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Haypp Group AB (HAYPP.SE)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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Q2 volume year on year growth of 23% on a like for like basis. We would like to highlight that this doesn't reflect two key impacts on comparability, which reduced our growth rates. One, the Easter effect, which moved from Q1 in 2024 to Q2 in 2025, which we highlighted in our Q1 presentation. We estimate that this impacted growth by circa three percentage points. And two in Q2, 2024 was an exceptional quarter driven by zyn shortages in the US. Much of the incremental traffic we received due to the zyn just resulted in sales of Nongene brands, which grew over 50% quarter on quarter in Q2 24. Please refer to our Q2 twentyfour presentation for more context. Adjusting for these factors, nicotine pouch growth rates are similar in Q2 to Q1 2025. Secondly, revenue continued to grow at circa 20% on a like for like basis. Adjusting for Easter. In line with the last 12 months performance. And lastly, 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 best value. And despite aggressively moving forward on both of these areas, Hyquip still able to increase its gross margin by nearly five percentage points to 19%, reflecting the power of our operating model. Moving to Slide five, I'd like to touch on how the U.S. market is changing and how we are investing. Starting with the market on the left hand side, the overall market continues to show robust growth, driven both by customers moving into the carried over to the category and by increased consumption rates for those in the category. For a number of years, US. Nicotine pouch category is now larger than the U.S. legal vape category. In parallel, fragmentation within the category continues to accelerate with further introductions of FDA allowed products. As an anecdote, we launched more nicotine pouch SKUs in the U.S. in Q2 25 than all of 24. Regulation remained stable, with early signs of an increasing emphasis on ensuring that existing rules are complied with. Rather than introducing new legislation. While this is more evident on the vape category, it bodes well for nicotine pouches also. In conclusion, we believe the overall conditions for a compliant online are extremely bright and we will continue to allocate resources accordingly. Moving to the right hand side of the slide, which focuses more on our U.S. investment priorities, which we touched upon in our capital market day in April. Since then, we have reinforced the team capabilities with our CTO recently relocating to our U.S. office. In addition, we have recruited a head of customer acquisition and in keeping with our commitment to compliance. We have onboarded both heads of legal and regulatory affairs. We consider these additions to our team to be an excellent bedrock to build a sustainable business from. We have focused much of our effort in recent months towards further improving our retention rates, which is key to maximizing the returns we would achieve from new customers in the future. Initiatives such as the same day delivery in Houston, which has now been expanded to a broader area and the new loyalty programs are key drivers to this improvement. While we continue to further sharpen our retention rates, we will also trial a range of tools to accelerate our customer acquisition rates and assess their success before allocating material resources. And finally, as we said in our Q1 release, we season supply and demand aligning within the U.S. market and we continue to expect to return to selling ZYN at some stage in the second half of 2025. Moving to Slide six, which covers legal and regulatory updates. We remain engaged in two legal cases in Stockholm. The appeal process is ongoing in line with expectations. We expect this will take between one and six months. And as previously stated, we don't expect any material commercial impact from the outcome of this case. And in San Francisco, settlement discussions are ongoing. In the EU, the EU released an initial draft of a tax proposal on nicotine products, including nicotine pouches. As with previous EU tobacco tax initiatives, we expect the final outcome to be radically different from the initial proposal, especially given the number of member states which have openly opposed this draft. However, we do welcome that. Nicotine pouches are generally recognized category in the draft, which is a strong and stay. Who is recognizing the category ? The other areas of regulation in the U.K., a nationwide ban on those devices came into effect on June the first, 2025, for manufacturers changes to similarly branded recharge systems to limit consumer confusion. We believe this shift benefits online retailers over the long term. Hope is in full compliance with new regulation. However, the transition to Off-line gener's from disposables continues creating temporary distortions in the market. With that, I will now hand over to Peter for an update on our financial performance. Thanks, Scott, and good morning to everyone on the call. With the successful quarter, one underlying development enabled us margin increased further, including the necessary investments for the US market to lay the foundation for the next chapter. Despite this level of investment grew by 50 basis points versus last year 4.4% like Stable.looking. And I think understand the underlying performance to what you might consider not only the impact of the discontinuation of Zyn, the Barkell and the closure of some states in the U.S., but also the phasing of