LINDT & SPRÜNGLI

TRANSCRIPT OF WEBCAST PRESENTATION ON TUESDAY 25 JULY 2023

LINDT & SPRÜNGLI HALF-YEAR 2023 RESULTS

Slide number & title

1. Opening Chart (no title)

2. Half-Year Results 2023 (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 15 to 20 minutes. Following the presentation, I will hand over to the operator, who will then manage the Question-and-Answer session.

3. 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 topics of sustainability,
- our expectations for the full year and the medium to long-term,
- and a chance for you to ask questions

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

4. Review of Half-Year 2023 (section slide)

Despite an exceptionally difficult global operating environment, with sharply rising costs and the need to implement above average price increases, Lindt & Sprüngli was able to continue its post-pandemic recovery.

Over the past years, we have continued to invest in projects that drive efficiency, especially in North America but also Europe and Rest of World. And we can see the benefits of this work.

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 the overview of our business performance.

5. Overview – Half Year 2023

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, it is important to remember that first-half sales absorb roughly half of our annual fixed costs. As a result, both sales and profitability are always lower in the first half than the second.

That said, the Lindt & Sprüngli Group has made an excellent start to the year.

Organic sales in the first six months achieved a very positive growth rate of +10.1%.

EBIT came in at CHF 255 million delivering a record first-half EBIT margin of 12.2%. This margin expansion was driven primarily by the successful implementation of price increases, while still benefiting from longer term hedges in material costs.

Net income was CHF 205 million with a net income margin of 9.8%, again a first-half record.

Free cash flow reached CHF 137 million in the first six months, a decrease of CHF 67 million over the first half of 2022. The key driver of this decrease was a deliberate decision to increase the inventories in cocoa beans in order to safeguard business continuity and higher CAPEX to prepare for future volume growth.

Our net debt position, which includes a lease liability of around CHF 415 million, increased to CHF 939 million. This is higher than a year ago when net debt was at CHF 667 million. The driver of this net debt increase was our CHF 1 billion share buyback programme which started in August last year and currently stands at CHF 490 Mio of repurchased shares: It will be completed by mid 2024.

6. Sales Growth in CHF

Total net sales reached CHF 2.086 billion in H1 which means that for the first time we achieved net sales of more than CHF 2 Billion in the first-half.

7. Organic Sales Growth

First-half sales grew by +10.1% organically despite a tough comparison of +12.3% in the same period last year and +17.4% growth in 2021. Over the last 2 years, growth in our Global Retail business and also in Travel Retail was disproportionately strong in the first half driven by the catch up effect post Covid.

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.

Overall, we are pleased that underlying consumer demand has remained strong despite the price increases we implemented.

8. Sales Analysis – Growth Drivers

As we are in a time of high inflation and most stakeholders are interested in the net price increases implemented, we are showing you this chart split by price increases on the one side and the combination of volume and mix separately.

Price increases were at +9.3% and much higher than usual. Due to much higher input costs, pricing actions had to be taken in all markets.

Volume was slightly negative, offset by a positive mix resulting in a volume/mix impact of +0.8%. Positive channel mix impact was primarily driven by the rebound of our own global retail channel and the travel retail channel. From a product viewpoint, we saw strong results in seasonal and gifting occasions, including Lindor. In general, we are seeing consumers "trading up" towards these occasions, which have a stronger price per kg and enhance our mix. Reported sales growth was once again negatively impacted by the strengthening of the Swiss Franc and also the closing of our presence in Russia

Reported sales in Swiss Francs rose by 4.7%.

9. Sales Analysis – Segment information

On the following slide, I would like to give you an overview of the sales performance by segment.

Europe

In our biggest region, Europe, organic sales increased by +8.9%, representing an excellent performance.

We delivered positive growth in all European markets and double-digit growth in important markets such as Italy, UK, Switzerland, Spain, Eastern Europe and the Benelux region.

