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**Haypp Group**  
Q4 2023



## Speakers



**Andreas Lundberg**

Equity Research Analyst | SEB



**Gaurav Jain**

Director and Equity Research Analyst | Barclays



**Gavin O'Dowd**

CEO | Haypp Group



**Niklas Ekman**

Financial Analyst | Carnegie



**Operator**



**Péter Déri**

CFO | Haypp Group

## Prepared Remarks

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**Operator**

Welcome to the 2023 Haypp Group Q4 report. For the first part of the conference call, the participants will be in listen-only mode. During the questions-and-answers session, participants are able to ask questions by dialing pound key 5 on their telephone keypad. Now I will hand the conference over to CEO Gavin O'Dowd and CFO Péter Déri. Please go ahead.

**Gavin O'Dowd**

CEO | Haypp Group

Good morning. Thank you for joining the Haypp Group Q4 and full year 2023 results. I would like to start on slide 3, where we take a look at our higher purpose. This group is very much driven by inspiring healthier enjoyment to millions, which historically was around moving people from cigarettes to Snus, but in more recent years has been more around moving people towards nicotine pouches in particular. When we talk about healthier enjoyment, I would like to move along to the next slide, slide 4, until we take a look at the tobacco and nicotine risk continuum. Here you can see how significantly lower harm a range of harm-reduced products are. As I alluded to earlier, the origin of this business was very much around Snus, but in the last five years our primary category and driver of growth has been nicotine pouches.

**Gavin O'Dowd**

CEO | Haypp Group

In addition, recently we have also extended our portfolio across to vapor products, which we also see as having some compelling impacts on public health. Moving along from here as regards to those impacts on public health, on slide 5 you can see the smoking rates across a broad range of European markets on the left-hand side. What you can see on the extreme left is Sweden and Norway, which has beyond significantly lower smoking rates than any other market within Europe and is coming extremely close to the WHO's target of sub-5% smoking rates in a country, and will be the first country to achieve that smoke-free status. In addition to the impact that nicotine pouches and snus are having in Scandinavia, we can also see the impact that vape is having, particularly within the U.K., where the smoking rates are declining rapidly.

**Gavin O'Dowd**

CEO | Haypp Group

In addition, within harm reduction and the philosophy around it, while we do not sell tobacco, heat-not-burn products, we also recognize the positive impact that they are having in markets such as Japan, where smoking rates have almost halved in the past decade. Moving along from here to slide 6, we can see an overview of our business model. In addition to us operating as an e-commerce retailer, where we are effectively similar to a marketplace that we buy a broad range of products and suppliers and sell them directly to consumers, we also, with the support of the consumers, collect a lot of insights and data around consumer needs, package them, and provide those back to our suppliers.

**Gavin O'Dowd**

CEO | Haypp Group

Moving along to the next slide, to slide 7, we can see an extended outlook as regards to how we envisage this category will manifest over the coming years. Firstly, the three driving factors for this are the strong demand for less harmful products, where there are now over 100 million users globally who have already switched away from more harmful products, predominantly cigarettes, to one of the significantly harm-reduced alternatives. This has been greatly supported by regulators, which is recognizing the role that harm-reduced products will have on reducing smoking rates within their individual countries. This combination of both consumer demand and regulatory support has created supplier innovation and investment within innovation in this category, which is further accelerating the growth.

**Gavin O'Dowd**

CEO | Haypp Group

We have extended in our Capital Markets Day today our outlook out to 2028 when it comes to where the category is, and we see the current growth rates that we're experiencing across markets unabated out of that period of time. All of this growth within the oral space we envisage will be driven by nicotine pouches, and we envisage that the traditional snus products will continue in decline. Moving along to our next slide, slide 8, I would like to give a quick update on how we have been progressing on our efficient logistics globally. During the second half of the year, the principles around this are very much hinged around building our infrastructure so that it is scalable for long-term growth, both in our existing markets and the new markets.



