ODDITY 3Q 2024 Earnings Call Prepared Remarks
November 7, 2024

Maria Lycouris, ODDITY Investor Relations:

Thank you, operator. I'm joined by Oran Holtzman, ODDITY's Co-Founder and CEO, and Lindsay Drucker Mann, ODDITY's Global CFO.

As a reminder, management's remarks on this call that do not concern past events are forward-looking statements. These may include predictions, expectations, or estimates, including statements about ODDITY's business strategy, market opportunity, future financial performance, and potential long-term success. Forward-looking statements involve risks and uncertainties, and actual results could differ materially due to a variety of factors. These factors are described under forward-looking statements in our earnings press release issued yesterday and in our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 6, 2024. We do not undertake any obligation to update forward-looking statements which speak only as of today. Finally, during this call we will discuss certain non-GAAP financial measures, which we believe are useful, supplemental measures for understanding our business. Additional information about these non-GAAP financial measures, including their definitions, are included in our earnings press release, which we issued yesterday.

I will now hand the call over to Oran.

Oran Holtzman, ODDITY Co-Founder and CEO:

Thanks everyone for joining us today.

The beauty industry is transforming, and ODDITY is leading this transformation.

The strength and resilience of our direct-to-consumer model is on full display in this market backdrop.

In contrast to most of our competitors, who are experiencing slowing sales, weaker foot traffic, and excess inventory, ODDITY is constantly delivering strong and profitable growth.

Our third quarter results once again demonstrate how ODDITY is leading in the most important vectors of growth in the global beauty market:

(1) First, the massive consumer shift online, where ODDITY is already dominating as the largest direct-to-consumer platform online
(2) And second, the consumer's increasing demand for high performance products

Results for this quarter show how our early investments in technology continue to pay dividends, allowing us to deliver yet another quarter of outstanding growth, profitability, and strong cash flows.

It creates a positive feedback loop for our business, as we redeploy our strong excess cash flows to double down on investments in technology, science, and building new brands, all of which will strengthen our competitive position and will continue to deliver our future growth.

Turning to our earnings results, we once again broke records across our P&L.

For the first 9 months of this year, revenue increased 27% to $523 million. We delivered adjusted EBITDA of $135 million and generated $119 million of free-cash flow – close to 90% of EBITDA converted to cash!

To understand how strong those results are – this compares to mid-single digit growth for our large-cap competitors. Our numbers show once again the power of online and how strong our model is.

As I have said many times before, the consumer shift online is a massive industry driver, and therefore we believe that the majority of the softness in beauty numbers for our competitors is mainly due to channel mix.

And it is just the beginning. We believe online will quickly become the largest channel at 50% of the market.

Those that told us in early days that beauty can't work online or questioned our DTC sustainable growth see it clearly now when we are one of the only public multi-brand beauty companies that constantly grow revenue over 20%.

It is now clear that the power and advantage of our direct-to-consumer model are very deep:

- We have massive engagement on a daily basis with our users, directly, with no one between us.
- We have the data to predict which consumers are in the market to buy, and which products they are likely seeking.
- That direct interaction drives higher consumer satisfaction and enables us to have greater predictability in our business with tons of agility. We are not capped by retailer distribution and how they cycle brands in and out to drive "newness". We control our destiny, unconstrained, and therefore, can continue to grow our brands, even in tough market conditions.
- Our users, their desires and their data are the ONLY things that drive our product development priorities and our launches. No retailers forcing our hand, and no head stylists guessing trends.
- And this is why we are successful at launching new brands and new products. With our direct relationship, we know what users want, and our product development muscle allows us to create the next winners to drive growth.

So this is the huge advantage we have over our competitors with our direct-to-consumer model, and why we will continue to win.

I also want to address the questions we hear about the durability of direct-to-consumer.

It's very important to understand why we continue to show again and again how our model is different than other DTC models that have struggled:

- Unlike others, our business is built around acquiring users, not around acquiring customers or acquiring revenue. Our user base today is over 50 million in size, and with the data that users have given us, we understand so much about them.
- We invest a lot in technology, built an R&D center in Tel Aviv by technology talent from the Israeli tech ecosystem. Our ability to attract top technology talent from the best Israeli Intelligence units is a huge advantage. The tech team is still the largest team in the company, representing approximately 40% of our platform headcount. This technology combined with our user data is the essential unlock to building a profitable online business.
- Our unit economics work for online. This is why - from very early-on - our cash flows were strong and enabled large and constant reinvestment in future growth.

