

Half-Year Results 2023
Beiersdorf AG, Hamburg
August 3, 2023

Speech

Vincent Warnery
Chief Executive Officer

Astrid Hermann
Chief Financial Officer

- Please check against delivery -

[Vincent Warnery]

Good morning and welcome to today's conference call.

Astrid and I are pleased to take you through our performance for the first six months and to give you an overview of the key developments in the past quarter.

Building on the impressive momentum from the first quarter of 2023, we achieved broad-based topline growth and strong profitability in the first half of the year.

For our Consumer Business Segment, we can report significant double-digit sales growth of 14.9%, driven by excellent development across all regions with our NIVEA and Derma brands. I will come back to that in a moment. Thanks to the significant top-line performance, we increased our EBIT margin substantially by 190 basis points during the first six months, even in the face of a challenging luxury business. Astrid will share more details on the EBIT development in her part.

Despite difficult macroeconomic conditions in China, we managed to maintain modest growth in our tesa business. Our success was largely fueled by a resilient automotive segment, which helped offset the weaker performance in electronics. As anticipated, our profitability declined, as we remained committed to substantial investments in sustainability, digitalization, and the automotive business to prepare us for future opportunities.

Overall, we are pleased to share that the group achieved impressive double-digit sales growth of 12.3% in the first half year, supported by a significant rise in profitability of 140 basis points, delivering an EBIT margin excluding special factors of 17.3%.

Let's take a more detailed look at our brands' performance in the second quarter.

Our core brand NIVEA continued to outperform the market, achieving an exceptional organic growth of 18.8% in the second quarter. All regions supported the sales development with double-digit expansion, with strong contributions from both the Skin Care and Personal Care

categories. In Europe, NIVEA managed to increase its sales by 13% in the second quarter. We are delighted to see significant volume increases alongside these impressive figures. Noteworthy is also NIVEA's impressive e-commerce growth of 30% in the first half of the year, proving the success of our efforts to enhance NIVEA's digital presence.

Once again, our Derma brands demonstrated their unwavering potential with significant growth of 25.3% in the second quarter. The US business stood out with exceptional performance for both Eucerin and Aquaphor. We further expanded our market share for the Derma brands, especially in the anti-aging, body care, and sun protection categories.

The Healthcare business, which comprises the plaster business of Hansaplast and Elastoplast, posted organic sales growth of 3.1%. A positive sell-out trend was observed in top countries like Australia and Indonesia, complemented by solid e-commerce growth.

The La Prairie business faced significant challenges due to disruptions of Daigou business in Asian travel retail. These disruptions also affected our Chantecaille business significantly. All in all, La Prairie recorded a decline in sales of 7.5% in the second quarter. Although we witnessed some recovery in other parts of the world, it was not enough to substantially mitigate the impact on La Prairie's topline. I will come back to that later.

The excellent development of our total Consumer business is solidly based on a good mix of volume- and pricing-driven growth. In the course of Q2, volume growth has accelerated even further. Excluding the luxury business, our volume growth in the second quarter accounted for more than one third of total growth.

The exceptional results once again validate the power of our four-wheel-drive dynamic: if one wheel loses traction, the others will keep the car moving forward. NIVEA in Europe and in the Emerging Markets, combined with our Derma brands globally, is generating outstanding and steady growth, effectively mitigating the adverse market conditions

experienced by La Prairie. That gives us even greater confidence and security in times shaped by volatility and crises.

In addition to our outstanding success in Europe, I would like to shift our focus this quarter towards Northeast Asia and the Emerging Markets, starting with our NIVEA business in China.

In China, premiumization is the key to success. As a global brand striving for success in this highly strategic market, securing premium positioning has to be our highest priority to prepare the ground for sustainable growth.

With NIVEA, we are strategically focusing on the Face Care business and intensifying our efforts in the online segment. We are experiencing great success with NIVEA Luminous630, which we sell via cross-border e-commerce. With NIVEA Cellular Luminous630 Anti Dark-Spot Serum, we increased sales by more than 200% and significantly expanded our market shares in the even-skin category. As a result, the serum is now number one in its category in cross-border e-commerce – a remarkable improvement from number four position last year.

