



ODDITY 4Q & FY23 Earnings Call Prepared Remarks
March 6, 2024

Maria Lycouris, ODDITY Investor Relations:

I'm joined by Oran Holtzman, ODDITY Co-Founder and CEO, Dr. Evan Zhao, ODDITY's Chief Science Officer, 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 5, 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 the 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 operator and thanks everyone for joining us today. Our fourth quarter was another record-breaking quarter to cap off a record year. We continue to deliver very strong financial results that are ahead of what we promised.

In 2023 we reached two important milestones: 1) surpassing \$500 million of revenue, and 2) generating over \$100 million of adjusted EBITDA.

We did it via our online platform that was launched only 5 years ago in a category that everyone told me doesn't and cannot work online. The ODDITY platform has today over 50 million users and over 2 billion data points that fuel our business and are responsible for the strong financial results.

Our financial results for 2023 were outstanding.

We grew net revenue 57% to \$509 million, and adjusted EBITDA +173% to \$107 million, achieving 21% adjusted EBITDA margins.

Once again beating our guidance across revenue, profit, and earnings per share. Not just for the full year, but every single quarter.

We basically grew way more than I wanted us to grow. In my view, there is no good reason to grow 50% at our scale, but due to both SpoiledChild's ability to blitzscale and IL MAKIAGE's stronger than expected repeat rate, we landed at a 57% growth rate in 2023 full year.

Drilling down to the brands.



IL MAKIAGE delivered a very strong year in both color and skin. Skin grew to around 20% of IL MAKIAGE's sales in 2023, which is a very high rate of category expansion for any beauty brand. It is a testament to our data-driven platform, to the strength of the brand, its enormous potential reach, and the quality of its products. IL MAKIAGE is well on its way to achieving my target of \$1 billion of sales within the next 5 years.

SpoiledChild scaled insanely fast in 2023. Since it was a one-year-old brand, I wanted to test the brand strength and its limits and therefore I allowed the hyper growth. SpoiledChild grew 325% from last year to \$110 million of net revenue, and we did it profitably, across multiple categories and with more than half of our sales from repeat customers. We believe SpoiledChild's success is unprecedented anywhere in direct-to-consumer, and it just showed again the strength of ODDITY and the demand for beauty online.

Most importantly for 2023, we built strong foundations to drive our future.

The Revela acquisition and establishment of ODDITY LABS is a game changer for the industry. We are ALL IN in building the biggest and most advanced platform for new molecule discovery. I believe it will be a HUGE growth engine for all our brands and therefore it is a top priority and focus for me and for my sister, Shiran. But I'll touch it more shortly.

New brands are another massive growth engine for us, where we made big investments in brand 3 and brand 4, which are on track to be launched in 2025.

Finally, we took ODDITY public. Again, we did it to build something huge, and because we believe there is unlimited growth potential for us.

So to recap, 2023 was a very strong year for ODDITY: We delivered 57% growth and 21% EBITDA margin – TOP percentile of public companies out there. We beat every quarter of 2023 with scale, growth and profitability. We crossed the \$500 million milestone of net revenue. We crossed the \$100 million milestone of adjusted EBITDA. We established ODDITY LABS as an industry leading molecule discovery platform, powered by the acquisition and integration of Revela. We took the company public with an amazing shareholder base, and, we finished the year with a very strong balance sheet, including \$168 million of cash and short-term investments with zero debt.

This is ODDITY – we work really hard to do more than most other companies out there. The hunger, the startup DNA and our always-on competitive mode are our biggest assets that allow us to keep on delivering.

So 2023 was amazing, but it's already the past, and what's most important now is our future. Our laser focus in 2024 is on executing opportunities that we believe will drive our business for many years.

Let me walk you through the biggest priorities for our team in 2024.

First – continuing to grow IL MAKIAGE and SpoiledChild.

As I said before, our goal for both brands is to grow to \$1B revenues for each brand. With strong separated leadership team for each brand, with a HUGE addressable market, with massive advantage online where the demand is only growing – it can and should be done. So many ways to grow: adding new products, expanding to new categories, opening up new markets.



All growth initiatives are in place and ready for pulling the trigger, so I feel very confident in the ability of my teams to deliver.

Both IL MAKIAGE and SpoiledChild are off to a strong start in 2024. Based on our performance in just the first 2 months of 2024, combined with our outlier repeat rates, we have visibility into delivering our goals for 2024.

