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YOUG.DE - Q3 2024 ABOUT YOU Holding SE Earnings Call

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## CORPORATE PARTICIPANTS

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

**Hannes Wiese** *ABOUT YOU Holding SE - Co-CEO Operations and Finance*

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. Thank you for standing by. Welcome and thank you for joining the conference call of ABOUT YOU. (Operator Instructions) Being my pleasure to turn the conference over to Frank Böhme, Head of Investor Relations and Communications. Please go ahead.

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

Good morning, everyone. And welcome to our Q3 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 Q3 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.

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**Hannes Wiese** - *ABOUT YOU Holding SE - Co-CEO Operations and Finance*

Yeah. Thanks, Frank. And good morning to everyone also from my side. Today, as usual, we're focusing on the following topics: For business update, followed by Q3 financials, the outlook section, and we'll close this call with Q&A.

Let's directly jump into our business update starting on page 4 with the key takeaways of the third-quarter '23/'24. We have delivered on our profitability targets for Q3. From adjusted EBITDA improved by more than EUR60 million year on year, and reached EUR19.8 million in Q3. Revenues remained broadly flat at EUR551.9 million despite a challenging market environment and a delayed start into the fall-winter season due to unusually warm weather conditions.

Gross margin increased by a strong 490 basis points to 40.3%, driven by self-help profitability measures, revenue mix effects, and an improved inventory composition leading to lower discount levels. This, combined with strict operating cost control, has led to a significant profitability improvement across all our segments. In DACH, the adjusted EBITDA margin increased by 590 basis points and an ROE by more than 1,000 basis points year on year.

TME, the adjusted EBITDA margin more than doubled to 38.3% in Q3. We are also reporting a strong free cash flow generation of EUR93.1 million, driven by the improved EBITDA and measures to optimize working capital and CapEx. The seasonality of the business, with the sell-out of the fall-winter collection and revenue peaks around Black Friday, further support a free cash flow generation in Q3.

On the back of the positive adjusted EBITDA of EUR11 million in the first nine months of FY '23/'24, we confirm our adjusted EBITDA guidance to reach break-even on group level. Considering the rate of muted revenue growth in the first nine months of FY '23/'24 and a continuously volatile market environment, we now have expected revenue growth to come in around the lower end of the initially guided 1% to 11% growth range.

Let's dive into our business update on slide 5 with another look at the macro environment. We have seen moderate slowdowns in inflation rates across Europe. Consumer confidence however, further contracted in September and October and only slightly improved in November. In this challenging market environment, we continue to focus on driving gross margin and operating cost control measures instead of chasing growth opportunities.

We hence delivered a substantial improvement in our group adjusted EBITDA of more than EUR60 million year on year. And the EBITDA improvement is entirely driven by efficiency measures as revenues remain broadly flat year on year.



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An important driver of Q3 results was the successful execution of this year's black period in November as summarized on page 6. We recorded the highest Black Friday season revenue ever, while at the same time, increasing the profit contribution of the campaigns. During the two-week campaign period, we've reached more than 50 million users via social media, and record of around 2 million orders. These strong KPIs were the result of a flawless execution from our teams, cold weather conditions across Europe during the black period, and a high number of price-sensitive customers seeking Black Friday deals.

Despite tight cost controls from the marketing cost line, we decide to continue to invest in brand building also in the third quarter with several new and mostly digital initiatives as highlighted on page 7. One example is the ABOUT YOU Shoppery campaign in October. In several European markets, customers had the chance to become a millionaire by ordering concessioning our online fashion stores during a one-week period. For every net euro ordered, customers were automatically enter into a lottery for a chance to win EUR1 million.

