ODDITY

ODDITY 1Q 2024 Earnings Call Prepared Remarks
May 8, 2024

Maria Lycouris, ODDITY Investor Relations:

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

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 first quarter was once again another record-breaking quarter for us. We achieved massive scale online, growing revenue 28% to $212 million, and we did it very profitably with a 23% adjusted EBITDA margin, generating $79 million of free cash flow. A massive record cash generation quarter.

We continue to deliver above our plan, beating our guidance for the first quarter on every metric. This is what we have done every single quarter since we went public and every single quarter even before that as a private company.

During our IPO last summer, many investors told us that they had concerns that we would not be able to lap our enormous revenue performance in Q1 2023 where we grew more than 80%. And we tried to explain why we had full confidence in our ability to continue to grow on top of it. Now we are here today, after growing 28% against that quarter, and we achieved it with record profit margins.

It is another proof that the demand online for beauty is very high and that our platform allow us to capture this demand and enable profitable growth.

I will provide a few data points that shows the demand and the strength of our platform. Q1 2024 revenue is more than double our revenue from the first quarter 2 years ago. In Q1 2024 with $212 million of revenue, we delivered almost the same amount of revenue that we delivered for the full year of 2021. And, Q1 2024 is more than DOUBLE our revenue from 4Q 2023, just the quarter before it.

We have shown, once again, that we can power our business up and down on a dime, a huge advantage for us and something almost no other business can do. We are in full control of our growth pace. This efficiency is what makes our model so attractive and profitable, and even with this growth, we don't see a ceiling. In my view, we didn't even come close to reaching our limits, and this is our strategy to ensure very strong, profitable, cash flowing growth, for many years to come.

With the huge success of Q1 and the great results we have already seen in Q2 so far, we are even more confident in our outlook for the full year, and raising guidance on revenue, profit, and earnings per share for 2024.

I would like to take a moment to touch on our industry. Over the last couple of months, we have heard some of our competitors talk about their businesses slowing. I want to be clear; we don't see any signs of slowing down in our platform. Not in new users and not in existing users' behavior.

What we DO see is that the industry is transforming, moving online, and moving to science-backed products. This is a transformation that ODDITY is leading and investing a lot behind it to win in both. We believe our investments will allow us to continue winning for the long-term.

Our data and massive investment in our future give us high confidence in our long-term financial targets of more than 20% revenue growth and 20% adjusted EBITDA margin. Our results in 2024 will be even stronger than this, as Lindsay will explain soon. This makes ODDITY a real outlier in our industry, growing 3 to 4 times faster than our main competitors, which means we are taking market share and strengthening our competitive advantage every day. Our Rule of 40 growth algorithm is among the best that exists in consumer and tech businesses. And it's a function of 3 powerful drivers:

First, we are competing in a massive global TAM with great unit economics that work for online, while still being dominated by offline incumbents.

Second, our huge technology advantage over incumbents who are behind the curve allows us to win in the online arena, which we believe is the most important channel of the future and will make up at least 50% of the market.

Third, we have proven again and again that our platform is a scaling machine. It's the power of our more than 50 million users and over two billion data points that we already acquired in the past five years. This combination of data, technology and a category with high online demand has enabled us to consistently win across the board.

It only took us a few years to scale IL MAKIAGE to be what we believe is the largest online beauty brand in North America.

We scaled our second brand SpoiledChild to be the most successful DTC brand launch of all time, crossing $100 million of revenue, profitably, in less than two years.

Also, in just two years, we scaled IL MAKIAGE SKIN to be 20% of brand revenue in 2023, and we expect it will scale further to be 25% of the brand revenue in 2024. It is 25% on a massive base due to our existing color business.

Our powerhouse brands, IL MAKIAGE and SpoiledChild, both had very strong results in the first quarter, and both are on track to my goal, which is $1 billion for each brand. We will scale new brands and new categories in our future. Brands 3 and 4 are being built in two large categories in beauty and wellness. We believe the opportunity is massive for each of them, and we are spending a lot of time and focus to make sure we will capture this massive opportunity.

After addressing the current trends in beauty, I want to touch on a point that many people are worried about which is the viability of the DTC model. As we all have seen for most DTC 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.

This is for two main reasons: One, because we are growing with so much repeat, and that repeat compounds. Repeat was over half of our sales last year, and it will be an even greater portion of our sales this year. Two, because we know so much about our users, we are able to build the brands and products that we know they want and build the machine learning models to put those new brands and products in front of those users. Higher scale means more data, means better conversion, and greater share of wallet.

