

Conference Call 9M Results 2022
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Speech

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- Please check against delivery -

[Vincent Warnery]

Good morning, Ladies and Gentlemen,

I would like to welcome you to today's conference call and thank you for taking the time to join us. Over the course of the next few minutes, Astrid and I have the pleasure of taking you through our performance in the first nine months and providing you with an overview of key developments from the past quarter.

First of all, we are happy to report that we have been able to ensure that the momentum from the first half of the year carried over into the third quarter.

We achieved strong organic growth on a broad base in the first nine months of the year - and this despite the ongoing economic and geopolitical challenges that we are all facing.

Looking at our Group results, an impressive third quarter resulted in double digit growth of +11.1% in the first nine months of the year.

Our Consumer business continued the strong performance it had delivered in previous quarters, ending the 9-month period with robust growth of +11.7%.

tesa gained significant ground in the third quarter and closed out the first nine months with an increase of +8.3%.

Looking at the performance of our brands in the third quarter, we saw very strong organic growth on a broad base. The double-digit increase of 11.8% in the Consumer segment was based on contributions from the entire portfolio, due to pricing and volume, with all brands delivering positive volume growth.

NIVEA's growth was close to double digits, but I will get into that in greater detail in a couple of seconds.

Growth at Derma was again above 20 percent, thereby confirming the strong performance from the first half of the year. Driven by high demand in the Americas, including our key market the US, ongoing success of Thiamidol and strong white spot penetration, we were able to once again outpace the competition and gain significant market share.

The continued growth of our plaster brands was again driven by last year's relaunch, which helped us to outgrow the market.

And as we already anticipated in our last call, La Prairie is now back to double digit growth with an increase of +14% despite lockdowns around Hainan. This clearly demonstrates that our intensified focus on strengthening the online business is having a positive impact.

In addition, tesa expanded its growth to an extremely impressive 14.3% in the third quarter. The main drivers here were the electronics business as well as a significant recovery in the automotive business.

Taken together, all of this results in a remarkable +12.3% growth for the Group in Q3, despite increasingly challenging market conditions.

Let us now take a closer look at some of these notable performances in Q3.

As I just mentioned, NIVEA comes out of the third quarter with sales growth of +9.9%.

Worth mentioning in this regard is also the fact that it was the first time that NIVEA managed to expand its market share in all regions and in all categories.

But this wide-ranging expansion was not just limited to market share. Indeed, we are seeing growth throughout the entire portfolio.

The Skin Care portfolio even managed to outperform the Personal Care portfolio. The main sun season concluded with strong growth in the third quarter, but there was positive growth in all Skin Care subcategories in Q3, thus demonstrating the strength of the NIVEA portfolio.

The Personal Care growth was driven by our strategic deodorant's category.

We are also pleased to see that our pricing actions have been well-received. Due to our successful pricing initiatives in the first half of the year, the growth in Q3 was mainly driven by pricing, while volume was still positive. A quick glance at the competition shows that we are in line with the market when it comes to pricing, but our volume performance remains better than most of our competitors. This is a clear indication that we are finding the right balance between pricing and volume growth and that our brands are highly resilient in terms of price sensitivity.

Let us turn now to our performance in China. There we have grown by an outstanding +24% with NIVEA in Q3. We are also pressing ahead with our premiumization strategy in China: That means, that we have optimized our Portfolio. We are concentrating resources on driving premium development and high-margin products.

Additionally, we have a clear focus on e-commerce activities. We are relying on "online first" product launches. Our online share of business increased significantly from 46% in 2019 to around 60% expected for the full year 2022.

At the same time, we are upgrading our lower-price categories. Our focus is on premiumization drivers in our current categories Men, Face Cleansing and Body and especially in the strong growing online business. Since the start of our valorization process in 2020, we have increased the average selling price in our online business by more than 32% for our portfolio.

On top of all that, our successful LUMINOUS630® launch via cross border e-commerce has been delivering some impressive results. The market share of NIVEA Face Care increased significantly in 2022. LUMINOUS630® is currently ranked number two in cross border e-commerce (CBEC) Anti-Spot with a market share of 4.3%. And just a quick reminder here: This is all coming only from CBEC business. The formal approval to sell in domestic China, which we are working on, will be a huge milestone.

