LINDT & SPRÜNGLI

**TRANSCRIPT OF WEBCAST PRESENTATION ON TUESDAY 23 JULY 2024**

**LINDT & SPRÜNGLI HALF-YEAR 2024 RESULTS**

Slide number & title

**1. Opening Chart (no title)**

**2. Half-Year Results 2024** (cover slide)

Ladies and Gentlemen, it is our pleasure to welcome you to the Lindt & Sprüngli Half-Year Results conference call and webcast. My name is Martin Hug and with me today is our Group CEO, Adalbert Lechner.

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

The presentation will take approximately 15 to 20 minutes. Following the presentation, we 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.

I now hand over to our Group CEO, Adalbert Lechner, who will take you through the highlights and the sales analysis.

**4. Review of Half-Year 2024** (section slide)

Despite a difficult global operating environment with stagnant global chocolate markets, sharply rising costs for cocoa and the need to again implement price increases, Lindt & Sprüngli was able to continue its successful growth trajectory.

Over the past years, we have continued to invest in projects that drive efficiency, especially in North America but also in Europe and in 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 an overview of our business performance.

## 5. Overview – Half Year 2024

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 towards the second half of the year, with approx. 60% of sales in H2. However, it is important to remember that first-half sales absorb roughly half of our annual fixed costs. As a result, sales, profitability and free cash flow are always lower in the first half than the second.

That said, the Lindt & Sprüngli Group has made a solid start to the year.

Organic sales in the first six months achieved a growth rate of +7.0%.

EBIT came in at CHF 292 million delivering a record first-half EBIT margin of 13.5% after 12.2% in 2023. This margin was impacted by higher cocoa material costs, partially offset through efficiency gains in operating costs and price increases to our customers. Also, as a result of a resolved legal dispute in North America, there was a positive one-time impact on other income, improving EBIT.

Net income was CHF 218 million with a net income margin of 10.1%.

Free cash flow reached CHF 70 million or 3.3% of sales in the first six months, a decrease over the first half of 2023. The key driver of this decrease was increased net working capital needs and the higher CAPEX to prepare for future volume growth and further improve the efficiency in the factories.

Our net debt position, which includes a lease liability of around CHF 430 million, increased to CHF 1.28 billion. This is higher than a year ago when net debt was at CHF 939 million. The driver of this net debt increase was our CHF 1 billion share buyback program which was completed a few months ago. Excluding the lease liability, our net debt position is at about CHF 850 million, compared to our EBITDA which is expected to come in above CHF 1 billion in 2024.

With a strong balance sheet, we will initiate a new buyback program of up to CHF 500 million. The buyback will start on 2 August 2024, and last until 31 July 2026, at the latest.

## 6. Sales Growth in CHF

Total sales reached CHF 2.16 billion in H1 which means that for the second time we have achieved net sales of more than CHF 2 billion in the first half, with growth in Swiss Francs of +3.5%.

## 7. Organic Sales Growth

First-half sales grew by a solid +7.0% organically, despite tough comparable results after three consecutive years of double-digit growth. Cumulatively, we have grown more than +50% over the last four years in the first half.

The global chocolate market continues to show its resilience with a positive value sales development. However, with strong price inflation, sales volumes in the global chocolate market have either stagnated or slightly declined depending on the product category and market. Despite these market conditions, our brands show strength and resilience, growing market share in all key markets, and grow volume/mix by a solid +0.9% in this challenging market environment.

## 8. Sales Analysis – Growth Drivers

Price increases of +6.1% were in line with the mid-single digit range communicated in March. Due to much higher input costs, pricing actions had to be taken in all markets over the last couple of years.

Volume/mix was solid with a positive growth of +0.9%. This is also in line with our expectations and with our external communication earlier this year. Positive channel mix impact was primarily driven by the success of our direct-to-consumer channels which include retail and online stores. Also, travel retail grew double-digit.

Reported sales in Swiss Francs rose by 3.5%. The currency effect had a negative impact of -3.5%, in particular due to the weakening of the US dollar and the Euro.

## 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 the first half of 2024, the "Europe" segment, where we generate almost half of the Group's sales, saw an increase in organic sales by a strong +9.3% to more than CHF 1 billion. Consumer sentiment in Europe has significantly improved. Growth was most pronounced in France, the United Kingdom, Iberia, Austria, Benelux and Eastern Europe, with double-digit growth. Italy, Germany, and Switzerland, also core markets, continued to show solid growth despite price-sensitive customers.

