LINDT & SPRÜNGLI

TRANSCRIPT OF WEBCAST PRESENTATION ON TUESDAY 26 JULY 2022

LINDT & SPRÜNGLI HALF-YEAR 2022 RESULTS

Slide no. & title

1. Half-Year Results 2022 (cover slide)

Ladies and Gentlemen, it is my pleasure to welcome you to the Lindt & Sprüngli Half-Year Results conference call and webcast.

The presentation and a transcript of my prepared comments will be uploaded to our website this morning.

The presentation will take approximately 30 minutes. Following the presentation, I will hand over to the operator, who will then manage the Question-and-Answer session.

2. Agenda

The agenda points of the presentation can be seen on this chart and include:

- a detailed review of the first half,
- an update on the key topic of sustainability,
- our expectations for the full year and the medium term,
- and a chance for you to ask questions

I would also refer you to the disclaimer at the end of this slide deck.

3. Review of Half-Year 2022 (section slide)

Despite an exceptionally difficult global operating environment, with disrupted supply chains and sharply rising costs, Lindt & Sprüngli was able to continue its post-pandemic recovery.

You will remember that we decided not to fundamentally change our plans over the past couple of years, but instead to continue making growth investments behind our core brands.

Our continued strong growth in the first half of this year is further proof that this was the right thing to do.

Over the past couple of years, we have also continued to invest in projects that drive efficiency, especially in North America. And we are now reaping the rewards.

Overall, we are pleased with our progress and are optimistic about our future prospects.

I will now take you through a detailed review of these results, starting with Slide 4.

4. Overview – Half Year 2022

Before I begin, those of you who are new to Lindt & Sprüngli should bear in mind the seasonal and gift-oriented nature of our premium chocolate business which is skewed to the second half of the year. However, first-half sales absorb roughly half of our annual fixed costs. As a result, both sales and profitability are always significantly lower in the first half.

That said, the Lindt & Sprüngli Group has had an excellent start to the year continuing the strong recovery that began last year.

Organic sales in the first six months achieved a very positive growth rate of +12.3%, despite lapping an even stronger double-digit first-half performance in 2021.

This exceptional double-digit growth was mainly driven by North America and the Rest of World, while Europe's growth rate almost reached double digits.

It is fair to say that group sales have returned to their pre-Covid growth trajectory, with a compound annual growth since the first half of 2019 of just over 6.5%, within our medium-to-long-term guidance.

EBIT came in at CHF 185 million delivering a record first-half EBIT margin of 9.3%. This margin expansion was driven primarily by the positive impact of sales growth on cost absorption and the successful margin increase in the US since 2020.

Net income was CHF 138 million with a net income margin of 6.9%, again a first-half record. The tax rate in the first semester was 22% which is in line with our full-year assumption.

Free cash flow reached CHF 204 million in the first six months, a decrease of CHF 24 million over the first half of 2021, coming in at about 10% of total group sales. The key driver of this decrease was an increase of our inventories in order to safeguard business continuity. This resulted in a negative impact of CHF 85 million.

Our net debt position, which includes a lease liability of around CHF 450 million, increased to CHF 667 million. This is higher than in December 2021 when net debt was CHF 295 million, and higher than one year ago when net debt was at CHF 326 million. The driver of this net debt increase was our CHF 750 million share buyback programme which we completed at the end of June.

Given our confidence in the Group's future cash flow generation and our relatively under-leveraged balance sheet, we have decided to launch a new share buyback programme, this time of CHF 1 billion. It will start on 2nd August 2022 and is expected to run for 24 months.

Finally, I would mention here that our equity ratio remained strong at 57.0% vs. 58.3% at year-end 2021 and that our balance sheet remains healthy with a strong liquidity position.

5. Organic Sales Growth

Let's dig a little deeper into our organic sales growth. First-half sales grew by +12.3% organically despite a tough comparison of +17.4% growth in the same period last year. This development can be attributed to the following four factors:

- The chocolate markets on a worldwide basis have continued to recover well, generating very positive momentum, especially in the US.
- Globally, the premium chocolate segment again clearly outperformed the total market.
- In all key markets, our Group continued to gain market share within the premium segment with its core brand franchises, Excellence and Lindor, and the key Easter seasonal business.

