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Haypp Group AB (HAYPP.SE)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Good morning, everybody, and welcome to our Q3 2021 Results. Today, I'd like to take a few moments at the beginning to do a quick recap on some of the key highlights around our category and our business, before we then walk in a little bit more detail towards our Q3 performance. And then we would wrap up at the end with a little bit of an outlook.

If I start off, first of all, when it comes to our underlying business; I think the most critical aspect regarding our higher purpose is our appetite to inspire healthier enjoyment to millions. Historically, this was moving people more from cigarettes to snus; but in the last three to four years, it's been much more on moving people from cigarettes towards nicotine pouches which is a rapidly-growing category.

When it comes to how we define healthier enjoyment and what space we operate within here, we take a look at, and you can see here on slide 4, the tobacco and nicotine risk continuum which highlights each category within the nicotine product from its harm to both the user and to society. We tend to operate only on the right-hand side of this chart where the products are significantly lower. And specifically we operate within nicotine pouches and snus which are some of the lowest forms of health implications for any category within the nicotine space, so of many products in the nicotine category.

When it comes to the implications that these products can have upon its population, upon the health of a population, if we move to the next slide, to slide 5, we can see what the smoking rates are across a full range of European countries. Now, within this space, we can see that not only does Sweden have by far the lowest smoking rates within Europe, but it also has below one-third of the average.

And coming quite close to Sweden here in the far left of this chart is Norway, which doesn't have near as strong a history – near as long a history of snus or nicotine pouches; but over the last 25 years has made exceptional

progress in reducing its smoking rates by accepting and embracing harm-reduced products. And even if we take a look at Norway in a little bit more depth up to the top right and we see how smoking rates has declined per generation over the past 15 years, this gives us some great hope as regards to what the benefits of this product can be to overall society over the long-term.

And there is an almost perfect correlation with that top chart when it comes to the reduction of smoking per generation within Norway with the growth of harm-reduced products per generation in the bottom right-hand side. Our vision is to bring this experience to as many countries around the world as possible.

When it comes to a quick overview – on the next slide, on slide 6, when it comes to a quick overview of the overall category, if we take a look at 2020, the total market size was envisaged to be roughly SEK 26 billion for the snus and nicotine pouch category combined. This is envisaged to grow to SEK 60 billion by 2025. This would be predominantly driven by nicotine pouches which accounts for roughly 30% of the category last year, but we envisage will account for about 80% of the category by the time we get to 2025. So it is very much the space that we're after.

And the nature of the category tends to lead itself to quite substantial profit [ph] growth (00:03:35) across the value chain. We believe that of the SEK 60 billion revenue that will come into this category in 2025, SEK 48 billion of that will be gross margin to be divided across out to the retailers or the manufacturers.

Now, if we take a look a little bit further into the online aspects of this business. Online penetration for this category was circa 11% for 2020; but we do envisage with the overall growth trends for online and the suitability of this category for online, we envisage that, that will continue to grow as a share of the overall category. And hence, we envisage that there will be very strong category growth – I'm sorry, online growth within this category for the foreseeable future.

If we take a look at some of the other trends [indiscernible] (00:04:23) operating within this and which is driving it forward, I think one of the most fundamental aspects for this is the consumer demand for less harmful products. And we can see this across a range of products, originally from vaping and tobacco heating products, but much more excessively at the moment within the nicotine pouch space.

In addition to this, we see a much more positive and progressive stance coming through from regulators in recent years, where their focus is much more moving towards not reducing the consumption of nicotine, but reducing the harm from the consumption of nicotine, which fits perfectly with our higher purpose. And because of these two factors, both to the growth in underlying consumer demand and the support for the category from regulators, it has encouraged a substantial number of suppliers to enter into the category.

We now have all of the large tobacco players, plus Swedish Match, and a broad number of very credible small carriers having entered the category as well. This in turn accelerates innovation within the category, and further improves then the ability to convert more people from cigarettes to nicotine pouches.