This brings us to our selective cosmetic business La Prairie in China: Following a difficult second quarter that was marked by ongoing lockdowns, we saw a strong recovery in China in the third quarter, with growth of +41%.

With the goal of achieving a greater degree of diversification and to be able to react to short term disruptions going forward, we decided to further expand our distribution. On top of a strong brick and mortar business and impressive growth in the travel retail business over the course of the past year, we also strengthened our online business in the third quarter.

We took the lessons learned from our successful online launch on TMall and applied them to the latest launch of La Prairie on JD.com. Initial results have been extremely promising and have exceeded our expectations.

These results have included 140k unique visitors in the first four weeks since launching, strong conversion rates and, what is more important, we are reaching a more diverse consumer base: We are reaching more clients from Tier 3 cities than at our other online platforms.

We will work to continue strengthening our presence on JD.com and are confident that it will be a strong partner in addition to our TMall presence, thus providing us with a much greater degree flexibility going forward.

The momentum in our Derma business has continued and is still growing at very high rates. Our so-called "white spots", i.e. countries, categories and businesses with high potential, were again strong growth drivers.

All of these investments in developing the white spots are fueled by strong profitability increases in our legacy business.

Long standing businesses in Europe, Asia or the US have managed to significantly increase their profitability over the course of the past few years while still delivering strong topline growth. The EBIT margin of our legacy business has increased by 380 basis points since 2020. We have been using this profitability increase to help us invest in the following white spots:

In Brazil, we have been working to expand distribution and to maintain a digital focus. We launched Eucerin in Rio and Sao Paulo 4 years ago and from there we expanded the brand nationally with a strong digital focus. The strategy is clearly paying off: With Eucerin, we have achieved the No.1 position for the Anti-Pigment category, and we are now growing three times faster than the market.

In China, we are on-track in terms of our expectations and have been recording strong growth thanks to our online-only strategy that started with TMall. We are also seeing strong sales figures from our Thiamidol products via CBEC. After two years, we are now one of the fastest growing international Derma brands in China.

In the US sun market this year, we leveraged our existing know-how and added local expertise from the Coppertone R&D team to launch Eucerin Sun, thereby transforming our already very successful Body brand into a full dermocosmetic brand. The first summer season was very successful, and we have already established our position as an important competitor in the US dermocosmetic sun market.

In Poland, we took our lessons learned from the most recent successful white spot penetrations and decided to re-enter the Polish market in the third quarter.

This re-entry has been shaped by focused distribution in major cities, detailing and a strong focus on e-commerce. Taking this step means that we are entering the largest dermocosmetic market in Eastern Europe.

I'm very happy with the overall performance of Beiersdorf and our teams around the world in these volatile times.

[Astrid Hermann]

It will now be my pleasure to guide you through our nine months 2022 results.

Let us start with the view on the Group and our sales results per segment:

In the first nine months, the Consumer business grew by +11.7% like-for-like. On a nominal basis, favorable foreign exchange effects and the additional sales from our most recent acquisition Chantecaille led to growth of +18.1%.

Our tesa business accelerated its topline growth significantly in the last quarter, bringing like-for-like growth of the first three quarters to +8.3%. In nominal terms the sales growth was +11.8%.

All in all, the Group grew double-digit at +11.1% from January to September, and by +16.9% in nominal terms.

The Consumer segment shows a very stable performance on a high level throughout the year. After strong growth in the year 2021, we have managed to grow double-digit every quarter this year. This is a remarkable performance especially given the volatility and changing market situations throughout the year.

Turning to our performance by brand in the Consumer division:

The broad-based growth I mentioned is also visible when looking at the nine-month performance of NIVEA: Personal Care and Skin Care are growing at similar rates. In addition, all of our major subcategories are growing year-to-date.

Next to outperforming businesses like Sun, Lip or Deo, we are very happy with the performance of our focus categories Body and Face Care, which both show strong growth rates in the first nine months.

Our Derma business continues to outperform both in terms of net sales and market shares. Year-to-date almost all countries are growing double-digit - this is true for our biggest markets like the US, Germany and Thailand but also for smaller markets which are picking up significantly, for example China or countries in Latin America.