- Growth in our Global Retail business and also in Travel Retail was disproportionately strong this first half given that many of our retail stores were closed during the 2021 Easter season and international travel was still restricted throughout the prior-year period.

As mentioned above, we achieved just over a 6.5% three-year compound annual organic growth compared to the first half of 2019, in line with our pre-Covid growth rates and in line with our medium-term guidance.

Our "Streamlining for Growth" initiatives are also continuing to pay dividends in the US where our two brands, Lindt and Ghirardelli, both grew organically at double-digit rates, faster than the market. I will provide more details on North America later in the presentation.

Overall, we are pleased that underlying consumer demand has remained buoyant and that we are back on our usual growth trajectory. This strong first-half performance is further confirmation that demand for our premium chocolate remains intact.

6. Sales Analysis – Growth Drivers

Details of the drivers of sales growth are shown on slide 6.

Volume growth normalised at +3.6% after last year's sharp rebound.

Price/mix at +8.7 % was however much higher than usual, with price accounting for somewhat less than half of the total effect.

Cost inflation has allowed us to take pricing actions in some markets, for example in the US. As these price increases were not effective for the full six months, there will be some residual benefits for second-half sales growth. Going forward, we will raise prices whenever and wherever it makes sense to do so.

Mix nonetheless remained the most significant growth driver, with the most notable impacts coming from the rebound of our global retail channel and a particularly strong performance from our core brand, Lindor.

Reported sales growth was once again negatively impacted by the strengthening of the Swiss Franc. In the first half, the negative forex impact was 1.6 percentage points, driven mainly by a weaker Euro.

As usual, there were no acquisitions or disposals, reflecting the strength of our existing business and our focus on organic growth.

Reported sales in Swiss Francs rose by 10.7%.

7. Sales Analysis – Markets

On slide 7, we see sales split by market. Please bear in mind that these numbers are shown in Swiss Francs. Therefore, the percentage shares are impacted by currency fluctuations.

North America, Germany and France remained our largest markets.

North America gained significantly in importance – 37.1% of Group Sales vs. 34.6% one year ago – thanks to its strong top line performance and a buoyant dollar.

Excluding Russia, the Rest of Europe continued its positive trajectory. As a reminder, Russia accounted for less than 1% of group sales in 2021 and we expect about 80 basis point negative impact on growth for full-year 2022.

The Rest of the World was the region most impacted by the pandemic. At 13.6% of group sales in the first half of 2022 vs. 13.4% in the prior-year period, it was able to make a good recovery. China, Japan and Brazil performed particularly well.

We now turn to slide 8 to begin our review of the regional segments.

8. Sales Analysis – Segment information

Europe

In our biggest region, Europe, organic sales increased by +9.1%, representing a very good performance especially when compared to the +16.4% growth of the prior-year period. Europe's three-year CAGR was 6.7%, in the line with the Group and demonstrating a full post-Covid recovery.

We delivered good growth in almost all European markets and double-digit growth in important markets such as Germany, Italy, Austria, Eastern Europe and the Benelux region.

North America

North America grew by +15.2%, with Lindt in the USA, Canada and Mexico and Ghirardelli all enjoying a very positive first semester and growing in double digits. Russell Stover was basically flat.

The region's three-year CAGR was almost 8%, indicating that North America is also back on its pre-Covid trajectory.

Overall chocolate market growth was very solid over the past 52 weeks, in the high single digits. We were able to outpace the market, gaining market share and creating positive momentum.

In the US, we continued to make good progress on the various projects aimed at further leveraging the Russell Stover business and on our overall 'Streamlining for Growth' initiatives in the areas of production, merchandising, logistics, procurement and IT. Bottom-line benefits already started to kick in last year and this has continued into the first half of this year. We expect more from these projects in the second half and over the coming years. As explained previously, part of the efficiency savings will be reinvested in our brands and future growth.

Overall, we are extremely pleased with our progress in the US and our current strategy.

