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Haypp Group AB (HAYPP.SE)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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Good morning, everyone. And welcome to our Q1 2025 conference call. Our CFO, Peter Deli; and I, Gavin O'Dowd, will take you through the results. Starting with slide 4, I would like to focus on three key aspects of our operational highlights and market conditions. Beginning first with our nicotine pouch, Q1 volume year-on-year growth of 35% on a like-for-like basis. The reported growth of 10% is adjusted for spended states, predominantly California, and the larger effect of the US Zyn shortage in the quarter. I would also 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 best value. And despite aggressively moving forward in both areas, Haypp was still able to increase its gross margin by nearly 4 percentage points to 18%, reflecting the power of our operating model.

Secondly, there are some very positive changes in the US market becoming especially evident in the last quarter or so. These changes include the recent launches of new products into the US market, which have been extremely well received by consumers. The pace of change is not only unprecedented but continues to accelerate. This, combined with the regulatory clarity, which comes from the first marketing granted order for nicotine pouches in January, provide a near ideal landscape for long-term success of our operating model within the US.

Thirdly, we continue to march through our infrastructure transformation on time and in full. This includes our ERP and middleware, which is now rolled out in full. And the migration of our European stores, which after excellent progress year-to-date is now completed, Except for Sweden and Switzerland. While this may not appear the most exciting of developments, it enables us to be both agile and controlled as we address an ever changing environment enabling greater, longer term returns.

The next slide, slide 5, focuses on the US market. Firstly, regarding the overall market, it continues to grow from an already substantial base by circa 40% per annum during the quarter. All indications are that there will be robust growth as ever, more nicotine consumers see the benefits of nicotine pouches. In addition, the first nicotine pouch marketing granted order in the latter days of the previous US administration, and this clear statement that the products are for the protection of public health, sets a strong precedent for the category in general. And finally, the launch of new products throughout the latter part of 2024 have been experiencing exponential growth. This broadening of consumer expectations creates a significant opportunity for online, which, in addition to being easily able to carry a broader range, is much more effective at guiding the consumer to the right choices for them. We expect the range of products available in the US market to further improve significantly over the coming years.

Looking at our development within the US. We continue to experience robust like-for-like growth of over 100%. In addition to the Q4 automation of our US warehouse in Houston, which further improves our nationwide convenience, we have now launched a same day delivery pilot for Houston. We will evaluate its performance before determining the pace of expansion for this concept. In addition, we are testing a range of new customer acquisition activities aimed at broadening the awareness of the nicotine pouch online channel and highlighting its significant benefits for the consumer. Finally, given the opportunity which the US now provides, we are reinforcing the US organization with leading expertise aimed at not only improving market share, but also to ensure that share gain is sustainable over the long term.

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Moving to the next slide, slide 6 and touching on our infrastructure overall. I would like to start by reminding everybody on the reasons we chose to embark on this transformation. The new system reflects an accumulation of our knowledge on organic search, which we have been a dominant player in the category for over a decade. While we were not aware of the outset, the potential transformation of search driven by the onset of large language models creates the very fortuitous timing. In a universe of ever increasing expectations for consumer convenience, a broad range of shipping alternatives have and continue to become available. It is critical that our middleware enables us to efficiently remain at the forefront of affordable convenience while maintaining full control.

In addition, as our assortment continues to expand, accompanied by an ever increasing demand for our media offerings, it is critical that we can further refine our consumer offerings to ensure the best experience for each individual consumer. This combined with the efficiency and scalability of the new infrastructure, will enable us to generate ever greater benefits of scale, which in turn we can share in the form of better value to our consumers. Lastly, but by no means least, it is essential that our systems are smoothly integrated with a rapidly evolving suite of age verification solutions, ensuring that we can further differentiate our controls versus that of the online retail universe.

While these reasons would have been more than enough, there are also fundamental operational benefits of harmonizing our systems on the latest technology suites. These include efficiency of development, with a build once deploy everywhere approach. This base will also allow us to further deploy both machine learning and large language models across even more of our processes. While we recognize that not all of the benefits will manifest on day one, we also recognize that this new platform will continue to provide commercial benefits, which we can't yet fully envision.