**Gavin O'Dowd**  
CEO | Haypp Group

During the second half of the year we opened our own warehouse in the UK, just north of London, and in the latter part of H2 we also re-equipped our Stockholm warehouse so that we can increase the capacity and efficiency for the growth to come. Also, in the very late stage of Q2, sorry, of Q4, we opened our first 3PL in Germany, predominantly focused around the distribution of vape. Moving along to the next slide, which is slide 9, I would like to do a quick summary of how we've been progressing regarding our infrastructure rollout.



**Gavin O'Dowd**  
CEO | Haypp Group

I know we've given a lot more detail on this within our Capital Markets Day, but if I start off, first of all, on the left-hand part of the slide here, what we are doing is we are building up both our backend of our ERPs and our warehouse management systems, and we are integrating that via an integration layer into both our frontends, websites, and the broad range of APIs that we use to improve on the consumer experience. During the latter part of 2023 we went live with the full backend suite in Norway, and on the 1st of February this year we extended that out with a successful go-live across the rest of Europe. We envisage that the only remaining markets for us to take will be the U.S., and we will come back with a clearer date on that in the not-too-distant future.



**Gavin O'Dowd**  
CEO | Haypp Group

Moving along from here onto slide 10, sorry, onto slide 11, I'm giving a quick summary of our operational highlights. We believe we have achieved a substantial number of key milestones during 2023. We had over 900,000 customers during the year. By sharing our data with some leading universities across Europe and North America, we believe we have crossed over 5 million human years saved from our consumer base, which have moved to healthier products. Our sales have crossed SEK 3 billion for the first time, and during 2023 we also expanded into our adjacent category of vape within Europe. Driven by solid performance in both the core and the growth markets, the volume of nicotine pouches continues to increase. The consumer demand continues to increase, and the volume of nicotine pouches has grown by 46% during the quarter relative to Q4 2022.



**Gavin O'Dowd**  
CEO | Haypp Group

This is 2 percentage points higher than the 44% which we grew for the full year. On the back of this, nicotine pouches accounted for 56% of the group volume during the Q4. We have seen strong growth in both our number of orders, our average order value, and our active customers during the quarter also. Moving along to the next slide and taking a look at some of the regulatory outlook. Some of the dynamics which occurred during 2023 was the discussion around an online ban of snus within Norway, which we always explained was more hinged for cross-border sales. It has since been clarified along the way.



**Gavin O'Dowd**  
CEO | Haypp Group

The potential restrictions around nicotine pouches in the EU as part of their revision to the TPD3 were leaked, and many countries, including Sweden, raised significant objection to that, and we can see that being reflected within the EU position at this point in time. More recently, in the beginning of 2024, there has been some discussion within the US around concerns of nicotine pouches, which has particularly been called out as the market leader within that space relating to youth usage. We see no concerns in this space. As based on our data, we can see that the average age profile for people who are using nicotine pouches within the US is significantly higher than some of the statements which are coming out, and we can also see that the vast, vast majority of people who are using it are ex-smokers who have chosen healthier alternatives.



**Gavin O'Dowd**  
CEO | Haypp Group

In addition, we see great symbolism coming through here from the Swedish government, which has recommended to increase tobacco taxes by 9% on cigarettes in late 2024, and by contrast will reduce 20% the taxes on snus. Beyond the fiscal impacts of this and the impacts on the consumer, we greatly admire the tonality and the principles behind this decision. And lastly, when it comes to the EU, we don't foresee that there are going to be any major announcements coming out regarding TPD3 or the tobacco excise directive before the end of 2024. With that, I will pass over to Peter to give us a little bit more guidance on some of the financials.



**Péter Déri**

CFO | Haypp Group

Thank you, Gavin. Good morning, everyone. Let me start in our financial overview with our net sales. For the Q4, our net sales increased by 21%. Excluding the negative impact of the foreign exchange, this increase was 23%. We feel that this is in line with our previous quarter's performance and showing a solid trajectory towards our SEK 5 billion target. When we are looking at the drivers behind the growth, it's mainly attributable to the nicotine pouch category. We are recording solid growth rates for this category across all the markets, while when it comes to the tobacco-based sales, the revenue is growing only a slow single digit in that category. Moving down in our P&L, down to the gross margin, our Q4 2023 gross margin was 13.4%, which is pretty much in line with the previous quarters of 2023.