So that was about SpoiledChild and IL MAKIAGE.

Second – new brands. Brand 3 and brand 4, which we are building to be our next in-house engines. Both brands have separated leadership teams to ensure they win without distracting the existing brands runway.

As a reminder, Brand 3 is a medical grade skin and body brand. Issues like acne, eczema and other skin issues are huge pain points for our users, and the majority of them tell us they are unsatisfied with the current solutions. The user experience is bad and the products on the market don't work well. With brand 3, we are building end-to-end solutions that position us to win. This includes a first of its kind mobile platform that uses data, AI, and computer vision to deliver a diagnosis, a precise treatment protocol, and coaching to ensure the user compliance and success. It also leverages ODDITY LABS to develop high performing products from our proprietary molecules that truly solve consumer skin issues and concerns.

Brand 4 we have not yet announced the category, but we are confident in its ability to grow very fast.

Last, but top priority and potential is ODDITY LABS. What we are building LABS is full disruption. If we do it right, ODDITY LABS will change our industry and our company. The potential is unlike anything that I saw in the industry – even more than unlocking online five years ago. With my focus, our speed as a company, and ODDITY LABS talent we have a first mover advantage and we will see the results in 2-3 years from now. Big bet but huge swing.

To summarize, I remain very bullish about what we are building here at ODDITY.

Beauty and wellness is one of the most attractive markets in the world. Huge, growing, profitable, with so many categories to drive our business. At the same time, the market is held back by legacy models that are completely stuck in the past.

I see two unstoppable pillars of transformation in our industry, and we have positioned ODDITY far ahead in order to win in both.

The first pillar is the consumer is moving online. I believe online will be the largest channel in the category at 50% or more.

And we made massive investments in technology, in data, in AI, and in computer vision in the past 6 years to ensure we have what we need in order to win.

This muscle is what allows us to lead online, and build a portfolio of large DTC brands with very strong financial profiles.

So the shift to online is the first unstoppable trend I see, and we are already leading on this front.

The second pillar of transformation in our industry is the shift towards science-backed products.



The consumer today is smarter than ever. We can see it in how they engage in our platform, the amount of time they spend reading about our products, and how much they care about our ingredients.

Although pharma and biotech had insane progress in the past two decades, the beauty industry – even us – have fallen short, remixing old ingredients in new packaging.

This creates an incredible opportunity. And this is what we are doing with ODDITY LABS – using digital biology to discover and own the next generation of science-backed category killers that consumers love.

What we are doing with LABS in Boston is the same as what we did with our R&D center in Tel Aviv. But this time instead of transforming experience, we are transforming the products themselves, and I believe it will be huge.

So with that, let me hand the call over to Dr. Evan Zhao, our Chief Science Officer, to dive deeper into what we are building at LABS.

Dr. Evan Zhao, ODDITY Chief Science Officer:

Thanks, Oran.

I'm Dr. Evan Zhao, chief science officer of ODDITY, and I lead the team at ODDITY LABS. I joined ODDITY with the acquisition of Revela, which is a biotech that my co-founders and I started while doing research at Harvard.

At the time, we were pioneering digital biology for therapeutic development at the Wyss Institute. We saw what we thought was a once in a generation opportunity, to close a huge technology gap, really a gaping deficiency of science in the beauty and wellness industry.

We are living in the golden age of science, where new technology has allowed pharma and biotech to innovate at an unprecedented pace.

Yet, the beauty and wellness industry is still living in the dark ages.

No molecule innovation, totally commoditized, just old ingredients repackaged, and not addressing consumer problems.

It doesn't make sense given the size of the beauty industry – a huge TAM with zero real science. So this is the massive opportunity we are running at with LABS. Unleashing the full power of technology and digital biology to discover ground-breaking ingredients that really perform, that really solve consumer pain points, and can power the next generation of category killers.

This is what consumers want. Based on data we see in ODDITY's massive user base, the consumer is way smarter than before, cares less about brands and more about efficacy. But we are still in early days – the shift will be enormous over the next decade.

Few words about the field so it will be easier to understand what we do at ODDITY LABS.

Digital Biology is the marriage of breakthrough technologies, including AI and synthetic biology. It is widely used across pharma today, but not in our industry. And these technologies allow us to do three



things there were never possible before: 1) measure data at scale, 2) analyze massive data sets at scale, and 3) bioengineer solutions based on this data.