### North America

The "North America" segment showed organic sales growth of +3.0%. Lindt & Sprüngli USA, Ghirardelli, and Lindt & Sprüngli Canada outperformed the market, significantly gaining market share. However, this positive performance in the market is not reflected in our sales figures due to the shift of Easter orders into 2023 reflecting the earlier Easter date in 2024, and destocking by our major retail customers. Excluding those temporary effects, organic growth in North America would be around +6% in the first six months of the year. The North American segment is expected to accelerate growth in the second half of the year compared to the +3% in the first half.

### Rest of the World

In the Rest of the World segment, we grew above the group average with +10.0%.

Notably, the subsidiaries in Japan and Brazil recorded double-digit growth rates. The travel retail business - sales in duty-free shops at airports - has progressed strongly, growing double-digit, as passenger numbers have returned to pre-covid levels in most regions, and strong activations were executed.

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

Let's move on now to the important topic of costs, category by category. For this part, I hand over to our Group CFO, Martin Hug.

**10. Material Costs**

Thanks Adalbert. For this part, I will start with material costs.

Material costs – which have been adjusted for changes to inventories – came in at 31.6% of sales, 160 basis points higher than in 2023, but in line with 2022 and below 2021 and 2020.

Although the higher cost of cocoa was partially offset through long-term contracts and efficiency gains, part of the costs was reflected in price increases and other revenue growth management measures. Strict cost management allows us to mitigate the impact of rising cocoa prices to a certain extent, but further price increases will be needed.

Looking forward, we estimate that our total material costs will be slightly higher in 2024 compared to 2023, driven by cocoa. We expect cost inflation to continue as well into 2025 mainly driven by cocoa beans and cocoa butter.

Let's take a quick dive into our most important commodity, cocoa.

**11. Cocoa Price**

We have seen an unprecedented rally in the cocoa market in 2024, at least in recent history. The main reasons for the rally are weak crops in Cote D'Ivoire and Ghana, driven by unfavorable weather on the one hand, and a virus called 'swollen shoot' that affects the cocoa trees and makes them less productive. At the end of April, we reached a level of about GBP 8'000 per metric ton t for the months relevant to us in 2025. In the meanwhile, the market has dropped to about GBP 5'000 for the March 2025 futures. One year ago, the market was at about GBP 2'500, so it has basically doubled over the last 12 months.

Our experts continue to monitor the market very closely to place ourselves in the best position possible and we are doing our utmost to put in place the right strategies to provide future flexibility. Many market players expect a potential market correction once there is better visibility on the future crop sizes in Cote D'Ivoire and Ghana.

Of course, it is quite difficult to predict where the futures market will go from here and how quickly we will see a further correction. The speed and the extent of the market correction will also depend a lot on the impact of the overall volume demand in the chocolate market. Many players in this industry will be forced to increase prices not only in 2024 but also in 2025, which may have an impact on the volume side of consumer demand.

**12. Personnel Expenses**

Despite the absolute increase of CHF 27 million, personnel expenses as a percentage of sales increased only slightly compared to the same period in 2023. Also, compared to 2021 and 2022 we can see economies of scale. The increase of the cost ratio in the first half of 2024 is mainly driven by our successful expansion in the Global Retail Business, opening new stores in very promising locations.

**13. Operating Expenses**

Operating expenses decreased by CHF 2 million and the ratio decreased by -110 basis points, driven by lower logistics costs, decreased costs for energy and also efficiencies in the factories, mainly in the area of maintenance.

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

## 14. Operating Profit (EBIT)

At CHF 292 million and 13.5% of sales, EBIT increased by 130 basis points compared to the first half of 2023.

Higher material costs related to cocoa could be offset through efficiency gains in various areas and through price increases to customers. Furthermore, we record a positive, one-time impact on our other income as a result of a resolved legal dispute in North America.

In North America, 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 to materialize over the last two years and this has continued into the first half of this year. We expect more benefits 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.

## 15. Net Income

Net income reached CHF 218 million or 10.1% of net sales.

Last Year, the tax rate in the first half was 18.3% which was below our mid-term guidance, driven by higher half-year profits in locations with tax rates below the group average. In the first half of 2024, the tax rate is at 24.0%, in line with our mid-term guidance of 23 to 25%.

## 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 70 million.

Capital expenditure came in at CHF 179 million in the first half, CHF 31 million higher than last year. This is in line with our revised plans which postponed certain growth-related investments from the last few years.

We continued the share buyback started in 2022 as planned and, together with regular dividend payments, we returned almost CHF 500 million to our shareholders.

At the end of the first half, net debt reached CHF 1.27 billion.

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 430 million. On a pure cash basis, net debt would be around CHF 850 million.

