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Haypp Group

Q4 2021



Prepared Remarks



You very much. Welcome everybody to the Q4 2021 Hyve Group results. I'm going to start off today by giving a I'm going to start off today by giving a sort of recap on some aspects of our business and then myself and Svanter are going to walk through some of the results in a little bit more detail. If I bring us, 1st of all, to Slide 3 within the presentation and do a recap on our higher purpose and why we exist. So historically, this company has been this company has for many years been involved in inspiring healthier enjoyment to 1,000,000.



Historically, this was around moving people from cigarettes towards snus, but in more recent years, this has become much more around moving people from cigarettes directly towards nicotine pouches. We move along from there to Slide 4 and we discuss how we define healthier regarding the healthier enjoyments. We take a look at the tobacco and nicotine risk continuum, which rates all tobacco and nicotine products regarding the impact that they have on the consumer. With the more dangerous products to the left and the safer products to the right. We only operate with products which are sub-five percent the harm of a cigarette.



And our product range at this point in time is including snus and nicotine pouches in isolation. We are one of the few retailers in the world which sells products solely within the harm reduced space, this far down the risk continuum. Moving along from there to Slide 5, we see the impact that these products have on smoking rates within society. The chart to the left highlights what the smoking rates are across a broad range of European countries. What you can see is that where this category of oral nicotine, originally snus, more recently nicotine pouches, has the highest prevalence, which is Sweden.



You can also see that, that correlates with having the lowest smoking rates, where Sweden not only doesn't have the lowest smoking rates of any country in the OECD, but it is below 1 third of the average smoking rates within sort of the average European smoking rates. And where we can see even where the category hasn't been around as long and has only been around circa 20, 5 years in the form of critical mass of Norway. You can see how rapidly the smoking rates have declined in Norway and that it is coming very close to the low smoking rates that we currently experience in Sweden. And if we expand on Norway a little bit further and move to the top right of the chart, we can see how the smoking rates have collapsed per generation in Norway over the last 15 years and how there's an almost perfect correlation with that a bottom chart here on the right, which shows how the growth of nicotine pouches and snus have manifested over those generations cost of 15 year period as well. And it's this experience that we see within Norway, which we want to bring to as many countries around the world as possible, and hence our aspect to inspire healthier enjoyment to millions.



If we take a look at the next slide, which is Slide 6, and take a look at the economic specs around the value chain in this space. So firstly, during 2020, we saw an industry market size of circa SEK 27,000,000,000 for this category. However, what we can see is rapid growth within this, almost entirely driven by nicotine patches, and we believe that this market pool is going to grow to circa 60,000,000,000 grams by 2025. And all of this growth is effectively going to be coming from nicotine pouches, where it's going to go from having made up 30% of the combined market in 2020 to making up circa 80% of the combined market in 2025. Hence, this is the key area which we will be focusing upon.



And within this €60,000,000,000 of market size which is available, we envisage that there will be a profit pool available to the value chain of circa €48,000,000,000 The reasoning for such a significant profit pool versus other tobacco categories it's predominantly driven by the fact that there is very low excise on these products because they are of such a significant harm reduced nature versus more traditional products. If I move along a little bit further on this to the right and take a look at what the online aspects of this looks like, we have had a circa 11% online market penetration for our Scandinavian markets in recent years, and we envisage that this online given the suitability of this product towards online, we envisage that online penetration will continue to increase. So when we combine both the category potential and the online potential within this space, we envisage there is over 30% CAGR year on year between now and 2025 for this category. Moving along from Slide 6 to Slide 7, we can see what this manifests like over time. And firstly, if I start on the left with what the key drivers for this is.