**Péter Déri**

CFO | Haypp Group

This is a reduction versus Q4 2022 by 0.5%, but this is driven by a very high baseline where in Q4 2022 we recognized unusually high pay-for-performance revenue. On the profit line, our Adjusted EBIT for the Q4 is up by 32% versus last year and reached SEK 21.2 million. This translates to a 2.5% Adjusted EBITDA over our net sales, which is 0.2% higher than it was in the same period last year. For the full year, our profit Adjusted EBIT margin reached 2.5%, which is 0.3% higher than it was for the full year of 2022. Important to note that cash flow from our operating activities during the year amounted to SEK 80.5 million. Going to the next slide, core markets, let me start again with the sales. So for the core markets, our sales in the Q4 grew by 12%.



**Péter Déri**

CFO | Haypp Group

In constant currency, this increase was 14%. Behind this growth, we have a couple of different dynamics taking place. In Sweden, the nicotine pouch category performed very well. However, the snus market decline, the consumption decline, what we already experienced and commented to you in Q3, continued. This is partly driven by migration to nicotine pouches. However, we have to recognize that this has a negative impact on the overall performance of the market. In Norway, we are very pleased to note that the net sales are increasing at healthy levels sequentially on a quarter-over-quarter basis, and the double-digit growths we recorded are predominantly driven by nicotine pouches. Nicotine pouch volume for the core markets grew by 36%. As I mentioned, both Sweden and Norway are showing very strong performance in this category. The profitability for our core markets, I think it's fair to say that it remains strong.



**Péter Déri**

CFO | Haypp Group

We generated in full year 2023 SEK 192 million EBITDA in this group of markets. The EBITDA margin was 7.9% in the Q4. And as I already commented to you on the back of the gross margin, the reduction versus last year is driven by the baseline, not by any fundamental problem in the discrete quarter of Q4 2023. Going to the growth markets on the next slide, here I think these markets are living up to their names. They are growing very fast. In reported net sales, we increased 58% to SEK 215 million in the Q4. In constant currency, the increase is the same, 58%. And this strong performance is particularly underpinned by the U.S. and U.K., where we see continuous acceleration in terms of growth, and those markets are performing extremely well on the back of the fast-growing nicotine pouch category.



**Péter Déri**

CFO | Haypp Group

Nicotine pouch volume in growth markets overall grew by 64% in the quarter. EBITDA this amounted to a negative SEK 13 million versus a negative SEK 18 million during the same period last year. This improvement is mainly driven by the volume growth. Looking forward, as we already commented to you, we do expect these markets to provide significantly healthier profit rates in 2024. In order to demonstrate, moving to the next slide, in order to demonstrate the contribution of growth markets to the overall performance of the company, I would like to illustrate to you on the left side how their contribution to the total group sales is increasing, because starting from 2021, it was only 13%. Now it reached 24% in the full year 2023.



**Péter Déri**

CFO | Haypp Group

You can see in the gray bubbles that the growth rates, which are significantly higher than in our core markets, are showing that this contribution to the group sales is going to increase in the coming quarters and years ahead of us. The sales growth, what we accounted for in 2023, it's fair to say that half came from the core markets, and the other half was driven by the growth markets despite their lower relative weight within the group sales. Moving to the next slide, to the selected KPIs, here I would like to focus on the balance sheet in particular. Our financial position remains strong. We closed the quarter with a net working capital position of SEK 253 million, out of which the inventory was SEK 263 million, record high inventory.



**Péter Déri**  
CFO | Haypp Group

The increase of this inventory is attributable on one side to the underlying sales growth, what we see, but also it was driven by the opportunity to temporarily increase the inventory of particular brands where we expect an increase in inbound prices from 1st of January 2024. The net debt increased to SEK 225 million, corresponding to a net debt to adjusted EBITDA ratio of 1.7 versus 1.8 times in the full year 2022. This is an increase versus Q3, but as I alluded to, this is predominantly and mainly only driven by the inventory increase, temporary inventory increase, and we do expect this to normalize back to the previous levels throughout Q1 2024. With this, I pass the word back to Gavin.



