ODDITY 2Q 2023 Earnings Call Prepared Remarks
August 9, 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, due to the timing of this earnings call, which is within the 25-day quiet period following the company's IPO, we will not be taking questions on today's call.

Management's remarks on this call that do not concern past events are forward-looking statements. These 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 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 statement, 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. Definitions and reconciliations of these non-GAAP financial measures to their most comparable GAAP measures are included in our earnings press release we issued today.

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 very excited to show second quarter results and our first earnings call as a public company. And it's only fitting that we kick off our life as a public company with an outstanding quarter financial performance that positioned us to raise our 2023 outlook for revenue and profit above our plan.

We generated $151 million of net revenue, a 55% increase from last year, and $42 million of adjusted EBITDA in the second quarter, representing 27.6% of adjusted EBITDA margin. These results are above the estimate we issued in our IPO across every metric, including sales, adjusted EBITDA and net income.

We are making very strong progress in our mission to transform the global beauty and wellness market with technology and entrepreneurial DNA. And we are here to build something huge. Our technology-powered platform is unlocking online for massive and super attractive TAM by leveraging data science, artificial intelligence, computer vision and now biotech to deliver superior products and experiences to our more than 40 million users.

Our model has rapidly scaled to what we believe is the largest and most profitable online direct-to-consumer platform in the industry. With our existing powerhouse brands: IL MAKIAGE and SpoiledChild today and brands 3 and 4 in development to launch in the future. In order to perform successfully online only, we're investing heavily in data science and technology early on and build our tech team to be the largest team in the company. Technology continues to be the primary investment priority for us today, although we believe we are already way ahead of our competitors.

We achieved many important milestones during the second quarter that we believe set us up for a long runway of top and bottom line growth. First, we made significant progress in the quarter, which included driving revenue growth and market share gains for our IL MAKIAGE and SpoiledChild brands, expanding our existing brands into new categories and continuing to develop new brands tailored for our user base, which will be connected to the ODDITY D2C platform.

Second, the acquisition of Revela and launched ODDITY LABS was a game-changing achievement for us during this quarter. We moved aggressively to use pharma-grade AI technology to boost the development and expansion of proprietary science-backed molecules and product formulation. We believe ODDITY LABS will change the industry and will be a massive driver for ODDITY as a company. And finally, with the successful completion of our IPO, we recruited best in class investor partners to join us in building a truly transformational business that compounds long-term value.

Moving on to our business performance. Net revenue increased 55% in the second quarter, driven by growth across brand, product categories and market. The unprecedented success of SpoiledChild is a compelling proof point of the power of our model and tech platform. SpoiledChild scaled to $50 million of order billings in the first 12 months, which we believe makes it the most successful direct-to-consumer brand launch across any vertical.

The brand became profitable only one year after launch, and it will be a nice contributor to EBITDA this year. SpoiledChild continues to look better than IL MAKIAGE in all metric, although IL MAKIAGE is one of the strongest D2C brands in history in terms of scale, growth and profitability, yet SpoiledChild looks even stronger.

Drilling into physical product, new launches were a solid driver of results in the quarter, and it's a compelling engine for us into 2023 and beyond. We have an exciting product road map across color, skin and hair for the rest of 2023 and 2024. Our data-driven approach and direct-to-consumer model gives us the powerful advantage testing product in market and gathering data before officially launching to increase our chances of success.

We truly launch product for our user base unlike other D2C companies who launch products and then search for an audience for it. We already have live in-market tests we launched during Q2 for our 2024 launches with very encouraging initial sign. We are also making a rapid progress on product development based on our proprietary and patent pending ODDITY LABS molecules, which I will elaborate shortly.

On technology products, we continue to build and optimize our AI and machine learning models to enable profitable growth and support the user across the entirety of their journey. We made continued progress on our various models that improve repeat rate. We continue to roll out new version of POWERMATCH and SpoiledBrain brand to enhance product commendation, introducing improved post purchase models that drive higher AOV, improve economy for first purchase and lifetime revenue.

We continue to build our generative AI capabilities in text, images, video and audio, we test across a range of use cases, including customer acquisition and retention. We continued to make very rapid and meaningful progress in computer vision. Our strong team of computer vision scientists and patent in vision technology has massive potential for our future. We continue to prioritize focus on two fronts. First, enhancing our existing technology products. And second, building new vision tools to deliver groundbreaking diagnostic capabilities. In the second quarter we delivered progress in both of those fronts.

We continued integration of vision technology into our existing AI matching engine. We made significant progress in the quarter in our new vision tool to both identify and categorize individual skin issues. These are central capabilities that we are building to support the rollout of brand 3 with additional cases for the future.

On the marketing front, we continue to achieve very strong efficiency on marketing spend, supporting our attractive revenue growth and strong profitability. We continue to optimize our performance marketing distribution model and we continue to optimize our ads and conversion funnels based on high quality datasets. We additionally continue to invest in our brands to drive awareness.

For IL MAKIAGE, our close partnership with the Arsenal Women's Football Club was recognized as one of the most successful women's sports partnerships in the UK. As for SpoiledChild, we launched our first TV campaign, which reached over 50 million households, delivered over 260 million impressions, which help in creating brand awareness.