The primary driver for growth in this space is the consumer demand for strong sorry, the consumer demand for significantly safer products. And in combination with this consumer demand, we also see a lot of regulatory and legislation support around this category, which is encouraging which combined with consumer demand encourages a significant number of suppliers where we now have effectively all of the large tobacco companies globally and many very credible small players having entered into this category, which in turn is accelerating innovation within the category and further accelerating consumer demand. And if we move over to the right and sort of take a look at our outlook for this category, what we can see is that as we move towards 2025, this becomes a predominantly nicotine pouch category. And we envisage that there will be circa 40% year on year growth within this category between now 2025 within the nicotine pouch category between now 2025. And this is a space which we will be focusing a lot on as a company, and we will be guiding as regards to our performance versus this market growth of nicotine pouch space.



Moving along from here to Slide 8, just a quick recap on some of our storefronts. Hype Group have a strategy of running multiple store brands in different geographies. Some of these store brands will cover snus and nicotine pouches. Some of them will be exclusive to nicotine pouches. Beneath this, you can also see some of the competitor brands which are out there.



We do face competition in every market, but it is an extremely fragmented competition base, and we believe that we are more than 10x the size of our 2nd largest or of our largest competitor. Moving along from here to Slide 9 and looking at our market shares. So we have if we take a look, 1st of all, at Sweden and Norway, we have circa 10% 15% market share in the combined nicotine pouch and snus market. However, if we look at the rapidly growing category of nicotine patches, we tend to have significantly higher market shares. And then if we go further down on this chart and we see what our online share is, we have circa 90% 80% market share across these markets when it comes to the share of online for the combined category.



If I move further to the right of Slide 9 and take a look at our performance within Europe and the U. S, here we have a significantly lower market share, both of the traditional tobacco based products, which are relatively insignificant in these markets, but also of the nicotine pouch space. However, what we do have is quite a healthy online share, and our role in these markets is very much to be growing online as a share of the total market



a as the category further matures.



Moving along to Slide 10, just to give a quick sort of sense of our logistics setup. We run a strategy of a combination of 3rd party logistics and in house warehouses for our logistics. Our general model is that we get ourselves established within the market with a 3PL. However, as we reach critical mass within that market, we tend to in house the logistics where we can run things much more efficiently and introduce automation, which is particularly suitable for this category given the homogenized size and nature of the products that we sell. A we have during since our last catch up at the end of the Q3 results, we have successfully gone live within housing our Oslo warehouse during Q4, and we will touch on that in a little bit more detail further on.



We are also planning on launching our Colorado warehouse to better serve at the West Coast of the U. S. During Q1. Now if I move along now to Slide 12 and take a look at some of the operational highlights during Q4. Firstly, I'd like to focus on our performance within nicotine pouches.



During Q4, our nicotine pouch volume grew by 54% for the group and by 58% for the full year of 2021. We saw strong underlying heating pouch performance growth across every market with the exception of Norway. We grew 69% in Sweden during the quarter and we grew more than 100% in our growth markets of Europe and non sorry, of the USA and non Scandinavian Europe. Regarding the overall nicotine pouch category, we see we continue to see very strong during Q4, we continue to see very strong consumer demand 4 nicotine patches due to the harm reduced nature of it. And we continue to see further favorable regulatory development with countries such as Belgium introducing positive regulation for the category during Q4.



And this combination of continued consumer demand and scale within it and underlying regulatory support, means that we strongly believe that nicotine patches the overall conditions for a nicotine pouches have never been better than they are at this point in time. Nicotine pouches now accounts for more than onethree of Hyatt Group's volume during the Q4 and has continued to grow rapidly as a share of our overall sales. In order due to our scale now across multiple markets and the size that we're getting to within us. We use this as an opportunity to move into being able to manage these markets in such a way as to optimize the long term potential within them. And as such, we have scaled up our local teams within each of our geographies.



This enables us to utilize our centralized infrastructure, but also to localize our consumer offerings towards what is specifically required by the consumers in those markets as we have reached scale within them. However, we're able to underpin this with a continued very strong centralized organization, which has been benefiting significantly during 2021 from our machine learning capabilities, where we have developed the capabilities to be able to both enhance the consumer offer by being able to utilize both frequency modeling to understand when the consumer will require their products best a propensity modeling to be able to guide the consumer to the product which is perfect for them at a point in time. And in addition to this, we've been able to utilize our global scale to drive further overall efficiency within the business operations. To go a little bit further into the new warehouse which we launched in Oslo, this brings many benefits for us as Norway has come to scale already for us. The key benefit, I think, for us here is consumer convenience.