the Easter. Q1 reported growth was still higher than Q2 is lower than Q3. On low mitigated distortion. You should look at extended periods from January and March. Those dates for these periods are very similar. Around 20% year over year. There is no change in the product completion growth dynamics. The reported 17% growth is driven by Nicotine pouches Wheatstone's decline, mainly in Sweden, impacting our performance in the EU by 15%. However, this is fully offset by new segment contribution. We see the overall growth. On slide eight, we give more detail about the like for like sales growth. You can find the key drivers for the year over year sales on a like for like basis. All business units contributed to the growth. The main driver remains in the US foreign exchange movements, particularly the depreciation of the Norwegian kroner and U.S. dollar against the Swedish kroner negatively affected reported sales somewhat as discussed earlier. Easter, impacting both business units relative to the comparative, had an impact on the Core Markets. Excluding the impact of Easter, the core markets grew by 9%, while the core segment grew by 51%. Please Slide nine and understanding the PNL, you can find an the quarterly development of Haypp Group gross margin both in absolute terms and as a percentage of net sales over last year. In Q1, we managed to increase the gross margin driven by consistent volume, top line growth and an increase in contribution for media and insight business. But looking at the increase versus Q2 2024, it is important to highlight that this could be a positive for us because this was not a major contributor to our gross margin SOLIBRI Actually, it has significant negative gross margin. It's about two percentage points of the increase versus last year. In Q1, we achieved the major step up in our gross margin rate. In Q2, we managed to improve these rates thanks to the increased contribution of the media business. I would like to reaffirm the foundation of principles of our business model. We are looking to the value creating co-company across the business partners and we increased the value we provide, which in turn requires us to strengthen the value we generate for our business partners by continuing to be more media anti-cytokine, we are able that we are creating a value and convenience to consumers, while also higher profit margins. Moving to Slide ten, I would like to provide an overview of our ad business, which includes some 3 million SEK in the quarter. This increase is mainly driven by the U.S. digital and local TV capabilities and category and bioreference's. On Slide eight, you can see the key figures for our profitability. In this slide, we highlight key metrics and brands in all profitability. Adjusted EBIT for the second quarter grew by 11%, reaching 38.3 million. The adjusted EBIT margin increased 4.3%. The increase is driven by a better gross margin, partly offset by increased investments in the US organization. And the brand awareness though one of course is to be impacted. Also that you look like you, the market level is less than the reported Q1. It is 50 basis points better than Q2 2020 for the new depreciation is positive as that helps automatization which earnings.for middle of December last year we maintained investment into emerging segment. This investment amount of 11.4 million and the unit or adjusted EBIT grew by 1.2 percentage points. Adjusted EBIT for the quarter and for all business units was 5.4% above the 5% model target for the year. Moving to page 12 and call markets. I mentioned that this segment delivered 6% constant currency growth, while Q2 was heavily impacted by the growth during the March to June period or 9%. Behind the growth dynamics remain the NP segment, which accounted for 55% of the reported markets, up by six percentage points since Q2 2020 for maintaining growth and also start to gain share. The U.S. sports remain in decline, driven by the reduction of the underlying consumer demand. These dynamics mean that the share of the fast growing segment will improve the overall growth rate of the market, hence the positive momentum. So we're going to positive upward slope for a moment to try to adjust the sound. Bear with us, please. We are experiencing some technical problem. We will come back shortly after disconnected. Can you hear us ? Can you hear us ? Excellent. I apologize for difficulties. You can continue. Thank you. So, page 12. And the more markets, two different segment dynamics. What we experienced, as I mentioned to you with the nicotine pouch segment, growing wireless demands is declining. And these two dynamics means that the shedding increase of the fast growing MP segment will improve the overall growth rates of the core markets. Adjusted EBITDA remains strong for this segment. The 10.2% Q2 results are 1.6 percentage points above last year. The driver behind the increase is clearly the media revenue. Moving to the next slide, slide 13 and overall socket. Net sales, excluding currency impact on a like for like basis is up by 40 9%. Looking at an extended period of March and June to mitigate the Easter impact, this growth is 51%, while all markets increase their sales. We are very pleased with the high double digit growth rates of the U.S. and nicotine pouch ward in development in the U.K.. Adjusted EBITDA in absolute terms amounted to 3.1 million, and the adjusted EBITDA rate is 1.5%, while the profitability is stable versus the same period last year. The reduction versus Q1 gross margin remained stable for the segment. However, the overhead increase is mainly driven by