At the same time, we are continuing to premiumize our core portfolio, driving premium and high-margin products, both on- and offline. In the second quarter, we managed to increase the share of premium products in China by 60%.

Our premiumization strategy has led to remarkable results, with outstanding organic sales growth of 35% in the second quarter.

Let's look at our third-largest market for NIVEA: Japan. Please keep in mind that Japan's market is primarily dominated by local brands, making NIVEA's position even more remarkable: it's the only successful international and widely recognized Skin Care brand in the mass channel in Japan.

Despite the challenging circumstances of the COVID years and strict government regulations in Japan, 2022 already proved to be a successful year for our business. Now we are witnessing even greater momentum with the strongest quarter in recent history. This growth can be attributed to two driving factors.

Firstly, we continue to build upon our multi-year success in sun protection by introducing another outstanding innovation: The Nivea UV Tone Up Essence which not only contains our patented 3D UV film but is also infused with an essence that provides deep moisturizing care to make the skin more even. Our product series directly addresses the number one unmet need of Japanese women: skin spots caused by UV light.

Secondly, we are strengthening our core products. Particularly noteworthy is our success with Lip products: we have gained the number-one market position and saw excellent growth of 82%.

In Korea, we also experienced strong acceleration in net sales, with an impressive 15.4% increase in the second quarter. Online sales grew by 24% in the second quarter. Additionally, our portfolio's strategic refocus on the Skin Care core categories has been rewarded, as demonstrated by the remarkable triple-digit growth of our Lip category and NIVEA Creme in the second quarter. We continue to outperform the market average with our portfolio, and Korea is one of the fastest growing countries in terms of skin care market share for us.

Turning now to our Emerging Markets region: our achievements thus far and our road map for future business expansion are underpinned by three key drivers: building on our strong NIVEA brand value, focusing on skin care, and taking full advantage of the fast-developing e-commerce and digital environment in the region.

In the last couple of years, we gained significant market shares in the emerging markets with our entire portfolio. Especially strong is the development with our Skin Care business led by the Face Care and Body Care categories. We are outperforming international key competitors and increased our market shares by 325 basis points since 2019.

Our Emerging Markets online business is a particularly strong growth engine, with a remarkable 48% e-commerce growth rate in the first half of the year. This trend underscores the increasing importance of e-commerce for Beiersdorf and our continued success in the digital marketplace. Overall, our efforts in Emerging Markets have led to

significant growth, expanded household penetration of our products, and a remarkable 340 basis point increase in profitability since 2018.

By focusing our efforts on the Skin Care and online business, we generated significant double-digit growth across all our key Emerging Markets in the second quarter, as you can see here.

It's worth highlighting the Central America region, as we have grown by 36.7% there. All major countries contributed to the growth, with Mexico leading the way. Face care products, especially the globally successful innovation NIVEA LuminousW630, were the main drivers, alongside a strong sun care business.

Furthermore, the Central and West Africa region stood out with an impressive sales increase of 52.4% in the second quarter. Nigeria emerged as the key growth contributor, particularly in the deodorant and Body care categories.

Last but not least, we have also observed significant growth in the Southeast Asian region, where tourism has begun to rebound in recent months. Both Indonesia and Thailand, which are among our major markets, are experiencing robust growth, driven by the demand for Body and Sun categories.

Let's move to our luxury business. In the first quarter, we provided an optimistic outlook for the recovery of our La Prairie business in the second quarter. However, we recorded negative growth of 7.5% in the second quarter, and the primary reason lies in the significant disruptions of the Daigou business in the Asian travel retail markets.

A substantial part of Korean travel retail has been benefitting during the Covid years from government support to bring goods to China for resale in absence of individual shoppers. The government support ended last year and this market has been on sharp decline since. While some competitors are offsetting the impact by promotions, we focus on striking the right balance between preserving our brand equity while still ensuring targeted consumer reach in China. While we believe this is the absolutely right decision for the brand, we are aware that this development impacts strongly our last quarter results and will remain visible in the quarters to come.

