

# **CDON**

**Questions & Answers**

**Interim report**

**Q3 2022**

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## Q&A Interim report Q3 2022

### Question 1

I believe you are moving from being an e-retailer (3P model, where you buy from vendors, hold inventories and then sell to end customers) to a marketplace model (1P model, where vendors sell directly to customers using CDON's marketplace, CDON has no inventories and gets a margin of every SEK sold through its marketplace). Is that right? I am understanding this correctly?

### Answer

We have moved from a first party (1P) business model where we held our own inventory and sold directly to consumers through our platform. Nowadays we work to the largest extent through a third party (3P) model, where merchants (i.e. vendors) sell through our marketplace platform to consumers and are charged a commission.

### Question 2

To me it is key to understand the role CDON plays in the delivery to consumers part of the supply chain, and I don't fully understand it.

- Does CDON play any role at all?
- How can CDON provide attractive delivery times to consumers if it holds no inventories?
- If CDON does provide logistics services... does it charge all the cost to the vendor supplying the goods to the end consumer?
- Is it a cost of doing business that CDON assumes as part of the business model?
- Does CDON have, or plans to have its own logistics service, or does it use the services of logistics specialists?

### Answer

CDON plays a minor role in the transportation part of the supply chain and no role at all in the fulfillment part. The role CDON plays is centered around delivery communication to the end consumer.

In general, Nordic merchants provide good delivery times.

We currently do not offer any transportation service but are looking into various options going forward and trialed a fulfillment product with selected merchants in H1 2022. The merchants are responsible for the delivery.

Merchants can choose to set individual transportation costs on each of their respective items which will be charged to end consumer. The revenue from these shipping costs is collected by the merchant.

### Question 3

- Where do logistics cost show in the financial statements? Are they included in the cost of sales and therefore in the gross margin or are they accounted for lower in the P&L?

- Are there any revenues from the logistics services?

### Answer

Costs related to freight are above the gross profit line.

Yes, these are accounted for in net sales.

### Question 4

Is there a specific reason CDON GMV growth was 200bps above broader Swedish ecommerce growth this quarter and not more? Are there categories within the broader space that outperformed where CDON does not play, like grocery / pharmacy? Any insight on differences between CDON end markets and the broader ecommerce space would be helpful.

- Do you have plans to enter the pharmacy or grocery space?

### Answer

Pharmacy and grocery which are not currently within our portfolio of categories were displaying high growth rates.

During September we had technical issues on our site, which resulted in problems to update prices and display discounts. These updates were related to adjustments made in accordance with requirements in the new rule (effective from September) in the Swedish Price Information Act. This technical issue has since been fixed.

We are always evaluating new possibilities for growth.

### Question 5

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How did growth trend monthly throughout the quarter – stronger at the end or the beginning?

### Answer

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While we have not provided individual monthly growth rates, we can confirm that September, which suffered from the technical issue discussed in Question 4, was much weaker than July and August.

### Question 6

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Were there any temporary and idiosyncratic headwinds in 3Q? If so, when should these improve?

- Any Impacts from new EU Digital Markets Act or similar legislation going into effect?

### Answer

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See previous answer on question 4.

### Question 7

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Discuss your new long-term targets and some of the initiatives which give you confidence in these share gains (what improvements do you see within the business from some of the initiatives you have implemented over the last year that give you confidence in those long-term projections)?

### Answer

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As outlined in the CDON's Q2 & Q3 2022 reports (and related presentations) [and further discussed at the Q2 2022 report presentation/call], our long-term objective is to become the number one shopping destination in the Nordic Region, which implies that customers come to shop much more frequently than their current rate. To achieve this increased frequency, we have a strategic plan called Do5 which includes boosting brand perception to drive organic traffic, expanding the range of products, providing a flawless shopping experience with improvements like the CDON Buy Box, and developing solutions like our recently launched app and CDON+ to improve the customer journey. We also intend to expand our range in Norway, Finland and Denmark.

### Question 8

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Given that Q3 showed lower market share gains than previous quarters, how do we plan to reach 2,5% market share?