the U.S. negatively impacted the business units by 30. On Slide 14, our emerging segments. The sequential sales growth continued and we are particularly pleased with the Swedish and German market performance. Q2 in the U.K. was challenging due to the turbulent market conditions caused by the disposable debt. Investment levels remained stable in this category versus the previous quarter. We will slide 15. I would like to highlight three or four selected KPIs. The fourth of KPIs is available in the appendix of this presentation. You guys might go outside. Here, I would like to highlight the important metrics connected with the household balance sheet inventory level working capital and whatever. There is no major change versus the end of Q1. Overall balance sheet remains healthy with a net debt to adjusted EBITDA ratio remaining at 0.4 times. There is no major change in our working capital. With this, I would like to hand back to the. Thank you, Peter. Moving to our outlook, slide slide 17. In our view, the long term future for risk reduced nicotine products, the online channel and Haypp Group with its many strengths remains very encouraging. Hub group's operating model continues to generate increasing value for consumers and suppliers, while also providing margin expansion. The expected increase in regulatory requirements are beginning to manifest, which further differentiates us, given our sustained focus and investment on long term compliance. As highlighted in our Capital Markets Day in April, conditions in the U.S. 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. And finally, on Slide 18, I would like to touch upon our medium term guidance from the Capital Markets Day in April, which runs out until 2028. We envision revenue growth rates of 18 to 25% cagar over the period 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 U.S.. We also guide towards five and a half percent EBIT at the end of the period, plus or -150 basis points. While we have been materially increasing our EBIT over the last two years, we intend to reinvest part of this into the U.S. to accelerate our market share growth over this period. I would kindly direct your attention to our recent CCMG material, which is available on our website. This provides more detail on these targets. And 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 my colleagues for their dedication and hard work in delivering these strong results. With that, I will hand over to the operator for questions. Thank you. Wish to ask a question, please. Dial pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial pound key six on your telephone keypad. The next question comes from Johan Fred from SEB. Please go ahead. Hi. Good morning, guys. Thank you for taking my questions. A first one on the gross margin development, a very solid development given the lower sales year on year, you state that this is driven by media.and insights and scale, which in terms of media and insights, I remember that these are typically annual contracts and and thus should we expect the gross margins to maintain at similar levels going into H2. Look, good morning. Thanks for the question. Yes, you are right that we are running with annual media contract, but it doesn't mean that the most the quarterly phasing of the revenue is always the same. It's similar, but not exactly the same. I think looking ahead for Q3, Q3 and Q4, you can expect similar level of margins as we delivered in Q1 and Q2, not the exact same, but between these ranges, I kind of start here. And the second one, if I may, I noticed that you've added around 40 new employees during the quarter while you you you mentioned in the report that some some key hires are relating to the U.S. Could you also elaborate on on where the majority of these new roles are located and what functions or strategic areas are they focused on ? Good morning, Johan. And how are you doing ? Firstly, in yes, we have been adding materially to the U.S. team, although it's more at a senior level of writing into it. I think it's probably also worth reflecting that there might have been a small mistake in the Q1 report so that the number of new employees increased from Q1 to Q2, maybe substantially lower than that. I would expect the numbers to be coming in more in the high teens. Okay. Got it. And so in the high teens, this is roughly the rate relating to the role that my question is really this is not sort of you staffing up or is it you staffing up ahead of the the supply or the return of supply in the U.S., i.e., factory workers or those kind of positions ? No, our our warehouse our warehouse infrastructure and this is equally valid for the U.S. as well, is highly automated. So we're able to carry substantial increases in volume without materially having to increase our warehouse employees across any of our warehouses at this point in time. What you're seeing here is more of a focus on both predominantly the U.S. as regards to setting up some of the initiatives which we're driving forward at this point in time, and also some other key growth markets, particularly the U.K.. Got it. Very clear. And a final one, if I may. You stated that you expect that the supply from or since supply to return at some stage during during H2. Do you expect this to happen more towards Q3 or Q4 ? Any sort of guess there ? It isn't always it's highly complex point to discuss since there's sort of, you know, there's ongoing discussions and with various suppliers at any point in time. But what we can say on this one, Johan, is that when we have more information, we will be sure to inform you at that