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TRANSCRIPT OF WEBCAST PRESENTATION ON TUESDAY 21 JULY 2020

LINDT & SPRÜNGLI HALF-YEAR 2020 RESULTS

<u>Slide no. & title</u>

1. **Half-Year Results 2020** (cover slide)

Ladies and Gentlemen, it is my pleasure to welcome you to the Lindt & Sprüngli telephone conference on the occasion of our Half-Year Results 2020.

During the presentation, I will provide some additional comments on the charts that were uploaded this morning to our website, and where a transcript of my speech is also available.

I will guide you through the slides via webcast. 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:

- our response to the COVID-19 crisis,
- a detailed review of the first half,
- our expectations for the full year, for 2021 and in the medium term,
- and a chance for you to ask questions at the end of the presentation

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

Before I comment the usual slides showing our financial results, I would like to take 10 minutes to share with you some additional information concerning the impact of COVID-19 on our business and our response to that challenge.

3. **Responding to COVID-19** (section slide)

4. **Responding to COVID-19**

Despite the extreme and exceptional nature of this epidemic, we are pleased that our existing systems, with just a few additional measures, have coped extremely well. Importantly, we decided not to fundamentally change our plans, though we did make a number of tactical changes to mitigate the effects of the pandemic.

Protecting and supporting employees, globally and locally

First and foremost, we wanted to ensure that our employees were safe and provided all the support they needed at the group level and, more importantly, at the local level.

A central pandemic team in Switzerland, including the CEO and Group HR, took charge of group-wide issues, such as insurance and legal, and monitored the latest global medical advice. Group-wide health and safety instructions were defined, and the global supply chain was secured.

In parallel, local pandemic teams were set up in each major location whose task it was to monitor closely the latest developments and to make recommendations to their local operations.

A constant flow of information between the central and decentralised teams ensured that best practice was shared.

All our factories and retail stores adopted new layouts and additional hygiene regimes that included social distancing, face masks and hand sanitising.

Similarly, in all our administrative centres, we adopted social distancing and limited the number of people in meeting rooms and other areas. In addition, we take the temperature of all visitors at reception before entry.

At the peak of the outbreak, close to 100% of all administrative staff were working from home. More recently, as circumstances have allowed, this number has decreased to roughly 50%.

Remaining in control of day-to-day business

Throughout the whole period, we remained fully in control of the day-to-day business.

Working from home functioned extremely well, and administrative productivity remained high throughout.

Our existing logistics systems required no adaption or additional measures, both for the inflow of raw materials and packaging to our factories and for the outflow of finished products to our customers. Everything worked well without disruption.

Likewise, production ran smoothly and unhindered by the new hygiene regimes.

Maximising demand, minimising costs, optimising cash

Of course, we faced some rather unique challenges in the marketplace and had to balance shorter-term needs with longer-term priorities. We were determined not to neglect our employees, abandon our customers or sacrifice our longer-term objectives. Within that context, we were able to take a number of prudent actions to mitigate certain short-term negative effects, thereby maximising demand, minimising costs and optimising our cash.

To support the ongoing business, we maintained planned growth investments. We even slightly increased our promotional support to help our retail partners sell through Easter products.

We maintained our usual high level of product innovation, especially for Lindor and Excellence, as well as the regular renovation of our seasonal ranges. None of our planned new product launches were postponed due to COVID-19.

At the same time, we minimised costs and postponed investments if doing so did not conflict with our longer-term plans.

For example:

- Vacancies were not immediately replaced, and budgeted new positions were not filled...
- ...leases were renegotiated with landlords...

- ...and expansion capex was postponed where it made sense in order to maintain our strong liquidity position

By contrast, we generally avoided layoffs and furloughed the majority of our retail staff. This was a cost that we were willing to accept.

All the while, and as planned, we have been implementing the restructuring measures in the US that were announced in January. We have even accelerated one of these initiatives which I will discuss later.

Continuing to invest in future growth and efficiency

Crisis or no crisis, we decided to continue to invest in our future sales and profitability and in our key brands. In fact, advertising in the first half was slightly higher in absolute terms than during the same period last year.

We also continued to invest in projects that drive efficiency, so we are ready to leverage these assets as soon as demand returns.

Frontline employees key in securing supply and meeting consumer needs

Last but not least, I should like to thank all our frontline employees for their incredible efforts in maintaining the availability of our products and in meeting the needs of our consumers.

5. Business Impact of COVID-19

On slide 5, I should like to give you some insights as to how the pandemic has impacted the business on three levels: by sales channel, by product category and by geography.