For other direct to consumer businesses, the more they scale, the harder and more expensive it is for them to grow. But for us it is the opposite: the more we scale, the easier growth becomes for us.

(1) First, because we are growing with so much repeat. Repeat is over 50% of our revenue and increased as a percent of our mix again this year, even though we continued to grow the business more than 25%.
(2) Second, because we know so much about our users, we are able to build the brands and products that they want, and then we build machine learning models to put those new brands and products in front of our users. Higher scale means for us more data, better conversion, and greater share of wallet.

All of this has continued to drive strong performance for us.

In the last 12 months we generated $621 million of revenue – representing 30% growth, with 24% adjusted EBITDA margin.

We generated $127 million of free cash flow in the last 12 months – taking us to $248 million of cash on our balance sheet with zero debt, even after returning cash to our shareholders by repurchasing almost $50 million of our stock this year.

This is what happens when you add technology to one of the best consumer categories in the world.

So this is our opportunity, the advantage of our model, and how we have positioned the business.

I will now turn to our growth drivers for 2025 and beyond, and why we continue to be so bullish.

The first is our massive global TAM, a $600B global market, with so many categories and subcategories for us to enter into. Every year we show that we know how to do it. How to add more new products to capture higher share of this massive TAM.

Next is the enormous growth runway of our existing brands IL MAKIAGE and SpoiledChild, both on track to reach $1B revenue over time, and both are sustaining double digit growth rates today. IL

MAKIAGE will cross the $500M mark this year – which makes it one of a very short list of brands to hit this milestone. IL MAKIAGE and SpoiledChild will continue to drive growth from their existing products, from a pipeline of new products and categories, and from scaling internationally.

As you know, up to this point we have been primarily focused on the US where we continue to see high growth runway, and unlike our competitors, we have zero exposure to China's consumer slowdown.

The next driver is new brands – with Brand 3 and Brand 4 ready to launch in the second half of next year, while continuing to add additional brands to our future pipeline.

Brand 3 is a direct-to-consumer telehealth platform for consumers with skin and body issues. We have made impressive progress in building the teams, the brand identity, and the product offering, product line and a ton of tech investments including first of its kind vision technology for the brand.

Our next growth driver is technology innovation, where we continue to invest significant resources – expanding our teams, improving our algorithms, our computer vision tools and their integration with our platform. There is still a lot of work to be done. New models will continue to expand revenue and margins.

And finally, ODDITY LABS to discover new, proprietary molecules to drive product innovation and allow us to launch high efficacy, science-backed products. We are continuing to grow our teams which now totals 60 scientists, with new talent across the Bioengineering, Computation, Chemistry and Delivery teams. To accommodate the expansion, we recently opened our new, lab in Kendall square, Boston. I am fully committed to ODDITY LABS success and believe it can help us become one of the largest beauty companies in the world if we succeed there.

With all of these growth drivers we have so much optionality over the long-term, so many different ways to grow.

For 2025, we will enter the year with great momentum and strong positioning based on tons of preparation the teams did, like they do every year, to ensure success.

I am very confident in delivering on our financial objectives and commitments, which we have done for the past 6 quarters since becoming public, and also every single quarter beforehand.

With that I will turn over to Lindsay.

Lindsay Drucker Mann, ODDITY Global CFO:

Thanks, Oran.

Lets turn to our Q3 results which I will refer to on an adjusted basis. You can find the full reconciliation to GAAP in our press release.

ODDITY delivered another record-breaking quarter across the board.

We grew net revenue by +26% in the quarter to $119 million. The strength was driven by both IL MAKIAGE and SpoiledChild across a range of product categories.

Net revenue growth was driven primarily by an increase in orders, while average order value increased +9% year over year.

Average order value growth was driven both by an increase in items per order and positive mix shift to higher priced products like skin, partially offset by a mix shift to repeat sales which carry lower AOV.

The 26% revenue growth we delivered this quarter beat our 22-24% guidance.