The campaign created a lot of buzz in social media, produced incremental high-basket orders, and more than regained the lottery invested. Additionally, we've been inspiring customers at home with large-scale branding campaigns across numerous TV stations and digital channels. These traditional campaign formats were accompanied by numerous new Coop launches in Q3, including supermodel, Tony Garrn; and the creators Millane Friesen and Marie von Behrens

Let's now move on to our financial update, starting with our top line on page 9. The revenues came in at EUR551.9 million, which is a slight delta of a negative 0.5% versus Q3 last year. The revenue development at the beginning of Q3 '23/'24 was negatively impacted by unusually warm weather conditions, leading to a delayed sellout of the fall-winter collection. Revenue dynamics improved throughout Q3, supported by colder weather conditions and the successful Black Friday campaigns, which we discussed in the business update section.

Let's now take a closer look at our segments and our top line dynamics in Q3. On DACH, where revenues declined by 7% in the third quarter. This development is largely driven by the German market with low consumer sentiment weighed on spending. Austria and Switzerland in turn, showed a better top-line performance. Cross all DACH countries however, revenue dynamics in Q3 have also to be seen in the context of a significantly improved EBITDA versus last year and the various profitability measures which drove this improvement.

The rest of Europe segment, revenue increased by 7.1%, compensating for the decline in DACH. Revenue growth was fueled by the CEE region, driven by improving consumer sentiment in key markets and successful Black-week campaigns. In the Nordics and Southern European markets, we again observed a relatively broad range of country growth rates due to different impacts of the cost reduction measures on country level.

Moving on to our TME segment, where revenues declined by 3.6% in the third quarter. Top-line performance however, varied across the different TME divisions. In tech, revenue developed positively driven by the acquisition and go-live of new business customers for SCAYLE. In Media, revenues were flat to slightly declining as brand partners reduced their marketing campaign budgets, and rather focus on measures to drive immediate revenue growth.

Our Enabling revenues, however, showed a moderate decline year on year, largely driven by the relatively soft volume development on ABOUT YOU, as well as the elimination of loss making Enabling revenue streams.

[8:09] I'd now move on to page 10, where we see our customer engagement metrics for the Commerce segments. The number of active customers declined by 0.9% to 12.4 million in the last 12 months. This decrease is broadly in line with expectations and primarily driven by the shortening of break-even target for newly acquired customers and the measures introduced to increase the profitability of existing customers. Average order frequency increased by 1.6%, reaching 3.1 transactions per active customer over the last 12 months. This development is supported by age structure effects of the customer cohorts. The LTM average order value increased by 1.2% year-on-year to EUR56 per order. The increase is largely due to our unit economics measures as well as higher RRPs and lower discount levels.

With that, let's move on to our bottom line on page 11, 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. As expected, our adjusted EBITDA margin turned positive again and reached 3.6% in the third quarter of '23/'24, driven by our efficiency measures. The total year-on-year improvement of our Group adjusted EBITDA amounted to more than EUR60 million in Q3.





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Let's take a closer look at the key drivers from a segments perspective. Our DACH business improved profitability by 590 basis points, reaching an adjusted EBITDA margin of 4.3% in Q3. The increase was the result of a lower level of discounting compared to the prior year period and continued tight cost control.

Moving on to our RoE segment, where we increased our adjusted EBITDA margin significantly by 1,310 basis points year-on-year. The main drivers for the improvement were lower expenses for marketing measures as well as the non-recurrence of one-time costs related to the rollout of the European distribution network.

On B2B, our TME business more than doubled its adjusted EBITDA margin to 38.3% in Q3, up from 15.6% last year. The margin increase is largely the result of positive mix effects with a higher share of Tech and Media revenues, as well as general cost discipline and the elimination of loss-making revenue streams.

I'd now move on to page 12 and take a closer look at the key cost lines of the Group, starting with the gross margin, which increased by 490 basis points to 40.3% from admittedly low levels in Q3 last year. The increase was mainly driven by a lower need for clearance, given an improved inventory position at ABOUT YOU and a reduced promotional intensity in the online fashion industry more broadly. The introduction of new commission model for brand partners, price adjustment for the FbAY business model and the increased share of high-margin Tech and Media revenues in the TME segment, further supported gross margin increase.