You will see that we experienced positive as well as negative trends. An analysis of both is important to understand what can be expected once the pandemic ends.

Sales Channels

In the first box, you will see that the negative growth effects have come primarily from channels that were closed and therefore simply unavailable to our consumers. The main ones to mention here are our 500 own stores, Travel Retail, Foodservice in the US and the traditional specialist channel in Italy.

By contrast, we saw a substantial increase in our sales over the internet. Although our online sales are still small and were unable to compensate, this increase has demonstrated the future importance of this channel. Indeed, our online business doubled in the first six months of 2020.

Categories

In terms of categories, we saw considerable growth in self-consumption products, as consumers treated themselves at home. For example, the Excellence brand grew double digit. This proves that consumers have stayed loyal to our premium offering even if they have been unable to buy gifts for others.

Geographies

In key geographies, despite the major lockdown, we saw either modest growth, as in Germany, France and in US Wholesale with both Lindt and Ghirardelli, or stable sales trends, such as in the UK and Spain.

In Russia and other Eastern European growth markets, we achieved mid-single-digit organic sales growth while, in Scandinavia, we even grew double-digit.

The resilience of these important geographies makes us confident for the future.

The markets most affected by the COVID-19 crisis were Italy and Switzerland in Europe, and Australia, China, Japan, Brazil and South Africa in the Rest of the World. The effects differed according to the timing and extent of lockdown in the various markets.

In the US, all our stores were closed for an extended period and, hence, experienced a 100% shortfall during this time. Finally, the Russell Stover brand in North America with its focus on seasonal items and gifting was heavily impacted during the Easter season.

In June, as the lockdown eased, group sales showed some normalisation of trends, which is reassuring for the future.

Let's now move to the final slide of this special introduction.

6. Looking to the Future

As we look to the future...

- **Future demand for Lindt & Sprüngli's premium chocolate remains intact**

...we continue to see significant demand for our products, and we are more determined than ever to exploit that unchanged potential.

We are confident because we have seen, even under the weight of such extreme external factors, that underlying consumer demand has remained buoyant.

In short, for us, the 'new normal' will look remarkably like the 'old normal'.

- **Unchanged focus on leader products, premiumisation and growth markets**

Over the medium to long term, we are maintaining the focus on our leader products, on premiumisation and on our growth markets.

We will continue our clear focus on the successful Excellence and Lindor franchises.

The premiumisation of Anglo-Saxon markets, notably the USA, UK, Canada and Australia, and our investment in new growth markets, such Japan, China, Brazil and Russia, will continue to generate significant incremental business.

- **Continued high investment in brands, innovation and expansion in 2020**

In 2020, our investments in brands will be at least the same as in 2019. Our product innovation plans are unchanged and continue to represent an important part of our growth story. Even our geographic expansion plans are unchanged, as we see advantages in maintaining the pace of expansion in spite of the current external issues.

- **Increased focus on online channels as growth opportunity**

We see online channels as an additional important growth opportunity.

By developing an extensive network of its own retail stores, Lindt & Sprüngli has long recognised the importance of alternative channels as a means of generating additional sales and reducing dependency on traditional channels.

Three years ago, we launched an e-commerce project with the aim of generating sustainable double-digit sales growth within this channel over the medium and long term.

We are starting to see the first results of this initiative, with a doubling of this business over just the past six months which accounts now for about 4% of our total revenue.

We have just relaunched the lindt.co.uk website and will relaunch the lindt.com site in the second half. Our ‘click-to-mortar’ business, for example with Tesco in the UK, and sales via third-party platforms, such as Amazon and Alibaba, are now starting to drive substantial growth.

We are still in the early phases of our e-commerce journey and, looking forward, we see enormous potential for a high-value gifting product range such as ours.

- **Accelerated implementation of streamlining initiatives for US growth**

Finally, as you know, we are implementing various initiatives in the US to streamline our operations for growth. Our plans in logistics, retail merchandising and production are well on track and will be implemented as planned this year. In fact, we are bringing forward the closure of the redundant Russell Stover factory to August this year, seven months ahead of schedule. The retail network closures are progressing as planned and will continue into 2021, as scheduled.

7. Review of Half-Year 2020 (section slide)

After this special analysis of how we are managing the impact and implications of COVID-19, I will now provide the usual detailed review of our results.

8. Overview – Half-Year 2020

The organic top-line result for the Group was negative 8.1%. As discussed previously, we achieved different results depending on geography, category and sales channel. I will give you more details in a subsequent chart.

