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YOUG.DE - Full Year 2023 ABOUT YOU Holding SE Earnings Call

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PRESENTATION

Operator

Dear ladies and gentlemen, welcome to the conference call of ABOUT YOU. At our customers' request, this conference will be recorded. (Operator Instructions)

May I now hand you over to Frank Böhme, who will lead you through this conference.

Frank Böhme - *About You Holding SE - Head of IR & Communications*

Good morning, everyone, and welcome to our Q4 '22/'23 results presentation. Today's conference call will be hosted by Hannes Wiese, Co-Founder and Co-CEO of ABOUT YOU. Hannes will walk you through our Q4 results in just a second. The corresponding slides to this presentation have been published on our IR website under the Publications section this morning. After his presentation, Hannes will be happy to answer your questions.

And with this, I hand it over to you, Hannes.

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Yes. Thanks, Frank, and good morning to everyone also from my side. Today, as usual, we are focusing on the following topics: update on our business, which largely consists of a recap of FY '22/'23, including additional disclosure on core performance; operating models, and TME. In our financial section, in turn, we focus on the Q4 results and operating performance. In our outlook section, we will provide our new guidance for FY '23/'24. And we'll close this call, as usual, with Q&A.

So, let's directly jump into the business update, starting on Page 4 with the key takeaway of the financial year '22/'23. Despite a continuously volatile and uncertain macroeconomic environment, we managed to achieve our updated guidance with a top-line growth of 10% year-over-year and an adjusted EBITDA of a negative EUR 137 million. The number of active customers in the commerce segment increased by 11.8% and the average order frequency by 7.1% in the last 12 months.

In FY '22, '23, DACH revenue growth came in at 9.1% and ROE at 17.3%.

TME, our B2B segment, saw revenue growth of 16.5%, driven by our highly profitable SCAYLE business. The EBITDA margin of TME remained on high levels at 16.1%, despite impaired client revenues and growth investments. All in all, FY '22/'23 was characterized as a year where high growth expectations and investment commitments were executed in what turned out to be a challenging market environment. While we made strong progress in our strategic initiatives around products, markets, assortment, and scale, we have seen a significant negative impact on profitability from the related growth in this investment commitment.

Now for '23/'24, our #1 priority continues to be to reach adjusted EBITDA breakeven. This is a target we already outlined at the time of listing at June 2021. We have now implemented a broad range of self-help measures that give us a high level of confidence to achieve the targeted profitability improvements. We are hence comfortable to translate this adjusted EBITDA, break-even target also into our guidance for FY '23/'24. Despite the strong focus on profitability this year, we continue to be a growth company and expect revenue growth in a range of 1% to 11%, even in a continuously challenging market environment.

Let's talk about our FY '22/'23 in a bit more detail now, starting on Page 5. As you know, the macroeconomic environment has been challenging throughout the year. The inflation in the Eurozone remained on elevated levels and surpassed levels of 20% in our important CEE market. Consumer confidence has been adversely affected across Europe and is now only slowly improving from historic lows. Withstanding these headwinds, we were able to grow our revenue by 10% year-over-year. This corresponds to a 3-year CAGR of 37%, which is a clear outperformance of the overall market and underlines the strength of our business.

Moving on to our cohort performance in FY '22/'23 shown on Page 6. Here, we can also analyze the different dynamics caused by the pandemic. Let's start with the cohort acquired pre-COVID that is before FY '20/'21. And what we see is a peak in spending due to the pandemic, which is now normalizing in a moderate year-on-year decline in FY '22/'23. But for all pre-COVID cohorts, revenue remained clearly above pre-pandemic levels despite the difficult market environment we faced in '22/'23. This is also a clear indicator for the strong and sustainable progress in our proposition, which we've delivered over the last years.

For our new customer cohorts acquired during COVID that is FY '20/'21 and FY '21/'22, we also see a normalization in revenues after the pandemic. But revenue retention on first cohort -- of first orders, also of these cohorts remained clearly above 100%. That means that the new customers acquired during COVID remained loyal or after the pandemic, despite the difficult market environment we faced in '22/'23.

One important factor, which drives customer retention is the evolution of our assortment over the last years shown on Page 7. We've grown both 1P and 3P item count, onboarded several new brands, and strengthened underpenetrated categories. If we look at growth from an operating model perspective, we see that our own labels and fulfilled by our ABOUT YOU assortments, continue to grow over-proportionately in revenue. The growth driver for our Own Labels and exclusive assortments are the numerous Coops, which we've launched with influencers on international scale. In FY '22/'23, fulfilled by ABOUT YOU assortments generated more than 40% of our 3P revenue. The share is constantly growing, which is intended as this is a strong lever to further improve customer experience and margins from 3P assortments.