And then on the chart on the right here on slide 7, you can see our forecasts for how the category will progress out to 2025. And what you can roughly see here is that by the time we get to 2025, this is predominantly a nicotine pouch-only category.

If we move on to slide 8, you can see a quick sense of what our storefronts or our retail brands are across different markets. We tend to run multiple storefronts in each market in order to be able to meet the needs of different consumer segments within those markets. And in the bottom part of the chart, we have a sort of a list of

some of our competitors. The competitive landscape is extremely fragmented, and we do have the vast majority of the overall online market globally, where we're roughly 10 times the size of our next largest player.

When it comes to our shares – if I moved to slide 9, when it comes to our shares per market for 2020; if I start off, we have broken down year across Sweden, Norway, the rest of Europe, and the US. And if I start off with Sweden and Norway first, we have just over 10% and 15% last year for share of the Norwegian market. But if I come down to the share of the nicotine pouch market, we have significantly higher shares in the nicotine pouch market, particularly within Sweden.

In addition to this, if we take a look at the bottom part of the chart here and take a look at our online market share, we have over 90% and circa 80% share of the online market within Sweden and Norway. The light blue sections within the donut charts on Sweden are the businesses which we acquired in the middle of this year.

If we take a look at the rest of Europe and the US, I hear we have a substantially lower shares of the overall category. And the category in those markets, we view it as being predominantly nicotine pouches already. However, what we can see is that we have a very healthy share of the online channel in these markets at this point in time. And the focus of our group for the foreseeable future is going to be very much around growing the online channel in these geographies.

So, if I move along from here and take a quick look at the Q3 performance, when it comes to the operational highlights on slide 11, what I want – I'm going to start off, first of all with our Core Markets, which are Sweden and Norway. If I start first of all with Sweden, we've seen strong continued migration from offline to online. We have been investing strongly in that migration over the first half of the year, and we have a sustained part of that investment for most of Q3. Those growth investments were partially reversed during the third quarter.

When it comes to Norway; in Norway, I think we need to bear in mind that we experienced exceptional growth year-on-year for Q3 2020, where our growth was over 200%. This was partly driven by COVID restrictions within Norway, where one-third – almost one-third of the market is products which are bought either across the border from Sweden or at the duty free within the airports in Norway. The border had been shut due to COVID and there was extremely little travel, so the domestic sales jumped significantly within Norway during 2020.

We see a reversal of that as the border has reopened and as trade – as travel has returned. So we are experiencing a degree of a reversal of the growth that we experienced at the beginning of – during 2020. In addition to this, within Norway, we're also experiencing some aggressive price competition from offline. And in order to deal with both the challenges of the reversals for both the border and the price competition from offline, we have launched a range of initiatives in order to turn around our negative sales development within Norway.

Regarding our Growth Markets, we're seeing particularly strong performance. If I start first of all within the US during the second quarter I explained that we were starting to see strong performance during the quarter month on month and it was against elevated comparables in 2020 where we had seen a spike for Q2 due to COVID lockdowns and COVID restrictions within the US. That continuous performance that we've seen during Q2 continued constantly during Q3 as well.

In addition, when I come back to Europe, we've seen some very strong performance within Germany. We have benefited from a regulatory tailwind around the category where the category has been somewhat restricted in brick and mortar stores within Germany. While we do benefit from this in the short term, we strongly believe that it is in the overall benefit of both the category and ourselves that the harm reduction perspective is taken into account for the long term success and the overall benefit of the public health within Germany.

At the same point in time, we have taken some steps to service our European markets somewhat better. Up until the end of Q3, we had supplied all of our nicotine patches from our Haypp platforms across Europe from a third-party logistics center within Malmö.