I'm very impressed on how our team approach the overhaul, both in methodical in its approach starting each market with ERP and middleware, which enabled us to then smoothly transition the stores. This was equal to the team's commitment to maintain the timeline while never compromising on quality, and was evident not just with the smooth transitions but also with the performance in the markets once live.

Moving to the next slide, Slide 7 and looking at our legal and regulatory environment. The two outstanding cases which we highlighted in Q3 2024 remain ongoing with no material updates. Regarding San Francisco, this case is taking a little longer than anticipated and we hope to make progress over the next quarter. On the regulatory front, the Norwegian parliament has submitted a proposal for its public health strategy. This includes a proposal to ban cross-border online sales. Haypp Group are not negatively impacted by this as we operate and always have operated our Norwegian business domestically. For those of you who've been following us for the past three years, you may recall numerous references to this legislation, and this expected outcome.

Within the EU, the Swedish government is taking action against Western European countries, most notably Spain, which are proposing unreasonable restrictions on the nicotine pouch category. It is reassuring to see the country whose public health has benefited most for more on nicotine, providing such robust support for the category. And in the US, on the back of the marketing of the marketing granted orders in mid-January, we have fully tested the age verification at point of entry to our stores. Our age verification methodology was validated within that marketing granted order. We are confident that we can go live with the least impact on user experience once we have a sustained supply of Zyn. We have also been guiding our existing US consumers towards logins with the support of our loyalty program to further improve on the consumer experience. In the UK, disposable vapes would be banned later this quarter, and we believe we are well-positioned to navigate this transition.

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With that, I will hand over to Peter for an update on our financial performance.

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Thank you, Gavin, and good morning, everyone. Moving to Slide 8. I'm starting the performance update with our nicotine pouch volume development. The growth of the strategically pivotal segment is the key measure of success. Similar to our Q4 report, to accurately understand the underlying performance of the group and particularly the growth markets, the so-called like-for-like measure gives a better understanding. Like-for-like measures, as Gavin already explained, are calculated by removing from the 2024 baseline the US Zyn volume volume sold to close states, and in case of a net sales like-for-like measure, the US tobacco sales.

Our reported nicotine pouch volume growth for the first quarter is 10%. However, the like-for-like growth was 35% in line with Q4. The growth was almost equally supported by core and growth markets. Their core markets contributed 1.8 million cans to the growth, while growth 2.1 million cans. The incremental 1.8 million cans translates to a growth of 23% for the core markets. Growth markets growth on a like-for-like basis accelerated to 68%, which is in line with the Q4 performance. As we showed in Q3, the discontinued or temporarily suspended part of our sales had a materially slower growth rate.

Moving to Slide 9 and our sales performance. Versus the like-for-like baseline we achieved a 22% growth which is in line with previous quarters. FX impacted us negatively our reported number by 0.4%, driven by the Norwegian krones depreciation versus SEK. 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 in US gives us confidence for the future. The newly established emerging segment contribution also supported the overall growth. Sales growth for the core markets was 10% driven by the growth in the nicotine pouches and partly offset by the decline in the category. Growth market sales was up by 65% on a like-for-like basis.

On Slide 10, I would like to contextualize our Q1 growth rates. Full year 2024 Like-for-like growth was 20%. 22% Like-for-like growth for Q1 means that we have started 2025 with a strong performance. However, we also have to reflect, as we did in last year, that the calendar effect is not comparable 2024 versus 2025. In 2025, Easter fall into April whereby in 2024 it was in March. The comparison is furthermore disrupted by 2024 being a leap year, generating a negative impact on the Q1 growth. Looking at April year-to-date, which eliminates the Easter phasing impact but still includes around 1% negative impact of the leap year, the like-for-like growth rate is 20% on a group level.

Looking at the product categories, the growth is driven by the nicotine pouches, decline mainly in Sweden impacted 1% negatively our performance while the emerging segments contributed 3% to the overall growth.

Moving to Slide 11 and progressing a few lines down in the P&L, you can see here the long-term quarterly development of Haypp Group's gross margin, both in absolute terms and as a 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 business. When we are looking at the increase versus 2024 Q1, It's important to highlight that the discontinued part of our US business was not a major contributor to our gross margin pool. So the reduction in sales without significant negative gross margin explains around 2 percentage point from the increase versus last year.

