly below the 6.3% in the same period last year.

Moving on to our Rest of Europe segment, where we see the expected effects of the market entry campaigns in Southern Europe. These campaigns were huge successes in brand building and new customer acquisition, but they also created one-off effects on profitability, which becomes visible in our Q3 '21/'22. As a consequence, our Rest of Europe Q3 '21/'22 margin is at a negative 21.1%, which is on a similar level to Q3 last year. On a 9-month basis, our Rest of Europe EBITDA margin is slightly up to a negative 18.4%.

On B2B, our TME business achieved a strong EBITDA margin of 14.6% in Q3, up from 4.3% in the same period last year. All our 3 TME business lines continue to scale profitably as the high gross margin revenue streams scale against the predominantly fixed cost basis. The extraordinary costs of the SCAYLE rebranding this quarter could be overcompensated by these scale effects. On a 9-month basis, adjusted EBITDA margin for TME was at 14.6%, representing a strong increase compared to the first 9 months last year.

Let's now take a look at the key cost lines. Starting with the gross margin where we see a decrease to 38.9% in Q3 '21/'22. This decrease is largely driven by one-off effects like the market entries in Southern Europe and the viral WOOHOO campaigns, which both leverage promotions and price reductions to acquire new customers. Further, as mentioned previously, we observed relatively high price elasticity around Black Friday, which also adversely affected gross margins. On a 9-month basis, gross margin is up by 1 percentage point versus last year, reaching 39.8% in the first 9 months '21/'22.

Next, our fulfillment cost ratio reached 18.8% in our Q3 this year and 19.4% for the first 9 month '21/'22. This means that our fulfillment cost ratio has been reduced by 0.3 percentage points year-over-year and is down by 0.8 percentage points on a 9-month basis. Positive drivers were: firstly, revenue mix effects, including a higher share of 3P dropshipping and B2B sales with lower fulfillment costs; and secondly, a continued high utilization as well as economies of scale in our logistics network.

Marketing costs rose relative to revenue, reaching 21.2% in Q3 '21/'22. This is largely driven by the large-scale investments for our market entry campaigns in Southern Europe and, to a lesser extent, also the increased marketing spending in DACH as a result of the adjusted ROI steering. On a 9-month basis, marketing cost ratio increased by 2.6% ratio points to 19.5%, reflecting the continued investments in brand building and new customer acquisition this year.

Lastly, admin and other costs continue to benefit from economies of scale and cost discipline within the entire group. This has led to admin cost levels of 4.8% of revenues in Q3 this year, an improvement of 1.6 percentage points versus last year. On a 9-month basis, our admin cost ratio was 5.1% of revenues, an improvement of 1 percentage point year-over-year. All these effects combined resulted in a decrease of our Group adjusted EBITDA margin by 1.8 percentage points to a negative 6% margin in Q3. For the first 9 months '21/'22, our adjusted EBITDA margin was negative 4.2%, an improvement of 0.2 percentage points compared to our first 9 months last year.

Let's now take a look at our cash flow drivers. Our net working capital remains negative and is at a negative EUR 47 million at the end of Q3, which corresponds to a negative 3% of last 12-month revenues. Our capital expenditures amounted to EUR 10 million in Q3 '21/'22 and EUR 29 million on a 9-month basis. This is a significant increase versus '20/'21where 9-month CapEx was around EUR 10 million. The CapEx increase is driven by investments into our growing IT and logistics infrastructure as well as company building and M&A activities.

Moving on to our cash position. Let us first look at our free cash flow, which is at a negative EUR 76 million for the first 9 months '21/'22. This cash out is largely driven by the market entry and growth investments, which are visible in our Q3 operating cash flow. Our financing cash flow is at EUR 551 million for the first 9 months '21/'22. This includes IPO proceeds of EUR 637 million as well as the repayment of shareholder loans of EUR 75 million. We ended the quarter with cash and equivalents of EUR 583 million. This gives us a strong liquidity position to execute on our growth plans and in addition, leaves enough flexibility to pursue potential growth opportunities on top.

Moving on to our guidance for the financial year '21/'22 and our medium-term outlook. As we mentioned earlier, we have updated the outlook for our revenue range. We continue to expect to grow our group revenue by 48% to 52% year-over-year and to reach revenues of EUR 1.725 billion to EUR 1.775 billion. However, given the strong results in our Q3 '21/'22 and the good trading we see at the moment, we now believe it is realistic to reach the upper half of this revenue guidance range.

For our adjusted EBITDA, we reiterate our full year guidance of around a negative EUR 70 million. That is because the incremental revenues from the latest guidance upgrades are being utilized for further growth investments. CapEx for '21/'22 is now expected to increase to around EUR 50 million versus the previously stated EUR 34 million. As a reminder, CapEx for the first 9 months 21/'22 was at EUR 29 million, meaning we expect elevated CapEx for Q4 '21/'22 resulting from our growing IT and logistics infrastructure as well as preponed investments for '22/'23. Our net working capital is expected to remain negative in the low single-digit area as a percentage of revenues.