Rest of the World

In the Rest of the World segment, we also grew faster than the market and above the group average with +16.9%, despite lapping the tough comparison of +18.0% last year. Having said that, the region's three-year organic CAGR of just +4% suggests that its recovery is not yet complete. Indeed, this region was the one most impacted by COVID-19, not least of all because we report Travel Retail in this segment, while Japan and Brazil have a high share of retail stores.

Correspondingly, in the first half of this year, Travel Retail recovered strongly and its sales are now at roughly two-thirds of 2019 levels, while our retail stores in the region performed very well but are still lagging slightly behind 2019 levels.

It is particularly pleasing to see that important new markets, such as Japan, China and Brazil, grew in double digits.

There are many large traditional chocolate markets within the Rest of the World segment where we see significant premiumisation potential for Lindt. As a result, we are convinced that we can maintain double-digit growth in the region over the medium term.

Let’s move on now to the important topic of costs, category by category. We will start with material costs.

9. Material Costs

Material costs – which have been adjusted for changes to inventories – came in at 31.5% of sales, 160 basis points lower than in 2021.

There are three factors behind this overall positive development, one sales-related and two cost-related:

- As explained earlier, our price/mix increased by +8.7%, meaning that we achieved a far higher net sales per ton.
- On the negative side, we saw increases over the past six months in the cost of packaging materials and certain raw materials, including milk, sugar and tropical oils.
- On the positive side, and as shown on the next chart, cocoa butter prices have come down over the past 12 months leading to positive effects on the overall material cost ratio.

Looking forward, we estimate that our total material costs will be slightly higher in 2022 compared to 2021, driven by packaging and certain raw materials such as milk and sugar, partly offset by a positive mix impact and price increases. These negative effects were not felt in the first half of this year as we had hedged many of these risks early on. We expect cost inflation to continue into 2023.

Finally, our sustainability ambitions will lead to additional costs in 2022 and over the coming years, as we transition to more sustainable and sometimes more expensive options. Sustainability is embedded into our operations and regarded simply as a cost of doing business.

To offset these expected cost increases in 2022 and 2023, we plan further price increases over the coming months to supplement the Group’s inherent operating leverage.

10. Cocoa Price

On slide 10, I would just like to take a quick dive into our most important commodity, cocoa.

As ever, the development of the cocoa market remains difficult to predict. The outlook depends heavily on the positioning of market speculators who have a disproportionate influence on market prices.

Currently, the market expects a deficit of around 200,000 tons for the 2021/22 harvest season but only a small deficit of around 10,000 tons for the 2022/23 crop. The deficit forecast for the current crop is a key reason why cocoa futures have increased over the past twelve months by around GBP 100 per metric ton.

Overall, as can be seen from this chart, cocoa bean future prices in London are currently trading at around GBP 1770 compared to around GBP 1650 in June last year.

At the same time, the cocoa butter ratio has declined to about 2.0 compared to 2.2 one year ago and 2.6 two years ago. This is another key reason why our material expense ratio is lower in 2022 compared to 2021.

Based on current market expectations, and including the 'Living Income Differential', we assume that cocoa bean prices for the 2022/23 crop will increase and cocoa butter prices in 2023 will be higher than in 2022. Coupled with cost inflation for packaging materials, milk and sugar, many players in the chocolate industry will, even with wide-ranging internal efficiency initiatives, be forced to increase prices.

11. Personnel Expenses

Despite the absolute increase of CHF 26 million, personnel expenses increased at a much lower rate than sales, decreasing by 120 basis points to a new record-low first-half cost ratio of 24.3%. This comes after a record-low cost ratio in the prior-year period.

A large part of our personnel expenses is fixed, so the sharp rebound in overall sales has reversed the diseconomies of scale experienced in 2020, as we predicted at the time. We achieved this excellent result despite the double-digit growth in global retail, a high gross profit margin business however with disproportionately high personnel expenses.

12. Operating Expenses

Operating expenses increased by CHF 78 million and the ratio increased by +130 basis points, driven by two factors:

Firstly, in common with all businesses, Lindt has been impacted by the general pressures on global supply chains, and in particular by higher transportation costs due to higher fuel and energy costs.

Secondly, in line with our high-growth strategy, we continued to increase advertising investments and to invest in our brands across all geographies, in line with our double-digit sales growth.