point in time. Okay. Got it. Those were all my questions. And now thank you so much. Thank you, Jon. The next question comes from Nicholas from Achtmann. Please go ahead. Thank you. Yes. Following up on some of you asked questions here. As you said, the gross margin here, very strong. But we also saw a signifor and OpEx increase that eat away a lot of the gross margin expansion here in Q2. So I'm just wondering, given that you are in investing now in recruiting and I assume that some of this recruiting, you don't have the full de-cost in Q2, is it likely too soon that OpEx will increase further in H2 and that the margin expansion we saw here might be even lower, the EBIT margin expansion might be even lower or might even see contracting margins in H2. Good morning, Nicholas. Thanks for the question. What we are doing, basically executing the strategy we laid down on the CND, we identified us as a key market for growth opportunities. But we also recognize that the team, what we had done in 2023 or even in 2024 might not be sufficient to capture that opportunity. So we started to build up that team already in Q2 and we are going to continue this work throughout Q3. So yes, I would not be surprised if we will see further increase in overheads which can then result to margin reduction, whereas since Q2, I think that was the point and that was the point that I was trying to touch on in one of my outlook points here. As regards to that, we do expect a slight EBIT reduction for the remainder of the year from here. Okay. And very clear. Thanks for thanks for settling that. And I'm also curious when looking at customer here and you, there's like a 9% drop in number of customers. And I assume that most of this is related to seen in the U.S. and some of these calendar effects, but also that that even in core markets, you see a slight reduction in number of customers. And can you elaborate a little bit on the drivers behind this ? And if you think this could reverse shortly ? Yes. So I think there's two factors on that. One, I think the biggest factor by far is within the U.S.. I think it's worth bearing in mind that Q2 24, it was a material spike in our customer numbers to Q1 24, and that was driven by that in the quarter where the INITIATIVES.IN shortages started to manifest within the U.S. market. And we saw a substantial number of new customers coming through where we had to cap the amount of product that we could sell to them. Some of those customers went through to buy as much as in some of those customers went through to buying other SKUs as well. But there was a material step up in our customer numbers in the U.S. in Q2 of 24. That's by far the biggest and driving force behind that. The second force is that, of course, have the calendar effect as we march to an Easter fell, but it's a much smaller impact on us than the first one. Okay. Very clear. And finally, just you mentioned the EU Commission and the potentially significant tax increase that they proposed for for NICOTINE POUCHES. Can you provide some more more details there ? What kind of what magnitude of tax are we talking about ? And obviously recognizing that the final decision could be significantly different from what has been proposed by. But what is what is the proposition and what is the normal timeline for when this goes from proposition to to being actually implemented ? Yes, Nicolas, I'm not going I can only caveat very heavily that. And I think I'm not alone when it comes to other announcements around this. And nobody pays a huge amount of heed to what the initial draft is, because if you look back at every previous process which went through like this, the final outcome is significantly different as it runs through and the proposal at this point in time would bring in roughly €2 account.on in nicotine across the border for your average nicotine patch can. It's driven by weight and as the products have been getting somewhat lighter over years, that might be reducing a bit from there. However, the timeframe for that coming in would be somewhere between 2028 and 2030. However, I don't envisage that I would consider it to be highly unlikely that it will be a quantum near that level which comes in very, very clear. And do you think there's any likelihood, given the Swedish exception or the exemption from the snooze ban, any any likelihood that the Swedish market could treat this differently ? And then certainly the Norwegian market could treat it differently, given that it's not part of the EU. Joanna It's even more complex. Yes, Norway of course is a stand alone case in itself and as would Switzerland be. But it's even and also the UK, which are of course three very big markets for us at this point in time. But even if you look at those which are sitting within the EU at this point in time, there has been a significant number of countries which have come out and said against this very firmly at this point in time. So I think this is more a case of us taking this opportunity to explain to people what has been published as the initial draft, rather than taking this particularly seriously as a as a potential outcome. So I would consider this to be a very relatively low probability of manifesting in its current form. Very fair. Okay. Thank you so much for taking my questions. Thank you, Nicholas. Thank you. There are no more questions at this time. So I hand the conference back to the speakers for any written questions and closing comments. Right. Perfect. Thank you very much for your time, everybody, and look forward to catching up on our Q3 call in three months. Thank you. Thank you.