

13-Feb-2025

Haypp Group AB (HAYPP.SE)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Peter Deli

Chief Financial Officer, Haypp Group AB

OTHER PARTICIPANTS

Niklas Ekman

Analyst, Carnegie Investment Bank AB

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Haypp Group Q4 Presentation 2024. For the first part of the conference call, the participants will be in listen-only mode. [Operator Instructions] Now, I will hand the conference over to CEO, Gavin O'Dowd; and CFO, Peter Deli. Please go ahead.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Thank you. Good morning, everyone, and welcome to our Q4 2024 conference call. Starting on slide 4, I would like to focus on four key aspects of our operational highlights, beginning first with our nicotine pouch Q4 year-on-year volume growth of 37% on a like-for-like basis. The reported growth of 16% is not adjusted for suspended sales – for suspended states, predominantly California, and the large effect of the US Zyn in shortage in the quarter.

Secondly, I would like to draw your attention to the material increase in our gross margin. Our business philosophy is built around sharing our economies of scale with our consumers in the form of superior convenience and the best value. And despite aggressively moving forward in both of these areas, Haypp was still able to increase its gross margin by nearly 4 percentage points to 17%, reflecting the power of our operating model.

Third, there are some very positive changes in the US market becoming evident, especially at the end of Q4 and in early 2025. These changes include the recent launches of new products on the US market, which have been extremely well received by consumers. The pace of change, which we are seeing in the past month, is unprecedented.

And fourth, the FDA has issued marketing grounded orders or MGOs for a range of flavored nicotine patches, reinforcing the positive regulatory outlook for the category and for the online channel.

The next slide, slide 5, provides context for the commercial dynamics in the US market. As many of you are aware, the exponential growth of nicotine patches in the US has resulted in a large category, and that growth is

unabated. However, the online channel share of circa 3% is low, particularly when compared to Scandinavia, where the online channel is circa 30%.

I will discuss three topics around this: one, how the FDA's MGOs are positive for the sustainability of the category, the online channel and Haypp's position unit; two, how Haypp is balancing these dynamics to ensure we have the strongest long-term performance in US considering the Zyn shortage; and three, the rapidly accelerating brand fragmentation.

We will start this by moving to the next slide, slide 6, and starting with the FDA's MGOs. There were 10 flavor variants authorized covering a spectrum of flavors. This authorization acknowledges that these products are appropriate for the protection of public health. And in addition to being a great step forward in the US, this MGO undoubtedly further supports the category outlook in other countries, notably in Europe.

When it comes to the specific benefits for online and for Haypp, we are pleased to see clear guidance on compliance and particularly on youth access prevention. Not only is this critical for the category sustainability, but it is also a key strength for Haypp, increasing our already substantial competitive advantage.

The MGOs also clearly explains restrictions in paid online marketing. Digital advertising around authorized products is not allowed unless the identity of the user has already been verified in line with the specific requirements. This restriction has two effects. Firstly, it effectively bans search engine marketing, such as Google AdWords, further increasing the value of our organic rankings. Secondly, it increases the value of our digital media. As over the medium term, Haypp would be one of the few digital locations where all of our traffic is already verified, and hence, not subject to those specific restrictions. The MGO also validates Haypp's methodology and tools for youth access prevention.

For FDA-authorized products, consumers will need to be verified before they see the authorized brand, in contrast to our current process, which requires verification before consumers can buy the product. This distinction, while positive over the medium term, does create a small hurdle in the short term for authorized products, which I will explain in the next slide.

Moving to the next slide, slide 7, last quarter, I highlighted our challenges sourcing Zyn. To be clear, we have a very strong relationship with all of our suppliers at both the global and the US level, including PMI. And we recognize that when there is a shortage of supply, difficult decisions need to be made.

We were able to source some Zyn, and as some of you have seen, we restarted selling Zyn on our US sites in early 2025. However, the Zyn MGO requires, in line with our previous slide, that Haypp would need to educate its consumer sites earlier in the shopping experience to continue to sell Zyn specifically. While we are technically ready to do so today, Haypp Group needs a substantial permitted volume of Zyn each month in order to justify implementing it at this stage. Hence, we are not selling Zyn in the US as per today.