**Gavin O'Dowd**  
CEO | Haypp Group

Thank you, Peter. Moving on to the next slide and taking a look at our current trading. The favorable market trends which we have seen in recent years regarding the transition from cigarettes towards nicotine pouches are continuing. The strong underlying consumer demand is the primary driver for this. In addition to this, the non-cyclical nature of the category, combined with the price advantages of online, are leading to strong performance relative to other online categories. In addition, pressure from both the challenging economic times and inflation remains very limited, with robust demand remaining intact as consumers are seeking safer alternatives. Carrying on from Peter's point regarding the accelerated opportunities, the U.S. and European growth markets are continuing to show very robust growth and on an ever-increasing base.



**Gavin O'Dowd**  
CEO | Haypp Group

The robust performance and the learnings from our expansion into vape in initially the UK and then Germany and Sweden have developed a significant amount of learnings for us to the extent that we now feel comfortable to take a stronger step in this category. This is going to lead to a methodical expansion into our adjacent categories first, followed by new geographies afterwards to further increase the long-term potential for our company. On the back of this, we will reflect a third reporting segment during 2024, which we will call the emerging segment. We are well positioned to take advantage of this rapidly growing international market to reach our financial targets. The proven revenue model of retaining customers through the strong value proposition hinged upon our broad assortment, convenient ordering and shipping, and compelling prices.



**Gavin O'Dowd**  
CEO | Haypp Group

The infrastructure developments which we started almost a year ago for both the back end and now moving on to the front end will allow us to run a more streamlined business across multiple categories and across multiple geographies. Our strong balance sheet and the non-cyclical nature of our products, the capital-light nature of it, gives us the flexibility to take opportunities as they manifest over time. Moving along to the next slide of Slide 20, I would like to reiterate the increased financial targets which we released on our Capital Markets Day in November. We have now stated clearly that we intend to reach SEK 5 billion of net sales through organic growth only for our core and growth markets. And in addition, any revenue which we achieve from our adjacent categories or our emerging segment will be above and beyond.



**Gavin O'Dowd**  
CEO | Haypp Group

We've also brought forward our guidance when it comes to our profitability, where we believe that our core and growth markets will reach high single-digit Adjusted EBIT in 2025. Of this, 1-2 percentage points shall be reinvested into the emerging opportunities in order to create potential for the longer term. And we do not envisage that we will be issuing a dividend for the foreseeable future of 2024 or 2025, but we do make a very clear statement that if there is any excess capital beyond that that we're not able to find a very healthy return on, we will return it to shareholders. Moving along now to the dynamics of what we see for the macro trends within this space, we continue to see robust growth when it comes to the growth of nicotine pouches in particular across both our existing and new geographies.



**Gavin O'Dowd**  
CEO | Haypp Group

In addition to this, we also see continued opportunity for online to take a larger share of the total market. We recognize that our leading position across the full suite of markets where we currently are for nicotine pouches leaves us very well positioned to benefit from this. From here, moving along to slide 22, we would like to reiterate the core dynamics that we see behind our performance. Standing behind the underlying performance itself is a robust operating model which is underpinned by cutting-edge technology and processes. Behind that, we are extremely proud of the people and the culture that we have within the business which has been able to sustain this level of performance and this level of growth over the years. We recognize that the key underlying factor behind that is our higher purpose of inspiring healthier enjoyment to millions.

# Haypp Group

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**Gavin O'Dowd**  
CEO | Haypp Group

With that, I would like to wrap up today's presentation and open up for questions with the operator, please.

## Q&A

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**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**

Financial Analyst | Carnegie

Thank you very much. Yes, one question here on if you could clarify your statements about the growth markets turning profitable from the start of 2024. Am I right to assume that this excludes vaping and new markets? And if so, is it possible to quantify how much of this was included under your growth markets in 2023, just to understand how tangible an improvement in profitability that you expect here from the start of 2024?