Given the volume growth that we were seeing within Europe and the expectations that we have for the future, we've actually migrated all of that volume to our primary warehouse here in Stockholm to be able to handle this as it goes forward. In addition, we've introduced a transport administration system which, of course, a range of platforms and it will be rolled out globally for the foreseeable future. This enables us to improve on our convenience, on our shipping services, to our consumers on a more micro markets for cities and countries across Europe.

Next, when you take a look at our acquisitions, in the end of June and the beginning of July, we acquired the number two and number three players within the market and Sweden, respectively. This consolidated our position heavily, and the integrations of these platforms has gone according to plan. Also, after Q3, on the 13th of October, we listed the company on the Nasdaq First North where we – which was a milestone for us as a group and in that process we issued SEK 150 million of new equity to further strengthen the group's financial position and help us to accelerate our future growth.

With that, I'm going to pass over to Svante to walk us through some of the financials.

Svante Andersson

Chief Financial Officer, Haypp Group AB

Thank you, Gavin. Turning to page 12 and the financial overview for the group, our reported net sales increased by 21% to SEK 582 million during the quarter. The organic growth in net sales was 18%, and when we talk about organic growth, we excluded the effects of acquisitions and the markets in Europe and the rest of the world that were exited in the first quarter of this year.

Gross margin for the third quarter amounted to 11% versus 12.8% during the same period last year. The decrease in margin was mainly attributable to the growth investments in the core markets that were staying for part of the third quarter and then partly reversed.

Adjusted EBIT for the third quarter amounted to SEK 10 million, corresponding to an adjusted EBIT margin of 1.7%, down from 3.7% in the third quarter last year. The decrease was mainly attributable to the lower gross margin which flowed through.

For the first nine months, net sales increased by 38% and amounted to just below SEK 1.7 billion versus SEK 1.2 billion in the same period of last year. The organic growth was 36% and adjusted EBIT increased to SEK 30 million, corresponding to a margin of 1.8%, down from 2.2% during the first nine months of the last year.

Turning to page 13, in our core markets. We reported a net sales increase of 29% for the segment, and the net sales amounted to SEK 501 million for the third quarter. The organic sales growth, excluding the acquisitions was 13% and that was driven by a strong organic growth in Sweden of about 40% and a decline in Norway of 9%.

EBITDA for the segment amounted to SEK 26 million during the third quarter versus SEK 29 million in the same period last year. And the EBITDA margin decreased to 2.2% – decreased by 2.2 percentage points to 5.2% due to lower gross margin as continued focus is placed on growth over profitability and we continue to invest accordingly.

Our net sales increased by 44% during the first nine months and amounted to SEK 1.7 billion – SEK 1.5 billion versus SEK 1.0 billion from last year. And the organic growth was 38% for the first nine months. EBITDA increased to SEK 83 million, corresponding to a margin of 5.6%.

Next, moving to page 14, in our growth markets. We recorded net sales increase of 25% during the quarter and net sales amounted to SEK 81 million versus SEK 65 million and for the same period of last year. Comparable net sales, i.e., when we exclude markets that were exited in Europe and the rest of the world grew by 49% during the quarter.

Our EBITDA amounted to negative SEK 8 million during the third quarter compared to negative SEK 7 million in the same period of last year. EBITDA margin was negative 9.7% as we continue to invest both behind our platform and our infrastructure in these markets to drive further growth. Net sales for the first nine months increased by 6% and amounted to SEK 202 million versus SEK 190 million in the first nine months of 2020. Comparable net sales increased by 26% for the first nine months and EBITDA amounted to negative SEK 32 million corresponding to a margin of negative 16%, which is at the comparable level to the same period last year.

Finally, on page 15, we're presenting a selection of our KPIs. First of all, our average order frequency, which is the number of orders per active customer remains stable at 2.3 during the quarter. In terms of our balance sheet, our net debt amounted to SEK 184 million at the end of the period corresponding to net debt to adjusted EBITDA ratio of 2.7.