As Adalbert has already mentioned, we are launching a new share buyback program of CHF 500 million as we are positive about the free cash flow generation over the next years. We still plan for a net debt to EBITDA ratio of 0.5 to 1 in the mid-term.

## 17. The Lindt & Sprüngli Sustainability Plan

I am now changing gears to give you a short update on our efforts in sustainability. 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. We have targets or commitments for each focus area.

**18. Sustainability at a Glance**

Lindt & Sprüngli continues to make progress in implementing the Sustainability Plan.

- ***(Cocoa)***: Our most important raw material, cocoa, and the farmers producing it, are at the heart of this. In 2023, we increased cocoa volumes sourced through the Lindt & Sprüngli Farming program or other sustainability programs to 72% - including 100% of cocoa beans. We remain committed to our aim of reaching 100% of cocoa products, including butter and powder, by 2025, and to evolving our cocoa sustainability strategy through 2030. For example, we will launch a living income pilot program with 5,000 cocoa farming families with the aim to increase household income and resilience. One of the objectives of the Farming Program is to contribute to reducing the risk of child labor in our cocoa supply chain. Earlier this year, we joined the International Cocoa Initiative, which works to protect the rights of children in the cocoa sector in West Africa. Joining ICI enables us to exchange best practices and collaborate with other members to advance sector solutions. We also engaged them to review the effectiveness of our global Child Labor Monitoring and Remediation System.

- ***(Climate Change)***: A major milestone reached in 2023 was the validation of our science-based climate targets for 2030 and 2050 by the Science Based Targets initiative. These will inform our business practices with the objective of reaching net-zero emissions. With these targets and actions to decarbonize our value chain, we are contributing to the goals of the Paris Agreement. In 2024, we have been working on translating our global decarbonization roadmap into actionable plans at each of our subsidiaries.

- ***(Deforestation)***: We also advanced our efforts to protect biodiversity with a new Deforestation Policy launched in 2023. In light of the new EU Deforestation Regulation, we are working intensively on solutions to achieve compliance by the end of the year. Our responsible sourcing approach and our Farming Program – which uses satellite monitoring for cocoa traceability – provide a solid foundation.

- ***(Diversity & Inclusion)***: In our own operations – we strive to be an inclusive place for everyone. In 2024, we are rolling out actions across subsidiaries to further support awareness; provide employees with growth opportunities; build connected communities; and celebrate our differences. I am also pleased that women represented 35% of senior leadership roles in 2023 which is an increase of 2% points compared to 2022. Women also represent a higher percentage of Group Management with the recent appointments of Nicole Uhrmeister and Ana Dominguez.

- ***(EcoVadis):*** We are also pleased to see external recognition of our sustainability efforts with a Silver Medal from EcoVadis – placing us among the top 8% of companies assessed in our industry in 2023.

As you can see, we continue to build on our success. While beginning to set our future strategy and respond to ESG related regulatory requirements, we will remain focused on achieving the targets of our Sustainability Plan through 2025. After this update on sustainability, I am now handing back to Adalbert who will take you through the financial outlook for 2024 and beyond.

**19. Outlook** (section slide)

Thank you, Martin. As I have already mentioned, we had a solid start to 2024 with very strong growth in Europe and the 'Rest of the World' segment. We had some one-off effects in North America, but the underlying business in this segment is also healthy with about +6% growth excluding those one-time impacts. From a channel perspective, the direct-to-consumer channels and Travel Retail both experienced strong double-digit growth rates.

In the second half, we are expecting accelerated growth in North America, driven in part by seasonality, and in the 'Rest of the World' segment. Also, we expect growth in Europe to be slightly softer than the +9.3% in the first half.

**20. Outlook**

With strong plans and activations ahead, we are confident that we will reach the sales objective announced for the full year 2024. Accordingly, sales are expected to grow organically in the range of 6 to 8%. Driven by a positive first half, and despite headwinds coming from the higher costs for cocoa, the EBIT margin is expected to deliver towards the upper end of the 20 to 40 basis points range compared to the previous year.

As mentioned earlier, we plan capital expenditure in the region of 7% of sales in 2024.

The Group remains confident for 2025 and over the mid-to-long term in achieving its goal of an organic sales growth between 6% and 8%.

In 2025 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 6% of sales. Tax rate is expected at about 23-25% in the medium term, while the cash tax rate is forecasted to come in approx. 2% points lower.

**21. Q&A (section slide)**

Thank you for listening to our 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 two questions, so everyone can participate. Please note that written questions asked via the web will be answered by email after the webcast.

**22. Disclaimer**

**23. Appendix**