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Haypp Group

Q3 2024



Speakers



Operator



Gavin O'Dowd
CEO | Haypp Group



Niklas Ekman
Senior Equity Research Analyst | Carnegie



Peter Deli
CFO | Haypp Group

Prepared Remarks



Operator

Welcome to Haypp Group Q3 2024. For the first part of the conference call, the participants will be in listen-only mode. During the Q&A session, participants are able to ask questions by dialing #5 on their telephone keypad. Now I will hand the conference over to the speakers, CEO Gavin O'Dowd and CFO Peter Deli. Please go ahead.



Gavin O'Dowd

CEO | Haypp Group

Thank you. Good morning, everybody, and welcome to our Q3 2024 interim results. Our CFO, Peter Deli, and I, Gavin O'Dowd, will walk you through our results. I would like to start by reiterating our higher purpose of inspiring healthier enjoyment for millions. Moving along to the operational highlights, I would like to begin with our NP Q3 volumes, where there was year-on-year growth of 42% and 93% across a two-year period. Nicotine pouches accounted for 63% of our total volumes for the quarter, up 10 percentage points versus Q3 2023, as the robust trend continues. We're particularly happy with the continued strong NP volume performance in our growth division, which grew 58%. In addition, nicotine pouches continue to show strong performance in the core markets, growing 32%.



Gavin O'Dowd

CEO | Haypp Group

With that, I will hand over to Peter for more depth in our commercial performance, after which we can walk through other aspects of the business.



Peter Deli

CFO | Haypp Group

Thank you, Gavin. Good morning, everyone. Let me start our financial overview with our sales development. In Q3 2024, we grew sales by 25%, excluding the FX headwind. This means a further acceleration from our Q2 growth and brings the year-to-date average about 20% from a slow start of the year. When we are looking at the contribution of the business units, we are very happy to see that both growth and core markets are significantly contributing to the group growth, and also that the improvements in the emerging segment sales make it a real contributor to our year-over-year sales performance. In both segments, nicotine pouches were the key driver for the growth. Out of the 25% growth, excluding FX, it accounted for 26%. The actions we put in place in order to manage the smooth decline largely resulted, and this category largely remained flat versus last year.



Peter Deli

CFO | Haypp Group

Moving to slide seven and our profitability, profitability also remained robust. This is consistent with the previous quarters of 2024. Our adjusted EBIT grew by 81% to SEK 33.1 million, which means a 3.5% adjusted EBIT margin, an improvement from 2.4% last year. The result was supported by the sustained margin expansion, which we partly reinvested into the team, mainly to support our emerging segment. The core and growth markets' profitability before investments into the emerging segment reached 4.3% on an adjusted EBIT level. Important to highlight that in the quarter, we created a reserve for the San Francisco complaint based on the available facts supported by external legal advice. Moving to the next slide to our core markets. Here, in core markets, we achieved a 16% growth, excluding the FX headwind of 3% in Norway, driven by the nicotine pouch category, which performed well in both markets.



Peter Deli

CFO | Haypp Group

The nicotine pouch volume grew 32%, and consistent performance both in Sweden and Norway. Profitability-wise, our adjusted EBITDA is up by 0.7 percentage points versus the same period last year, driven by the improved media and insights revenues, which demonstrate the robustness of our business model. Moving to slide 9 and our growth markets. In our growth markets, our sales grew by 44%, excluding the 4% currency headwind. We are happy with the nicotine pouch development across the board in both markets. Adjusted EBITDA was SEK 2.5 million, 0.9% of our sales, in line with previous quarters. Active channel growth was exceptional. The increased search volume demonstrates the opportunity we see for the further online channel penetration growth across the markets. Slide 10 and our emerging markets. In the big scheme of things, these markets are still small. However, the sequential quarter-over-quarter growth remained robust.



Peter Deli
CFO | Haypp Group

Versus Q2 2024, our sales is up by 64%. Active customers now reached 20,000 within the quarter. The investment for this business segment remained consistent, and the EBITDA for this business unit was -SEK 7.8 million in Q3. This represents 0.8% reinvestment on a total level. Moving to slide 11 and our selected KPIs, here I would like to highlight two numbers. Firstly, the investment level, because year-to-date Q3, we invested SEK 69 million, which is 2.5%, slightly above the historical averages. But as we highlighted it several times earlier, this is not a flat line. Right now, we are working hard in the overhaul of our backend and frontend infrastructure, which is now visible in these numbers. However, as soon as these projects are completed in the coming quarters, this number will go down to the previous levels.



Peter Deli
CFO | Haypp Group

Our net debt-to-adjusted EBITDA ratio is 0.8, looking at the last 12 months, which shows and represents a very robust and healthy balance sheet that we maintain for the group. With this, I hand the word back to Gavin to guide us through the legal and regulatory developments.