As previously communicated, we use part of the proceeds from the primary issue of shares in connection with initial public offering to repay our structural debt at SEK 72 million, thereby, strengthening our financial position and enabling flexibility for future potential strategic M&A opportunities. Our investments amounted to SEK 233 million during the quarter, its vast majority related to acquisitions of Nettotobak and Snusnetto. Both acquisitions were structured as asset purchases where the acquired assets mainly include the e-commerce store brands and the customer relationships associated with those.

With that, I'll hand the word back to Gavin.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Thank you. Now, regarding our financial targets, Regarding our financial targets. If we take a look at slide 17. Firstly, on growth, we set a target to reach sales of at least SEK 5 billion by 2025, predominantly through organic growth. Regarding profitability [ph] the group (00:17:58) we prioritize growth over profitability but we remain clear with our targets of reaching a high-single digit adjusted EBIT in the medium to long term.

Regarding dividend, in the coming years the group has concluded that we can get the best return of our cash that we create from investing in further expansion and we do not envisage that we will be paying a dividend for the foreseeable future.

If we move to slide 18 and take a look at as sort of an overview of the potential that we're seeing here. Firstly, if we take a look on the left regarding nicotine patches, we see a growth from SEK 9 billion to SEK 49 billion in revenue for the overall category. This provides a 41% CAGR year-on-year between up to 2025. In addition to this, we see a category which has roughly 10% online penetration at this point in time, and we see strong potential for further online penetration in the future. And within this, we are also recognized our leading market positions

across all of the key markets at this stage and we envisage that we should be able to – we will be able to defend those positions.

If I move now to slide 19 and take a look at the current trading. Firstly, if I start with overall category trends, the nicotine patch category continues to grow rapidly across both core and growth markets. All large manufacturers are now active within the category and it is accelerating innovation and we see continued support from regulators across a range of European markets in particular.

Regarding the growth, Haypp Group has experienced over 50% year-on-year growth during Q3 for nicotine pouches and we envisage that this will be a primary driver of our growth out to the future. And we show – we see continued strong performance within Sweden where the share of nicotine pouches on our platform is significantly higher than with any other retailer. And consistent growth year-to-date within the US has been experienced throughout Q3 and into the early stages of Q4. And the radical growth that we've experienced in Germany is showing strong – is continuing, and we're seeing early signs of a strong trajectory within the UK.

Overall, we consider ourselves to be very well-positioned to take advantage of the international markets over the coming years, and we have invested heavily in our infrastructure so far this year in order to make that happen. Aspects of this include unifying all of our European platform, all of our European stores onto one platform to give us the capability of scaling over time. In addition to this, on the back of the unifying of our platforms, we've been able to enhance our data collection and our data storage, which has enabled us to expand the usage of machine learning across greater aspects of our business and has already started to yield some strong results.

In addition to this, we have migrated our warehouses and we're streamlining our warehouses for handling future volume. I've already spoken about the migration of the warehouse from Malmö, which was done at the end of Q3. And at this point in time, we're also in the process as we speak of migrating our warehouse from a 3PL in Norway into our own warehouse, which is a one of the similar blueprints to what we have here in Stockholm and that's expected to be completed during Q4.

In order to facilitate all of this and drive it forward, we continue to develop our organizational capabilities to be able to handle the scale in multiple markets.

I will leave you with slide 20 which is our key investment highlights and without going through this one in depth, what I will say is we are in a category which is showing very strong growth and has strong potential for the future in the harm reduce space. Within this, we see a broad range of innovation and new products coming from a broad range of suppliers within it which will further accelerate the category. We are a clear global leader when it comes to online sales for this category and we envisage that online will continue to grow as a share of it. And we envisage that this combination together shows very strong growth potential for our business for many years to come.