Let us now look at the Healthcare business which continuously gained market share in every month of 2022 - this is proof of our leading market position. In the first nine months, all our main countries reported positive growth rates, and the development of our businesses in markets like India and Mexico is impressive.

In the Luxury segment, La Prairie looks back at a very volatile performance in the course of this year. This was primarily caused by external disruptions like the lockdowns in China. As we mentioned earlier, we just extended our Chinese online business and made it more diversified. We have seen a strong recovery in China in Q3 after the lockdowns were lifted. At the same time, our global travel retail returned to very good growth rates in Q3.

Let's now take a more detailed look at our regional performances. All three regions - Europe, Americas and A/A/A - were growing again in Q3 and have further solidified our strong nine-month results:

Europe is growing organically by +6.4%, while Western Europe grows slightly faster than Eastern Europe which is negatively impacted by the war in Ukraine.

In Western Europe we are keeping up good topline growth with the exception of a few markets, in which ongoing difficult price negotiations are impacting our performance.

Americas continues to be our strongest growth region, in Q3 but also for the nine months with +24.5% organic growth.

Latin America's performance is driven by growth in Eucerin as well as NIVEA. Countries like Brazil, Mexico or Chile are leading the development in the region. In terms of categories, Deo, Sun and Face Care are outperforming the markets.

North America's performance is clearly led by the convincing performance of Derma. But also our businesses around NIVEA and Coppertone are growing double-digit here.

After a weaker start to the quarter for La Prairie in North America, the trend turned around and we recorded good growth in the month of September.

The region with the fastest acceleration quarter on quarter was A/A/A. We already mentioned the strong development of our portfolio in China after the easing of the lockdowns. Additionally, countries like Thailand, India or South Africa performed particularly well in the third quarter, bringing the nine-month performance of this region to double-digit growth of +11.2%.

Moving to the tesa business:

There is broad-based growth in tesa as well. Next to tesa's growing Consumer business, we see two divisions outperforming in Q3, leading to an acceleration of growth in Q3 at +14.3% organic sales growth:

One area is the electronics division. Throughout the year, electronics has been the main driver of tesa's performance. This continued in Q3, and we saw an encouraging favorable trend towards the end of the quarter where we achieved high growth in the Asian region. Our market outperformance is driven by top-notch technology like structural bonding solutions which gives us a competitive advantage when it comes to winning new contracts.

One of these leading solutions is the patented "Bond & Detach" approach, which so far has been applied more than 2 billion times for batteries in smartphones.

Combining our expertise in electronics with our long-term experience in automotive, we are using this approach now also in the construction of electrical vehicles. Europe is gaining speed in this area and we are in close cooperation with key manufacturers. Automotive was a growth driver in the third quarter and will be even more important in the mid- and long-term.

Before I finish my part of the presentation, let's have a look at our updated guidance for the full year 2022. We are pleased to again have achieved an outstanding performance year-to-date and are therefore raising our guidance for the year.

Given the macroeconomic and geopolitical challenges as well as on-going price negotiations with retailers in Europe, we are considering a factor of uncertainty in our below update. Assuming continued strong markets, we would expect performance at the higher end of the range.

For Consumer, we now expect organic sales growth of 9 - 10% for the full year, indicating a more normalized level of growth in the fourth quarter. We confirm the Consumer EBIT margin to be slightly above previous year's level.

At tesa, we raise our organic sales growth to 7 - 9%. The increase in sales driven by the Direct Industries division also enables us to increase our guidance for the profitability: The EBIT margin will now be only slightly below previous year's level despite the high levels of input cost inflation.

For the Group this means we expect organic sales growth of 9 - 10% and the EBIT margin will be at previous year's level.

To sum up: Despite a more cautious view on the fourth quarter, we see governments reacting to the high inflation numbers, limiting the financial impact on Consumers. With our portfolio we have mastered recessions previously and are now preparing for the next potential downturn: We are pushing our Skin Care categories, we are seeing our businesses become more profitable, and we are winning in former white spots. These developments make us confident going into the next year.