Our own warehouse is now after being based down in Oslo. And as such, it's able to provide 2 hour ordering or 2 hour delivery times a for the Greater Oslo area, which accounts for a significant part of our market within Norway. But in addition to that, we also get some other significant benefits. Because of the automated nature of our warehouse, we're able to see a significant increase in capacity for when we see spikes in demand I've been able to service that extremely well, but also because of the level of automation within it, we're able to get significant cost efficiencies into it, which enables us to further improve on our offerings to the consumer. And then lastly, when it comes to our Q4 highlights, the 2 acquisitions which we completed in the middle of the year of Neteltoebak and Snus Netel, which were the number 2 and number 3 players in Sweden, respectively.



A those businesses were rapidly integrated immediately after the acquisitions, but what we can see is significant value coming out of these as we start to consolidate our overall position within the market and utilize the benefits of scale across the value chain within with these businesses integrated. So with that as the key operational highlights, I will pass over to Svante to give us a quick summary on some of the financials.



Perfect. Turning to Page 13 then and our financial overview for the group. I'd like to start off, 1st of all, by saying that underlying growth across all our segments for our overall net sales, a With the exception of Norway, it remains very strong during the Q4. However, due to the relative size due to its relative size of the group, Norway is a material drag on the performance during the quarter. We reported a net sales increase of 15% to SEK591 1,000,000 during the 4th quarter.



Organically, I. E, when we exclude the acquisitions in Sweden and excluding the markets in Europe and the rest of the world that was exited in the Q1 of 2021, our sales growth was 6%. If also excluding the Norway, the organic growth for the remaining segment is 39% combined, which a magnitude of the effect from the negative Norway performance. Moving on to our gross margin. We reported a gross margin for the Q4 of 10.8%.



However, that gross margin was adversely impacted by one off costs relating to the opening of our new warehouse in Norway and a write down on excise tax claim in the U. S. So viewing it on an underlying basis, gross margin for the quarter was a 11.3%, which is up from 11.0% in the 3rd quarter, driven very much by higher gross margin in our core markets. In terms of profitability, we reported an adjusted EBIT of SEK 11,800,000 for the quarter corresponding to an EBIT margin of 2.0 percent, which was down from 2.2% in the Q4 of last year. That decrease was mainly attributable to the lower gross margin year on year, partially offset by lower operating expenses.



And turning to the full year of 2021, we have, in line with our financial guidance, continued to prioritize growth over profitability. We reported net sales for the full year of SEK 2,300,000,000, which is an increase of 31%, up from SEK 1,700,000,000 full year 2020. And organically, for the full year, we grew by 27%. Our adjusted EBIT increase marginally for the full year of 2021 to SEK 41,500,000 corresponding to an adjusted EBIT margin of 1.8%, which is down from 2.2% for the full year of 2020. Now turning to Page 14 and our core markets.



We reported a net sales increase in the core markets of 12%, and net sales amounted to SEK 504,000,000 for the quarter. The acquisitions of Neto2bak and Snauss Neto in Sweden contributed with SEK 60,000,000 in the quarter. But if we look at our platform in Sweden. We grew net sales by 31% during the quarter. And in Norway, the environment remained challenging during the 4th quarter with a reopen border and duty free trade, particularly during the 1st 2 months of the quarter as well as continued aggressive price competition.



And as a result of that, net sales declined by 26% during the Q4. In terms of EBITDA for the business unit, EBITA amounted to SEK 36,000,000 during the 4th quarter versus SEK 20,000,000 in the same period of last year. And the EBITA margin increased by 1.2 percentage point to 7.2%, mainly attributable to a higher gross margin following the partial reversal of the growth investments we discussed during the Q3. And for the full year of 2021, our net sales increased by 34% for the segment to just below SEK 2,000,000,000 SEK 1,500,000,000 for the full year of 2020. The organic growth was 26% and EBITA for the full year increased to SEK 119,000,000 a corresponding to a margin of 6%.



