



## **ODDITY 2Q 2024 Earnings Call Prepared Remarks**

**August 8, 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 second quarter and the first half of the year were another set of record breakers for us. We grew first half revenue +28% to \$404 million, delivered \$110 million of adjusted EBITDA, and generated \$104 million of free cash flow.

Our business is firing on all cylinders with no signs of slowing. The \$110 million of adjusted EBITDA we delivered in just the first half of 2024 is more EBITDA than we delivered in the full year of 2023.

Growing 28% in the first half, more than 3x faster than legacy incumbents and with 27% EBITDA margins, proved again that our platform is very strong and enables scale, growth, and very high profitability, consistently.

Our investments in technology in the past 6 years continue to pay great dividends. And our record margins allow us to keep doubling down on investments in technology, science, and building new brands.



I will reiterate what I said multiple times before: the opportunities that I see ahead for our business are massive.

The beauty and wellness industry is huge, profitable, and growing. And it is dominated by offline incumbents that are behind the curve. We can see today how some of them are paying the price as they struggle to adapt.

This sets up a massive opportunity for ODDITY.

We are still only a tiny fraction of the global market and therefore the opportunity is so big for us. I strongly believe that we have what is needed to continue winning and leading in the most important areas of the category's growth. With our capabilities and DNA as a company, we are in the best industry in the world for our type of Company.

In my view we are unlocking 2 areas that are changing the industry:

First, we are unlocking online, where we are already dominating as the largest direct to consumer platform. This is the future of the category. We see it clearly with the massive demand on our websites. We expect online to grow to 50% of the market in the upcoming years, and ODDITY is leading this transformation.

The second area of category growth is towards science-backed, high efficacy products. ODDITY LABS can be a game changer here, turbo charging ingredient innovation to solve consumer pain points, and we are spending time and resources to build it.

Drilling into online, the opportunity for us to continue unlocking beauty in this channel is huge and our competitive advantage grows daily.

We have 3 core areas for unlocking online that we invest in to fuel our long term growth:

Starting with our platform model: We have more than 50 million unique users who are a ready audience for us to launch products, categories, and brands into. We have shown this ability again and again – starting with IL MAKIAGE in color cosmetics, SpoiledChild in skin and hair, and now IL MAKIAGE in skin, which is on track to be around 25% of IL MAKIAGE brand revenue in 2024.

Second is our in-house technology. Our machine models and algorithms allow us to understand what consumers want, to match them to the right product, and show them how to use it.

In addition to our machine learning models, in the past 3 years we invested a lot of time and money behind our vision technology. This investment gave us a new way to gather data and to get answers to questions that even our users don't necessarily know.

We have made major strides in building our vision tools, and 2024 in particular has been a breakout year.



We incorporated vision into our latest shade-matching models, which is driving improvement in matching accuracy, reducing return rates on like for like products, and driving better LTV. And I believe it will continue to get even better over time. We have also made progress in vision machines for brand 3, where we now can identify acne lesions, track them, and model progress over time. To the best of my knowledge no one in our industry has something that is even close to what we are building here, technology wise, and it will be the core technology for brand 3.

The third core investment area is our brands building machine. At ODDITY we are building brands from scratch based on first-party data we have from our users. Our brands have distinct points of view but are all anchored in quality and high performing product formulations. This is by design: Any product that we launch must be the top performing formulation in the market, based on data from consumer trials and based on a TON of data we collect from real users. We don't have a head of makeup artist or a head stylist that gets to pick which products we launch, only data decides it.

Our approach to product development is unlike anything else in the industry in my view and it is based solely on large data sets. This is why IL MAKIAGE and SpoiledChild are launching winners and delivering such high repeat rates, and therefore are generating unparalleled profit margins for ODDITY.

I believe that both of our existing brands, IL MAKIAGE and SpoiledChild, are on track to be \$1B brands. For IL MAKIAGE, we expect to get there in the next 4 years.

In addition to IL MAKIAGE and SpoiledChild, we continue to work hard on developing new brands to serve our user base, and we are making great progress. Brand 3 and Brand 4 are on track to be launched in the second half of 2025.

As a reminder, Brand 3 is a medical grade skin and body brand that will address a range of issues including acne, eczema, hyperpigmentation, and other large consumer pain points.

So to summarize – data, technology and our internal new brand development machine are fueling and will continue to fuel our online growth and profitability – this is the core of ODDITY.

Moving to science backed products via ODDITY LABS.

For years it was my dream to use science to create better products for our consumers, to solve their pain points, and to carve out another source of competitive edge for us.

For years I was amazed by the lack of scientific innovation in our industry. It just didn't make sense to me, given the size of the industry and the progress in science and biotech in the last 2 decades.

The acquisition of Revela in 2023 gave us the foundation to building ODDITY LABS in Boston, as our science-backed new product engine. As a reminder, at ODDITY LABS, we are using digital biology to



discover, launch, and own the next generation of science-backed products that our consumer is so eager for.

Last quarter, I spoke about the important steps we have been taking to build LABS: to grow the teams, and to develop infrastructure and systems to ensure we are building a platform that works at a high scale.

As part of that, we are excited to announce that Dr. Ido Bachelet is joining us as Chief Science Officer to lead our science at ODDITY LABS.

Bringing Ido on board is a great milestone for us. I spent time meeting with many scientists, and Ido was by far the strongest fit. He is a highly accomplished, world-class scientist, with deep experience building and scaling multiple high-impact bio-tech labs. He is super creative and shares our culture of disruption and building. After years in therapeutics, he decided that instead of developing another drug, he wants to join us in changing an entire industry through science.

