

Letter by the Management Board

Dear HelloFresh shareholders,

The first half of 2024 has been a busy period for our teams, who worked hard to rebuild our cash flows and profit generation in order to deliver on our long-standing mission “to change the way people eat, forever”, and ultimately capture the large long-term opportunity in front of us.

Meal kits is a category in transition

Meal kits is our original, largest, and most profitable product category. Its success over the past 12 years has allowed us to generate considerable amounts of free cash flow, which we used to build a state-of-the-art fulfillment network, launch new verticals and pursue a global expansion strategy for both meal kits and ready-to-eat (‘RTE’). However, it has represented the biggest drag on our financial performance in recent times, with both revenue and margins failing to meet our expectations of a couple of years ago.

Whilst high inflation and interest rates have resulted in a more cautious environment for consumer spending as a whole, we believe the biggest contributor to the weaker than expected development of our meal kit business has been the longer term impact of the positive demand shock experienced during the pandemic and the inflationary pressures rampant in its aftermath.

As a membership model with a high share of recurring orders, the demand reset has been more gradual than in transaction-based peer models. With the benefit of hindsight, we acknowledge today that we were too optimistic at extrapolating future new customer volumes from a near pandemic baseline and ultimately struggled to achieve the growth we aimed for. This was also not helped by the fact that after a sustained period of continually lowering prices to consumers and opening the meal kit market to a broad range of households over time, our successful efforts to improve our supply chain efficiency and productivity were not enough to further improve relative affordability versus other alternatives for home cooking.

This in hindsight too optimistic forecasting of our top line resulted in us sustaining a fixed cost base that is too high for the current revenue outlook of this business. Whilst our meal kit business alone is 3x larger than the Group as a whole was in 2019 (pre-pandemic), its current profitability and cash flows remain beneath our long-term target levels. This should not be the case, when considering the underlying size of the customer base and variable cost structure we already see in our business today.

As the meal kit category consolidates around a new market size, we are determined to optimize our cost base and adjust to the new normal. This includes streamlining capacity, re-examining capital expenditure plans, leveraging fulfillment centers with the latest technology and automation capabilities more forcefully and shedding other costs.

At the same time, we will keep innovating on behalf of our customers relentlessly. Over the last decade meal kits have arguably been one of the biggest innovations in home cooking worldwide, with millions of satisfied, retentive long-term customers, consuming 100s of millions of meals per year. With our capital expenditure program nearing the finish line, we will move our focus on delighting customers even more, with a large share of uniquely, customizable meals for everyone and a strong focus on families and their specific needs. This will result in further noticeably reducing preparation time and more than tripling the unique weekly recipe options available to each customer over a 3-year time frame. Moreover, we will work hard to bring parts of our RTE assortment to meal kit customers, making it easy for them to choose the right blend of RTE and meal kit orders from one account.

RTE keeps riding strong growth tailwinds

Unlike meal kits, our RTE product category has surprised on the upside when it comes to demand growth. In less than 4 years since acquiring the then small RTE brand Factor, our RTE product category has grown by nearly 20x. In 2024, our RTE product category will be both larger and more profitable than the entirety of our Group was before the pandemic. While the product category continues to have strong momentum, with growth of > 45% year-on-year in Q2, it has many high conviction growth opportunities still ahead of it: penetrating a still early-stage North American market, internationalization, accessing new customer groups, differentiated price tiers and distribution channels - these are just a few of the exciting opportunities we are actively working on. To this day, Factor remains at significantly lower brand

awareness levels compared to HelloFresh in the US, giving us confidence that there is still ample runway for growth in our business as-is.

Many of our non-American shareholders will not have yet “tasted the difference” of a Factor meal (as a side note: we hope that will not be for long, as Factor’s European expansion is off to a strong start, with more markets planned to go live in 2024 and 2025). Tasting the meals is often what gives our consumers an “aha” moment and turns them into loyal brand advocates. Seeking clean, healthy meals is an almost universal consumer desire, but has historically come with a sacrifice when it comes to convenience or quality (with traditional “microwave meals” having poor nutritional content and flavor). Through a highly proprietary product development & manufacturing process honed over many years, on the basis of millions of customer feedback data points, we have eliminated these trade-offs. As a result the vast majority of customers who become loyal Factor subscribers were not previously frequent users of prepared meals. We expect Factor to continue to bring more health-conscious consumers into the RTE meal product category, and are optimistic that this will be supported in the long-term by an increasing consumer appreciation of the importance of diet & nutrition as adoption of health tracking, weight-loss medication, and dietary supplements expands.

We are confident that the RTE product category will not just be a growth story but also one of margin expansion in the coming years. This will be driven in the near-term by the successful scale-up of our Arizona facility (with productivity improvements on a strong trajectory over Q2, but still trailing the levels we have seen in other facilities) and in the mid-term by the maturing of the customer base & subsequent reduction in marketing spend in % of revenue. Given that per customer unit economics look at least as attractive as meal kits, we expect RTE product category margins to reach at least the level of meal kits. When combined with faster topline growth than meal kits in the coming years, this means our RTE product category should be the largest contributor to absolute profit growth in the mid-term.

A promising long-term opportunity

Since we started in 2011 our mission has remained very clear: we want to change the way people eat forever. Whilst our meal kit and RTE product categories currently see opposing customer trends, two things are universally true. First, there is a clear consumer appetite for new, “digital-first” approaches to meal-times at home. Second, despite attempts of competition from big grocers, well-funded VC startups, e-commerce giants, and traditional FMCG companies over time, we have built a clear and growing market position in each of these multi-billion dollar product categories. This gives us strong conviction in the strength of our organizational culture and capabilities, and the opportunity for HelloFresh Group to play a role in many more attractive FMCG segments over time. Our focus for the next 1 to 2 years will be on efficiency as we aim to meaningfully expand free cash flows and profitability for the Group, but we remain very excited for the long-term opportunity for HelloFresh Group that will be enabled by the successful execution of this period of transition.

Thank you for your continued support.

Berlin, 12 August 2024

Dominik Richter
Chief Executive
Officer

Thomas Griesel
Chief Executive
Officer
International

Christian Gaertner
Chief Financial
Officer

Edward Boyes
Chief Commercial
Officer