**Gavin O'Dowd**

CEO | Haypp Group

Good morning, Niklas. Yes, so we can definitely clarify that our growth markets are expected to move into profitability from the beginning of 2024. There was very limited investment during 2023 into what we're now defining as the emerging markets. It was very much, as we'd said, as we came out in day Q1 of 2023, and we stated that we were piloting a concept initially across the UK, and then we expanded the pilot across briefly into Sweden. At the very latter stage of 2023, we also extended that pilot across into Germany. Where we are on this position is that we've dedicated very little resources during 2023 to the vape category.



**Gavin O'Dowd**

CEO | Haypp Group

We are now very comfortable with the progress that we're making within the growth markets, so we are going to carve off a substantial amount of resources to dedicate towards the next generation of opportunity that we see here ahead of us. So going back to your question of will it have a significant impact when it comes to the allocation of resources to the emerging opportunities, there hasn't been much resources placed on it so far, but there will be significant resources from here.



**Niklas Ekman**

Financial Analyst | Carnegie

Okay, that's very clear. Following up on that, if you look at your margin progression, it's been very, very stable. In the past eight quarters, your margins have typically been rising at a rate of 20-40 basis points year-over-year, so extremely stable. But that pace is too low to reach your targets for 2025. So is it correct to assume that this rate will pick up considerably here in 2024 and 2025? Can we expect to see that already materializing in Q1?



**Gavin O'Dowd**

CEO | Haypp Group

Yeah, so I think there's probably two dynamics behind this one, Niklas. One was from we IPO'd in 2021, we were always very clear that we expected the margin uplift to be more back-end focused and that we expect that we would always prioritize growth in the nearer term with the benefits of scale driving margin over time. Then when it comes to a very specific aspect within this, what we can see is that while we have seen material margin improvements in the growth markets, we've also seen growth markets account for a significantly larger share of our sales. So hence, there's always been that balancing factor within it.



**Gavin O'Dowd**

CEO | Haypp Group

However, as the growth markets move into being positive at an EBITDA level, then we can see that it will, irrespective of how rapidly that shift goes, assuming the continued trajectory that we see from growth markets as occurs. The percentage of the total business, it will no longer be the drag because it will be a profitable contributor. And as that progresses over time and those benefits of scale continue, we envisage that will be the primary driver for why we will see greater acceleration in it as we progress through 2024 and 2025.



**Niklas Ekman**

Financial Analyst | Carnegie

Very good, thanks. Sorry to linger on this question, but just to understand, in absolute terms, the losses, the EBITDA losses related to the growth markets, it has been fairly stable around SEK 15 million per quarter, a little bit below now in the last three quarters. But why would that reverse into profitability from Q1? What is the lever here to significantly improve the profitability from one quarter to the next, just to understand?



**Gavin O'Dowd**

CEO | Haypp Group

One of the key dynamics on our annual agreements, our agreements with our business partners, the suppliers, tend to run on calendar years. So hence, any agreement is set off the base of size that we have into that year. And of course, given the growth that Peter highlighted earlier over the last year within the growth markets, we are now moving into 2024 with a substantially higher platform than we stepped into 2023 with. And hence, on the back of that, there is substantially greater support coming into those markets. And hence, the step change will tend to occur much more in a Q4 to Q1 than it will in any other quarters during the year.



**Niklas Ekman**

Financial Analyst | Carnegie

Super. That's very clear and very promising. Can I ask also about the comment you made about Sweden where you talked about snus declining, and you kind of highlighted this as a bit of a challenge? And I was wondering, is this really hampering total growth? Isn't this mainly the result of migration to nicotine pouches? So anything you lose in snus, you gain in nicotine pouches, or has the decline in snus actually been so significant that the total growth is slowing?



**Gavin O'Dowd**

CEO | Haypp Group

No, no. I think it's just more of a specific within that space. So the total oral category continues to grow across Scandinavia and Sweden, as you specifically questioned for Sweden. So you are right. The total category grows. We see strong, robust growth across Scandinavia and within Sweden, as you specifically asked. So we do continue to see that growth. I think it's probably more just to be able to explain why we're seeing such strong growth on nicotine pouches and yet only low double-digit growth in total sales across the space. It is driven by that mix change coming through on it. So you're exactly right. It's a very positive movement, and it's a movement that we've positioned ourselves for over the last five years.