13. Depreciation and Impairments

In absolute terms, depreciation and impairments have remained at the same level as in the previous three years. Depreciation in recent years has been driven by our capex programme aimed primarily at satisfying future volume growth and increasing production efficiency.

One of our biggest capital investments relates to the Lindt factory in Stratham, New Hampshire in the US, which will absorb planned volume increases as we grow over the medium term. As already reported, the slowdown in 2020 due to COVID-19 persuaded us to slightly rephase overall capex for that factory. I will discuss capex in more detail later.

Economies of scale derived from our top-line growth delivered a 40 basis point margin improvement vs. the same period last year.

14. Operating Profit (EBIT)

At CHF 185 million and 9.3% of sales, EBIT set a new first-half record, increasing by 160 basis points compared to the first half of 2021 which at the time set a new record. The increase of CHF 46 million is due to the factors in the previous slides and are primarily the result of strong organic growth leading to positive economies of scale.

15. EBIT: Segment Information

First-half EBIT improved substantially across all three segments.

In Europe, we expanded the EBIT margin by +120 basis points and in Rest of the World by +40 basis points.

But, in fact, the biggest achievement comes from the smallest column in this chart. In North America, the EBIT margin improved by +340 basis points, entering positive territory for the first time since 2016, after reaching breakeven in the prior-year period.

In North America, apart from the economies of scale generated by its sales growth, the region's sharply improved profitability is thanks to our 'Streamlining for Growth' initiatives which began to pay dividends last year. For the current year, we are targeting a full-year North America EBIT margin in the high single digits. Over the medium term, we expect these initiatives to lift North America EBIT margin by 50-80 basis points per year on a full-year basis.

16. Net Income

Net income also reached a new first-half record, coming in at CHF 138 million or 6.9% of net sales.

Lower net financial expenses helped, coming in at CHF 7.8 million compared to CHF 8.5 million one year ago. This was mainly due to lower hedging costs for subsidiary financing.

As expected, the applied tax rate was at 22% in line with our full-year outlook. Over the medium term, we consider a tax rate of between 22% and 23% to be sustainable, assuming no major changes in tax legislation. Of course, we are closely monitoring the OECD debate around a minimum 15% tax rate as well as US tax developments.

17. Capital Expenditure

Capital expenditure in the first half came in at CHF 121 million, just CHF 13 million lower than last year. This is in line with our revised plans which postponed certain growth-related investments from 2020. We now expect capex to be around CHF 250 to 270 million for the full year. From 2023, we expect to spend around CHF 280-300 million annually for next couple of years.

18. Development of Net Financial Position

As I take you through the 'bridge' of the main cash-relevant developments of the first half, my key message to you is that we are focused on cash generation, now more than ever.

Indeed, in the period under review, we managed to generate a positive free cash flow of around CHF 200 million, which was about CHF 25 million less than this time last year.

In the face of challenging and unpredictable global supply chains, we decided to build up our inventories more than in recent years, leading to a cash outflow of about CHF 85 million.

We finished the share buyback earlier than planned at the end of June and, together with regular dividend payments, we returned around CHF 600 million to our shareholders.

At the end of the first half, net debt reached CHF 667 million, higher than the CHF 295 million at the end of 2021, due to the above items.

When assessing our net debt, please also bear in mind the ongoing impact of IFRS 16 on our lease liability with a negative impact of around CHF 450 million. On a pure cash basis, net debt would be around CHF 200 million.

19. Share Buyback - Program

As mentioned at the start of this presentation, our confidence in the Group's future cash flow generation and our relatively under-leveraged balance sheet have persuaded us to launch a new share buyback programme, this time of CHF 1 billion.

Over the past three years, our free cash flows were consistently at around 13% of net sales. On top of this, in 2020, we renewed our CHF 500 million bond at attractive levels and secured long-term financing to 2028 and 2032, respectively. Finally, we have a strong balance sheet with an equity ratio of close to 60% and expect our net financial position to return to around zero by the end of 2022, excluding lease liabilities but including the new share buyback.

The new share buyback programme will commence on 2nd August 2022 and run for 24 months until the end of July 2024, and will be executed via a second trading line on the SIX Swiss Exchange.