Next, our fulfillment cost ratio, which declined by 300 basis points to 20.4% in Q3. The decrease was primarily attributable to the absence of one-time costs relating to the rollout of our European distribution network. Further our measures to improve unit economics and softening inflationary dynamics, helped us realize these efficiency gains. Let's move on to our marketing costs, which declined by 390 basis points to 12.4% in Q3. The decrease was mainly due to the pausing of large-scale marketing events as well as a more conservative ROI steering.

Lastly, our Admin and other cost ratio increased by 50 basis points to 4%. The increase is largely due to organizational measures as well as positive one-time effects in the prior year quarter. All these factors combined resulted in the increase of our Group adjusted EBITDA margin by 1,140 basis points to a positive 3.6% margin in Q3 '23/'24..

Let's now take a look at our Cash Flow drivers on page 13. Our net working capital turned to a negative EUR46.5 million at the end of Q3 '23/'24, which is a decrease of around EUR40 million versus last year. This results from various working capital measures as well as cut-off date effects around Black Friday. CapEx amounted to EUR3.7 million in the third quarter, which is a significant reduction versus last year levels. The development is partially driven by the net representation of loans where partial loan repayments contributed to the reduction on top of lower investments in software and infrastructure.

Moving on to our cash position on Page 14. Let us first look at our operating cash flow, which is at a positive EUR96.8 million in Q3. The development largely resulted from the positive EBITDA as well as seasonal working capital effects, related to the sellout of the fall/winter collections and Black Friday revenue peaks. Given low CapEx Q3, operating cash flow almost entirely translates into a high Free Cash Flow of EUR93.1 million for the quarter. Financing cash flow is at a negative EUR11.7 million, largely driven by payments for leasing agreements relating to our logistics network. We ended the third quarter with a very strong cash and equivalents balance of EUR229.6 million. This cash position in combination with the undrawn back-up loan facility of up to EUR97.5 million gives us enough liquidity buffer to flexibly navigate to the current environment.

Due to seasonality of the business, with the inflow of the spring/summer 24 collection at Q4, we, however, expect a year-end cash position to be below the level reported in Q3.

Now move on to the final section of the presentation, the financial outlook. I'll start with top line, where we are further narrowing our guidance today to around the lower end of the 1% to 11% growth range in FY '23/'24. We are narrowing the topline guidance due to the weaker than anticipated revenue growth in Q3 and the trading pattern observed to date in Q4. We have recorded topline growth in December, but trading remaines relatively volatile, and it's still too early to commit to the substantial acceleration in growth, which will be needed in Q4 to post meaningful growth in FY '23/'24, while the adjusted EBITDA, we are confirming our break-even guidance for the full year on the back of EUR11 million, adjusted



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EBITDA generated in the first nine months. For Q4, we expect adjusted EBITDA to come in slightly negative, but with another healthy improvement year over year.

Let's move on to CapEx and net working capital where our guidance remains unchanged. Capex is expected to be around EUR30 to EUR50 million in FY '23/'24 and net working capital, it is expected to remain broadly around the level seen at the end of our FY '22/'23.

With this, let me close our Q3 presentation. Thanks for joining us on this exciting journey to become a profitable growth company now look forward to answering your questions. So moderator, handing it back to you you very much.

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## QUESTIONS AND ANSWERS

**Operator**

Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star and if you wish to remove yourself from the question queue, you may press star in the interest of time. Please limit yourself to two questions or anyone who has a question may press star and one One moment for the first. Our first question today is from And Chris, please go ahead.

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

Thanks.

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**Hannes Wiese** - *ABOUT YOU Holding SE - Co-CEO Operations and Finance*

Good morning all and thank you for the presentation. I've got two questions, please. The first one is on gross margin. And please could you quantify the impact of business mix within the gross margin increase?