This upside stands in contrast to the concerns we hear from investors about weakening sales trends in other beauty businesses, including both wholesalers and retailers.

As Oran said, our results are a testament to the strength and resilience of our direct-to-consumer model, and how we've positioned our business to win in the most important vectors of industry growth.

In fact, our business is firing on all cylinders. Let me give you some examples of how:

- Our latest customer cohorts are our strongest cohorts ever
- Frequency of repeat revenue in our latest cohorts are the best ever
- Repeat continues to increase as a percent of sales
- AOV continues to increase, including first order and repeat AOVs, which are our highest ever
- We are scaling both brands across a wide demographic of consumers – old and young, high income and low income
- Revenue growth is broad based across different categories and products
- All of our product vintages are growing. From the 2018 and 2019 product vintage to the 2023 and 2024 vintage.

These individual data points of strength are not random and they don't exist in isolation. They are all related. They are the outcome of a platform that is meeting enormous consumer demand, gaining share of wallet, selling more items per order, and layering new product franchises on top of a growing core. This increases our surface area, expands the runway, and drives customer happiness – all of which support a very attractive and durable financial model.

Moving down the P&L, gross margin of 69.9% compressed 35 bps and exceeded our guidance of 68%. We expect further normalization of our gross margin in the 4th quarter towards 68%, which is a level more consistent with our long-term run rate.

As a reminder, we don't manage our business to gross margin. We manage our business to direct contribution margin, otherwise known as DC margin. We calculate DC margin as gross margin minus performance media spend. Products with lower gross margin but higher repeat frequency can deliver the same DC margin as a product with a higher gross margin but lower repeat frequency. And this is a trade-off we are agnostic to.

As we have said before, our gross margin in 2024 has been coming in higher than what we see as a sustainable rate based on our view of product mix. As a result, we do expect gross margin will compress in 2025 as it normalizes relative to a very strong result this year.

We delivered adjusted EBITDA of $25 million in the quarter and adjusted EBITDA margin of 20.9%, above our guidance in absolute dollars and in margin percentage terms.

Adjusted EBITDA margin compressed by 112 bps as we incurred planned incremental expenses in the quarter to drive future growth initiatives, including Brand 3, Brand 4, and ODDITY LABS.

The timing of some of these expenses shifted out of Q3 and into Q4, and as a result we expect a bit more EBITDA margin compression in Q4 as those investments flow through.

We delivered adjusted diluted earnings per share of $0.32. Our adjusted EBITDA and EPS excludes approximately $3 million of share based compensation.

We continue to deliver very strong free cash flow and free cash conversion, a clear reflection of the strength and quality of our business model. We delivered $119 million of free cash flow year to date.

We repurchased around 1 million shares of our stock in the 3rd quarter for approximately $37 million, and have around $103 million remaining on our authorization. We will remain opportunistic on share buybacks based on our strong cash flows, ample cash reserves, and attractive share price.

We exited the quarter with $248 million of cash, equivalents, and investments on our balance sheet and zero debt.

Turning to our outlook

We are once again raising our 2024 full year guidance based on the better than expected third quarter results and a strong start to the fourth quarter.

We now expect net revenue between $642 and $644 million, representing 26-27% year over year growth.

We expect to deliver a 71.5% gross margin for the full year, and we expect to deliver adjusted EBITDA between $147 and $149 million, which includes a step up in growth investments for ODDITY LABS and our new brands.

We expect full year adjusted diluted earnings per share will be between $1.85 and $1.87.

Turning to the fourth quarter outlook.

We are off to an excellent start and are pleased with the composition of our growth across both brands and categories, as well as our cohort repeat rates.

We expect year over year net revenue growth in the quarter to be between 22 and 24%. You can find more details on our Q4 outlook in our press release.

Lastly, I will reiterate the early thoughts on 2025 that we communicated last quarter.

We expect to deliver net revenue growth of 20% and adjusted EBITDA margin of 20%, consistent with our long-term algorithm. We plan to incur significant investments in Brand 3, Brand 4, and ODDITY LABS, and we do not expect to benefit from any material revenue contribution from these initiatives in 2025.

With that I will turn the call back to the operator for questions.