Moving to slide 8, many of the factors required to make the US market successful were already in place, such as our operating model, which allows us to offer highly competitive prices versus offline retail and also our large share of the organic search traffic. Haypp's convenience steadily improved in recent years, with another step forward in December, host by the successful automation of our Texas warehouse.

Despite these favorable factors, a notable difference was in the assortment range in US versus that of the European markets, with the vast majority of the US market concentrated in a single brand, and historically, a very limited number of differentiated products and brands. A broad, relevant assortment of innovative, high-quality

products is a leading motivator for consumers to move online, where they can explore and understand the larger set of options, which is not available or not clearly explained in most offline convenience stores. The US assortment is changing rapidly, particularly in recent months, providing the final cornerstone in the foundation for online sales to succeed.

To summarize, the dynamics of the US market are rapidly changing through the benefit of online, and the new regulatory conditions further strengthens our operating model. We look forward to carry a full assortment of compliant products in the not so distant future.

With that, I will hand over to Peter for more detailed discussion on Haypp's financial performance.

Peter Deli

Chief Financial Officer, Haypp Group AB

Thank you, Gavin. Good morning, everyone. Moving to slide 9, I'm starting the performance update part with our nicotine pouch volume development. The growth of the strategically pivotal segment is the key measure of success. As Gavin alluded into, to accurately understand the underlying performance of the group and particularly the Growth Markets, so-called like-for-like measure is required. Like-for-like measures are calculated by removing from the 2023 baseline in US Zyn volume, volumes for to closed states, and in case of the net sales like-for-like measure, the US tobacco sales.

Our reported nicotine pouch volume growth for the fourth quarter is 16%. However, the like-for-like growth was 37%, in line with previous quarters. The growth was almost equally supported by Core and Growth Markets, where Core Markets contributed 1.9 million cans to the growth; Growth Markets, 2.2 million can. The incremental 1.9 million cans translates to a growth of 24% for the Core Markets. This was negatively impacted by the business periods' holiday phasing. Growth in the Core Markets could have been approximately 2 percentage points higher without the soft performance during the last few days of December. Core Markets growth on a like-for-like basis accelerated to 77%, which is significantly above the previous periods. As we showed in Q3 presentation, the discontinued or temporary suspended part of Core sales had materially slower growth rate.

Moving to slide 10, you can find here the details behind our like-for-like sales development. Versus the like-for-like baseline, we achieved a 23% growth, which is above previous quarters. We are not only happy with the overall growth, but also with the composition of it. The sustained growth in the Core Markets and the rapid growth in the Growth Markets gives us confidence for the future. The newly established Emerging segment contribution also supports the overall growth. The like-for-like sales growth for the Core Markets was 9%. Similar comment applies here for the slow Christmas period then for the NP volume, while the Growth Markets sales was up by 75%.

On slide 11, I would like to contextualize the 2024 and Q4 growth rates. Full year 2024 like-for-like growth was 20%. We had a slow start of the year driven by the Swedish tobacco segment. However, since Q2, our performance is back on track and the 23% like-for-like growth in Q4 means that we exit 2024 with a strong performance, giving us confidence for 2025. The growth is mainly driven by nicotine pouches. Snus is flat, while the Emerging segment contributed 3% to the overall growth.

Moving to slide 12 and progressing a few lines down in the P&L, you can find here the long-term quarterly development of Haypp Group's gross margin, both in absolute term and as percentage of net sales. Year-after-year, we managed to increase our gross margin driven by the consistent volume and top line growth, and also by the increasing contribution of our media and insights businesses.

I would like to remind us on the foundation of our business model, the shared value created by the company between our consumers, our business partners and our shareholders. We are committed to continue delivering ever increasing value for our consumers, which also requires to increase the value we create for our business partners. Increasing the value for media and insights products allows us to consistently improve our consumer offer, both in value and in convenience as well, while we also improve [ph] more marginality (12:25).

On slide 13, you can see the key figures around our profitability. In Q4 2024, we delivered record high adjusted EBIT both in terms of absolute and percentage terms as well, where adjusted EBIT reached 4% on a group level. As I covered on the previous slide, the backbone for our profit increases is the margin performance. The solid margin growth allows us to support for future growth in the form of investing into people and capabilities.