I would like to reiterate the core principle of our business model. We distribute the value generated by the company among our consumers, business partners and shareholders. Our commitment is to continually enhance

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the value we deliver to our consumers, which necessitates increasing the value we create for our business partners, but augmenting the value of our media and insights products, we can consistently elevate our consumer offering in terms of both value and convenience, while simultaneously improving our profit margins.

On Slide 12, you can see the key figures around our profitability. In Q1 2025, we delivered record high adjusted EBIT both in terms of absolute SEK and percentage as well. Our adjusted EBIT reached 5.2% on a group level. As I covered on the previous slide, the backbone for our profit increase is the margin performance. This solid margin pool growth allowed us to support our future growth in the form of investing in people and capabilities. The increase of the depreciation is partly driven by the US automatization, which we installed mid-December last year. The depreciation cost is reported below the EBITDA. While in last year the cost of the CPA warehouse service fees were reducing our gross margin. This change in business setup and the consequential accounting impact explains around half of the increase in depreciation.

We maintained our investment into the emerging segment. This quarter the investment amounted to SEK 11.2 million and reduced the overall adjusted EBIT of the group by 1.2 percentage points. Adjusted EBIT for the core and growth business was 6.4%. And I would like to give you the reference in 2024 before we start to embark on the emerging segment journey. The group adjusted EBIT was 2.5%.

Moving to page 13 and our core markets. As said, the segment delivered an overall 10% net sales growth. However, this 10% includes two completely different dynamics. The nicotine pouch segment, which accounted for 53% of the volume for our core markets, it was only 47% in Q1 2024 as a reference. And this nicotine pouch segment maintained its rapid growth rate of 23% and consistently gaining share. The snus segments volume remained in decline, driven by the reduction in the underlying consumer demand. These two opposing dynamics mean that the share increase of the fast growing NP segment will improve the overall growth rates of the core markets. Important milestone for the core markets is the uplift in adjusted EBITDA, which reached 10.5% up by 1.9 percentage point versus the same period last year. The increase was driven by two key factors, increasing media revenue and also we realized a temporary cost benefit from the year-end [indiscernible] (00:16:45)

On slide 14, I would like to guide you through on all growth markets performance. Net sales on a like-for-like basis is up by 65%. We are happy with the high double digit growth rates of the US and also the nicotine pouch in the United Kingdom. The last year in US was not a major contributor to profitability, which is visible in the Q1 results as well. The adjusted EBITDA in absolute terms is amounted to SEK 6.3 million and with the lower sales denominator, the adjusted EBITDA rate is also up to 3.2%.

On Slide 15, I'm talking about our emerging segment. Sales growth versus Q1 2024 is impressive almost 300%. The increase versus Q4 2024 reflects the changing market conditions in the UK with the disposable ban approaching in the UK, the pricing landscape became more challenging. Pressure on disposable product pricing is increasing, and on a temporary basis, negatively impacting our ability to compete and challenge the current leaders.

On page 17, I would like to highlight three important KPIs from our balance sheet. The usual KPI table you will able to find in the appendix on the presentation. Here, I would like to talk first about the inventory which normalized after the year-end increase. This is also visible in our working capital need, which reduced versus Q4. Combining the half year working capital with the increasing EBITDA or net debt to adjusted EBITDA ratio went down to 0.4, which is the lowest in the history of the group. This shows that we maintain a very healthy balance sheet and we could translate our business performance into the cash as well.

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

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Thank you, Peter. And moving to the next slide, slide 18 and taking a look at the outlook. In our view, the long-term future risk-reduced nicotine products, the online channel and Haypp Group with its many strengths remains very strong. Haypp Group's operating model continues to generate increasing value for consumers and suppliers, while also providing margin expansion for Haypp. The expected increase in regulatory requirements are beginning to manifest, which further differentiates us, given our sustained focus and investment in long-term compliance. In addition – as highlighted in our CMD last month, the conditions in the US market provide a significant opportunity for long-term value creation. As such, we expect to invest heavily over the medium term, which is expected to impact our short to medium term earnings.