That concludes my review of half-year results. Before we discuss our outlook, I should like to share with you our progress on sustainability.

20. Sustainability Update (section slide)

Sustainability plays a key role in ensuring our long-term business success and is now embedded in our corporate culture. Almost two centuries of pioneering and delivering consistently high-quality premium chocolate products clearly demonstrates our long-term orientation.

21. The Lindt & Sprüngli Sustainability Plan

The Lindt & Sprüngli Sustainability Plan is our pathway to becoming more sustainable throughout our value chain, demonstrating our commitment to a better tomorrow. This strategy addresses the sustainability issues that are most impacted by our business activities – both from a risk and an opportunity perspective.

In June, we published a comprehensive update on our performance in Lindt & Sprüngli's 2021 Sustainability Report. I am pleased to confirm that we continued to make progress against our commitments across the plan.

Before I share a few highlights with you, I first want to discuss with you the Lindt & Sprüngli Farming Program for cocoa, which is a critical programme that impacts two key pillars of this Plan: 'Improving Livelihoods' and 'Contributing to an Intact Environment'.

22. Farming Program

Cocoa is our most important raw material, and we are committed to sourcing it responsibly. We purchase cocoa beans, cocoa butter, cocoa powder and, uniquely for Russell Stover, chocolate mass.

Since 2008, the Lindt & Sprüngli Farming Program has supported decent and resilient livelihoods for our cocoa farmers and their families while encouraging more sustainable farming practices.

Through activities focused on traceability, training, investments for farmers and communities, and independent verification, we aim to deliver an impactful programme which increases the resilience of farming households, reduces the risk of child labour, and supports conservation of biodiversity and natural ecosystems.

23. Sustainability Highlights

I will continue with the theme of cocoa as we start the review of recent sustainability highlights.

[Cocoa Sourcing]

In 2020, we achieved a milestone goal of sourcing 100% of cocoa beans through the Program. In 2021, we also began sourcing cocoa butter through sustainability programs. Altogether, 64% of our total cocoa, including beans, butter, powder, and chocolate mass, is now sourced through sustainability programs. This puts us well on track to meet our target to source 100% of all cocoa products through sustainability programs by 2025.

The Farming Program also expanded to new origin countries. In 2021, more than 91,000 farmers participated in the Program in seven countries of origin.

[Promoting Agroforestry]

In addition to scaling the Program to cocoa butter, new origins, and more farmers, we also made progress against the Program's social and environmental objectives. For example, since the start of the Program, we have distributed over 2.8 million shade trees in support of agroforestry and biodiversity – of which, nearly 900,000 were distributed in 2021 alone.

[Child Labour]

Child labour is a widespread systemic issue. We consider tackling child labour a priority and we are firmly committed to avoiding and remediating it in our cocoa supply chain. For us, the effective prevention of child labour requires full protection of children's rights, involvement of community leaders and members, holistic interventions, and close collaboration with relevant stakeholders including public institutions. It should also provide a framework for case management and systemic preventive measures.

Accordingly, in 2021, we developed clear guidance for our suppliers on a Community Child Protection System – our holistic interpretation of and an evolution to our Child Labour Monitoring and Remediation System.

In addition, the Group also became member of the Child Learning and Education Facility (CLEF). Access to quality education for all children is at the heart of a holistic child protection concept. Through our new membership in the CLEF initiative, public and private stakeholders jointly invest into the education system to collaboratively contribute to creating a better future for the children of cocoa farmers and with the aim to prevent child labour at the landscape level.

[Human Rights]

Addressing child labour is one component of our approach to respecting human rights. In June, the Board of Directors approved a new group-wide Human Rights Policy, which formalises our commitment to respecting human rights and establishes a commitment to conduct due diligence.

[Diversity]

We also made progress against our target to employ 40% women in senior leadership roles by 2025, having already reached 38% in 2021. It is our policy and practice to ensure our current and potential employees enjoy equal employment opportunities, and women are one of the central target groups we strive to promote through our global diversity measures.