With that, I will pass back to the operator and take any questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of Niklas Ekman of Carnegie. Please go ahead. Your line is open.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Thank you very much. Can I start with a question on current trading? Is there any way that you can quantify what you have seen so far, given that we are almost two months now into Q4? I think you are facing increasingly tough sales comparisons but the margins last year were quite weak. So, any kind of indication of either what we can expect here for Q4 or at least maybe some background to the weaker margin in Q4 of last year, whether that was kind of a seasonal effect or any kind of one-offs?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. So when it comes first of all to – good morning, Niklas. When it comes first of all to sales performance, I think what we can see so far in Q4 is the continued trends of what we saw during Q2 and Q3. So, in markets such as the US, the continued strong performance is remaining with us so far. It's equally valid across our European markets. And within Sweden, the growth that we've seen from growth investments in the first half of the year is continuing, albeit we need – we're conscious that we have reversed some of those growth investments in the latter part of Q3. And within Norway, we continue to experience difficult comparables and the difficult environment within it.

When it comes to margin, I think what we need to bear in mind here is that we have reversed part of the investment in margin during Q3. And we don't envisage that there will be radical seasonality during Q4 from our margins within this space. But the one thing that I would like to bring everybody's attention to for Q4 is that historically prior to 2020 our business generally sees a seasonality regarding sales from the week before Christmas to the week afterwards. And we generally see a substantial reduction in sales where, as consumers travel either domestically or abroad, they tend to buy their products from local stores or from Duty Free if they're traveling abroad.

We did not experience that during 2020 because there was substantially less travel due to COVID. However, we need to be conscious that if 2021 Christmas season returns somewhat to a normal seasonality, we will envisage that we will experience the same trends as we've seen for the previous 10 years. Is that close somewhere towards answering the question, Niklas?

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Absolutely. Thank you so much for elaborating. That's very clear. Second question is on the US federal taxes. You mentioned this year that there are many different outcomes that are possible and you also say that you expect this to have a very limited impact. Can you elaborate a bit on both of those issues here? What are the kind of potential outcomes and why don't you expect this to impact volumes?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

So, firstly, when it comes to the potential outcomes on this. This has been – this is the buyback better – or sorry, to Build Back Better legislation which has been coming through from the Biden administration over the past four weeks has been back and forth with maybe three or four different changes already when it comes to the impacts around nicotine patches. That legislation has now gone past Congress, but there is some fundamental challenges as regards to in what shape it will get passed the Senate.

It's very difficult at this stage to predict what the outcomes would be since there's still so much – it's still such a dynamic aspect regarding what the actual input on the regulation, on that legislation will look like at the time.

When it comes to our business, you got to bear in mind how small a share of our underlying business is actually currently within the US. I don't believe it's for the benefit of the American people for harm reduction to be something which is not reflected in their tax systems. So I'm a strong believer in maintaining the current or close to current tax rates which is within the category.

However, we need to also bear in mind that the category has already gotten very strong traction within the US and you can see particularly the traction that it has across the West Coast. I think it's past the point where even an increase of \$1 or \$2 or even \$3 a can is going to necessarily stall this category and the growth that it brings. But even within that, we need to bear in mind that we as an online retailer tend to always operate at a discount versus offline.

And what we have experienced in the past across different markets is that at points in time where there is a price spike driven by taxes or for any other reason going to a category, we tend to benefit at least in the short to medium term when it comes to people looking for other alternative retailers where they can buy the product from and it tends to be quite a strong accelerator for migrating from offline to online.

Having said that, I don't believe it's in the interests of the long term of the industry if the price increase, if the tax increase is excessive within the US, and it's not in our interest for that either.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

That's very clear. Thank you. And speaking of kind of taxes and regulation, you talk about tailwinds in the German market but how longer term they would benefit from a more favorable regulatory environment? Is it right to assume that you're talking about restrictions now? Have restrictions on physical sales that are benefiting you as an online retailer. Is that what you're talking about in Germany?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Exactly, yes. So, there was a court case in Germany within one of the, one of the states which restricted, which resulted in a restriction in domestic sales through brick-and-mortar for this category. And of course as that occurs, we, as an online player, have an unnatural advantage that we've been benefiting from and this could sustain itself for some time. However, I believe the German market is quite a substantial market when it comes to overall nicotine consumption and they have shown a willingness to move to harm reduction in other categories in the past.