Regarding the changes in tariffs, which are manifesting at this point in time, it is also worth considering that the vast majority of the products which we sell tend to be made locally. So those products which we sell in the US are made in the US. The products which we sell in Europe are made in Europe. Hence, we are not directly impacted by the tariffs as in their current form. It is also worth noting that online as a channel because of the value proposition which it offers to consumers, has historically benefited from periods of worsening consumer sentiment.

Moving along to the next slide on slide 19, I would like to I would like to walk everybody through – moving on to the next slide, I'd like to walk through, touch upon the medium term guidance from the capital markets day in April and which runs out to 2028. We envisage revenue growth rates of 18% to 25% CAGR over the period 2024 to 2028 with the US market being a material contributor. This reflects the lower expected reported growth rates for 2025 due to the comparatively narrower consumer base in the US. We also guided towards 5.5 percentage points EBIT at the end of the period, plus or minus 150 basis points. While we have been materially increasing our EBIT over the past two years, we intend to reinvest part of this in the US to accelerate our market share growth over this period. I would kindly direct your attention to our recent CMD material, which is available on our website, which provides more detail behind these targets. Lastly, the company does not intend to issue a dividend over this period. Instead, reinvesting surplus cash flows into the company's future expansion.

Before I open up for questions, I would like to take the opportunity to thank Ingrid Jonasson Blank, who has been our chair for the past eight years and is retiring from the role later this month. Ingrid has been a passionate advocate for the company and the sustained benefits it has brought to consumers across our markets. I would also like to thank Anneli Lindblom, which has been a member of our board for the last four years and will also be leaving the board later this month.

With that, I will hand over to the operator for questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Johan Fréd from SEB. Please go ahead.

Q

Yeah, hi. Good morning, guys. Thank you for taking my questions. A first one on your margin development. You delivered a very solid margin expansion in Q1, both in terms of gross margin, but also on the adjusted EBIT. Firstly, do you think that the gross margin improvements are sustainable or should we expect a negative mix effect once since supply returns? And/or are you planning to to return some of these savings to consumers? That's my first question. Thank you.

A

Good morning, Johan. And thank you. So when it comes to the underlying drivers within the gross margin, there is a small aspect in there whereby we benefited from the year-end stock build that Peter alluded to earlier. It's relatively small component sitting within it. However, regarding the rest, the rest of the gross margin is available for us. However, part of that, we envisage that we will be returning to consumers, particularly in the latter part of the year. I don't think it will so much be driven by assortment mix in the US as it goes forward. Although I think the conditions in the US are somewhat different to what they were 12 months ago. But I think our – we will be adjusting our margins over time, subject to where we see we can hit the best balance in the consumer offer.

Q

Got it. Very clear. And the follow up on the margin development there and the adjusted EBIT margin. Coming in very much in line with your 2028 financial target. And considering your planned OpEx ramp up in H2, what are your projection for the impact on the adjusted EBIT margin from this investment in H2? Any guidance there would be much, much appreciated.

A

Yes. So I think it is sort of in line with what we guided in our CMD. And I believe we will be investing materially in building up the capabilities within the US team. The specifics of what impact that will have on a quarter by quarter basis, we will give a little bit more guidance on as we get into H2. But I think it is fair to assume that we will be ramping up the investment substantially within the US given the opportunity that we see in that market.

Q

Okay. Got it. And a follow up on emerging markets. How should we think about the margin development given sort of the steep losses? And what is the threshold for scale or volumes before you can reach profitability for the segment?

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A

Yes. So when it comes to when we could reach profitability for the emerging segment, I think it would be fair to say we could reach profitability for that segment today if we so chose. And the decision point for us is more in case of what return are we getting for that investment into those segments, so long as we see robust, sustained returns in the form of growth for that investment coming through, we recognize the benefits of scale which will manifest from that and we will continue to invest. However, as we get further along and start moving further into scale, the opportunity for investment becomes not as necessary or perhaps not as impactful over time. But I would envisage that we will continue with similar-ish levels of investment for the remainder of this year at least, and then we will provide further guidance at that point.

Q

Very, very, very clear. And a final one, if I may. You highlighted the ERP and the three platform rollouts. Are there any quantifiable efficiencies or revenue uplifts already visible from these investments?