Moving on to Page 15 in our Growth Markets. We reported a net sales increase in the growth markets of 36%, and net sales amounted to SEK 87,000,000. A this was very much driven by strong performance across both Europe and U. S. With Germany, in particular, within Europe standing out.



Comparable net sales for the segment, I. E, when we exclude the markets that were exited in the first quarter of 2021, we grew net sales by 69%. In terms of profitability, We continue to invest behind our platforms and infrastructure within these markets to drive further growth and EBITDA amounted as a result of that to negative SEK 50,000,000 during the 4th quarter. And if we look at the full year performance for the Growth Markets, our net sales increased by 14% to SEK 289,000,000 a comparable net sales increase by 37%. EBITDA for the full year amounted to negative SEK 47,000,000, Which is corresponding to a margin of negative 16.3%, which is at a comparable level to the full year of 2020.



And finally, from my side, on Page 16, we're presenting a selection of our KPIs. And first of all, our average order frequency, which is the number of orders per active customers, has remained stable during the Q4 at 2.3. Secondly, our net working capital increased to SEK 70,000,000 at year end 2021 as we temporarily increased our inventory levels In anticipation of excise tax increases as well as opportunistically low the certain brands at more favorable commercial terms and release benefits that we can reinvest back into our customer offerings. In terms of our net debt, the net debt amounted to SEK 47,000,000 year end corresponding to a net debt to adjusted EBITDA ratio of 0.7. And during the quarter, as we've communicated previously.



We carried out the primary issue of shares in connection to the IPO, which strengthened our financial position and enables degree of flexibility for future potential strategic opportunities. Lastly, on our investments, our investments amounted to SEK 246,000,000 for the full year of 2021, of which the vast majority relates to the acquisitions of Mettotubak and Snesnetto in Sweden. Both of the acquisitions were structured as asset purchases where the acquired assets a mainly include the e commerce store brands and the customer relationships associated with those. With that, I'll hand the word back to Gavin. Thank you.



If we move along to Slide 18, I will just sort of do a recap on our financial targets. So we target to reach net sales of at least SEK5 1,000,000,000 by 2025 predominantly through organic growth. We will prioritize growth over profitability in the short to medium term. However, we do envisage that we will reach high single digit adjusted EBIT in the medium to long term. And regarding dividends, given the opportunity that we see within this category for future growth, we will we do not expect to be declaring a dividend for the foreseeable future.



Moving along to Slide 19 and taking



a look at sort of some



of the key component aspects for our growth potential. We envisage that there will be over 40% growth within this category of nicotine patches between 2020 2025. We envisage that online will continue to grow as a share of this category, given the category's suitability for online, and we will leverage our leading position in all of our key markets in order to further accelerate our growth as we move forward from here. Moving on to Slide 20 and taking a look at our current trading. So bearing in mind that we are halfway through Q1 for this year.



And nicotine pouch category continues to grow rapidly across both core and growth markets. And not only are all large manufacturers now entered into the category and many a credible nuance, but we can see a continued increase in the focus across all of our manufacturers across all of the industry for this a In addition, we see continued support from regulators around harm reduction, particularly within Europe, where everybody is very much viewing TPD 3 or the Tobacco Product Directive 3 as the fundamental aspect for unifying all of Europe around this space from a regulatory perspective. Regarding our investment in growth, on the back of the 54% year on year organic nicotine pouch growth for the Q4. We envisage that there will be continued strong growth in nicotine pouches for this quarter and for the foreseeable future as well. We envisage there will be continued strong performance in Sweden, where nicotine pouches where our share of nicotine pouches is significantly higher than that of other retailers.



We have spoken at our Q3 results around a range of activities which we had launched to turn around our development within Norway. A we are seeing early signs of success within that and we are cautiously optimistic. The consistent growth within the U. S, switch we have experienced during 2021. To date, we are seeing that continue also, and we continue to see healthy growth within Germany, and we continue to see that early trajectory within the UK looking promising as well.