Moving on to TME, our B2B segment, starting on Page 8. We provide more disclosure with this full year release again, showing the revenue and adjusted EBITDA performance of our two TME subdivisions. On the one hand, our SCAYLE business, comprising our SaaS and operation services, which are offered to external clients on a stand-alone basis. On the other hand, commerce adjacent services like media and fulfillment, which are offered primarily to our suppliers as part of the AY commerce ecosystem.

So, let's start with our SCAYLE business on the left-hand side. In FY '22/'23, we have successfully executed a number of SCAYLE growth initiatives. We improved our product and implementation processes. Further, we've invested into the SCAYLE brand in various B2B channels, and we professionalized our sales processes and established local sales team for Benelux, Scandinavia, as well as the U.K. These efforts have contributed to a SCAYLE revenue growth of 31.5% to EUR 88 million in FY '22/'23. SCAYLE's adjusted EBITDA is also growing, although we are seeing a slight decline of the EBITDA margin to 32%. This decline is driven by our accelerated growth and revenue mix effect with a currently relatively high share of lower-margin implementation revenue in the mix.

Despite the challenging market environment, where many of our suppliers are cutting their marketing budgets, revenues for the commerce-adjacent services increased by 6.6%. Adjusted EBITDA, however, remained flat at EUR 3.7 million due to revenue mix effects.

Let's now take a closer look at SCAYLE and the progress we are making on the client acquisition front. In FY '22/'23, an external transaction volume of EUR 2.7 billion was powered by SCAYLE. This is another increase versus last year, although many of our clients faced muted to declining e-commerce revenues this year. We still managed to grow total client GMV as we are constantly onboarding new clients, reaching more than 140 external shops, which were operated by SCAYLE in the last year.

As you can see on the right-hand side, these clients do not only include large fashion players like s.Oliver or Deichmann. Our client base is also expanding outside the fashion vertical with a growing number of clients in lifestyle and adjacent categories like the eye wear retailer, Fielmann; or the sports specialist, Ochsner. This clearly proves the adaptability of our SCAYLE technology to different market segments and provides huge growth opportunities going forward.

Let's now move on to ESG on Page 10. Here, we want to give you another update on the progress made and the initiatives, which are closest to our heart. Let's start with our carbon footprint on the left-hand side, where we are showing the advances made in our science-based targets. By incorporating these targets into our business processes, we've seen further progress in FY '22 to '23 and remain confident to reach our FY '25/'26 targets. We've also significantly increased the share of more sustainable product revenue. As you can see on the right-hand side, 24.6% of total revenues were generated by more sustainable products in '22/'23. With that, we've almost already reached our '23/'24 targets of 25% revenue share.

Moving on to the financial update, where we focus on our performance in Q4. Starting with our top line on Page 12. Once again, all our segments were growing despite the difficult market environment. But let's start with the Group trading on the left-hand side of this chart. We grew our revenue by 3.4% in Q4, which corresponds to EUR 415 million in revenue. This growth rate is clearly below our own ambitions, but in line with our latest expectations. This is, as the macro situation remained challenging with high inflation rates, putting pressure on discretionary spend. And in the resulting promotional market environment, consumers were not yet back in full-price discovery shopping mode.

Let's take a closer look at our segments to analyze this. Starting with DACH, where revenue increased by 14.7% in the fourth quarter, accelerating growth versus Q3. While Austria and Switzerland continued to grow stronger than Germany, also the German market saw an acceleration in revenue growth. This was partly driven by higher discounts to clear inventory and stipulate demand. But also, the German consumer sentiment is now slowly improving, making us cautiously optimistic on the performance of our DACH core markets.

In the Rest of Europe segment, in turn, revenue was up by only 8.9% in Q4, meaning a slight deceleration in growth versus Q3. This moderate top-line development in our international markets is caused by a mix of factors. Firstly, we continue to see our large CEE markets adversely affected by weak consumer facing very high inflation rates of partly more than 20% and corresponding pressure on real disposable income.

Secondly, globally tightened marketing ROI targets affect our less mature ROE markets disproportionately. This is because new customer shares are naturally higher and break-even targets had previously been extended here. Lastly, we are coming from an elevated ROE comp-base in Q4 '21/'22 due to large-scale market entry campaigns in the Southern European countries last year.

Moving to our TME segment, where revenue grew by 1.9% in the fourth quarter. Top-line performance varied across the different TME divisions. On the one hand, as outlined in the business section, we've seen healthy growth for SCAYLE also in Q4. This is as challenged revenues from our installed client base, which sees their own revenues adversely affected by the current market environment are overcompensated by the recurring and implementation revenues from new clients.