EBIT came in at CHF 17 million which means that the EBIT margin was slightly above 1%. This is lower than last year driven by the declining sales and the negative impact on cost absorption.

Net income was CHF 19.7 million with the net income margin at 1.3%. We again had some positive developments on the tax side. Thanks to good progress in our negotiations with foreign tax authorities, the uncertainties with regards to transfer pricing risks could be reduced, resulting in lower current tax liabilities. In addition, the Swiss tax reform announced in 2019 led to an additional capitalisation of deferred tax assets in the balance sheet and a correspondingly positive P&L impact.

We are pleased that free cash flow reached CHF 156 million in the first 6 months, coming in at about 10% of total group sales. Despite the lower operating profit and net income, we saw positive impacts from our proactive management of net working capital and capex.

Our net debt position, which includes a lease liability of CHF 470 million, increased to CHF 567 million. This is slightly higher than in December 2019, but lower than one year ago when net debt was at CHF 780 million.

At this point, I would also like to stress that the equity ratio remained strong at 57.7%.

Despite the challenges to our top-line growth, mainly coming from closed sales channels, our balance sheet remains healthy and robust with a strong liquidity position even after paying the special dividend in May.

9. Organic Sales Growth

I already mentioned in my introduction the key drivers for half-year organic sales shown here on slide 9. But I think that it is worth pointing out how exceptional this year is. It is indeed the first time for more than 25 years that the Group has registered negative organic sales.

A closer analysis of the reporting period demonstrates that the negative impacts occurred in just a couple of exceptional months. In fact, we had a strong start to the year and again a strong June after most of the sales channels reopened. In most key markets, regardless of absolute trends, we continued to gain market share with our key franchises, Excellence and Lindor. Therefore, it is clear that underlying consumer demand has remained buoyant throughout and this persuades us that future demand for our premium chocolate remains intact.

10. Reported Sales Growth

On slide 10, we present as usual the sales growth in Swiss Francs over the last 5 years. In most prior years, Swiss Franc growth has been negatively impacted by the strengthening of our reporting currency. In the first half of 2020, this has again been the case due to the weakening of most currencies compared to the Swiss Franc. The overall negative impact was 4.6 percentage points.

11. Sales Analysis – Markets

Looking on slide 11 at the sales split by markets in the first half, North America reached 35.9% of total sales. Another important pillar, Germany, attained a 18.2% share with the UK approaching 6.8%. The Rest of the World at 12.9% was the most impacted by COVID-19, especially in markets such as China, Japan, Brazil and South Africa.

Please bear in mind that these numbers are shown in Swiss Francs. Therefore, all percentages have also been impacted by currency fluctuations compared to last year.

12. Sales Analysis – Growth Drivers

The drivers of our sales result are shown in the chart here on slide 12.

- Group volume in fact declined by just -1.4% but, combined with a negative price/mix effect of -6.7%, overall organic sales fell by -8.1%. As I mentioned above, the foreign exchange impact was negative -4.6%, and this resulted in the -12.7% decline in Swiss Francs.
- The key thing to understand is the dynamic within the price/mix impact. The price impact was in fact slightly positive so that the negative impact came entirely from the mix. The negative mix was in turn driven entirely by COVID-related effects, in particular the channel mix due to much lower sales in our own retail stores as well as sales returns and participation in markdowns to support the trade sell-through of unsold Easter products.

13. Sales Analysis – Segment information

We now turn to slide 13 to review the key regional segments.

■ **Europe**

In our biggest region, Europe, organic sales came in at negative -4.9% (compared to positive +5.0% at the half year 2019), representing a better performance than the other two regions. We delivered a solid performance in important markets like Germany, France, the UK and Spain.

In Scandinavia, without a lockdown in the key market of Sweden, growth was even double-digit. In the Eastern European markets, Russia and Czech Republic, Slovakia and Hungary, we also grew mid-single digit. By contrast, in markets with a traditionally large Easter Season, especially Italy, Switzerland and Austria, we suffered significant sales shortfalls. In addition, Italy had to close all its traditional retail stores while Switzerland suffered from a complete absence of tourists.

North America

North America's overall negative 8.2% performance hides positive underlying trends. Lindt USA and Ghirardelli in fact demonstrated good resilience in the Wholesale channel with low single-digit growth. Unfortunately, the closure of our US retail store network during most of the first half led to a double-digit sales decline in that channel. Also, the important Ghirardelli foodservice business was negatively impacted by the closure of most restaurants and cafes. The extremely positive performance in e-commerce was an important sales driver, but e-commerce is not yet large enough to offset the negative impact from the closed stores. As mentioned at the start of this presentation, the online channel is a strategic priority for our business.