Regarding our overall position and how we have structured ourselves to take advantage of this over the coming years, the enhanced data collection, which we completed during 2019 and particularly 2020, combined with the growth in machine learning, which we've utilized across which we've built up during 2021, he is continuing to reap benefits for us regarding how it is we interact with our consumers and the offers which we provide them. In addition to the warehouse which we've migrated in house in for Oslo during Q4. We are also in the process of completing 1 in Colorado during Q1,



and we envisage that we will be back



to you in our next announcement to explain what the further stages of our logistics rollout will look like. And the reallocation of resources towards our localized market as those markets reach critical mass is already starting to show favorable performance within those markets for us a both across our European markets, our U. S. And also across some of our core markets. So with this, if I move to Slide 21 and just give a quick overview on our view of the overall category.



Firstly, there is over 1,000,000,000 smokers in the world, many of whom are looking for a safer alternative, and nicotine pouches is the fastest growing a category within the safer alternative space. For relatively obvious reasons, it is a perfect category for online due to the nature of it being lightweight, repetitive purchases, etcetera. We are an undisputed global online market leader and we have a symbiotic relationship with our suppliers which continues to strengthen year by year. We have a track record of benefiting from regulation and we welcome further regulation into the category in general, and we continue to see growth in our unit economics as we scale over time. We also believe that we have the right team in place to continue to execute on this strategy, and we're looking towards the future with a high degree of optimism.



So with that,



I will hand back to the operator to open up for any questions. Thank you.



A a

Q&A



Our first question comes from the line of Nicholas Kwan of Carnegie.



Just a couple of questions, if I may. Firstly, Norway here with a 26% decline. Is there any way you can break up or at least estimate how much of this was related to Tough competition from physical retail as you've seen before and how much of that is related to the border reopening?



It's difficult to get very specific on it, but what we can see is the when the border was fully open, the competition, which was for the majority of the quarter, the competition was much more severe at that point in time. We did also experience some very tough competition from the brick and mortar environment. However, there has been a degree of reduction in that as we moved during into this quarter. But to answer the question, Nicholas, it's very difficult to kind of break it down into specifics as regards to what percentage is coming from which. We view it as though slightly more than half of that is coming from the border reopening.



Okay. And this border reopening, I suppose, is an issue that has worsened, of course, in Q1 as restrictions have eased. And that's why you're guiding for this To remain a negative throughout most of 2022, is that correct?



Yes. I think there's a couple of factors here. I think it will remain a negative, particularly for the earlier stages of 2022. We also need to bear in mind, Nicholas, that our best quarter ever in Norway was Q1 2021. So we're going to be hitting some very high comparables.



It wouldn't come as a great surprise to me if our Q1 in 'twenty one was perhaps our Q1 of sequential growth for 4 quarters within Norway, but we also need to bear in mind that it is going to be facing a very tough comparable for Q1, 2021.



Yes, that makes sense. Regarding regulation, in Sweden, there are moves now to regulate nicotine pouches similar to tobacco. You talk about regulation being positive. Is there any risk that harsh regulation on nicotine pouches could make it more difficult for new players to come in, that the entry barriers are higher that, that could impact you more since you are more skewed towards new players. Is that a threat at all?



Not significantly as I see it. So I think for a couple of factors here. 1, when I take a look at the legislation which coming true



that I envisage will be



coming through in Sweden. It's going to be hinged much more around the marketing of products rather than the development of products. We can also see that there's already a significant number of new players a having entered the market and starting to reach towards critical mass, there's not a significant necessity for many more to be coming in. And for those, given that they still have flexibility around innovation on the product, the reduction in marketing it's going to slow them down perhaps a little for new players coming in, but I don't think it's going to have a fundamental change to the landscape.



Very, very good. Thanks. And you mentioned the TPD 3 as well. Do you have any insight into the time line for new regulation in Europe?