We maintained our investment into Emerging segment. This quarter, the investment amounted to SEK 10.4 million and reduced the overall adjusted EBIT of the group by 1.1 percentage points. Adjusted EBIT for the Core and Growth business was 5.1%. As a reference, in 2022, the group, which at that stage, was the Core and Growth Markets, adjusted EBIT was 2.3%, while in 2023, it was 2.5%.

Moving to page 14 and or Core Markets, I talked about that this segment delivered an overall 9% net sales growth. However, this 9% includes two completely different dynamics. The nicotine pouch segment, which accounted for 52% of the volume for our Core Markets, maintained its rapid growth rate, and consistently gaining share. This new segment's volume remained in decline, driven by the reduction of the underlying consumer demand. These two opposite dynamics mean that the share increase of the fast growing nicotine pouch segment really improved the overall growth rates of the Core Markets. The growth is driven by maintained strong fundamentals both in acquisition and retention. Important milestone for the Core Markets is the uplift in adjusted EBITDA, which reached 8.9%, up by 1 percentage point versus same period last year.

On next slide, slide 15, you can find our Growth Markets performance. Net sales on the like-for-like basis is up by 75%. We are very happy with the high-double digit growth rates of US and Austria and the triple-digit growth in the nicotine pouch volume in UK. The [ph] low sales (14:52) in US was not a major contributor to profitability, which is clearly visible in our Q4 results. The adjusted EBITDA in absolute terms amounted to SEK 6.2 million, which is the highest ever. And with the lower denominator, the adjusted EBITDA rate is also up to 3.1%.

On slide 16, there are three key areas around the Emerging segment I would like to highlight. First, sequential net sales increase continued and almost reached SEK 30 million. As you could see on previous slides, this is a 3% addition to the overall group top line growth. Second, we are happy with the performance of the segment, and this reinforced our confidence to keep investing into it. Lastly, we started to buy a lot of heat-not-burn products in the UK market with positive first signs. We chose the UK market because it is one of the few markets globally with critical mass across all three Globally with critical mass because all three [indiscernible] (15:51) products.

Moving to slide 17, you can find here our selected KPIs. I would like to highlight that we closed the year with a net debt to adjusted EBITDA ratio of 0.8% despite the high level of closing inventories of almost SEK 300 million. Like every time in the past, we took the opportunity this time as well to increase our stock levels ahead of the manufacturers' price increases beginning of 2025. Stock levels are normalizing as we speak. Majority of the projects was sought out during January and first half of February.

With this, I would like to hand back the word to Gavin.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Thank you, Peter. Moving to the next slide, slide 18, as mentioned earlier, we successfully went live in December with our automated techs and warehouse. It has already delivered benefits to the consumer in the form of shorter lead times, and it will deliver material gross margin benefit as our US volume increases throughout the year. During this quarter, we will extend our ERP and middleware rollout to the US, completing this project across all of our markets. This project has again – sorry, this project has already delivered significant agility and efficiency across our European operations.

As covered in prior recalls, we are following the ERP and middleware project by rolling out our new store or site infrastructure, which we call V3. This technology was rolled out in Norway in the middle of 2024, and we have been extremely pleased with the impacts on both our organic rankings and our customer satisfaction. Since then, we have been preparing for the rollout across the rest of Europe, with the haypp.com stores expected to go live this quarter and the rest of the growth European platforms going live relatively soon afterwards. The remaining Swedish stores will go live later in the year. Implementing this technology will materially enable an improved customer experience and allow us to do so efficiently, further strengthening our operating model.

Moving to slide 19, during our third quarter results, we flagged the challenge to our tobacco license from the Stockholm municipality. There has been no development in our specific case in the past quarter. It is important to reiterate that not only were we a key proponent for the introduction of tobacco licensing in Sweden to remove unscrupulous retailers, but we have also had the most robust age verification systems in the market. We recognized that underage consumption of nicotine is a challenge in Sweden, as in some other countries, and we remind people that while we are over 30% of the total Swedish nicotine pouch market, we are 0% of the underage market. For this and for other reasons, we remain confident that we will succeed with the appeal process, which is expected to take one to two years.