So, I believe it's very much in the interest for the long term of the business that this regulation is reversed and that it comes back to being a category which is available across a broad range of channels and we feel quite confident about our ability to be able to compete with brick-and-mortar over the long-term, and we would rather that the

overall category is given the full opportunity to flourish in as close as – as close to now as possible. But we do feel quite confident that the overall German legislation will strengthen itself out over the next 6 to 24 months.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

And when you talk about restrictions in physical retail, how severe are these restrictions? Can you give us just a short example?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. I think for all of the credible mainstream retailers, they have delisted the majority of the products.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Okay. That's very clear. Thank you. I think I'll pause here and allow others to ask questions, and I might come back. Thank you so much.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Thank you, Niklas.

Operator: Thank you. And our next question comes from the line of Agnes Näslund of SEB. Please go ahead. Your line is open.

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Q

Hi, Gavin. Good morning. I have a question regarding the margins in the Growth Markets. I was just wondering if you have any guidance for when you will see it improve, or do you think it will improve; and in what timeframe are we looking at for it to maybe turn to a positive side? What do you think?

Svante Andersson

Chief Financial Officer, Haypp Group AB

A

Thank you, Agnes, for your question. This is Svante speaking.

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Q

Oh, hi.

Svante Andersson

Chief Financial Officer, Haypp Group AB

A

I think in terms of our margin for the Growth Markets, I mean, we said that we will prioritize growth over profitability especially within our Growth Markets, without giving a much specific guidance on when [indiscernible] (00:31:19) profitability. But I do think that's going to be a game of scale. But I won't be able to can give you very specific guidance on exactly when.

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Okay. Okay.

Q

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

What we can see here, Agnes, perhaps, in addition, is that the underlying margins around the category and around harm-reduced products in general are significantly higher across many of our Growth Markets when it comes to brick-and-mortar retail than what we experienced here within Scandinavia. So, the underlying environment for long-term sustainable margins is quite robust. But we do feel at this point in time, it's in our best interest to prioritize growth over margins at this stage. But we have no doubt in our mind that the environment for healthy margins in these markets is pretty robust.

A

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Okay. Okay. So what about Sweden, then? I guess you, still have had headwinds from the physical retailers putting some price pressure on you and so on. But, I mean, we have quite a varying margin here. If we look back last quarter, it's around 7% and now it's around 5%. But what do you think is a normal operating profit margin in the Nordic markets?

Q

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

I'll let Svante answer the specifics around the margins, but just put some context on Sweden, we haven't been experiencing extensive competition from brick-and-mortar when it comes to our margins. So, what's been happening within Sweden in our margins was our appetite to accelerate our growth. What we see is that once we can convert a consumer from offline to online, they tend to remain with us online. However, one of the key drivers to convert them is pricing to get them across at the beginning.

A

And we made a very conscious decision at the beginning of this year to accelerate that trend and, hence, why we've come through the year-to-date with circa 40% growth, organic growth, within our Swedish market even in our 11th year in this market. So, it's been more something the investment in margins in Sweden wasn't a response to pricing competition; this was more of a active step that we took ourselves to further accelerate the migration.

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Okay. Okay. Okay. So not only applies pressure from brick-and-mortar stores in Norway, also in Sweden this quarter?

Q

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

No, sorry. What I'm saying is that there wasn't pricing pressure from brick-and-mortar stores.

A

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Okay, there wasn't, okay. So you invested in pricing too as well.

Q

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

So the investment in pricing in the first part of this year in Sweden was something that we consciously chose in order to further accelerate that migration from offline to online. And hence, why we were able to see in our 11th year that we still have over 40% organic growth within Sweden year-to-date performance.