A we're kind of envisaging that this is probably going to be 2024, but I'm also conscious that this is a few years out, and this is Brussels. Things have been known to slip a little bit in the past, but we are envisaging that it will be probably we will be seeing initial drafts of it during 2023, and we envisage it will be coming into force in 2024.



A And in the initial statements that were made here in May of 2021, there was some reference to nicotine pouches being in a way a violation a Protein pouches and whether it's turned more amicable based on the evidence that you talk about here in the beginning of the presentation.



Yes, it's somewhat anecdotal. They haven't been particularly public with a lot of the pieces at this point in time. But what we can see is that there's a general tone of more positivity towards the category within EU at this stage. And we particularly see a stronger tone coming also from many of the member states, with many of them having introduced positive legislation around the category. So I think both at an EU level, we're seeing generally better tones and then specifically at individual markets or an individual country level, we're seeing many more of them continue to introduce positive legislation around it, which creates that sort of balance, that tipping point, where we believe that the overall legislation is likely to be positive at an EU level.



Very, very good. Thanks. And just a final question, if I may, on your view on further M and A. A what kind of M and A potential do you see? And is it mainly in Continental Europe Or do you see additional M and A opportunity in your core markets as well?



It's predominantly we believe we have a strong position within our core markets at this point in time, and we are more scouting across the growth markets where we are. Nothing significant. Just to be clear on this one, nothing significant has cropped up so far. We're struggling to actually find players which have reached critical mass as of yet across our markets. So for that reason, there's nothing there's no indications of anything in the pipeline as of yet.



But going back to your initial question on this one, Nicolas, it's going to be more targeted towards our growth markets rather than our core.



A And the graph you showed before with the 30% online market share in Europe, who has the other 70? That mainly among more traditional retailers like grocery retailers, for instance, and they're online there.



There's an aspect of that, and there's also a significant sort of a very fragmented base out there as well. We also believe that we are perhaps somewhat conservative our estimates of what our share of the market is, but we also recognize that of those which are there, there are very few significant players across those markets.



A Very good. Thank you so much for taking my questions.



Thank you, Nicholas.



Thank you. And we currently have one further person in a That next person is Andreas Lundberg of SEB.



A Svente, if I start with Going back to Mikaela's question on regulations. First on Belgium, what have Belgium said is my first question and what will they do?



Yes. So if I look at Belgium specifically, Andreas, Belgium have legalized I have stated clearly that the sale and consumption of nicotine pouches within Belgium is now clearly legal. As opposed to previously, There was an absence of legislation around the category, so it was subjective as regards to how legal the category was within Belgium. It has now been introduced as a a the legislation has now clearly introduced it as a category which is recognized and legal within the Belgian state.



Okay. And now you sell products there, right?



Sorry, Andreas, I missed that one. Do you sell products About them today? We don't. No, no. We focus at this point in time, we focus very much on the markets where we see significant traction and we don't envisage that we would expand into any new geographies in H1 'twenty two.



Okay, got it. And on the Swedish side there, you talked about reduction in marketing could slow down in our new entrants and so forth. But Isn't marketing a big tool for you guys to drive growth and how do you think that will affect you?



Yes. We so our we don't actually because our origin is coming from within tobacco and it is illegal to do any marketing within the tobacco category, we don't actually market ourselves in general, particularly not in our core markets. What we do is we tend to gather consumers via organic search, whereby they've either they're either coming and searching for the product and coming directly to our stores or they're hearing about us via word-of-mouth. We are not an active participant in our core markets when it comes to any marketing activities Via the traditional sense of marketing or certainly by what regulation covers within marketing here.



Okay. But couldn't be tougher to do this individual, let's call it, e mail marketing? Or how should I see that?



It could, it could, undoubtedly. And as we look at different markets, there's a spectrum here on our ability to be able to communicate with consumers. If, for a example in Norway, we're very restricted in what we can communicate via email with our consumers. Yet we're still able to communicate with them. As that further tightened, so I think as you look across the spectrum of markets here, we believe that it can have an impact, but generally not a significant one.