On the other hand, especially our media revenues are under pressure as we continue to observe a relatively low spending willingness also among B2B customers. This is a reaction to the current market environment and especially affects our relatively high margin media campaign revenues.

Let's move on to our customer engagement metrics in the Commerce segment, shown on Page 13. We were able to grow our active customer base to 12.7 million in the last 12 months. This is a heavy increase of 11.8% versus last year. The average order frequency per active customer still increased by 7.1%, reaching 3.1 transactions per active customer over the last 12 months.

This increase is the result of the expansion of the product range, the improved customer experience, the increase in brand awareness, and age structure effect of the customer cohorts. The average order value, however, declined by 5.2% in the last 12 months. This development is largely driven by increased discount levels as well as higher return rates compared to the previous year. For FY '23/'24, we'd expect AOVs to stabilize as the comp-base normalizes and our unit economic measures become effective on a full-year basis.

With that, let's move on to our bottom line on Page 14. Our profitability continues to be under pressure. Although adjusted EBITDA losses have been reduced versus financial Q2 and Q3 this year. Let's start again on the left-hand side of this chart, showing our Group adjusted EBITDA margin at a negative 5.4% in Q4 '22/'23 versus negative 2.7% last year. The driver of the adjusted EBITDA loss in Q4 was the high need to clear inventories in a highly promotional market environment.

Also, our DACH business was burdened by the resulting low gross margin, but returned to positive EBITDA territory again, reaching an adjusted EBITDA margin of 3.5% in Q4 '22/'23. While recent developments in DACH are encouraging, profitability still declined versus last year. Next to gross margin pressure, the margin decline from a higher fulfillment cost ratio, which was mainly impacted by inflation-related unit cost increases as well as an increased return ratio.

Moving on to our ROE segment, where we are still seeing significant EBITDA losses of a negative EUR 36.5 million in Q4 and an adjusted EBITDA margin of a negative 18.7%. The main driver for the losses were a lower-than-expected revenue base and unusually high discount levels to clear inventories, in combination with elevated fulfillment costs due to the logistics network expansion and inflation-related cost increases.

On B2B. Our TME business achieved an improved adjusted EBITDA margin of 26.5% in Q4, up from 24.8% last year. The margin increase is the result of the growth in B2B revenues, which scale against the predominantly fixed cost base. As discussed in the business update section, the adjusted EBITDA increased is largely driven by SCAYLE, while Media and Enabling streams show a muted EBITDA development.

Let's now move on to Page 15 and take a closer look at the key cost lines of the Group. Starting with the gross margin, where we saw a decline of 9.4 percentage points to 34% in Q4. This decline was driven by sales campaigns and high discount levels, which were necessary to the clear inventory in a highly promotional market environment. These measures have helped us to develop a cleaner inventory position for the start into the spring/summer season. Our stock levels still remain slightly elevated going into our '23/'24, which will moderately weigh on profitability in H1.

Next, our fulfillment cost ratio, which increased by 2.7 percentage points to 25% in Q4. This year-over-year increase is attributable to several factors. First as expected, we are seeing an increase in return rate towards pre-COVID levels. Second, logistics costs face pressure from inflationary dynamics. Third, the expansion of the European distribution network creates nonrecurring costs and operational complexity. And lastly, the lower-than-expected revenue levels continue to cause underutilization in our DCs. The year-on-year increase in the fulfillment cost ratio in Q4 '22/'23, therefore, continues to be a mix of temporary effects, which are expected to ease in the coming quarters, and structural effects are expected to persist over a longer time horizon.

Let's now move on to our marketing cost. The marketing cost ratio declined to 9.4% in Q4, down 7.9 percentage points compared to last year. This is the result of three factors: first, the fade out of large-scale market entry and branding campaigns; second, a more conservative steering of performance marketing channels with tightened return on investment targets; and third, cost discipline and process improvements across marketing functions.

Lastly, our Admin and other cost ratio declined by 1.5 percentage points, despite a generally high level of inflation. This is due to overhead efficiency measures and the slowdown in new hires. All these factors combined, we have a decrease of our Group adjusted EBITDA margin by 2.6 percentage points to a negative 5.4% margin in Q4 '22/'23. This is as the already visible efficiency improvements in our marketing and admin cost lines were not yet able to offset the current pressure on gross margin and fulfillment costs.

Let's now take a look at our cash flow drivers on Page 16. Our net working capital returned to positive territory and is at EUR 40.7 million at the end of Q4 '22/'23 which is an increase of around EUR 30 million versus last year. This is because our stock turnover is still not fully back to where it should be and other net working capital levels are not fully compensating this. CapEx, in turn, amounted to EUR 16.3 million in Q4, which is slightly below last year level as a result of increased investment discipline.