And then secondly, just on the pricing outlook for spring-summer 24, do you still see this as flat to slightly down? Thank you.

Yes, thanks for the question.

So on the gross margin, I would say three factors drove the improvement. And one is indeed mix, which I would say roughly contributed a third of the improvement and then secondly, lower discounts due to improved inventory composition, which is another third.

And then the last a third, I think comes from a set of measures to the many measures that we actively implemented improved gross margin and profitability on the pricing outlook?

Yes, I think we can confirm that from so a broadly flat to maybe slightly declining RPU levels for Spring Summer 24. That's our current view. We're seeing some third party brand suppliers, some categories well, we indeed would expect a slight decline in RRPs, but some drop remains rather flattish.

Thank you very much.

Next question is from Emily Johnson from Barclays. Please go.

Hey, and I've got two questions, please. And the first one is you referenced the positive trend in December? And is there any color that you can give in terms of the size of the improvement in November and into December by kind of DOC and rest of Europe to get a sense of the exit rate and the momentum that you have noted that the kind of unseasonable weather and the consumer sentiment has it improved slightly and helpful to





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get a gauge of the size of the improvement there? And second question is, can you talk about your inventory build into spring summer and potential disruptions in the Red Sea and increased freight costs. Are you seeing any disruption already? Do you have any plans to change anything around the size or timing of your inventory build to mitigate any potential problems here?

Thanks.

Yes, thanks for the questions.

On the first piece on trading dynamics, more recently in November, we've indeed recorded healthy growth of high single digit percentage rates. So that look quite good in December, we've also recorded growth, but here more like in the low to mid single digit percentage range. And this pattern, I think it is consistent broadly across regions, although of course, on a reportedly lower levels. So the spread between dark and rest of Europe and of course also translate. And for inventory in spring-summer 24, we would actually expect our inventory position to continue to improve both in absolute terms and also in terms of the composition. And we're not seeing any major risks on the on the third party side, where our business is somewhat protected versus short-term volatility in freight. And so nothing really to call out here and also the the current contracts in the Red Sea. And I think this were the sort of other have minor impacts and moderate moderately less expected from that?

I hope this answers the question, so knows our next question is from Yes, Rod rod, Danny from UBS.

Please go ahead and thank you for taking my questions and congratulations on the results this morning. I have two questions, please. So the first one is just to follow up on Emily's question. So I think, again, given how we've seen Germany trading in Q3 and also following that in December, do we still remain confident that we can return to double-digit growth in calendar 24. And if so, I mean, again, any color on the drivers would be super helpful. And the second question is on marketing, right? So again, how do you think about marketing in calendar 24 because obviously with no return to growth, I mean, we probably have to spend a little bit on marketing. So I think again, should we sort of expect that to stabilize at the nine month run rate of between 10.5% and 11% or and do you think there'll be some improvement from that as a? Thank you.

Yes.

Thanks for the question.

So our ambition remains to get back to a double-digit growth rate in the future for the group. And that is was always tied to an improvement in the market environment. And that is not really what we're seeing at present, as discussed some. So that makes it challenging to get to these double-digit growth rates very near term. However, even in this unsupportive environment, our ambition would remain to accelerate growth into next year and also to deliver on a further improvement of profitability. But please excuse that we can't give very specific guidance on this at this point is what then happened in the course of our full year release in May 24.

And on marketing, we would actually expect a slight step up. So that increase in the marketing cost to revenue ratio for next year. And that is also somewhat visible now in the in the Q3 '23/'24, where we've seen a higher cost revenue ratio versus Q1 and Q2. And this, on the one hand side is driven by improved unit economics and improved COV projections from that. As always, when we see a higher CLV projections, we can invest more into customer acquisition in our gearing at a given a breakeven horizon for new customers.

So that's one sector.