### Answer

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See previous answer on question 7.

### Question 9

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How do we expect underlying KPIs develop to reach our 2,5% market share?

### Answer

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We do not comment on specific numbers for underlying KPIs. However, we continuously work to improve e.g. traffic, conversion rate and average order value.

### Question 10

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Why did we have less market share growth and traffic growth compared to the market in Q3?

### Answer

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The GMV remained flat compared to last year when excluding fraudulent merchants and as a result we gain market shares in a declining market.

We are essentially performing the same traffic numbers in Q3 compared to same period last year, and order/transaction volume is positive.

## Question 11

What will be required to reach 2,5% market share? Shall owners expect dilution?

## Answer

See previous answer on question 7.

We do not give guidance on capital funding. We currently have a cash balance of approx. SEK 80 million and are going into our financially strongest part of the year.

## Question 12

Could you clarify how 1% to 2,5% market share impacts the EBITDA for 2025?

If I understand it correctly:

This results in marketplace (3P) 125m gross profit per quarter in Q1-3 and approximately the double for Q4, excluding improved take rate and underlying market growth. If you are currently doing a quarterly EBITDA loss at 20m, this results in the following:

Gross profit	EBITDA (Approx. current)	
Q1: 125m	-20m	
Q2: 125m	-20m	
Q3: 125m	-20m	
Q4: 125m+125m	-20m	
Total: 625m	-80	= 545m (EBITDA 2025)

In addition, an increased take rate of 1% results in a 10% increase of gross margin, which further strengthens the calculation.

Is this what you are trying to communicate? Or should we expect increased costs in relation to GMV?

Is there anything else that the model above should take into consideration?

## Answer

We do not provide guidance on EBITDA numbers except from the earlier disclosed financial directives and targets.

As we mentioned in our earlier disclosed financial directives (and targets), we expect CDON to enjoy strong incremental margins as a result of our high gross margin 3P business and the relatively fixed nature of administrative and general costs.

## Question 13

What GMV Growth does EBITDA Breakeven imply for 2023? From the language is sounds flattish (no further deterioration in macro). This would imply a heavy cost reduction that is more fixed vs. variable in nature. Can you quantify these cost reductions?

## Answer

We have not given GMV guidance for 2023. We are continuously working on being more cost efficient. As we mentioned (in the Q3 2022 report) in the Q3 commentary on financial directives, Administrative & Selling Expenses excluding marketing costs have been reduced in Q3 with effects expected continuously throughout Q4 and Q1 2023.

As we mentioned in the Q3 2022 report, we will be willing to increase costs if we find growth investment opportunities where we believe the Internal Rate of Return significantly exceeds our cost of capital.

### Question 14

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Can you break down GMV growth by month? It appears that the growth wasn't linear based on traffic data and we are curious if something happened later in the quarter that was unexpected?

### Answer

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We do not comment on individual monthly growth rates.

See previous answer on question 5.

### Question 15

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It appears the market grew in categories like food and pharmacy that are more staple oriented in the period. Can you talk about the Company's initiative to grow in non legacy / more consumable categories?

### Answer

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Pharmacy and grocery which are not currently within our portfolio of categories were displaying high growth rates.

During the quarter, we saw growth in categories such as Health & Beauty, Kids & Baby and Home and Garden.

We are always evaluating new possibilities for growth.

### Question 16

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Can you talk about initiatives to grow take rate? We have noticed commission levels are steadily increasing but still relatively low. Also there appears to be substantial room on advertising, vendor saas fees, loyalty and other ancillaries? Can you talk a little bit about optimizing / monetizing the existing base of business you already have better?

### Answer

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We have seen an increase of commission levels through our 3P business as a result of a more favorable category and product mix from high-quality merchants compared to last year. To increase the overall take rate, we are continuously working towards adding more revenue streams. For example, we have established an advertising function with a substantial potential to increase take rate.

Some areas of optimization on our existing business include expanding our loyalty CDON+ program whose members purchase four times more often than non-members. We are also excited about the potential for our recently launched mobile app as 80% of our shoppers use mobile devices for purchases.