Russell Stover's main business is focused on gifting and sharing, mainly during the important Valentines, Easter and Christmas seasons. The start to the year was very strong with a good performance during Valentines, but Easter Sales did suffer in Wholesale, compounding the shortfall from the brand's own retail stores. By contrast, we saw good sales momentum with the Russell Stover sugar-free range using Stevia extract as a sweetener.

We have continued to make good progress on various projects to further leverage the Russell Stover acquisition and on our overall streamlining initiatives in the US, which are mainly in the areas of production, merchandising, logistics, procurement and IT. We expect bottom-line benefits from those projects in the coming years, which will in part be reinvested in the brands. Benefits have already started to kick in this year and, as mentioned in my introduction, we are accelerating the closure of the redundant Russell Stover factory by around seven months.

Overall, we are convinced that we are taking the right strategic steps for future success at Russell Stover and in the US generally, and that we are on the right track.

Rest of the World

Overall, in the Rest of the World, we saw a decline of -18.4%, compared to +8.3% in the first half of 2019. This region was the one most impacted by COVID-19, not least of all because we also report Travel Retail in this segment. Due to global and local travel restrictions, sales in this channel came to a virtual standstill in the second quarter. As the first market to enter lockdown, China was impacted very early on and most severely, but we have seen nothing to make us doubt our positive medium-term assessment of this market. Brazil and Japan, which have been a focus for Lindt Retail store network development, suffered due to this channel being closed during a major part of the first half. South Africa saw a significant spike in COVID-19 cases and a curfew was implemented across the entire country with very limited commercial activity, all of which led to a decline in sales. Australia was quite resilient in the wholesale channel, representing another positive sign for the future.

In the medium term, we are convinced that we will again reach double-digit growth within the Rest of the World segment. Indeed, many of these countries are large chocolate markets with significant premiumisation potential for Lindt.

14. Materials Costs

Let’s move on now and go through the different cost categories, starting with material costs on slide 14.

Materials costs – which have been adjusted for changes to inventories - came in at 35.3%, 330 basis points higher than in the previous year and 180 basis points higher than in 2018. There are two factors behind this negative development, one sales-related and one cost-related:

- As explained earlier, our sales volumes declined only slightly, meaning that we did not produce and sell much less chocolate than in 2019. It is simply that we achieved a much lower net sales per ton, net sales being the denominator in this calculation.
- On the cost side, we have seen increases over the past 12 months in cocoa bean, cocoa butter and hazelnut prices which will have an impact on our full-year result.

Looking forward, we estimate that our overall material costs should be at roughly the same level in 2021 as in 2020.

15. Cocoa Price

On slide 15, I would just like to take a quick dive into our most important commodity, cocoa.

The development of the cocoa market over the next 12 months remains uncertain. The outlook depends heavily on the positioning of market speculators who have an overproportionate influence on the cocoa market.

That said, the market currently expects a slight surplus for the 2019/20 harvest season but a larger surplus of around 300,000 tons for the 2020/21 crop. The surplus predicted for the new crop is the reason why cocoa futures have declined over the past few months.

By contrast, the ‘Living Income Differential’ of USD 400 per ton implemented by Ghana and Ivory Coast has helped push pricing in the opposite direction.

Overall, as can be seen from this chart, cocoa bean future prices in London are currently trading at around GBP 1600 vs. around GBP 1700 one year ago.

At the same time, cocoa butter ratio has more or less stabilised at a high level of 2.60-2.70. This compares to a ratio of around 2.70-2.80 one year ago.

Based on current market expectations, and including the ‘Living Income Differential’, we assume that cocoa bean prices for the 20/21 crop will increase only slightly.

16. Personnel Expenses

Despite an absolute decrease of CHF 42 million, personnel expenses were unable to keep pace with the decrease in sales. As a result, personnel expenses increased by 110 basis points.

A large part of our personnel expenses are fixed costs and so the decline in the overall sales inevitably led to diseconomies of scale.

Given that we expect organic sales growth to recover and normalise in the medium to long term, the ratio of personnel expenses to sales is therefore expected to come down again.

17. Operating Expenses

Although operating expenses decreased by CHF -47 million, the ratio increased by 100 basis points, driven up by two factors:

Here again, we experienced diseconomies of scale from fixed expenses, such as warehousing costs.

Secondly, as explained earlier, we maintained advertising investments at a high level and continued to invest in our brands in all the geographies with the objective of emerging from the COVID-19 crisis as one of the structural winners.