North America

North America grew by +11.2%, with Lindt in the USA and Canada and Ghirardelli all enjoying a very positive first half, growing double digit. Russell Stover also made positive progress in line with expectations.

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

Rest of the World

In the Rest of the World segment, we also grew above the group average with +11.1%.

In the first half of this year, Travel Retail recovered strongly, while our retail stores in the region performed very well leading to double digit growth in markets like Japan and Brazil.

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.

10. Material Costs

Material costs – which have been adjusted for changes to inventories – came in at 30% of sales, 150 basis points lower than in 2022.

One key reason for the improvement of this cost ratio are our price increases of +9.3%, meaning that we achieved a far higher net sales per ton. We still had strong hedges in cocoa and other raw materials in the first half of the year, however we are anticipating higher costs in the second half.

Looking forward, we estimate that our total material costs will be slightly higher in 2023 compared to 2022, driven by packaging and certain raw materials such as cocoa, milk and sugar. We expect cost inflation to continue into 2024 mainly driven by cocoa and sugar.

11. Cocoa Price

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

Prices for cocoa futures in London are trading at their highest level in nearly four decades. A still relatively strong demand combined with a global shortfall in production and the risk of bad weather in Ivory Coast and Ghana are the key drivers of the high cocoa prices. Cocoa futures prices in New York and London have surged by more than 30% this year also driven by speculators with very long positions.

At the same time, the cocoa butter ratio has remained more or less flat in the last 12 months.

Most players in the chocolate industry hedge cocoa for 6-12 months. In other words, for most players, the impact of the very steep cocoa futures prices increases will only kick in from the second half of 2023.

12. Personnel Expenses

Despite the absolute increase of CHF 9 million, personnel expenses increased at a lower rate than sales, leading to a cost ratio decrease by 60 basis points.

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.

13. Operating Expenses

Operating expenses increased by CHF 21 million and the ratio decreased by -30 basis points, driven by lower logistics costs in percent to revenue. Those improvements are coming from various efficiency projects in the area of logistics especially in North America.

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

14. Operating Profit (EBIT)

At CHF 255 million and 12.2% of sales, EBIT set a new first-half record, increasing by 290 basis points compared to the first half of 2022. The increase of CHF 70 million is primarily the result of strong organic growth leading to positive economies of scale and an improved EBIT margin. At the same time, we were able to increase prices to offset 2023 steep cost increases in the area of raw materials and packaging materials. First-half EBIT margin improved mainly in the segments of Europe and North America.

15. Net Income

Net income also reached a new first-half record, coming in at CHF 205 million or 9.8% of net sales.

Lower net financial expenses helped, coming in at CHF 4.6 million compared to CHF 7.8 million one year ago. This was mainly due to higher interest rates on deposits and no negative interest rates in Switzerland.

The tax rate in the first half was 18.3% which is below our mid-term guidance driven by higher half-year profits in locations with tax rates below the group average. We are currently analysing the impact of the 15% minimum taxation which was accepted by the Swiss public vote in June 2023. Therefore, it is too early to give a tax rate forecast for the full year 2023, however we expect 2023 to be an exceptional year and below 20%.

16. Development of Net Financial Position

I would like to take you through the 'bridge' of the main cash-relevant developments of the first half.

In the period under review, we managed to generate a positive free cash flow of around CHF 140 million, which was about CHF 60 million less than this time last year.

In the face of a challenging and unpredictable crop situation in West Africa, we decided to build up our cocoa bean inventories more than in recent years, leading to an additional cash outflow. Capital expenditure came in at CHF 148 million in the first half, CHF 27 million higher than last year. This is in line with our revised plans which postponed certain growth-related investments from 2020.

We continued the share buyback as planned and, together with regular dividend payments, we returned around CHF 560 million to our shareholders.

At the end of the first half, net debt reached CHF 939 million.

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 415 million. On a pure cash basis, net debt would be around CHF 500 million.