Haypp has established another tobacco license in a jurisdiction where our warehouse and operations are located. This action has been the source of speculation in a Swedish online business outlet.

Regarding the complaint for the sale of flavored products in San Francisco, this process is moving relatively slowly so far. The reserve, which we booked in Q3, remains our best estimate. A similar case has been recently settled for another online retailer in DC for a relatively similar amount. And during the quarter, there were no material regulatory changes, with the exception of the aforementioned MGOs in the US.

Moving on to our outlook on slide 20, in our view, the long-term future for risk-reduced nicotine products, the online channel and Haypp Group with its many strengths, remain very positive. Haypp Group's operating model continues to generate increasing value for customers and suppliers, while also providing margin expansion for Haypp. A key driver of this material expansion are the mutually beneficial agreements with the brand owners for 2025, which were locked in the latter part of 2024.

In addition, the increase in regulatory requirements are developing in line with our expectations. This further differentiates us given our sustained focus and investment in long-term compliance.

And finally, I would like to take this opportunity to invite you to our upcoming Capital Markets Day on the 3rd of April in Stockholm, where we will discuss the various drivers mentioned today in greater depth, as well as providing more details around Haypp's medium-term financial outlook.

With that, I would like to thank the entire team for the very strong performance during the quarter and pass back over to the operator for any questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Niklas Ekman from Carnegie. Please go ahead.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Thank you. Yes. Can I start by asking about the US business here and the lack of Zyn sales. Is this now purely due to the new MGO regulation or how much of this is related to the decision from PMI? And then – and also, when did this new MGO regulation come in place? When did that start to impact your sales?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Good morning, Niklas. How are you? So, the MGO regulation came in in the latter part of the second week or early in the third week of January 2025. So, it's quite a recent concept. So just perhaps to create a bit more context and clarity around this one, we were able to source some Zyn products running up to that, and we've actually turned back on some Zyn sales at the beginning of January. We're now in a position where I could educate the entire website at this point in time for all product sales and be able to sell Zyn, but in order to justify doing so, I would need a sustained commitment on the volume of Zyn I would be getting each week and each month as we go forward, and I don't have that commitment as per today. So I envisage that as we look out to the future and the supply and demand issues are starting to resolve themselves a little bit more, I envisage we will reach that point in the not too distant future, but it's difficult to put an exact date on it today.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

And a follow-up on that, because you mentioned here that you are in talks with PMI. What is the tone of that discussion? What is their view on online sales? And do you think that this could resume sometime before the summer or is it more uncertain?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. We have an extremely close relationship with all of our suppliers. And you have to bear in mind that we are the largest retailer of Zyn products in Europe at this point in time. So, we have an exceptionally strong relationship both in the US at a global level, and of course, many of our other operating markets. So, we have an excellent relationship on this piece.

I think there's a range of moving parts going on in the US market when it comes to both the growth within the category itself, the mix of the growth in the market across various brands, and the underlying supply coming from Zyn and extra supply coming online. So, we envisage – I know PMI have come out in their recent release and said that they will have a supply and demand imbalance corrected by the second half of 2025, but we would expect to be back in stock with sufficient sales to justify, turn educating the retail parts of our site well in advance of that.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Okay. Very clear. And when you talk about the forecast here that your US volumes will grow in 2025 versus 2024, is that dependent on Zyn volumes returning them sometime around the summer?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

I think the way we view this one is that excluding Zyn, our volumes we would anticipate would continue to grow in line with the growth rates that we've seen here for Q4. We see no reason for that to alter radically, certainly not to slow down. And then when it comes to the Zyn specifics, I think that's a separate piece. When it comes back, we envisage we will have robust sales of Zyn, but I have said earlier, I can't give a specific date on when it will come back.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Okay, okay. And on the media and insights revenue, you mentioned here also that you expect further benefits here going into 2025. And obviously, in 2024, we've seen [indiscernible] (25:41) improvement of 120 basis points, and I think the media and insights was a clear contributing factor. Do you think that the benefits you're seeing now and in revised negotiations with your suppliers, are you expecting a similar boost to your profitability in 2025 because of the new agreements or can you put those negotiations just in relation to what we saw in 2024 versus 2023?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. So firstly, when it comes to the – during 2024, we've further developed both our insights and our media offerings so that the suppliers are actually getting more and more services from both of these as we move into the beginning of 2025. In addition, we've seen a substantial uptick in demand where there's even greater than previous demand for these services coming along the way. So, both of these are positive – very positive for our overall gross margin. So, we do expect a material uptick for 2025 on this. And when we catch up for the Capital Markets Day on the 3rd of April, we will be able to provide a little bit more guidance on what that means, not just for 2025 but what we believe that means for many years to come as well.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Q