[Responsible Sourcing]

For many years, we have reported on our progress to responsibly source cocoa, hazelnuts, palm oil, soy lecithin and eggs. In 2021, we also updated our Responsible Sourcing Roadmap 2025 to include seven additional priority materials we want to source responsibly by 2025. These include almonds, coconut oil, coffee, dairy, pulp and paper-based packaging materials, sugar and vanilla.

[Climate Change]

We are committed to defining science-based targets for our entire value chain with a long-term goal to reach net-zero emissions.

In 2021, we partnered with third-party experts to develop our first complete carbon footprint in line with GHG Protocol standards. This carbon footprint covers our Scope 1, 2, and 3 emissions for the year 2020, and was externally assured by PwC. Emissions from our value chain (Scope 3) represent about 94% of our carbon footprint, mainly coming from cocoa, other raw materials (such as dairy), transport and packaging.

Taking this carbon footprint as a starting point, throughout 2022 we are working with experts to develop our decarbonisation roadmap before submitting a target to the Science-based Targets Initiative to be announced in 2023.

24. More Information

These were just a few highlights from our 2021 performance and recent updates.

For more information, I encourage you to read the 2021 Sustainability Report. It was prepared with reference to the GRI Standards for the first time.

More information on the Farming Program is available on the dedicated website.

After this update on sustainability, I will conclude the presentation with a discussion of the outlook for 2022 and beyond.

25. Outlook (section slide)

We are extremely pleased that, in the first semester, we were able to re-establish group sales onto their pre-Covid growth trajectory, even before a full recovery of our global retail and travel retail activities.

In the medium term, we expect to reap significant top- and bottom-line benefits from our ongoing ‘Streamlining for Growth’ initiatives in the US. At the same time, we will continue to invest in advertising to stimulate growth and in production to satisfy that growth.

And as we look further into the future, we see unchanged fundamentals driving demand for our products. As a result, we will continue to focus on our leader products, such as Lindor and Excellence, on premiumisation in developed markets and on expansion in growth markets.

In other words, we are firmly back on our virtuous cycle of generating high growth to generate funds to reinvest in more growth, all the while delivering superior shareholder returns.

26. Outlook – Full-Year 2022

As you have already understood, we had an excellent start to 2022 with a recovery of our Easter business and continued strong growth of our core brands. From a channel perspective, Global Retail and Travel Retail both experienced high double-digit growth rates due to the post-Covid catch-up effect.

For the second half, however, we shall face some headwinds and expect Group net sales to grow less strongly than in the first half. Global Retail in particular will face a much tougher comparison while the effect of the discontinued Russian business will weigh much more on the second half given the loss of a full six months, which was not the case in the first half.

Nonetheless, given a faster than expected recovery in the first half, we are raising our organic growth guidance to 8-10% for full-year 2022 vs. previous guidance in March of close to 8%.

Although we reached record levels of profitability in the first semester, we have maintained EBIT margin guidance of "around 15%" which will now be applied to a higher net sales figure.

The second half of the year is much more important to our full-year performance and we expect significant cost pressures that were not present in the first half, coming from raw materials, packaging materials, energy as well as the one-off costs to close down our Russian operations.

As mentioned earlier, we plan capital expenditure of around CHF 250 to 270 million and expect a tax rate of roughly 22%.

Of course, much depends on how the global geopolitical and macroeconomic situation develops. Currently, the most important assumptions for 2022 guidance are that:

- The geopolitical situation does not worsen
- The constraints within global supply chains improve slightly in the second half of 2022

27. Outlook – Medium to Long Term

Our medium-term guidance is unchanged, though starting from an improved base in 2022.

The Group remains confident for 2023 and over the mid-to-long term in achieving its goal of an organic sales growth between 6% and 8%.

In 2023 and thereafter, we expect to deliver an average annual increase in EBIT margin of 20 to 40 basis points.

For the next couple of years, annual capex should be around the CHF 280-300 million level while the tax rate should stabilise around 22 to 23%.

28. Q&A (section slide)

Thank you for listening to my presentation and I will now hand over to the operator who will manage the Question-and-Answer session. We ask you to limit yourselves to a maximum of three questions, so everyone can participate. Please note that written questions asked via the web will be answered by email after the webcast.

29. **Disclaimer**