Moving on to our cash position on Page 17. Let us first look at our operating cash flow, which is at a negative EUR 77.1 million in Q4. This is due to net working capital dynamics, partly relating to the intake of fresh spring/summer '23 stock as well as the EBITDA loss in Q4. CapEx translates into investing cash flow and our financing cash flow is at a negative EUR 7.9 million in Q4. Financing cash flow is driven by payments for leasing agreements, largely relating to our DC network rollout.

We ended the quarter with cash and equivalents of EUR 205 million. While this is a comfortable cash position, we have evaluated different measures to further optimize our liquidity buffer as announced in the Q3 earnings call. As a result of this process, amongst other measures, we have agreed with our main shareholders on a bank loan facility in the amount of up to EUR 97.5 million.

Upon signing, the loan agreement has a term of 2 years and can be actively drawn on request of ABOUT YOU. The credit facility fits well into our levers to see our liquidity buffer, which are, among others, the targeted improvement in profitability as well as the optimization of our net working capital. We believe that this set of tools gives us enough buffer and flexibility to successfully navigate to the current market environment. Hence, we don't plan any further capital measures in the near future.

Let us now move on to the final section of this presentation, the financial outlook. Starting with our FY '23/'24 guidance on Page 19. It should not be surprising that our guidance for this year is a reflection of our strong focus on profitability and the high level of uncertainty that we are still observing in the market. For our revenues, this translates into an expected growth range of 1% to 11%. The current market environment is not supportive for high growth. And at the same time, we expect some of our profitability measures to adversely affect our top line in FY '23/'24. Given the extent of the year-over-year improvement in profitability we are targeting, we believe it is sensitive to see FY '23/'24 more as the transition year towards a more balanced top and bottom-line for the company.

So, on profitability. Our #1 priority remains to achieve adjusted EBITDA break-even in FY '23/'24, and we are confirming this target as part of our guidance today. The implied bottom line improvement in FY '22/'23 with a triple-digit million range and hence, certainly ambitious. But we leverage a broad set of self-help measures, which make us confident to achieve our goal. We'll get back to these in a minute.

Let's move on to CapEx first, which is expected to be around EUR 30 million to EUR 50 million in FY '23/'24. That means we target another moderate reduction in investments compared to FY '22/'23. Our net working capital is expected to remain broadly around the levels seen at the end of our FY '22/'23. On the one hand, we expect a moderate decline in inventories. On the other hand, we also target a moderate reduction in utilization of working capital financing to save costs and have a comfortable liquidity buffer.

Let's move on to our segments on the right-hand side to see how the expected P&L dynamics in our FY '23/'24 break down to the different revenue streams. We expect slight increases for both revenue and adjusted EBITDA and DACH as the segment continues to contribute to our path to profitability. For our ROE segment, revenue is expected to increase moderately, while EBITDA is expected to improve significantly. This is largely the result of lower marketing investment in recently launched markets and tightened ROI targets. Our TME segment is expected to see moderate increases for both revenue and adjusted EBITDA. These improvements are largely driven by SCAYLE, while our Media and Enabling revenue streams are expected to show a comparable performance to FY '22/'23.

Before we move on to a deep dive on our profitability measures for FY '23/'24, let me briefly discuss current trading and the expected shape of our P&L over the year. In terms of top-line growth, we expect a relatively slow start into the year. We are facing a comparably high comp base as revenues were boosted by several campaigns, especially in the second half of our financial Q1 last year. Furthermore, the market environment remains difficult in Q1 '23/'24, and we encountered suboptimal weather conditions during the start of the spring/summer season.

Current trading also implies that we are targeting a slight acceleration in top line growth throughout the year. This is explained by easing comps and expectations of a moderate improvement in consumer sentiment. For our adjusted EBITDA in turn, we expect to see a substantial year-over-year improvement already in Q1 '23/'24 as our profitability measures show the expected effects. These effects are expected to materialize throughout the year, meaning profitability for the group should be skewed towards our financial Q3. This is also the usual seasonality pattern, which we observed in more mature markets.

Let's now move on to Page 20 and take a closer look at the many self-help measures, which we are implementing to achieve our profitability target. Let's start with the gross margin levers. The biggest impact here is certainly the adjusted ordering for the spring/summer and autumn/winter '23 seasons, which is more in line with current demand levels and should ease pressure on gross margins. The new commission scheme for our 3P model, which we've announced in our Q3 call has now actually been rolled out, and we are observing the expected positive effects. Further, we have also implemented new prices for logistics services to offset some of the underlying cost inflation.