Very clear. And final question, your Emerging business seems to be doing very well, but we're also seeing sequentially increased losses from, I think it was SEK 7 million in Q1 to now over SEK 10 million in Q4. Given that you're seeing a good traction here and you're talking about continued investments, do you think that those losses short term will increase from those over SEK 10 million in Q4 or is SEK 10 million a decent run rate for losses in 2025, or what's your view on that?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. Like you said, we're very happy with the progress on how the Emerging Markets space is progressing at this point in time, and we're very happy with the return on investment we're getting into it so far. I don't envisage that as we move through 2025, there will be a material uptick in that investment. And so as it stands, I don't believe there will. However, should any huge opportunity manifest where we could grab much more market share rapidly, it could increase, but as a base case, that wouldn't be my assumption.

Niklas Ekman

Analyst, Carnegie Investment Bank AB

Very clear. Thank you so much. That's all my questions. Thanks for having me.

Q

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Thank you, Niklas. Thank you.

A

Operator: The next question comes from [ph] Andrew He from Sophon Capital Management (28:24). Please go ahead.

Q

[indiscernible] (28:29). Good morning. Just wanted to ask a little bit more on the media and insights business. So with this marketing grant order, it seems like there could be tailwinds on the regulatory side for additional uses for the media and insights. I guess what have you been hearing from your suppliers about how that data might be leveraged in future regulatory filings or processes?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Yeah. I'm not necessarily seeing it as headwinds, to be honest, on this one when it comes to the impact that it has on media and insights. What it does...

A

Q

Oh, sorry, I meant – I said tailwinds, not headwinds.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Oh, apologies, sorry. Yes, exactly. So, I think there's a general perception that – and this, I think, is going to manifest across many other markets as well. Nicotine is an adult-only product and should be only made available to adults along the way, and the surfaces where – the space where media can be offered to and explained to people, particularly with a sort of a media aspect to it, is becoming more and more restricted across the entire universe. And this is where our platforms where we're able to guarantee that the people we are communicating with are adults and are already nicotine consumers greatly differentiates us versus many of the other spaces. So I think going back to your original point of the tailwind coming through on this, I think it is generally accepted across the industry that this is the direction of travel. There will be less and less space. And in that universe, the value of the space which remains will continue to increase.

A

Q

Got it. Thank you. And then touching on your point about how you see substantial increases in demand for media and insights, just what sort of investments are you guys planning on making to support that growth in the business?

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Yeah. So, we have been investing heavily in our infrastructure regarding what the platforms are to be able to service different communication styles at different points of the consumer journey. And of course, we have a very robust data set which we've been utilizing around our insights for many years, and we're starting to utilize that data set to be able to refine specific messages down to specific consumer cohorts, which are most relevant to them in order to ensure that the messages, which we are giving to each consumer, are the ones which are appropriate and most likely to be positively received by those consumers. And the better we get in refining that, the more the value of our media comes through.

Q

Got it. Thank you. That's all on my end.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

A

Great. Thank you.

Operator: [Operator Instructions]

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Perfect. I think that's...

Operator: There are no more phone questions at this time. So, I hand the conference back to the speakers for any written questions or closing comments.

Gavin O'Dowd

Chief Executive Officer, Haypp Group AB

Thank you very much, everybody. And I look forward to seeing you on the 3rd of April at our Capital Markets Day. Have a wonderful day. Bye-bye.

Peter Deli

Chief Financial Officer, Haypp Group AB

Thank you, everyone. Bye-bye.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.