And the other is, of course, also that we are in other cost lines, generating savings from all of our profitability measures, which also gives room for some a slightly elevated marketing spend this year, given a also somewhat improved.

I'm surprised that sequentially so much.

That's super helpful. Thank you.





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Next question is from Georgina Johanan from JPMorgan. Please go ahead.

Good morning and thanks for taking my questions. I've got two as well, please. And the first one just following on with regards to improved profitability into next year. And of course, completely appreciate that it's an early stage to be to be getting sort of detailed guidance, but just in terms of what would be driving that, if you're expecting marketing actually to sort of move up a little bit as a percentage of sales next year? Is it kind of ongoing recovery of the gross margin that will be driving that? Or is it something else, please?

And then second question was just answered. I know you talked about sort of obviously changing some of the rate cards with partners and so on, which has been one of the drivers of improved profitability. How are your partners feeling about that at the moment? And what's the latest kind of dialogue with them in that regard, please. Thanks very much.

Yes, Charles, thanks for the questions.

And so on the profitability part and that that would be driven by several factors. On the one hand, slight slight operating leverage from moderate growth expectations into next year.

Then we will also have full year effect from the profitability measures which we've introduced on over the course of this year.

And which will then have their full effect in the next financial year. To your point, we also expect further improvements in the gross margin from a further improvement in the inventory position and then there are also further measures which we have on our mid to long list that we are executing right now and that we plan to execute for the next year to further drive improvements in unit economics and fixed cost lines. It's a mix of ours, external factors, but mostly most you have matters.

And then I assume the question relates to 3P partners and the changes in the commission and pricing scheme that we've implemented. And our discussions here are going definitely in a very good direction. So I think our partners are happy with operating models that we provide. They also see their own P & As healthy and sustainable, we're also providing a very flexible tool set in terms of marketing visibility measures so they can and steer their contributions and also to a large extent, by themselves contribution in campaigns, participation in campaigns and so on. So I think with the overall tool set and with the commission and pricing scheme that we provide, our partners are happy overall, it is that the feedback that we're getting at this point.

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star and our next question is from nice La Maison from Deutsche. Please go ahead with your question.

Okay.

I hope you can hear me and just have two questions as well. The first is on the competitive environment and just trying to understand with the agent growth in Q3 was down 7% or was there any step-up in competition that contributed to that as well? Or did the entire market for to see a similar sort of trajectory? Any color you can give us there would be great. And also whether competition is still highly promotional Or has everyone sort of reached a sensible inventory level? Any color you can give us that in the current condition would also be great. And my second question is on seasonality in Q4. When it comes to the cost items, could you remind us again how margins could trend in Q4 versus Q3, so where you have an idea about the sequential sort of developments that we should anticipate. Thank you very much.

Sure.

So on the first part, the competitive environment and I would say, amongst our liners and given a broadly improved inventory position, a need for discounting and hence also promotional intensity has somewhat declined versus Q3 last year. So that's I think a positive at the same time, we're also seeing continued pressure from new entrants like Asian players, for example, which are relatively aggressive on price. And that on the other hand, I think drives up the competition a bit also in our marketing channels. Net-net, I would say Nutrio. So nothing that really stands out at least in the online world. And in terms of seasonality. So the second question on our expectation would be that EBITDA margin and turns to slightly



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negative territory again now in Q4, which is the seasonal pattern. Now with the end-of-season sale in our Financial Q4, however, and this will be of a low impact. So I'm only slightly negative. And hence, we continue to be very bullish on achieving our and breakeven guidance for the full year.

Understood. Thank you.

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**Operator**

There are no further questions at this time, and I hand back Frank for closing comment.

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

Let me close our presentation by saying thank you for your support and for joining us today on our conference call for Q3 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 the upcoming virtual roadshow and conferences. Have a good day. Bye-bye.

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**Operator**

Ladies and gentlemen, the conference has now concluded and you may disconnect your telephone. Thank you very much for joining and have a pleasant day.

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