Moving on to fulfillment costs. As discussed in our Q3 earnings call, we have introduced shipping costs below our minimum order value. Rollout of this measure is now largely completed, and we see the expected positive effect on unit economics. We are also taking action on utilization levers. We have progressed well with the rollout of our European DC network, and we are currently operating three DCs, which are located in Germany, Slovakia, and Poland. Our fourth DC in France is also ready to go live, but we made a deliberate decision to postpone this to increase utilization of the existing warehouses and thus support the fulfillment cost ratio. We remain, of course, committed to the warehouse in France because we will need the capacities to support our medium-term growth ambitions. So, this measure is more about realizing short-term efficiency gains rather than a change in our distribution strategy.

Moving on to the next measure, which is targeting unit economics again. Encouraged by the positive results of the introduction of shipping costs below MOV, we are now also testing return fees below a certain Net-MOV that is the order value after returns in selected markets. Testing is in very early stages, and we will keep you updated on our impact here.

Coming to marketing costs, which are expected to significantly decline in FY '23/'24, providing the largest efficiency lever compared to last year. We plan to lower our brand marketing costs as large-scale events and branding campaigns are reduced, and there won't be any major new market entries. On top of that, full effect of globally tightening our ROI targets will become visible on a full-year basis. We are also targeting cost reduction for content production and influencer fees as part of a fixed marketing cost efficiency program.

Lastly, admin expenses will benefit from operating leverage as we further grow the business and continue to see positive results from a slowdown in new hires and our operating efficiency measures.

Let's now move on to Page 21, where we want to update you on our thinking beyond FY '23/'24 and put this into the broader context on the timeline. Calendar year 2020 and 2021 were two years of strong growth for the company as the tailwind from COVID boosted revenues, allowing us to focus on top-line growth and new market expansion. For 2022, we had similar growth expectations, but we were surprised by a challenging market environment, leading to a substantial shift in priorities over the years.

Now for 2023, we expect this transition phase for the company to continue with a strong bottom-line focus in FY '23/'24 and several measures being rolled out in parallel. Going into '23/'24, these measures will enable us to switch back into a more aggressive growth mode coming from a healthy revenue and EBITDA base.

ABOUT YOU is a growth company, and there's a huge growth opportunity ahead of us. So, after achieving adjusted EBITDA breakeven this year, it is our target to accelerate top-line growth towards clear double-digit growth levels again while remaining adjusted EBITDA-positive in the future. This should also be supported by an expected improvement in consumer sentiment and the normalized market environment.

Thanks for joining us on this exciting journey. I'm now looking forward to answering your questions. So moderator, handing it back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Nicolas Katsapas from BNP Exane.

Nicolas Katsapas - *BNP Paribas Exane, Research Division - Research Analyst*

Thank you for a very comprehensive and clear presentation. I just had a question, firstly, on the expected revenue growth for '24 from a basket and customer metric perspective. You're guiding to plus 1% to plus 11%, but you commented that you expect basket values to normalize and you are going to be tighter on your marketing. So I just wanted to now what do you see as a driver for growth if it's not -- if it looks like new customers and the average basket size is being hold back. And maybe if you could just put in the color on the average basket side because we've obviously seen average price inflation and you've implemented MOVs. So why is that only going to be stable and not growing? And then the second question I have is on the guidance for your adjusted EBITDA breakeven. And I'm thinking just want to sort of understand if I through the quarters of the year, how does the gross margin develop to reach the 700 basis point improvement for the full year?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. Thanks for the questions. The first one on the different drivers of growth. So indeed, AOV is expected to be rather flat in total. And then we would expect an improvement in the frequency driven by the improvement of the proposition, but also a structural effect in the customer cohorts. And then probably also slide uplift in the total number of active customers, driven by both continued acquisition of new customers, but also retention of previous customer cohorts. And this then is up to a positive redevelopment in total.

And on the AOVs, why is it expected to be rather stable and not growing. If we look at this on a market by market basis, I think the expectation would be that we see a slight growth in the AOV, but then we have revenue mix effects. So we are growing faster in markets that have slightly lower AOVs, which then means that in the mix, in the total, rather flat development expected.

And the gross margin, we would expect, as outlined in the presentation, moderate headwinds still in the H1, given inventories are still slightly elevated. And then this should improve in the second half of the financial year, meaning we expect a substantial year-over-year improvement in the gross margin for the second half of the year, given weak comps in the H2. And at the same time, stabilization of the gross margin towards normal levels.

Nicolas Katsapas - *BNP Paribas Exane, Research Division - Research Analyst*

All right. I just wanted to have a small follow-up. If you've seen the frequency of orders pickup, then how do I think about the leverage in the fulfillment line feeding through? Maybe you could comment on that. But otherwise, very clear.