Moving to ODDITY LABS, we closed the acquisition of Revela in April to bring true biotech capabilities and pharma's AI based medical discovery to drive game-changing physical product innovation to other categories. From day one, we worked to harness this capability to drive the next generation of physical product innovation.

We stood up ODDITY LABS, opening our research lab in Kendall Square, Boston, and expanding our team of the highest caliber bioengineers, chemists, and Ph.D. scientists. The lab is fully operating today with our scientists working hard on our future. The lab is being overseen by myself, by Dr. Evan Zhao, and by Dr. David Zhang. We are deep in the works on over 10 new molecules to address pressing user pain point and unlock new and massive TAMs for ODDITY.

Finally, we made a very strong progress on our future brand launches including brand 3 and brand 4, which are planned to go live in 2025.

For brand 3 the current stage is mainly around continued effort of developing our computer vision technologies that will be the core of the brand. In addition, we made progress in product development. My sister and I are spending at least 20% of our time on building brand 3. As for brand 4, we've picked the category for the brand and we have started building strong team and began working on brand positioning within the category.

With that, let me hand it to Lindsay Drucker Mann, our CFO to review our financial performance and outlook.

Lindsay Drucker Mann, ODDITY Global CFO:

Thanks, Oran. We're pleased with our very strong financial performance in the second quarter, which supports our improved outlook for the third quarter and full year and allows us to raise our fiscal 2023 outlook above plan. We're also pleased that, similar to previous years, we were able to deliver the bulk of our full-year objective in the first half alone by aggressively fueling profitable growth in the first and second quarters and thereby enabling us to invest resources in future initiatives in the second half of the year.

Our business continues to deliver the rare combination of scale, growth and profitability, and the second quarter delivered on all fronts. Net revenue increased 55% for the quarter to $151.3 million. This result is 8% above the midpoint of the $135 million to $145 million preliminary estimates we communicated in connection with our IPO. Revenue growth in the period was a very high quality, driven by growth across brands, categories and markets. Our revenue continues to be driven largely by increased orders with nice incremental contribution year over year from SpoiledChild, which has rapidly scaled since its launch in the first quarter of last year.

For the first half of the year, we increased net revenue by 69% to $317 million. Gross profit increased 60% to $106.8 million in the quarter, and gross margin improved to 70.6% from 68.2% in the prior year. The 244-basis- point improvement was driven by gross margin improvement across brands, offset by negative mix shift from higher contribution of SpoiledChild's sales. Year-to-date, we generated 70.8% gross margins, a 328-basis-point improvement from the prior year. Reported net income was $30 million compared to $16.6 million in the prior year and net income margin was 19.8%.

Adjusted EBITDA increased 76% to $41.8 million in the quarter. This is 22% above the midpoint of the $32 million to $37 million preliminary estimates we communicated in connection with our IPO. Adjusted EBITDA margin expanded to 27.6% of sales, a 328-basis-point improvement versus the prior year.

Adjusted EBITDA growth was largely driven by strong top line growth, expanded gross margins, and the higher contribution of repeat business to revenue versus the prior year. We generated $70.2 million of adjusted EBITDA in the first half of 2023 compared to $30.5 million in the prior-year period.

Adjusted net income increased 76% to $32.3 million in the quarter. Adjusted net income improvement was largely driven by the increase in EBITDA. Weighted average diluted shares were 57.5 million in the quarter, and we delivered adjusted diluted earnings per share of $0.56 and reported diluted earnings per share a $0.52. The adjustments to GAAP metrics include $2.6 million of pre-tax stock-based compensation expense and $300,000 of other pre-tax nonrecurring items.

Moving on to the cash flow statement and balance sheet. Year-to-date, we generated $76 million of cash from operations and free cash flow of $75 million after CapEx of $1 million. We exited the quarter with $107 million of cash on our balance sheet and no debt.

Turning to our financial outlook, on the back of our very strong 2Q results, we're raising our full-year 2023 guidance across sales and key profit metrics. This improvement is driven by flowing a portion of the 2Q beat across the full year while reinvesting some portion of this upside back against the business in the back half.

For the full year, we expect net revenue between $475 million and $480 million, representing 46% to 48% growth year-over-year, an improvement from our prior plan for 40% year-over-year growth. We expect gross margins of around 69.5%, which is better than the 67.9% we've built into our prior plan. We expect adjusted EBITDA between $96 million and $101 million, representing EBITDA margins between 20% and 21% better than the $91 million we had expected prior and adjusted EPS between $1.11 and $1.17, which includes a tax rate of around 25% for the full year and diluted shares of around 59.7 million.

One note about stock-based compensation. We expect to book expense of around $14 million in the third quarter, which is above our run rate expectation for stock-based comp going forward. And this is due to onetime expense associated with accelerated vesting in connection with our IPO. Stock-based compensation expense is expected to decline in the fourth quarter to approximately $8 million. We're also introducing guidance for the third quarter of 2023 and you can find details of this guidance in our press release.

And with that, I'll turn it back to Oran.

Oran Holtzman, ODDITY Co-Founder and CEO:

Thanks, Lindsay, and thanks to everyone for joining us today. Our strong second quarter results demonstrate the power of our model and our growth engine fleet is well positioned to deliver strong financial performance in the future. Our business is firing on all cylinders, and I have never been more bullish about our future. We are here to change a huge industry which is operating in the same model for a century.

I'll now hand it back to the operator.