**Niklas Ekman**

Financial Analyst | Carnegie

Very good. Is there any way you can quantify the difference in profitability between snus and nicotine pouches?



**Gavin O'Dowd**

CEO | Haypp Group

Yes, we do. Without getting into the specifics on it, we can comfortably state here that nicotine pouches is and always has been a more profitable category for us for multiple factors, I think, part of which is the taxes on nicotine pouches is a little bit lower than that of snus. And as a result, there's a slightly higher value pool to be divided across various players in the value chain.



**Niklas Ekman**

Financial Analyst | Carnegie

Very clear. And just a final question also on net financials. Can you explain the significant increase in net financials? You talk about exchange of intercompany financial positions. What is that, and is that something that we can expect in coming quarters as well?



**Péter Déri**

CFO | Haypp Group

Yeah, Niklas, thanks for the question. So basically, within the group, we have legal entities in different jurisdictions. And in order to finance this, basically, the cash pool is in Sweden, but we provide intercompany loans to the different subsidiaries to manage the financial positions. And unfortunately, these loans are getting revaluated on a quarterly basis. And this revaluation, what caused the significant increase in Q4 2024, we are working to make sure that this translational exposure is getting reduced. So on a going forward basis, I'm hoping that this is not going to occur. However, since this is an intercompany translation, it does not have an effective cash impact for the group.



**Niklas Ekman**  
Financial Analyst | Carnegie

Very clear. Thank you for clarifying, and thanks for taking my questions.



**Gavin O'Dowd**  
CEO | Haypp Group

Thank you, Niklas.



**Péter Déri**  
CFO | Haypp Group

Thank you, Niklas.



**Operator**

The next question comes from Eric from Haypp Group. Please go ahead.



**Gaurav Jain**  
Director and Equity Research Analyst | Barclays

Hi, this is Gaurav Jain from Barclays. I think I dialed in on Eric's line. Can you hear me, Gavin?



**Gavin O'Dowd**  
CEO | Haypp Group

Hi, Gaurav. Good morning. How are you?



**Gaurav Jain**  
Director and Equity Research Analyst | Barclays

Yeah, very good. Sorry about the confusion from my side. So as you're expanding into e-cigarettes, how do you ensure that you don't run into the new tax issues and clearly disposables are under a lot of regulatory scrutiny? You might ban them. So how do you ensure that your business doesn't suffer volatility from what happens in this evolving e-cigarette landscape?



**Gavin O'Dowd**  
CEO | Haypp Group

Yeah, I think there are probably two dynamics that we consider to be pivotal within this one, Gaurav. The first one is very robust age verification processes across our platforms in general. That's a space where we always aim to be at the forefront as it goes through. In addition, we are now moving away from the vaping category being a pilot whereby we were simply spreading it by fraud and taking the learnings from it to it becoming quite a strategic pillar for us. On the back of that, I think there's going to be a lot of determination around what our focus portfolio is, which should be much more targeted towards people who are further into adulthood and have previously been cigarette smokers at this point in time.



**Gavin O'Dowd**  
CEO | Haypp Group

So I think as we work our way through 2024, we will start to refine down what our portfolio looks like in this category much more with that principle in mind in order to ensure that we are not only ensuring that no youth access is available to our product, to our sales, but that our category is not attractive towards people which are even in the lower levels of adulthood, let alone those which are underage.



**Gaurav Jain**  
Director and Equity Research Analyst | Barclays

Sure. And as part of that, will you make determinations on which suppliers you want to work with or not, depending on whatever they might be doing elsewhere in the world? Would you?



**Gavin O'Dowd**  
CEO | Haypp Group

Yes, absolutely. Absolutely.



**Gaurav Jain**  
Director and Equity Research Analyst | Barclays

Would you have a narrower flavor range versus the wide flavor range that we see right now in the market?