The discovery process in digital biology is revolutionary when compared to the status quo. The status quo today is basically the same ancient approach used with Chinese herbal medicine of trial and error.

Let me give you an example, starting with skin aging.

The dominant solution for skin tightness on the market for decades has been retinol.

Retinol's discovery was an accident. It was originally used to treat blindness, but like so many solutions in our industry, it was meant for something else and repurposed for skin. Along the way, scientists optimize using chemistry and formulations to make it the best skin tightening solution it could be. Which, by the way, is not a great one. Which means we are left with an ingredient, that doesn't work that well, that has all kinds of side effects, and is a bad user experience because it causes skin peeling and purging. That you can't even use if you're pregnant. This is what consumers have to settle for.

So let's compare that discovery process with how we did it at ODDITY LABS, and how we discovered Fibroquin, our proprietary skin health molecule, which despite being in V1, already outperforms retinol with stronger efficacy, making skin tighter and bouncier, and higher user satisfaction.

Instead of trial and error, we start with the skin itself. We make biological models which are essentially pieces of skin in a dish, modified so they can give us measurable data.

We take thousands of these pieces of skin, and then expose them each to thousands of different molecules, and we measure and track how each skin piece interacts with each individual molecule.

We then feed that information into an AI that simulates how that same skin would interact with, not a thousand molecules, but with a billion different molecules.

We then identify dozens of that make the skin better. And from these dozens of hits, we test for things like toxicity, efficacy, safety and specificity until we find the absolute winner.

The difference in these two approaches – the industry standard trial and error approach versus our digital biology discovery platform – is revolutionary. We are catalyzing a pace of discovery and innovation that our industry has never seen. With massive benefits for consumers. Fibroquin not only is twice as good as retinol in double blind clinical trials for increasing skin elasticity, it is also substantially safer than retinol in every single test we've run, including how it affects other cells in the body and actually mimicking long term effects.

Plugging into ODDITY's massive user platform allows us – for the first time – to bring consumers in as our design partners. We have a direct dialogue to understand not just their pain points, but also how they want the product to work, what the form factor should be, what attributes matter in the formulation in order to make for the best user experience.

Over the last year since joining forces with ODDITY, we have dramatically scaled our capabilities. We are growing a super elite team of PHDs and scientists from top institutions, who are empowered by our entrepreneurial culture and the chance to see their ideas make real change for tens of millions of consumers around the globe.



We have massively expanded our roadmap to address huge market opportunities. We believe we can dominate in hair. We believe we can dominate in skin – face and body. We believe we can create a next generation of high-performance cosmetics. And this is just the beginning.

We are making big investments in our team, in our lab, in our product development capabilities, in our tech and in extensive focus groups and trials, in order to support this effort.

In 2-3 years you will see real science-backed products for full disruption to take massive market share.

And with that, I'll hand over to Lindsay.

Lindsay Drucker Mann, ODDITY Global CFO:

Thanks, Evan.

Let's turn to our 2023 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 year on all accounts.

We grew net revenue by +57% to \$509 million. This strength was driven by both IL MAKIAGE and SpoiledChild across a wide range of product categories. We grew net revenue +44% in the 4th quarter driven similarly by growth across products and brands.

For the full year, revenue growth was driven mostly by increased orders, although we continue to see improvements in average order value driven by order size and product mix.

More than half of ODDITY full year revenue was driven by repeat sales, which is remarkable when considering our scale and the speed at which we're growing.

Our revenue mix continues to evolve with the addition of new brands, categories, and products. In 2023, new categories like skin and hair increased materially as a percentage of our overall revenue mix. And we continued to see excellent growth and have enormous runway in color, even as we push to scale new categories at a faster pace.

Expansion into new products and categories makes us even stronger. It allows us to understand our users better. We now know not just their makeup routines, but also we have a holistic skin, hair, makeup and wellness 360 degree view.

We are gaining share of user wallets, and doing it for very attractive incremental costs. This allows our financial model to deliver the kind of outsized returns you see in other "land and expand" models like software.

In addition, we are bringing new users and converting new customers, who are now finding the products they want but couldn't before get them from our brands.

It is a flywheel that is accelerating as our platform grows, our users grow, our data capabilities and technology grows, brand awareness grows, and brand love grows.



We are seeing this benefit in increasing basket size, higher average order value, and further improving repeat. And of course, it increases the surface area and extends our runway for growth.