Dr. Evan Zhao, the co-founder of Revela, has decided to depart ODDITY to pursue other interests. Evan is a very talented entrepreneur who built Revela into a disruptive consumer biotech. Thanks to the acquisition of Revela, ODDITY now has the foundation to be at the forefront of science-backed transformation in our industry, and we are grateful for that. I want to personally thank Evan and wish him the best in his future undertakings.

As I've said before, ODDITY LABS is a new muscle we are building, and a complicated one.

Very similar to our early days building our technology backbone - it takes time and iterations to build something meaningful. Therefore, as I said before, we are not counting on growth coming from ODDITY LABS in the near term. We don't need it to achieve our financial targets. We have a ton of growth ahead from IL MAKIAGE and SpoiledChild alone, and even more growth on top of that coming from new brands in the pipeline.

At LABS, we are literally building another large platform from scratch. But, if we get it right, we can differentiate ODDITY even more from our competitors in the long run. It is hard and it takes time, but I fully believe in it and am confident we will make it.

Looking ahead, as we told you last quarter, 2024 for us is essentially in the rear view. We have full confidence in achieving our financial targets, and we are once again raising our full year outlook today.

Our teams are now almost entirely focused on preparing for 2025 and beyond, and we are feeling confident in our execution next year.



First, because we are leaving growth on the table in 2024 and staying disciplined about pacing ourselves. This is something we have always done so that we deliver on our commitments, which we have achieved not just every quarter as a public company, but every quarter as a private company as well.

Second is because of all the growth levers our team is preparing for next year. The teams are now heads-down with planning, testing, and iterating on winners on many fronts: new marketing campaigns, new products, new models, and new geographies. Based on what I see today, we are in a strong position for 2025.

But before I hand it to Lindsay, I want to take a moment to reflect on our first year as a public company.

We decided to take the company public because we wanted to build something huge. Because I felt then as I do now: bullish on our ability to disrupt this enormous global market with our platform and create massive value for our shareholders.

To be candid, it's not easy to be a public company, but we have made great accomplishments in this past year since our IPO.

We are very proud of our financial results. We delivered on our promises to shareholders -we beat revenue and profit and earnings per share every quarter since going public and at the same time, we didn't change the DNA of our company – a DNA of building, innovation, and investing behind big and hard dreams, and this is something I'm very proud of.

We have kept our hungry, outsider, start-up culture despite our growth. This is the most important thing for our future success.

We have also begun returning cash to shareholders with buybacks. We believe our stock offers an incredible value and will use our strong balance sheet to take advantage of that.

With that, I will turn it over to Lindsay.

**Lindsay Drucker Mann, ODDITY Global CFO:**

Thanks, Oran.

Let's turn to our Q2 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 second quarter and first half across the board.

We grew net revenue by +27% in the quarter to \$193 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 +6% 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 proportion of our sales from repeat customers increased on a year over year basis this quarter, and is on track to be a higher percentage of our sales in the full year 2024 as compared to 2023.

Drilling into revenue composition for the quarter: 94% of our net revenue came from sales on our owned websites directly to consumers. The remaining 6% of net revenue in the quarter came from sales in Israel and to marketing affiliates.

As a reminder, we do not sell any products to Amazon, eBay or other 3<sup>rd</sup> party marketplaces, nor do we generate any direct revenue from product sold on these sites. Any product resold on those sites is unauthorized and done without our consent.

Moving down the P&L, gross margin of 72.2% expanded 150 bps year over year. The gross margin improvement was driven by specific supply-chain and logistics efficiencies at both brands.

We delivered adjusted EBITDA of \$62 million in the quarter. Adjusted EBITDA margin of 32.3% expanded 470 bps from the prior year, driven partly by gross margin expansion and a higher mix of repeat.

2Q EBITDA exceeded our original guidance of \$53-56 million, and that was driven in part by the timing of investments into new brands and ODDITY LABS. The timing of these investments is delayed into the back half of the year.

We delivered adjusted diluted earnings per share of \$0.82. Our adjusted EBITDA and EPS exclude approximately \$7 million of share-based compensation.

Our free cash conversion remains excellent. We have delivered \$104 million of free cash flow year to date. This free cash generation is a clear reflection of the strength and quality of our business model.

In June, our board authorized a \$150 million 3-year buyback in June. We repurchased 250K shares for \$10 million in the second quarter, and have \$140 million remaining in our authorization.

We exited the quarter with \$268 million of cash, equivalents, and investments on our balance sheet and zero debt.

Turning to our outlook:

We are raising our 2024 full year guidance based on the better than expected second quarter results and our high visibility to repeat sales for the remainder of the year.



We now expect net revenue between \$633mm and \$640mm, representing 24-26% year over year growth.

We expect to deliver 71% gross margin for the full year.

And we expect to deliver adjusted EBITDA between \$142 and \$146 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 \$1.71 and \$1.76.

Turning to the third 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 Q3 outlook in our press release.

Lastly, I will provide some early thoughts on 2025.

We expect to deliver net revenue growth of 20% and an 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.

On the topic of supply chain and tariffs.

While the ultimate policy outcomes are still to be determined, we are confident in our ability to manage through with limited financial impact, based on the proposals currently in discussion.

Our gross margin is high, as is our pricing power, and our financial exposure to tariffs and duties is very small.

As a reminder, we source the majority of our product from Europe, and we purchase some components and packaging out of Asia including China.

In 2023, total costs related to tariffs and duties, including from products sourced out of China, amounted to less than 1% of sales.

With that, I'll turn it back to the operator for questions.