ODDITY 3Q 2023 Earnings Call Prepared Remarks
November 8, 2023

Maria Lycouris, ODDITY Investor Relations:

Thank you, operator. I'm joined by Oran Holtzman, ODDITY 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 Prospectus filed with the Securities and Exchange Commission on July 18, 2023. 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:

Thank you everyone for joining us today. We are glad to report our third-quarter results today, which beat our guidance issued back in August on every metric, and also exceeded the preliminary results we recently communicated in October.

Revenue is growing faster, gross margins are higher, and adjusted EBITDA is better than we expected. This is despite our real effort to pace our growth and slow down, as we historically have done in H2.

With this record-breaking quarter we will deliver net revenue growth of 60% and adjusted EBITDA of $91 million dollars for the first 9 months of the year.

We are scaling at a speed that beats legacy incumbents, but also the majority of internet and consumer companies, and with profit margins and cash flows that are rare in other growth companies.

This outstanding financial performance reflects the strength of our platform, the health of our brands, our strong and discipline teams, and the massive runway we have in front of us.

Our large investments in technology and data capabilities over the past 5 years are enabling us to continue to grow fast without damaging our high margins and profitability. Our tech team is still the largest team in the company, represents approximately 40% of total headcount.

At the center of our success is our powerful financial model, which from the beginning we designed to deliver a rare combination of scale, growth, and profitability.

On scale – we expect to break new records again in 2023, growing revenue more than 50%, and with over 50% coming from repeat customers. Which is very rare in our industry.

We believe we are already the largest DTC platform in our industry and have a massive user base of over 40 million users who are our design partners for future products, categories and brands launches.

On growth – We expect to deliver more than 50% revenue growth this year, after having delivered around 50% last year and 100% the year before that. But although our high growth, we could have done way more.

We believe we have massive runway ahead and have built so many engines to allow us to continue to grow. We believe both IL MAKIAGE and SpoiledChild will be $1B-plus brands, and we are building our future brands to have meaningful addition to our company.

On profitability – We continue to deliver margins and cash flows well ahead of other growth businesses. We expect to deliver over $100 million of adjusted EBITDA this year alone, which is a 21% margin.

Before diving into the quarter, I want to discuss our industry and why I am so bullish about the opportunity ahead of us.

First, we operate in what we believe is one of the most lucrative TAMs in the world. The global beauty and wellness market is over $600B in size and dominated by offline, legacy incumbents. There are a huge number of beauty and wellness subcategories for us to go after, which are large in size and are waiting for a proper online access.

Second, consumers are shifting online, and this is our strength. Today online is around 25% of industry sales, and we believe it will reach 50% in the next years. But in order to win online, you need deliver an experience that is even better than a store and therefore data and technology capabilities are critical.

With all due respect to my competitors, we are simply playing different games. And as it relates to technology, to data, not to mention talent and operating structure, we believe we are simply years ahead, but still running like a startup to ensure we preserve our lead.

Third, we build amazing brands and amazing products, and we have proved that ODDITY is a brands scaling machine. Our track record speaks for itself.

IL MAKIAGE is the largest online beauty brand in the US, and either #1 or #2 in almost every international market it has launched.

SpoiledChild is expected to achieve $100 million of net revenue this year after only just launching in 2022. Multiple categories – hair, and skin, and success across a very wide demographic. All of this with very high customer satisfaction, best in class repeat rates, and consistently healthy growing cohorts.

Brand 3 and brand 4 are already in the making with dozens of talented folks dedicated to develop it. Both brands will be launched in 2025 and are responsible for at least 40% of my time and focus as CEO.

The next stage of our evolution is with ODDITY LABS, and unleashing biotech for our industry to create the next generation of high-efficacy products. Consumers today are smarter than ever. They start to demand real, high efficacy, science-backed products to solve their pain points.

High performing products are not new for us. They are already central to our model and a huge part of why we are so profitable. No quality means no repeat, no repeat means no profitability - and based on my knowledge we have best repeat rates in the industry.

We operate a world class in-house product development engine that I believe beats most brands in the industry. That's because we launch products based on data. We are not like other brands that launch based on what a head stylist says, or based on what Sephora or a supplier says. Data only drives us. No exceptions, no compromises.

But as entrepreneurs, who luckily found themselves in beauty, we never stop and we are never satisfied.
ODDITY LABS takes us to the next level in terms of physical products and innovation.

It was always my dream to use technology to develop higher efficacy products with stronger new ingredients.
I was hunting for this opportunity for years, and with Revela, we found a perfect match. Since closing the acquisition in May, we have made so much progress in building ODDITY LABS to be the AI based ingredient development platform of our industry, attracting amazing talent, and moving fast across a huge roadmap.

ODDITY LABS will be one of our main growth engines for all brands –we are truly building something that was never done before. You don't see its contribution in our current earnings today, just expenses, but I'm more bullish than ever. It is the same feeling I had when we started develop the technology in TLV.

Before I hand the call over to Lindsay, let me touch on Isreal, where we our R&D center is based, but most importantly where my heart and thoughts are in those sad days.

First, the unwavering support I get daily from teammates, entrepreneurs, CEOs and friends is unbelievable and I deeply appreciate it.

Seeing so many people stand with Isreal and with its right to defend itself makes it a bit more bearable in this insane situation. We at ODDITY are doing everything we can to support our people and the country at this time. This is our duty and we will continue to do so.

As for the business, there have been no meaningful disruptions. Of course, we are monitoring the situation very closely, and we don't expect any material impact on the 4th quarter or on 2024 results. Our teams in Tel Aviv are operating remotely since the beginning of the war, and we have had a limited number of employees called up as reservists.