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

So there is definitely operating leverage on the fulfillment cost line given that we expect growth and we have quite a substantial portion of the fix cost line in our fulfillment cost line. And on top of that, as outlined, we are also targeting unit economic measures that should give some support on cost per order. At the same time, however, we also are still in a somewhat inflationary environment. So they are still of headwinds, especially on distribution, but also wage inflation. So at this point, it is not, not fully transferring to us as to which of these effects will outweigh.

Operator

And our next question comes from Georgina Johanan from JPMorgan.

Georgina Sarah Johanan - *JPMorgan Chase & Co, Research Division - Analyst*

I've got 2, please. Firstly, just on the full year marketing ratio that you should -- we should expect. Is that Q4 levels, something sensible for fiscal '24 overall, please? And then secondly, I appreciate it's still early days, but obviously, lots of changes have gone in, in terms of minimum order value

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introductions and so on and so forth. What do you think -- what can you see from the data? Is the impact that that's having on sales? So in the areas where you've introduced that, have you seen a sort of directly negative impact from some customer behavior on the top line as a result, please?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. Thanks. On the first one, marketing, I think for the full year '23/'24, the Q4 is not an exact proxy. So it will probably be higher than in the Q4. That's first explained by seasonality. So usually, we tend to have higher marketing cost ratios in the full price quarter, so Q1 and Q3 for us and lower marketing cost and revenue ratios in Q2 and Q4. That said, we do indeed expect a substantial improvement in the marketing cost line for the full year, but it will not be in the high single digit, I would assume, but rather in the low teens or maybe slightly below.

Then second part, MOV introduction. So first, the rollout is now largely completed. So we are basically live with MOVs in major markets. And what I can say is that it has a certain impact -- positive impact on contribution per order, but it also has a clear impact on revenues. So the MOVs usually target a high single-digit share of revenues, which fall below this MOV and out of these transactions, there's definitely a significant churn. That means top line is adversely affected but bottom line is also definitely supported by the measures.

Georgina Sarah Johanan - *JPMorgan Chase & Co, Research Division - Analyst*

Is that the high single-digit share of revenues that you mentioned, like if we were to assume, for example, like half of that been away? Is it fair to assume that even in Q4, there was a 4% to 5% drag on top line from the introduction of both measures then, please?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

I would say it's lower than the 50%. But yes, there is a drag from that, but I wouldn't relate top line dynamics exclusively to this future. I mean there's a lot of moving parts, there's dynamics in the consumer environment, of course. There's also other profitability measures, but there's also other which support the top line. So yes, let's not say there was [paribus].

Operator

And the question comes from Anne Critchlow from Societe Generale.

Anne Critchlow - *Societe Generale Cross Asset Research - Equity Analyst*

Hannes, I've got a few questions, please. First of all, I'm just wondering how you might pursue aggressive growth beyond full year '23/'24. For example, with marketing cost to sales need to rise again? And then the second question is on the new 3P commission scheme. Could you let us know, please, how commission percentage has changed?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. So growth beyond '23/'24, I mean, first, I think we will see substantial growth support from the existing customer base in the sense of many measures that we're implementing right now, will lead to a profitable base line. And what we see is that in our core customer segments, which are already heavily profitable today, there is already substantial growth, which will then be attributing going forward. So we expect continued growth from existing customer cohort. And then on top of that, we may accelerate growth on new customer acquisition in markets where we see lower penetration rates as of today. These are some of the recently entered markets where we are right now, a bit more conservative on spending. And we may also enter further markets in a time period where the market environment is more supportive for that. And we have leveraged a positive EBITDA.

Next to that, some of the levels that we've already discussed, I think over the last quarters, improving extending our assortment, improving our digital product proposition and so on. This will also lead to potential incremental revenue growth, existing and new customers. So that said, we expect a continued positive EBITDA development beyond '23/'24. But we would also certainly be willing to continue to invest some of the remaining margin then into future growth if we believe that's where you're creating.

And on the 3P commission scheme. So it is -- I think we have briefly discussed it on the last call, this is largely a function of the selling price of the item and the product group, the single product comes from. And the uplift on the total commission is definitely in and around the low to mid-single digit (inaudible). So there's a substantial uplift coming from that. But that said, we believe the current commission scheme or the new commission scheme is also much better aligning the interest of our supplier partners and the platform than the rather flat commission scheme that we had beforehand, which was not supporting economics in a lower price, high return category that much.

Operator

And our next question comes from Nizla Naizer from Deutsche Bank.

Fathima Nizla Naizer - *Deutsche Bank AG, Research Division - Research Analyst*

Great. My first question is on the new sort of shareholder loan facility that you mentioned, Hannes. Could you provide us a bit more color as to maybe the interest rate that it's coming with? Any covenants, which shareholders, just to be precise, from my end that hasn't been signed already. So some color there would be great.