**Gavin O'Dowd**  
CEO | Haypp Group

I think both the flavor range itself, but I think also the descriptors that come with the products and the overall dynamics around each SKU as regards to how it has been positioned in the market will be all key considerations as regards to what products we will be listing and offering to our consumers.



**Gaurav Jain**  
Director and Equity Research Analyst | Barclays

Sure. And then going back to the set of questions which were asked earlier, so your sales growth, essentially, you are saying which was SEK 3 billion last year will go to SEK 5 billion in 2025, so a massive acceleration in growth. Clearly, your growth markets are growing much faster and are becoming a bigger part of the group, so that can happen. But you also have this Swedish snus excise tax cut, so most likely there won't be any pricing in Swedish snus. Maybe prices go down in Sweden this year. So will you be able to still hit the SEK 5 billion revenue run rate next year?



**Gavin O'Dowd**  
CEO | Haypp Group

Yeah. So we would close 2023 with SEK 3.2 billion, which mathematically means we need roughly 25% per annum for 2024 and 2025. So there will be the dynamic, of course, of the excise reduction within snus in Sweden. But just to put that in perspective, that will be roughly SEK 2 a can, which is coming in at quite insignificant. That excise reduction in Sweden is more of a token gesture where I admire the principle behind it rather than having a material impact on excise.



**Gavin O'Dowd**  
CEO | Haypp Group

I also believe that for Snus itself, bearing in mind that the category has moved into decline and that it is somewhat less competitive at a brand level, it wouldn't greatly shock me if there was continued strong brand owner price increases in Snus over the next couple of years, which could go quite a long way towards compensating for the tax reduction in the consumer pricing space. But I think we're going to have to wait and see how this manifests over time.



**Gaurav Jain**  
Director and Equity Research Analyst | Barclays

Right. And so just to understand the P&L picture which you're trying to essentially present, so the core markets, let's say, still grow high single-digit, low double-digit, depending on whatever happens with Swedish snus pricing, but the margins remain stable at 8%. The growth markets, they continue to grow, and the EBITDA margins become 0%. And then you have the emerging market segment where revenues could be whatever they are, but you will have essentially a 2 percentage point loss on total revenue, which we should put in the emerging market EBITDA.



**Gavin O'Dowd**  
CEO | Haypp Group

Yes. Just so I'm clear on the question, and correct me if I kind of got this one slightly wrong, but it's what will be the key driving forces to get up to the mid-single-digit or the high single-digit Adjusted EBIT for 2025. I think within that, as you're saying, for the core and growth markets combined, yes, I envisage that the EBITDA for our growth markets will continue to improve significantly over the next 24 months. That has been driven by the scale benefits which we're seeing in those markets. We have seen pretty significant improvement in those markets over the last 24 months, and they continue to grow at least as fast at this point in time.



**Gavin O'Dowd**  
CEO | Haypp Group

Then of that guidance where we gave of 5%-7% Adjusted EBIT for the combined core and growth, we will reinvest 1-2 percentage points of that into the emerging opportunities of both vape and new geographies over the next 24 months.



**Gaurav Jain**  
Director and Equity Research Analyst | Barclays

That's very clear. Thank you, Gavin.



**Gavin O'Dowd**  
CEO | Haypp Group

Thank you, Gaurav.



**Operator**

The next question comes from Andreas Lundberg from SEB. Please go ahead.



**Andreas Lundberg**

Equity Research Analyst | SEB

Yeah, thank you and Good morning.



**Gavin O'Dowd**

CEO | Haypp Group

Good morning.



**Péter Déri**

CFO | Haypp Group

Good morning, Andreas.



**Andreas Lundberg**

Equity Research Analyst | SEB

I asked a few maybe detailed questions, but the infrastructure investments you talked upon, and it took some cost for that in 2023, CapEx perhaps. What, so to say, remains when it comes to costs and CapEx for these solutions in 2024? Thank you.