We would like to conclude our presentation with our medium-term outlook. We have communicated at listing that our medium-term group revenue target is EUR 5 billion for our financial year '25/'26. With the development we're seeing at the moment with strong results in all our 3 segments, we are now even more confident that we are well on track to achieve this EUR 5 billion revenue goal.

I would like to finish this presentation by thanking you all for your time today and also for your trust in us to deliver on our plans. We are now looking forward to answering your questions. So, moderator, can we start?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question. It's from Nizla Naizer, Deutsche Bank.

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

I have 3 questions from my end. The first is when you look at the strong growth you've reported in the Rest of Europe segment, could you kindly break it down for us and tell us, if you exclude the new market launches, what's the underlying growth in your historical Rest of European markets? How profitable have they been? Some color on the drivers there would be great.

Secondly, on the B2B businesses, Tech, Media and Enabling, how fast each of those components is growing? And within Tech, could you give us some color as to how many new customers you've been able to add? And if the geographic split has also changed over the last 3 months? Some color there would be great.

And the last question is on your Kendall Jenner collection. This is the second one you've done this year. How successful has it been? Would you want to consider continuing the sort of global influencer-led collaborations? And how meaningful is it to your financials?

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

Yes. Many thanks for the questions. Let me start with RoE then. So if we exclude the Southern European markets, the other regions have probably grown in a 40% to 50% corridor. So also here, we continue to see healthy growth. And in these territories, we can subdivide or distinguish 2 different types of P&L profiles. There are several markets with higher maturity that show P&L characteristics similar to DACH, so growing 20% to 30% EBITDA positive. And also in these markets, however, we have some which are less mature, which still grow significantly more than 50%, sometimes even 100% plus and are still in a heavy investment stage. And this then altogether, including the Southern European markets, leads to the profile of the RoE segment as of now.

And the second question related to TME. We are actually seeing strong growth in all 3 business lines, so for Tech, Media and Enabling. We are also adding continuously new customers for all 3 business lines. For Tech in the Q3, I believe we have a acquired a mid-single-digit number of customers. For Media and Enabling the number would probably be even higher. And for Tech, geographical split continues to be centered around DACH or, let's say, DACH and some surrounding countries. But this is expected to change now with the more aggressive go-to-market strategy, which also includes increased international sales efforts for SCAYLE.

Third question on Kendall, also the 2nd drop, we would consider very successful, both on the customer front. This has led to very high levels of new customers, strong uptake in trading and also positive branding effect. And also, we continue to see positive effects for our whole influencer ecosystem. So the onboarding of further top-tier influencers is, of course, eased by the number of collaborations that we're having with such top-tier influencers. And hence, also for the future, we would expect to continue collaborations with top-tier international influencers, not necessarily Kendall Jenner now with the second drop being over, but we are also already in the progress of onboarding further top-tier influencers for the next 1 to 2 seasons.

Operator

The next question is by Olivia Townsend, UBS.

Olivia Townsend - *UBS Investment Bank, Research Division - Analyst*

I have 2 questions, please. My first question is on the fulfillment cost ratio. So back at IPO, you were talking about expecting a sort of slight increase in fulfillment cost ratio on internationalization, but we've obviously seen a few market launches this year and the ratios have continued to decline. So I appreciate there are other factors as you mentioned in your remarks, but I'm just wondering should we no longer expect an increase in the ratio next year? Is that something that might happen further out or not at all?

My second question is on marketing cost ratio. So as you explained, the uplift relating to some of the changes that you've made to the returns in the DACH region as well as internationalization. But on the DACH region, I'm just wondering how short term sort of is this increase in marketing spend on those adjustments? Would you expect there would be a similar ratio in Q4 and then into Q1 as well, please?

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

Yes. Sure. Thanks for the question. So on fulfillment costs, the increase that we expect relates to the rollout of our European network, so increased complexity induced by a growing number of distribution centers and also return centers. We would continue to expect a slight increase in the fulfillment cost ratio also for the future. The positive development that we are seeing right now is that we are only just in the progress of rolling out this network. So the complexity effects have not yet materialized. And at the same time we, of course, see very high utilization in the existing facilities. And what further adds to this is there's also an elevated share of 3P dropshipping assortment, which have very low fulfillment costs.

And the second question regarding marketing costs. So this ROI steering in DACH, this is continuously being reviewed in relation to both the customer lifetime development that we see, but also the current customer acquisition cost. So it's actually a response to the current market environment. And right now, I would not expect the elevated marketing spend to be of long-term nature. But as I said, that is constantly being reviewed and this is more like a day-to-day decision that we take rather than a strategic one.

Operator

The next question is by Anne Critchlow, Societe Generale.

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

I've got 3 questions. So the first is on the returns rate. If you could just comment what you saw in terms of the product returns rate in the third quarter? And how you expect that to trend into the fourth quarter?