17. Sustainability Update (section slide)

Sustainability plays a key role in ensuring our business success. Lindt & Sprüngli has been around for over 175 years now, which demonstrates that we are a long-term-oriented company continuing to deliver exquisitely manufactured, high-quality products.

18. The Lindt & Sprüngli Sustainability Plan

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

I'm pleased to be able to share that we have continued to make progress against our commitments across the Plan.

19. Sustainability Highlights

We are proud of the remarkable progress we've achieved over the past few years. As you can see from the slide, there are a number of key achievements across 2022 and 2023 and I would briefly like to talk you through some of them:

- *[Cocoa]*
  Last year, we started sourcing cocoa powder through sustainability programs. We're now sourcing 67% of our cocoa including beans and butter through sustainability programs. With this, our Farming Program has massively increased in size and is now benefiting over 112,000 farmers.
- *[CLEF]*
  As part of our engagement to tackle the root causes of child labor in the cocoa supply chain, we committed 1.25 million CHF to the Child Learning and Education Facility in Ivory Coast.
- *[Human Rights]*
  Beyond cocoa we also address child labor as part of our dedication to respecting human rights. Last year, our Board of Directors approved a new group-wide Human Rights Policy, which formalizes our commitment to respecting human rights and establishes a commitment to conduct due diligence.
- *[Deforestation]*
  One of our greatest achievements so far in 2023 must be the publication our new Deforestation Policy just a few weeks ago. As a consumer goods company sourcing agricultural ingredients, we recognize our role and responsibility in addressing commodity led deforestation in the landscapes we source from. Through our Deforestation Policy we set out Lindt & Sprüngli's aspiration and approach in addressing deforestation in supply chains. Tackling deforestation will also be key for achieving our science-based climate targets by 2030 and 2050.
- *[Climate Change]*
  We have also made further progress on our commitment to define science-based climate targets. We have submitted our climate targets to the Science Based Targets initiative and will announce the verified targets before the end of the year. With this commitment and our decarbonization roadmap we are contributing to the collective goal of limiting global warming to 1.5 degrees.

Closing & More information

These are only a few of ***many*** great achievements across 2022 and 2023 so far. For more information, I welcome and encourage you to read the 2022 Sustainability Report. It was prepared with reference to the GRI Standards. More information on the Farming Program is additionally available on the dedicated website.

20. Outlook (section slide)

As I have already mentioned, we had an excellent start to 2023 with a recovery of our Easter business and continued strong growth of our core brands, mainly Lindor. From a channel perspective, Global Retail and Travel Retail both experienced strong double-digit growth rates due to the post-Covid catch-up effect.

For the second half, we still expect a strong performance. However, we shall face some headwinds in some areas, for example, Global Retail will face a much tougher comparison as it laps the strong results of 2022.

21. Outlook

Nonetheless, given a faster than expected recovery in the first half, we are raising our organic growth guidance to 7-9% for full-year 2023 vs. the previous guidance in March of 6-8%.

As we also reached record levels of profitability in the first semester, we have increased our EBIT margin guidance to 30-50 basis points from our 20-40 basis points guidance in March of this year.

The second half of the year is much more important to our full-year profit performance and we expect significant cost pressures that were not present in the first half, coming from raw materials such as cocoa and sugar and also some packaging materials.

As mentioned earlier, we plan capital expenditure of around CHF 250 to 300 million.

Also, we are currently analysing the impact of the 15% minimum taxation which was accepted by the Swiss public vote in June 2023. Therefore, it is too early to give a tax rate forecast for the full year 2023, but we expect it to be below 20%.

Our medium-term guidance is unchanged.

The Group remains confident for 2024 and over the mid-to-long term in achieving its goal of an organic sales growth between 6% and 8%.

In 2024 and thereafter, we expect to deliver an average annual increase in EBIT margin of 20 to 40 basis points.

For the next few years, annual capex should be around the CHF 250-300 million level while the tax rate will increase to about 23-25% in the medium term.

22. 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.

23. Disclaimer

24. Appendix