**Péter Déri**

CFO | Haypp Group

Andreas, we believe that the CapEx for 2024 is going to remain in line with what you saw in 2023. But instead of working on the back part, the backend part of the infrastructure, we are shifting the focus towards the front end. I do not expect us on a full-year basis crossing the 2% threshold what we set ourselves. There will be fluctuation across the quarters, but overall, the investment behind the infrastructure development will remain more or less stable versus what you saw in 2023.



**Andreas Lundberg**

Equity Research Analyst | SEB

Okay, cool. And pure P&L costs?



**Péter Déri**

CFO | Haypp Group

Well, the P&L cost is not necessarily a cost because what these systems are doing for us are also unlocking efficiency. So yes, definitely, we will see depreciation, slight impact on the depreciation running through. But when it comes to the previously mentioned scaling benefits, what we are trying to unlock, those are hinging predominantly on improved ways of working, which requires the right toolkit for the team to operate with.



**Andreas Lundberg**

Equity Research Analyst | SEB

Okay, got you. And shifting to regulatory side, you talked about some positive decisions here in the Q1 already. What is that?



**Gavin O'Dowd**

CEO | Haypp Group

I think what we have seen manifest through 2023 was the overall principle on the beating cancer policies coming through and the implications that that has been having coming through on various forums, both at national, regional, and global levels. Now, some of the positions are still somewhat not public regarding what is occurring out there, but our intelligence that we've been gathering from various sources over the last month to six weeks gives us a lot of confidence as regards to the overall dynamics which will be manifesting during 2024 and beyond.



**Andreas Lundberg**

Equity Research Analyst | SEB

Okay. So it's nothing concrete, so to say, that's come out?



**Gavin O'Dowd**

CEO | Haypp Group

Nothing that we're in a position to discuss at this point in time.



**Andreas Lundberg**

Equity Research Analyst | SEB

Oh, that's cool. Another question is on the price changes from manufacturers in Sweden at the start of 2024. Were those material or?



**Gavin O'Dowd**

CEO | Haypp Group

This industry always runs with a degree of pricing. In fact, the nicotine industry in general always runs with a strong degree of pricing as it comes through. I don't think 2024 was significantly different versus prior years. So I think no, I don't think it was abnormal as regards to what we saw coming through in 2024.



**Andreas Lundberg**

Equity Research Analyst | SEB

Okay. But why did you take such a high inventory buildup then?



**Péter Déri**

CFO | Haypp Group

Yeah. I mean, on the inventory level, Andreas, we are, I have to admit, very opportunistic on this front. And we are trying to use the available financial resources and load the inventory at the end of the year to optimize the benefits on them.



**Gavin O'Dowd**

CEO | Haypp Group

Sorry, Andreas, maybe to be clear on this one, when you asked about pricing, I was considering manufacturer-led pricing. In addition, there's, of course, excise-led pricing, which is hinged to inflation within Sweden. So the inflation-related pricing sorry, the excise-based pricing was abnormally high because there was a slightly higher inflationary period on the back of it for the governments who run its calculations from. So it was more on that basis that we were doing the stock build.



**Andreas Lundberg**

Equity Research Analyst | SEB

Gotcha. And lastly, then maybe more integrated question, but your employee costs tend to be much higher in the Q4. What's the reason for that, or is it?



**Péter Déri**

CFO | Haypp Group

Well, basically, we started to strengthen the team on various parts of the organization, which then had an impact on the Q4 employee cost. And also, we created some accruals in Q4, one of the accruals, to reflect some of the costs we expect in the employment space to occur.



**Andreas Lundberg**

Equity Research Analyst | SEB

Okay. But should that be the case all Q4s, or was it just more of a one-off time, this year?



**Péter Déri**

CFO | Haypp Group

I think that if you look back last year, we had a little bit the same dynamics running through the employment cost for 2022 across the quarters. So from that angle, 2023 is not a standalone year from this perspective. I think we'll see where 2024 looks like nearer the time.



**Andreas Lundberg**

Equity Research Analyst | SEB

Yeah. Okay. Thank you so much, guys.



**Gavin O'Dowd**

CEO | Haypp Group

Thank you, Andreas.



**Péter Déri**

CFO | Haypp Group

Thank you.