Second question on inflationary pressures. I think you commented already about marketing, but looking also at courier costs and also warehouse labor costs, if you could comment on any pressures you're seeing there.

And then third of all, just thinking about price inflation. I think you said last time that you expected moderate price inflation for spring/summer, and presumably, you would pass that on to customers, trending to high-to-mid-single-digit inflation for autumn/winter. So if that's changed at all, please, could you update us.

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

Sure. So on the returns, we are seeing for the group a continuous decline in returns or return rates, which is primarily due to our international expansion. So we are seeing structurally lower returns in our rest of European markets than in DACH and the increasing share of Rest of Europe then also contributes to globally lower return rates. If we look at returns on a like-for-like basis, so same country, same consumer demographic, same category, same price points and so forth, we are seeing that returns increasingly convert to pre-COVID levels, and that's also relatively stable. So the volatility on the returns on a like-for-like basis, at least as of now, is relatively low. And we are slightly below pre-COVID levels like-for-like, but the data is really marginal. So I would consider this almost to be a tailwind that has ceased.

And the second question on inflationary pressure on OpEx. Certainly, there are some effects here, but we would expect them to be offset also by effects that we see on the RRP side. Luckily, we also have several contracts with service providers that kind of protect us against the overproportional increase in OpEx costs due to inflationary pressures. So for us, for the next 1 to 2 years, we wouldn't expect material adverse effects from inflationary cost pressures. And on the pricing side, we can confirm the statement of the last earnings call where we said for summer '22, we expect low-to-mid single-digit RRP increases year-over-year. And for autumn/winter '22, maybe slightly higher, more like in the mid- to high-single digit year-over-year increase range. This view hasn't changed and is also backed by growing number of data points that we gather around supplier pricing.

Operator

The next question is by Georgina Johanan, JPMorgan.

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

I've got 3, please. The first one was on the gross margin outlook for the final quarter. I mean given your comments around the higher pricing activity that's been experienced at the moment amid COVID restrictions, how should we be thinking about gross margin trends in Q4, please?

My second question was around, you've referenced a couple of times the high dropshipping proportion. Now is that actually trending upwards then, i.e., is fulfilled by ABOUT YOU trending down? And if so, could you just provide some color on that, please, because I thought the trend was expected to go in the opposite direction.

And then final question was, you referenced with regards to the TME business that you're working with some external agency. I just wondered, is that because some of your clients are asking for services that you cannot yet provide and hence you're using these other parties? Or is it more that demand is so strong and you just need support to ensure kind of continued rollout? Any help with understanding that would be appreciated.

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

Sure. So firstly, on the gross margin for Q4, we need to distinguish 2 effects. I think, first, price elasticity, we would expect this to sustain at least as long as COVID-related uncertainty sustains and restrictions sustain. So that's, at least in our view, maybe a slight headwind for the Q4. On the other hand, in the Q3, we had several one-off effects from campaigns, so induced by our own marketing and companion activity, especially in Southern Europe, but also in DACH. And these effects we will probably not have to such an extent in the Q4. So our expectation would rather be that gross margin in Q4 improves versus Q3 on a net basis.

Then the second question relating to dropshipping versus fulfilled by ABOUT YOU. So we've seen a continuous increase of fulfilled by ABOUT YOU within the 3P revenues. So that has not changed. But 3P as a whole has increased quite significantly in the Q3 as well, which also always is the case when we see volatility in demand as induced by COVID, for example. So demand being volatile, shifting from going out to more like leisure categories and so forth. This then always triggers an increase in 3P, which then also favors not only fulfilled by ABOUT YOU, but also dropshipping revenues in total.

And the third question was on the agencies that we are collaborating with. That's basically 2 main goals here. The first is that we are outsourcing part of the integration efforts for new clients, so basically connecting our SCAYLE commerce engine to the back-end systems of our clients can be done by third-party agencies, which gives us the opportunity to scale faster in the end. And it's also, as a second component, a sales channel. So we are also acquiring new clients via these cooperations with external agencies given they are a large network and contact with potential B2B clients.

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

And just a clarification question, if I may, on the gross margin. Because I think seasonally, we would naturally expect it to be higher in Q4 versus Q3, but you are expecting to see it down on a year-on-year basis in Q4. Is that correct?

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

We are expecting a quarter-over-quarter increase. So the Q4 gross margin is expected to be slightly higher than the Q3. And that is due to the onetime effects that we've seen now in the Q3 coming from campaigning activity and so forth. This will be not as pronounced in the Q4.

Operator

(Operator Instructions) There are no further questions. And so I hand back to Julia Stoetzel for a few final remarks.

Julia Stoetzel - *ABOUT YOU Holding SE - Head of Investor Relations & Communications*

Let me close our presentation by saying thank you for all of your support and for joining us to today's presentation. If there are any further questions afterwards, please feel free to reach out directly to the IR team. We're looking forward to seeing some of you during our upcoming roadshow. Have a good day, and bye.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.