Gavin O'Dowd
CEO | Haypp Group

Thank you, Peter. Moving to slide 12, covering some legal and regulatory areas. We're encouraged by Sweden's recent policy improvement. Focus has moved from tobacco and nicotine consumption to the focus on tobacco and nicotine harm, reflecting the benefits of risk reduction. In addition, the UK has recently reintroduced its tobacco and nicotine bill, reinforcing the importance of risk-reduced products. Haypp had two regulatory challenges in the latter part of Q3. In Sweden, Stockholm Municipality made a decision to withdraw our traditional snus. We firmly believe that the decision was unjust, and we are appealing it through the court system. During the appeal process, we will continue to sell traditional snus as normal, and we believe that the process will take one to two years to conclude. In the meantime, we have implemented all of the recommendations from the municipality, and we expect a very limited impact on our sales.



Gavin O'Dowd
CEO | Haypp Group

Secondly, the City of San Francisco's attorney has filed complaints against U.S. legal entity and their brand-owned online stores regarding the sale of flavored nicotine pouches into San Francisco. There are multiple locations in the U.S. where we restrict flavored products due to local legislation. However, we did not do so in San Francisco, as we had received a clear legal opinion from a credible law firm supporting our sales to the city. This opinion was issued in 2023 by a firm earlier than before. The case is ongoing as we speak. In addition, California is introducing new legislation which will remove the exemption for online retailers to sell flavored nicotine and tobacco products into the state.



Gavin O'Dowd
CEO | Haypp Group

Moving to slide 13, the upcoming legislation in California, which extends the restrictions on flavored products to include online, has meant that we have suspended sales, most of which was flavored products, into the state until we have further clarification. While California represented circa 10% of our nicotine pouch volume in Q3, the growth levels were substantially lower than the rest of the country. This new legislation impacts not only flavored nicotine pouches sold into the state, but also oral tobacco. Oral tobacco products such as MST and snus were already a rapidly declining share of our U.S. sales, and circa half of them were being sold into California. As a result, the group has brought the traditional tobacco products in 2025 to late 2024. Moving to slide [number], the U.S. continues to represent an ever-increasing share of the group as a percent of the group volume during Q3.



Gavin O'Dowd
CEO | Haypp Group

I would like to take this opportunity to provide more depth on the breakdown of U.S. business and drivers of growth. As stated in the prior slide, while nationwide tobacco products and California's nicotine pouches make up circa 3% of the group volume, they effectively have not been growing. In addition, from the latter part of Q3, we have experienced a challenge in sourcing. If this continues out the quarter, our ZYN sales in the U.S. are likely to drop the quarter. Continuing to diversify our offering of quality products to our consumers, which in turn diversifies our individual brands. As highlighted in our Q2 release, other brands, which have been on the market for some years, started to show robust share growth from late 2023. This is driven by increasing consumer awareness and brand equity.



Gavin O'Dowd
CEO | Haypp Group

These brands are effectively the drivers of all of our U.S. growth. In addition, new brands from large international manufacturers have and are expected to come to the market during 2024. These are further broadening the range of quality nicotine pouches for our customers. Now, to take a look at our long-term performance and our outlook on the next slide. We recognize that it's just over three years since we have listed on the stock market. I would like to take this opportunity to look back at our sustained business performance over that time. Starting with strategically important nicotine pouch volume, we have grown over 250% since early 2021, bringing it from 31% of our volume to 63% of our volume in Q3. In addition, we have also entered the vaping category, which now accounts for just over 2% of our volumes.



Gavin O'Dowd
CEO | Haypp Group

Also, during this time, we have increased our EBIT margin. The group intends to provide a set of longer-term targets to the investor community in the spring of 2025. Moving to slide 17, in addition to the strong set of results in Q3, we would like to reiterate the robust fundamentals for risk-reduced products. The suitability of online for the category for a variety of reasons, not least of which is the traceability and control, and Haypp's strengthening position within the online channel. The rapid and sustained growth of nicotine pouches is expected to generate increased scrutiny, and in many cases, this scrutiny is warranted. We will continue to invest significantly into compliance, and we recognize that it is not only a source of sustained competitive advantage, but it is also the right thing to do.



Gavin O'Dowd
CEO | Haypp Group

Moving to our final slide, we would like to reflect on the dynamics underpinning our continued performance. Haypp has a substantial competitive advantages in its business model, which in turn are robust processes and systems. Haypp's overall progress is the result of an excellent team and their commitment to our heartfelt purpose of inspiring healthier enjoyment for millions. I would like to take this opportunity to thank them for their commitment, dedication, and overall performance. With that, I will hand over to the operator for questions.