It's very unlikely that the environment will get to a stage where you're not able to communicate whatsoever with your consumers. You just may need to be a little bit more delicate regarding what the content of that communication is.



Okay.



And then to Norway, you talked about some early signs of improvements or success. What is that? Can you? Yes. So



we are cautiously optimistic. We realize that it's been a very turbulent a it's been a very turbulent few quarters in Norway and a particularly turbulent last quarter or so as well with borders opening and closing and with the competitive environment within Norway. However, we did take a sort of a strong position of that this is a market where over the long term, we would thrive and we've gone back and invested. We spoke perhaps a little bit about this as we're doing our Q3 results. We've gone back and sort of worked on our overall infrastructure forward in Norway to be able to improve on the overall offering to the consumer, recognizing that it's not going to turn the performance around overnight, but that it will turn the performance around over the medium to long term.



A you may recall that when we did our Q3 results, we said that we envisaged this would take roughly 3 to 5 quarters before we would see a significant impact. What we are seeing is perhaps a slightly faster than expected impact on aspects of this. However, what we're grasping is that it is still early days, and it's still a somewhat turbulent market. And so hence, when we say we're optimistic, we also highlight that we're Cautiously optimistic at this point in time regarding how we're performing with Ennish.



Okay. And the recent tax hike here in Norway that affected, let's call it, pricing.



It was yes, that was passed to consumers both by ourselves and by other retailers as well. However, the tax hike wasn't particularly significant. I guess that sort of reaches a consumer in the form of a crown in Canada, which is maybe 1.3%, 1.4% of the consumer price.



Right. Cool. And then maybe final for Svante here. I mean, operating margins were down slightly year on year from the gross margin contraction lower OpEx sales then offsetting to a large extent. At the same time, so the core margin.



The core was actually up driven by your gross margin. And you say that the margin in the growth markets slowdown and driven by investments in the organization and in the platform. Is that OpEx related? That's my first question. And the second on that is actually does this imply that OpEx to sales actually was down sharply in the growth markets?



Thank you.



Good morning, Andreas. I wouldn't view it like that. I think there was in the core markets of last year, there was both higher OpEx as well as a somewhat higher gross margin. A I mean, as we I think we've discussed earlier, we did make a decision consciously in early 2021 of investing in growth opportunities in our core markets, which lowered our gross margin somewhat for the 1st couple of quarters of 2021. And that's I mean, it has been sort of partially reversed throughout Q3 and where we're sort of seeing the full effect of that coming through in Q4 now.



And we obviously continue to release benefits in our gross margin that we can either pocket ourselves or pass on to consumers. Did that go somewhere towards answering the question, Andreas? I don't know.



I mean, since OpEx to sales must have been Down sharp in the growth markets year on year. Is that a fair assumption?



A I think, I mean, OpEx to sales, It did go down a bit in the growth markets of this quarter. That's correct. I mean and there was I think we had unusually high OpEx in the group overall in the Q4 of last year, which was driven by larger sort of strategic project going on at the time. So yes, I think you're right in that assumption.



Okay, cool. And lastly, sorry about that, but the staffing costs return up again versus the recent quarters. Is that a big reason for that?



No, there is nothing structural on that one. It could go up a little bit in between quarters, and there's also a bit of a sort of a mix effect between the lines in the P and L of where for certain roles, we may use consultants and for other roles, we may have in house personnel and that kind of affects the mix a little bit in the P and L, but there's nothing I wouldn't view it as anything structural on that line.



Okay. Well, is it best to use, let's say, an a quarterly average here in the recent quarters when we think about the employee costs going forward.



Yes, I would do that. Yes.



Thank you so much.



Thank you.



Thank you. And as there are currently no further questions on the phone lines, I'll hand the floor back to our speakers.



Thank you very much. Thank you all for your time today. We look forward to catching you again in early May for our Q1 results update at that stage. Have a wonderful day. Take care.



Bye



bye.