And secondly, on the breakeven target for FY '24. Could you remind us, is this an annual number? So you expect the group EBITDA at the end of the year to be in positive territory? Or is it certain quarters of the year where you expect to be breakeven and the full year might still be in loss making territory? So some color on the direction of travel would be great.

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. Thanks for the questions again. Starting with the loan. So that is a facility from which we can actively draw. And on the drawn amounts, interest would be paid of 12%. And on the undrawn amounts, there's a commitment fee of 2%. No covenants, it's subordinated. It's being led by Auto, Auto Heartland and Auto family. So basically the large, the 3 large core shareholders of ABOUT YOU. It has a duration of 2 years. It will be signed in the course of today -- over the course of today. And then we will have also scenario notification as a related party transaction.

And on the breakeven target for '23/'24, that is for the full year. So that means we expect the full year '23/'24 to be in positive adjusted EBITDA territory. And in terms of the shape, profitability is expected to be skewed towards our financial Q3, which is also the seasonality pattern that we observed in more mature markets. And this positive EBITDA, and I would also expect a more like neutral EBITDA in the financial Q4. This will then lead to the full year positive adjusted EBITDA. So overcompensating the expected negative EBITDA in H1.

Operator

And our next question comes from Andreas Riemann from ODDO BHF.

Henrik Paganetty - *Jefferies LLC, Research Division - Equity Associate*

Two questions. First one on pricing. Are there any product areas or categories where the price increases are expected among consumers? That's question number one. Number two, in the past, a growth driver for you and probably also for Zalando and others who was online, taking share from offline. Would you say that going forward, it is more about competition within the online segment as the online penetration is not rising that fast anymore? Any thoughts from your side would be appreciated.

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Yes, so on the first question in terms of pricing. I wouldn't call out any particular product groups also where the promotional pressure has been lower. I think that was pretty much across the board. Maybe some adjacent categories for us like sports or maybe kids was not as severe as in the more like fashion and the payer categories, but I think it was pretty much as the board.

And in terms of the China shift. I mean, what we see right now is certainly a normalization in online penetration coming from the elevated COVID levels. Going forward, we would definitely expect this tailwind to return. There are still substantial room to grow in online penetration in our core markets and in Europe, more broadly. So we would expect this tailwind to return and also lead to an extension of the pie for all players in the market. So the growth is also able without taking share from other onliners.

Operator

We will now take our next question from Emily Johnson from Barclays.

Emily Johnson - *Barclays Bank PLC, Research Division - Research Analyst*

I have 3 questions, please. And the first is on the recent development in DACH, which you mentioned are encouraging. Is that specific to your market share? Or are you seeing any underlying improvement in consumers more generally? And how recent is that improvement?

The second question is just a follow-up on the changes to commission rates that you're making at the moment. Is there any kind of feedback from partners that you can share? Are they changing their behavior at all? Are they broadly happy with the commission rate changes? Do you expect that to have any impact on your item point and assortment in FY '23/'24? And then the third question is just why does the drop shipping revenues decline in FY '22/'23?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. So first question was on DACH's recent development. We indeed see a slow improvement in consumer sentiment coming from a low base. I think that was supportive for us, but certainly also for the market more broadly. And what we have also seen for us for ABOUT YOU is that we had an unusually strong discount offer in the Q4 driven by the need to clear inventories. And this, I think, also stimulated revenues a bit in the German-speaking markets. So maybe it's a combination of both slowly improving consumer and then unusually attractive price offering from the ABOUT YOU side.

And second question on commission rates, feedback from partners. I think, generally, that was very well-received and accepted given the alignment of interest from partners and the platform to differentiation, different economic potentials. Of course, when you roll out such a new commission team, there are always certain partners, which we -- they are no worse off than before. In some cases, that have been solved by adjusting the assortment, which the partners are delivering and so forth. So there's definitely a slight impact on the offer side. But overall, I would say, no substantial change in the offer to consumers with the described uplift on commissions and a better aligned interest of platform and partners. So net-net, I think it's definitely positive.

Drop shipping, why has declined? I think that's a mix of a few factors. First of all, as intended, we are growing our full assortment. So we are actively transitioning partners from drop shipping to [FA] or adding fulfilled by ABOUT YOU to a drop shipping mix. So this is intended. And then I think for both our own assortment as well as for fulfilled by ABOUT YOU assortments, the elevated inventory creation that we faced in '22/'23 led to higher discounts for these product types for operating models than for drop shipping, which also supported a slightly higher growth.