A

We are starting to see – well, first we're not completed with the store rollout. That would still require a little bit more time as it goes through. Firstly if I start on the revenue uplift aspect to it. We are seeing a notable uptick in our share of traffic in stores where in markets for these stores are live a couple of months. So we're definitely seeing a great improvement on that as it comes through. When it comes to the efficiency space where we see this more so is the opportunity for us to get return on every development dollar which we put into the platform has increased significantly, which in turn encourages us to do even more development dollars within it. So I don't think you will necessarily see it falling out in the form of material bottom line savings. But we do envisage that it will be more a further accelerator to our growth over time.

Q

Got it. Those were all my questions for now. Thanks so much for taking the time.

A

Thank you, Johan.

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

Q

Thank you. Yes. Can I follow up on the question about the margin outlook for H2? Because you say here you talk about lower profits and I'm wondering lower profits in H2. And I'm wondering, are you talking about just sequentially lower from H1 to H2 or are you actually looking at lower profits year-over-year even as a result of these investments?

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A

I think as a minimum, it is going to be sequentially lower, Niklas, and subject to the opportunity that arises for us within the US and some of the specific dynamics within the market. We will continue to invest where we can see long-term return sitting within that US market as it comes through. So I think it would be – I think we would like to maintain as much flexibility as possible here to land grab to the extent possible.

Q

Makes sense. And are we talking mainly OpEx investments or also gross margin investments? So is this price investment or mainly increased staffing?

A

I think there will definitely be an increased staffing where we are starting to build up a standalone, a standalone senior team within the US. We focus solely on that market and with some deep expertise within it, such as in the legal and external affairs space and also within much of the commercial space within it. Then when it comes to gross margin, we will not so much on pricing, but we will be looking to further ramp up our investments within convenience as we get through the second part of the year also, which could have an impact on gross margin.

Q

Very clear. Thank you. And do you have any update on the issue of Zyn supply? How are your discussions with PMI going? Do you think there's a good chance that this could be restored kind of within the next few weeks or months? Or is this more kind of 2026 timing wise?

A

Well, we always have an excellent relationship with PMI, both globally in Europe and in the US. And of course we are the largest retailer of Zyn within Europe as well. And so the relationship is in very good shape. I think it's a situation where we're working through the specifics of what's going on in the US at this point in time. It's very difficult to put a specific timeframe on it. But as we know more, we will be certain to let you know.

Q

Fair enough. Fair enough. Also, I'm curious when I'm looking at your growth markets and you look at the number of active customers, there seems to have been a fairly significant drop of more than 40% since Q3. And I assume this is mainly because of the lack of zyn. But how serious an issue is this for you and then how quickly do you think that this could be restored if Zyn is also restored?

A

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Yeah, there's actually three factors in that one. So it is all down to the US as you rightly alluded to Niklas, but there are a few factors within it. One, we also turned off our tobacco products within the US, which will not be coming back, but it wasn't a huge share of our sales. It was a consumer base which had relatively small average order sizes. It was coming through. So it was disproportionately large on the consumer numbers. In addition to that, there were some states which we turned off, most notably of which was California, which will not be coming back. Then the remaining component is, as you referred to, is down to Zyn, that component, which is of course, the bulk of it, but by no means all of it, is something that we envisage we could get a lot of those consumers back relatively quickly. But again, we will need to wait and see.

Q

Very clear. Thank you. Can I also just ask. Me that insight appears to have been a major driver of your margins now last year and also this year. Do you expect this to continue also in H2 to support, to significantly support your gross margin? And could we expect a similar driver also kind of in 2026 and 2027? Or do you think that the bulk of the benefits have already been reached?

A

So, yes, firstly, when it comes to this year, our media and insights contracts tend to run on calendar years. So the benefits which you see manifested in Q1 and that we kind of alluded to in Q4, I would envisage would continue for the remainder of the year. And then when it comes to future years, yes, we will always continue to invest in our media and insights offerings with a view towards ever improving the value which they generate over time, both for our business partners and for ourselves. And with that, we would envisage that that could continue to improve for future years as well.

Q

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

A

Thank you, Niklas.

Operator: [Operator Instructions] No more phone questions at this time. So I hand the conference back to the speakers for any written questions or closing comments.

Unverified Participant

Thank you very much for taking the time to catch up with us this morning. It's greatly appreciated. We look forward to updating you again at the end of Q2. Thank you.

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Thank you, everyone.

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