And now I'll hand over to Lindsay

Lindsay Drucker Mann, ODDITY Global CFO:

Thanks, Oran.

We are pleased with our third quarter financial results and the momentum that continued into the fourth quarter. Our business is firing on all cylinders and we are in excellent shape for 2024.

Our teams achieved a number of unlocks through hard work, planning, testing and iterating – that are now in our arsenal for execution next year, starting with a successful first quarter.

We will issue 2024 guidance when we report Q4 results next year, and we are confident in our ability to continue to deliver strong growth – across brands and product categories, at attractive margins, and with healthy user cohorts that fortify our overall model.

Turning to the quarter, net revenue to grew 37% year over year to $94.5 million above the 18-23% guidance we communicated in august. Drivers of growth in the quarter are consistent with what we discussed on the October call:

Both IL MAKIAGE and SpoiledChild brands exceeded our expectations. Repeat rate was harder to slow than we had originally modeled, which drove the upside versus our original guidance. Importantly, our revenue growth was of high quality and profitability, and generated across a range of products and categories.

The successful expansion of new products and categories – including in skin and hair – are seeds that we planted less than 2 years ago, that have grown today into powerful foundations off of which we are building large and dominant franchises. These are incremental to our existing products, they expand our overall TAM, and create deeper relationships with our users.

Moving down the P&L, we generated gross profit of $66.4 million, a 41% increase versus the prior year. This represents a 70.3% gross margin in the third quarter, which is 280bps better than our initial 67.5% guidance. Gross margin expanded 217 bps year over year.

The increase was driven by cost efficiencies at both brands, which have benefited from specific cost optimization efforts relative to the prior year. While SpoiledChild has continued to make good progress in narrowing the gross margin gap to IL MAKIAGE, it still operates at a lower gross margin, and will drive some negative gross margin mix shift as it becomes a larger proportion of overall sales

Adjusted EBITDA increased 227% to $20.8 million in the quarter. This represents a 22% adjusted EBITDA margin, above the 20-21.5% initial guidance we delivered back in August.

Adjusted EBITDA margin in the quarter expanded +1280 bps versus the prior year, driven by our gross margin expansion, as well as improved opex efficiency, including improved efficiency on our marketing spend as we throttled back new user acquisition costs and generated the majority of our revenues from repeat customers. We reinvested a portion of these EBITDA tailwinds into future growth, including investment in future brands and products as well as ODDITY LABS. It is also worth noting that we delivered this robust margin expansion despite a higher revenue contribution from SpoiledChild, which today carries lower EBITDA margins than IL MAKIAGE.

Adjusted pre-tax income increased 304% to $20.7 million, driven by the adjusted EBITDA growth.

Our adjusted tax rate was 37.1% in the quarter, a bit more favorable than the 43.5% rate we guided to. This elevated tax rate was driven by non-deductible expenses associated with our IPO.

We delivered adjusted net income of $13 million, and adjusted diluted EPS of $0.21. Diluted average shares were 61.4 million.

Reported net income was $3.8 million, and reported diluted earnings per share were $0.06 in the quarter.

Adjustments to GAAP this quarter include $12.2 million of stock based compensation expense. As we mentioned on our 2Q call, our 3Q stock based comp was elevated this quarter due to accelerated vesting related to our IPO. We continue to expect a step-down in stock based compensation expenses in the fourth quarter to $8 million.

We exited the quarter with $164 million of cash, short term deposits, and restricted cash on our balance sheet, and zero debt. Our balance sheet strength is a function of our robust profitability and excellent returns on capital, which yield attractive cash flows at high cash conversion.

Year-to-date we generated $78 million of free-cash flow, driven by roughly $79.5 million of cash from operations and $1.5 million of capex.

Before I turn to our outlook, I want to touch on 3 big picture drivers:

First, as it relates to the consumer broadly, there is no change to what we discussed in early October. We have not seen signs of macro softening in our business. Again – we do believe our model is relatively insulated based on our idiosyncratic growth drivers and our model's inherent agility, and also because of the beauty category's resilience, and our broad demographic appeal… although we are of course watching closely.

Second, as Oran mentioned, our business continues to be very strong, and we see significant near-term and long-term runway for growth and profitability.

Third, we continue to find attractive, high return reinvestment opportunities to support the expansion of new brands and product categories across our platform.

And our discipline and success in building a high margin, cash generative business today puts us in a position of strength to make these investments. We will continue to reinvest for the future, while maintaining revenue growth of at least 20% and EBITDA margins of at least 20% over the long-term.

Now turning to our outlook.

For the full year 2023:

We expect net revenue growth between 52 and 53%, representing net revenue dollars between $493 and $497 million. Our revenue growth outlook is an increase from our previous expectation of revenue growth between 46 and 48%.

We expect gross margins of approximately 70%, an increase from our prior expectation of 69.5%

We expect adjusted EBITDA will be between $104 and $105 million.

We expect adjusted EBITDA margin of 21%, at the high end of our prior expectation for adjusted EBITDA margin in a range of 20-21%.

We expect adjusted diluted EPS between $1.21 and $1.23, an increase from our prior expectation of $1.11 and $1.17. This assumes a tax rate of approximately 25.5% and average full diluted shares of approximately 60 million.

We have also issued a detailed outlook for the fourth quarter, which you can find in our press release.

With that, I will hand the call back to Oran.

Oran Holtzman, ODDITY Co-Founder and CEO:

Thanks, Lindsay.

Operator, we are now ready to take questions.