IL MAKIAGE delivered double digit, profitable growth in 2023 across cosmetics and skin. And as Oran mentioned, IL MAKIAGE Skin is now 20% of the brand sales.

SpoiledChild came in at \$110 million of net revenue, ahead of our expectation of \$100 million of net revenue for the year, increasing more than 4X from 2023, and doing it profitably with more than 50% of sales coming from repeat customers. It's an incredible accomplishment for a brand growing so quickly and less than 2 years old.

Gross margin expanded +320 bps for the year and +400 bps for the quarter. This better-than-expected gross margin expansion was driven by specific supply-chain and logistics efficiency initiatives at both brands.

Adjusted operating expense grew +42% for the full year, slower than sales growth of 57%. We were able to nicely leverage operating expense despite stepping up investment in future growth drivers like ODDITY LABS and new brands, due in large part to the higher proportion of repeat sales in our overall revenue mix, which are more profitable.

We also made investments to drive increased business efficiency. We expanded our use of generative AI across multiple consumer touch points, including advertising, user experience, and customer service. We are still very early in implementation here, but are seeing improvements across the P&L, from better conversion to operating cost efficiencies. And we have not yet implemented generative AI to support coding and development, which we believe will save costs and drive efficiencies in the future.

We delivered adjusted EBITDA of \$107 million for the full year and \$16 million for the quarter. Full year adjusted EBITDA margins of 21% expanded +900 bps from the prior year, driven by gross margin expansion and higher mix of repeat, offset by increased investment in future growth drivers.

We delivered adjusted diluted earnings per share of \$1.31 for the full year and \$0.17 for the quarter, and reported diluted earnings per share of \$1.00 and \$0.08 for the same periods, respectively.

Our asset light model and strong returns on capital once again supported very strong cash generation. We delivered \$85 million of free-cash flow in 2023. And we exited the year with \$168 million of cash, equivalents, and short-term investments on our balance sheet. And zero debt.

And we strengthened our capital position early this year with a \$100 million credit facility that we can use for general corporate purposes, buybacks, acquisitions, and other uses.

Turning to our outlook.

We remain committed to our long-term targets of 20%-plus revenue growth at a 20% adjusted EBITDA margin.

To reiterate the purpose of our 20/20 strategy. For revenue growth, 20% is 2-3x faster than what legacy competitors are growing.



As for 20% margin – the business is more profitable on an underlying basis, but in our view, there is no reason to deliver more than 20%. We are here to build something HUGE– therefore every excess dollar of margin we have, we invest in big bets that can change the industry and support our long-term growth.

And in fact this has already proven to be an excellent use of our capital. Our track record of reinvestment is very strong – not just because our business already generates high returns on invested capital, but more specifically recall that we launched SpoiledChild with around \$20 million of up-front investment, and as Oran said, we expect SpoiledChild will be a billion-dollar brand.

In 2024 specifically, based on our very strong start to the year, we expect to do even better than these long-term targets.

We expect net revenue will increase between 22-24% for the year, driven by robust growth at both brands.

In terms of pacing revenue, we plan to deliver relatively consistent low-to-mid 20s year-over-year growth every quarter across 2024.

Turning to profitability, we expect to deliver 70.5% gross margin for the full year, and we expect to deliver adjusted EBITDA for the year between \$136 and \$140 million, which will include a step-up in growth investments, including LABS and new brands.

The timing of these growth investments is skewed to the last nine months of the year, with limited impact on the first quarter.

We expect adjusted diluted earnings per share will be between \$1.49 to \$1.54 for the full year 2024.

Turning to the first quarter.

As we discussed last year, we deliberately slowed the business down in the back half of 2023 in order to pace our growth, while our teams focused on huge preparations for 2024.

We entered January with incredible strength and delivered a large acceleration in the business, more than doubling the Q4 pace, and doing it very profitably. We quickly began to pace our sales ahead of plan, which – because of our strong repeat – already puts us in a position to secure our full year objectives, and also leaves us the flexibility to once again begin holding our revenue growth back to leave more room for the future.

The muscle and control our teams have to flex the business with precision is a huge strength for us and something really unique to ODDITY.

Given the VERY strong start to the year, we expect Q1 net sales growth between 23% and 25%. You can find more details on our Q1 outlook in our press release.

And with that, Operator, we are ready to take questions.