Q&A



Operator

If you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Niklas Ekman from Carnegie. Please go ahead.



Niklas Ekman

Senior Equity Research Analyst | Carnegie

Hello, good morning. First question here on the withdrawn Swedish license. Do you have any further news here, any dialogue with the authorities on this issue? And I guess as a first question, have you already submitted your appeal, and do you have any indication if the changes that you've already made, if those could be sufficient for this license to be given back? Or just any of your thoughts here on the process would be appreciated. Thanks.



Gavin O'Dowd

CEO | Haypp Group

Good morning, Niklas. Yes, we have submitted our appeal, and that moves the process into the legal system, so it's no longer to the same extent in dialogue with the municipality. It has now moved into the parallel infrastructure here of the legal system as it goes through. As I'd said, we have over the last six weeks, we have implemented all of the recommendations which the municipality raised, some of which were only implemented as recently as last week. So they're all now completed at this point in time. However, I don't expect that the position from the municipality is going to alter at this point in time. I think this process is going to be brought through the court system, where we expect that we will get the right conclusion coming through there.



Niklas Ekman

Senior Equity Research Analyst | Carnegie

Very clear. Thank you, and just to clarify, you had SEK 11 million of one-off costs here. I didn't really understand. Was that related to legal fees, or is that a provision for the fines that you're expected to receive in San Francisco?



Peter Deli

CFO | Haypp Group

Good morning, Niklas. Basically, that covers the expected settlement fee with the city, and also the city's legal cost is included in this reserve. But this is based on the very initial estimations because we are still in the data gathering phase for the case.



Niklas Ekman

Senior Equity Research Analyst | Carnegie

Okay. Do you see any risk that that fee could be significantly higher, meaning like SEK 50 million-SEK 100 million, or do you think SEK 11 million is that the absolute best estimate?



Gavin O'Dowd

CEO | Haypp Group

I think it's probably fair to say, Niklas, that that's our best estimate at this point in time.



Niklas Ekman

Senior Equity Research Analyst | Carnegie

Fair enough. Any reflection on the change of administration in the U.S.? I think in the past, Republicans have generally been more relaxed on regulation. Do you think, or do you have any indications about how the regulatory environment in the U.S. could change, and if that could be to your advantage?



Gavin O'Dowd

CEO | Haypp Group

I think it's still a little bit fresh at this point in time, not just because of a Republican administration within the White House, but also with the impacts of having control on both Congress and the Senate. Your hypothesis is correct. Historically, the Republican administrations have been more supportive of our category in general, and there have been some statements coming from the White House regarding risk or from the incoming administration regarding risk-reduced products in general. However, I think it's a little premature to determine exactly what the specifics of that will be. So I think we would like to keep a closer eye on how this evolves and perhaps have a little bit more guidance once, say, we get to the Q1 results, whereby the administration should have laid out its policies a bit clearer on many of these aspects.



Niklas Ekman

Senior Equity Research Analyst | Carnegie

Absolutely. Fair point. Also, just wondering about your margin development now. It's risen very consistently at around 110 basis points in the last three quarters, looking at the year-over-year effect. What do you think is the likelihood of another 110 basis points going into next year? And obviously, there's a lot of uncertainty here, but do you think that the scale benefits, the improved negotiations with suppliers, etc., do you think that that could be sufficient for a similar margin progression going into 2025?



Gavin O'Dowd

CEO | Haypp Group

Yeah. So I think what we have seen in recent years has been a material uptick as we move from one calendar year into the following calendar year, where we see many of the benefits of scale coming through in steps rather than coming through gradually throughout the year. And I think you guys are probably reasonably familiar with this from prior years. There's no fundamental reason for that to stop on the basis that as the group continues to grow, those benefits of scale continue to manifest. I won't give guidance at this stage as regards to what our margins will be for 2025. As you say, there are external moving factors, but in addition to that, there are also considerations as regards to how much do we reinvest in different spaces as the opportunity ahead of us seems even greater than perhaps we previously expected across many markets.



Gavin O'Dowd

CEO | Haypp Group

So I think it's probably a little bit premature at this point in time, Niklas, to provide an awful lot of guidance for 2025, but I can confirm that what you're saying there as regards to the benefits of scale, which have been released in previous conversions from one calendar year into the next, would be expected to occur for next year as well.



Niklas Ekman

Senior Equity Research Analyst | Carnegie

Very clear. Thank you so much. Those were all my questions. Thanks for answering.



Gavin O'Dowd

CEO | Haypp Group

Thank you, Niklas. Thank you.



Operator

As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad. There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.



Gavin O'Dowd

CEO | Haypp Group

Thank you all very much for your time. It's greatly appreciated, and I look forward to giving you another update in February.



Peter Deli

CFO | Haypp Group

Thank you, everyone.