These two negative effects were partially offset by the positive impact of lower variable percentage rent expenses in our retail stores and other smaller one-off effects.

18. Depreciation and Impairment

Within the depreciation and impairment category, we also experienced diseconomies of scale, as depreciation in absolute terms was at the same level as in the first half of 2019. The key drivers for the increase of depreciation in recent years have been our capex programme aimed at satisfying future volume growth and the reporting of depreciation for right-of-use assets in line with the new IFRS 16 standard effective from 2019.

One of the biggest investments relates to our Lindt factory in Stratham, New Hampshire in the US, which is planned to absorb the expected medium-term increase in volume from gaining US market share. Due to the slowdown in 2020, we are slightly rephasing overall capex in that factory leading to lower capex in 2020 and 2021 than originally planned. I will discuss capex in more detail later.

19. Operating Profit (EBIT)

The EBIT figure remained positive at CHF 17 million or 1.1% of Sales but was significantly down compared to the first half of 2019. The decrease of nearly CHF 110 million is due to the factors discussed at length in the previous slides and are primarily the result of the COVID-related diseconomies of scale and the negative mix impact on the top line.

20. Net Income

Net income also remained positive, coming in at CHF 20.0 million or 1.3% of net sales. The decline in net income was less marked than for EBIT thanks to positive developments within financial items and income tax:

- Net financial expenses came in at CHF 13.4 million, a decrease of CHF 1.3 million or -9% vs. last year. This was mainly due to the lower US dollar interest rate and the related lower hedging costs for subsidiary financing.
- As already mentioned, we again had some positive developments on the tax side, driven by lower current tax liabilities related to lower transfer pricing risks and a further capitalisation of deferred tax assets related to the Swiss tax reform.
- Looking forward, and based on our current outlook, we consider a tax rate of 21% to 22% to be sustainable over the medium term, assuming no major changes in tax legislation.

21. Capital Expenditure

Capex from the first half came in at CHF 117 million, at roughly the same level as last year. This is less than planned given that we had decided to postpone certain growth-related investments. We now expect capex to reach around CHF 230-250 million for the full year, which is about the same level as in 2019. As communicated above, we are rephasing our capex plans where it makes sense and now expect capex to be between 250-300 million over the medium term.

22. Development of Net Financial Position

As I take you through the 'bridge' of the main cash-relevant developments of the first half, please bear in mind the impact on net debt of IFRS 16 and specifically the lease liability with its negative impact of CHF 470 million.

At the end of the first half, net debt reached CHF 567 million, much lower than the CHF 780 million of one year ago but higher than the CHF 423 million at the end of 2019. Consequently, we are now more focused than ever on cash generation.

Indeed, in the period under review, we managed to generate a positive free cash flow of CHF 156 million.

The increase in net debt of CHF 144 million was mainly due to the special dividend paid out in May to our shareholders. In total, we returned CHF 420 million to shareholders in the period.

Given today's assumptions, net debt should end the year at around CHF 350-400 million. Before the lease accounting change and on a pure cash basis, our expectation would be for around CHF 100 million net cash.

That concludes my review of half-year results. Let us now look at future expectations.

23. Outlook (section slide)

24. Outlook – Full-Year 2020

For the full year, the Group expects organic sales to decline between -5% to -7% while EBIT margin is forecast to be around 10%.

As additional guidance, and as mentioned earlier in the presentation, we plan capex of around CHF 230-250 million.

Of course, everything depends on how COVID-19 develops which nobody can predict with certainty. The most important assumptions for our 2020 forecast are that:

- There are no major second COVID-19 waves that require further widespread lockdowns
- The majority of our own retail stores remain open from now until the end of the year
- The holiday season business comes in at around 2019 levels in most markets
- Travel Retail gradually starts to gain some traction, though realistically, sales in that segment will remain far below 2019

25. Outlook – Medium-Term

From now on, therefore, we expect momentum in our business to build.

The Group remains confident over the mid to long term of achieving its goals of an organic sales growth of 5% to 7% combined with an average increase in EBIT margin of 20 to 40 basis points. Consequently, I can now confirm this unchanged guidance.

In the medium term, and as mentioned earlier, we expect capital expenditure of CHF 250-300 million and a tax rate of 21% to 22%.

For the 2021 financial year, as our business bounces back, the Group expects organic sales growth to be slightly above these mid- to long-term brackets.

We expect our EBIT margin still to be under some pressure next year, but back to around 15% within roughly two years from now.

26. Q&A

With this, I come to the end of my presentation and 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 has the opportunity to ask questions. Thank you.

27. Disclaimer