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Q

Yeah. Yeah. Okay. Sure. Yeah. Thank you. That's it for me.

Operator: Thank you. And we have a follow-up from Niklas Ekman of Carnegie. Please go ahead. Your line is open.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Thank you. Yes, a couple of questions, if I may. Firstly, you talk about UK here with early signs of a category taking off. Can you give some examples here and any way you can compare this to the development in Germany, for instance, during the similar stage of development?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. So if I take an overall category aspect to it first, what we can see here is that the category is now available across many key retailers within the UK. So for example, it's listed within Tesco's, within Sainsbury's, and within WH Smith, which are probably three of the largest grocery or convenience chains. It's also available in the vast majority of petrol stations to some extent, albeit with a somewhat limited range of SKUs. So, the overall category is definitely showing some strong performance.

When it comes to online, we can see strong growth in the traffic for this, and we can see a uptick in both customer acquisition and customer retention rates. We were previously seeing – just to give some comparison background on this, we have previously been performing reasonably well within the UK. However, the onset of Brexit had caused some complexity when it came to supply chain and delivery and lead times running into the UK.

We resolved those issues in the middle of the year. And on the back of that, we're starting to see our share and our performance continue showing early signs of growth within the UK, partly driven, as I say, by strong underlying category performance.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

That's very clear. Thank you. And you mentioned here during your presentation that your ambition is to take this nicotine pouch experience to as many markets as possible. But of course, in Q1 you left a large number of European markets. What timeframe do you think it is reasonable for you to reconsider and kind of revisit some of those markets, and maybe even expanding to other markets outside of Europe? Can you just elaborate on your thoughts on potential expansion?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. So, at this point in time, we see the category as – the big current potential for the category is very much in the markets where we are. The category had been driven hard in these markets over the past 18 months and is starting to show early signs of traction. Our business performs best when we go into a market as the category is already receiving traction. It's much more efficient than moving into the market and trying to create [indiscernible] (00:37:20). I don't envisage that we're going to be expanding outside of our current geographies in the first half of 2022, and I don't envisage that we're going to be expanding outside of Europe in the foreseeable future.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Okay. That's very clear. Yeah, that's it. Thanks for taking my questions.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Thanks, Niklas.

Operator: Thank you. And we have a follow-up from Agnes of SEB. Please go ahead. Your line is open.

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Q

Yeah. Hi. Sorry it's me Agnes again. I just have one follow-up question. So, what is your perception of the general growth of nicotine pouches in the US and Germany right now? And I don't know if you have an exact number on it but what is your perception of the category growth?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

[indiscernible] (00:38:14) Germany first. I think it's very difficult to get a clear read on what's happening within Germany at this point in time. There's a sort of an absence of structured data coming through on this. We're piecing together various pieces from different sources and it does appear as though the consumers are not becoming aware of the category anymore via brick-and-mortar, and anybody which is new entering the category at the moment is almost coming by sort of a viral concept that they're hearing it from their friends. So it's very difficult to quantify pace of growth we're currently experiencing within – the category is currently experiencing within Germany.

When it comes to the US, I think it's much more robust. I think we're envisaging overall category growth operating in the 50% to 70% year-on-year at this point in time. It's operating in that space. Of course, it's been heavily driven by the performance in the West Coast, but we are seeing some very strong trajectories coming through the remaining 43 states in the US as well.

Agnes Näslund

Analyst, Skandinaviska Enskilda Banken AB (Broker)

Q

Okay. Thank you very much. That's all for me.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Thank you, Agnes.

Operator: [Operator Instructions] Okay. There seems to be no further questions on the phone. So I'll hand back to our speakers for the closing comments.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Thank you very much. We look forward to releasing our Q4 results in February, and I look forward to catching you all then. Have a wonderful day. Thank you.

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