And lastly, visibility. Of course, in a situation where the stock levels tend to be elevated, algorithms detect a higher stock risk on especially on inventory and give more visibility to these products as opposed to 3P products. I hope this answered the question.

Emily Johnson - *Barclays Bank PLC, Research Division - Research Analyst*

Yes. Can I just really quickly follow up on the second question around the item count. If items grew 21% last year, do still expect that to grow broadly in line with where your revenues are growing or should that flatten out?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

So I would definitely expect continued growth in item count, whether this will be in line or different revenues. Too early to tell, but maybe in a similar corridor.

Operator

(Operator Instructions) And our next question comes from Simon Bowler from Numis.

Henrik Paganetty - *Jefferies LLC, Research Division - Equity Associate*

Two for me, if I can. I'll ask them one at a time. First one, just around kind of the fulfillment network. Can you share a sense of where, with now the French DC being postponed, where about you run versus capacity? If there's any other kind of levers you can pull to exit or reduce your use of that capacity. And you obviously mentioned kind of the great complexity that's coming with your kind of multi-warehouse footprint. Are there kind of further learnings to your mind to drive further efficiencies out of that network.

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. So with regards to capacities, I think with the 3 warehouses, which are fully operational now, so Germany, Slovakia and Poland, we have a good setup for '23/'24 in terms of capacity provided versus utilized. And then towards '24/'25, we will certainly make up our mind on expected top line demand prospects. And based on that, decide whether it's rational to then start the ramp-up of the French DC, which would be possible on relatively short notice given that it's actually ready to go live. But we do not yet pursue this given utilization aspects.

And further potential to drive efficiencies. I mean, there's quite a lot actually in the operation of the network as a whole, if we look at the share of cross-docking orders. If we look at what items are being made available, where -- which items are relocated before orders. So there are a lot of moving parts in the whole system, and there are many efficiency levers. I think many of these have already been pulled, but to be honest, over the next year, I think we still have substantial room for further efficiency levers across the entire value chain.

Henrik Paganetty - *Jefferies LLC, Research Division - Equity Associate*

Right. And then on the second one, I was just on if you talk a little bit what you've seen specifically within fourth quarter where there's quite a marked change from a trading and perspective in terms of kind of markdown clearance versus marketing. In terms of your makeup of customer, obviously, overall active customer numbers look like they've kind of progressed as one would expect. But have you seen greater customer acquisition, offsetting kind of greater customer churn? Or is that kind of dynamic remained fairly stable with previous periods?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

No, I think it remains fairly stable. As you pointed out, I mean, there's definitely a bit of a trade-off then in providing discounts with stimulating top line via marketing for the Q4, as outlined before. We had a need to clear inventory quite substantially. That was also carried out successfully. But of course, reflected, affected the gross margin quite significantly. And in this market environment and with a given discounts that we offered, there was no need to drive up marketing further to reach the inspired top line and sale of stock levels.

Operator

And we will now take our next question from Richard Edwards from Goldman Sachs.

Richard David Francis Edwards - *Goldman Sachs Group, Inc., Research Division - MD*

Just sort of quick question on working capital. In the context of the higher inventory levels you had at the year-end, I think you referenced in your remarks, moderate reduction in FY '24. I just want to see, if not in FY '24, do you still expect inventory to sales, for example, to normalize? Or when do you expect it to normalize? Or are you already operating at a higher level of inventory going forward?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

Sure. Yes, there's no set target, but the improvement, I think, will materialize largely in the second half of the year. So for H2 autumn/winter '23, respectively, ordering is fully in line with the demand levels that we expect now and this should then also lead to normalization of the inventories towards a more healthy stock turn, which also observed in the power.

Richard David Francis Edwards - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. I was just sort of looking back at history. I think inventory to sales was sort of somewhere around about the high teens or low 20s, historically, and it was closer to 30% last year. So are you expecting to get back to sort of the low 20s then in FY '25? Or is that really what you're saying second half of '24, you might head in that direction?

Hannes Wiese - *About You Holding SE - Co-Founder, Co-CEO of Operations & Finance and Member of Management Board*

So we will not be fully back there, I think, in the second half of '23/'24. So this normalization, back to normal levels, I think this will be carried out also towards '24/'25. But the decline in inventories, we will see already in the second half of this year. It will not only just start in '24/'25.

Operator

Thank you. With this last remark, we will be ending the Q&A session. Frank will address you with a few final remarks.

Frank Böhme - *About You Holding SE - Head of IR & Communications*

Let me close our presentation by saying thank you for your support and for joining us today in our conference call for Q4 '22/'23. If there are any further questions, please feel free to contact the IR team directly. We are looking forward to seeing some of you during our upcoming virtual road show. Have a good day. Bye-bye.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been ended. You may now disconnect.