Let me give you one example of this with IL MAKIAGE. Our customers, who started with us in color but then they try skin, shop more than twice as frequently and spend more than twice as much with us over the next 12 months. This is the magic of offering multiple products into the same user base while leveraging the data, and a clear example of how our platform allows us to gain share of wallet.

This is why we deliver one of the best margin profiles across all of DTC even as we continue to scale and invest in future growth. So, while many other DTC businesses rely on external capital to grow, we do the opposite. We have a cash balance of $252 million which we generated. Zero Debt. We did 23% EBITDA margin and generated almost $80 million of free-cash-flow in Q1 alone.

To summarize, we are very pleased with how we delivered in Q1 and have total confidence in achieving our plans for the full year. But, as I've said many times previously, what is most important is our future. We do not rest and enjoy the massive margin and high growth. We are executing a long-term plan with huge investments across current and new brands, technology, vision, and of course, ODDITY LABS, where we are growing the teams massively as we speak and other domains to ensure we continue to win and build a large cap company.

With that, I will hand it to Lindsay.

Lindsay Drucker Mann, ODDITY Global CFO:

Thanks, Oran.

Let’s turn to our Q124 results, which I will refer to on an adjusted basis. You can find the full reconciliation to GAAP in our press release.

ODDITY delivered a record breaking first quarter across the board. We grew net revenue by +28% to $212 million. This strength was driven by both IL MAKIAGE and SpoiledChild across a wide range of product categories.

Last year, we talked at length about the huge preparations our teams were making to ensure we have many ways to grow in 2024, many different levers to pull, everything tested and ready to go. And we immediately saw the benefit from this preparation as we entered the year. We quickly began to deliver results ahead of our plan. This very strong start to the quarter allowed us to, once again, slow the business down with full control in order to pace our growth.

As is always the case for us, there were no single drivers of our strength, but a combination of so many improvements across our entire business.

Just a few examples from Q1 include: Getting even better in our acquisition and retention, using data and our tech to segment customers, deliver personalized marketing campaigns, and curated experiences to drive a number of our KPI’s. Our expanded product portfolio which Oran mentioned, it allowed us to do an even better job meeting user demand at very attractive contribution margins. And continued integration of computer vision into product matching and recommendation models. These are just to name a few examples.

Moving down the P&L, gross margin of 73.8% expanded +284 basis points in the quarter. The gross margin beat versus our guidance was driven by specific supply-chain and logistics efficiency initiatives at both brands.

We delivered adjusted EBITDA of $48 million for the quarter. Adjusted EBITDA margins of 22.7% expanded +559 basis points from the prior year, driven by gross margin expansion and higher mix of repeat, offset by increased investment in future growth drivers.

Adjusted diluted earnings per share was $0.61 and reported diluted earnings per share was $0.53 in the period.

We delivered very strong free cash generation of $79 million in the quarter, powered by our asset light model and very strong returns on capital.

And we exited the quarter with $252 million of cash, equivalents, and investments on our balance sheet. And zero debt.

Turning to our outlook.

We remain committed to our targets of 20%-plus revenue growth at a 20% adjusted EBITDA margin over the long-term. In 2024 specifically, with our very strong start to the year, we expect to do even better than these long-term targets.

We expect net revenue between $626 million and $635 million, which represents 23-25% year-over-year growth.

We expect to deliver 71.0% gross margin for the full year.

And we expect to deliver adjusted EBITDA between $139 million and $143 million, including a significant step-up in growth investments, such as LABS and our new brands.

We now expect the timing of these growth investments to have a greater negative impact on EBITDA margin in the back half of the year, versus the second quarter where EBITDA margin is expected to expand.

We expect full year adjusted diluted earnings per share will be between $1.57 and $1.62.

Turning to the second quarter.

The strong business results we saw in the first quarter continued into April and so far in May. We are very pleased with the complexion of our growth, across both brands, multiple categories, and with first orders and repeat.

We continue to be very disciplined in managing our rate of growth and are proactively slowing our business down so that we do not over-deliver on our revenue and profit objectives.

Given the very strong start, we expect Q2 net sales will be between $185 million and $189 million, or 22% and 25% revenue growth. You can find more details on our Q2 outlook in our press release.

And with that, Operator, we are ready to take questions. We also have Dr. Evan Zhao on the line to answer questions on LABS.