A similar trend, though not on the same scale, is evident in travel retail in China around Hainan. Despite a gradual but slow recovery of traffic in Hainan, this is currently being offset by stricter stock controls by operators along with strong governmental actions to reduce Daigou purchases. Overall, Daigou business declined by 87% in the second quarter.

In total, excluding Daigou business in China and Korea, La Prairie would have achieved 10% growth in the second quarter.

The challenging business environment is not limited to La Prairie but also impacts our Chantecaille business, which experienced negative sales growth in the second quarter. Apart from the disruptions in the travel retail business in China and Korea, we are witnessing a promising recovery in the rest of the portfolio.

The Travel Retail Asia division excluding Korea and Hainan has shown impressive progress, tripling its business in the first half of the year, with Hong Kong, Japan, Singapore, and Thailand serving as significant growth drivers. Additionally, we are witnessing strong momentum outside Asia, driven by the Middle East region and Europe.

We anticipate that market disruptions in Korea and Hainan will likely normalize around the fourth quarter, and the slower market recovery in mainland China may persist through the third quarter before showing stronger consumption trends starting in the fourth quarter. In spite of this, we maintain an optimistic outlook for the mid-term and beyond.

In preparation for upcoming opportunities, we are leveraging our existing exclusive distribution footprint to expand our presence. With a focus on brick-and-mortar expansion, we are targeting white-spot areas, for example in China: in 2023, we aim to open approximately 20 new doors, enabling us to enter four new cities and connect with a broader customer base. So far, we have already opened 8 doors this year. Additionally, our focus on the US market involves opening over ten new doors in 2023. Furthermore, we are showcasing our exceptional products and services through owned retail, such as the recently opened boutique in Zurich and another one scheduled to open in Shanghai in August.

In addition to our brick-and-mortar expansion, we will continue to drive our e-commerce business, with a strong focus on the Chinese market. Our achievements on Tmall and JD.com are a testament to our success in this domain. As we move forward, we will explore additional dynamic platforms to enhance our online reach. All these actions are aimed at further building brand equity.

I would now like to present a milestone for Beiersdorf, showcasing our determination to lead the industry in cosmetic product manufacturing.

In May, the first cosmetic products “made in Leipzig” rolled off the line at Beiersdorf’s new plant in Germany. Deodorants, hair sprays and shaving foams sold under the brand names NIVEA, 8x4, and Hidrofugal are now being produced in Leipzig for the European market.

With an investment of nearly 300 million euros, this state-of-the-art facility is proof of our commitment to sustainable growth and innovation in Europe. The new plant has a flexible, modular design and fulfills future requirements in terms of automation, digitalization, and agility to adapt to evolving consumer needs and market trends.

Not only does our plant increase productivity, but it also exemplifies our dedication to environmental responsibility. Utilizing renewable energy and biogas, the facility is virtually carbon neutral, and we actively recover and treat valuable resources for sustainable practices.

In this context, let me share some of our sustainability achievements before I hand over to Astrid.

Recently, the French industry magazine LSA conducted a comprehensive study that went beyond mere targets and commitments, shedding light on the tangible achievements of companies in terms of climate action. The study examined annual emission reduction rates, aligning them with the Paris Climate Accord and Science Based Targets initiative guidelines. I am delighted to share that Beiersdorf is not only a leader in our industry but has topped the list of 40 international companies in this study. Our success in emission reduction showcases our strength and unwavering determination to turn our sustainability goals into reality.

Our climate strategy takes a holistic approach, encompassing not only Scope 1 and 2 emissions, but also Scope 3 emissions, which are closely linked to our product ingredients and packaging materials. And we have made further progress here: following last year's sustainability innovations with the NIVEA Shower lightweight bottle and NIVEA Soft formula that is more climate-friendly – both of which achieved significant CO₂ emission reductions – we have recently launched NIVEA Sun and NIVEA Lip Care with relevant improvements and a reduced carbon footprint. Also, Eucerin is progressing well with its product transformation, having launched a refill jar for its Hyaluron-Filler range.

All in all, since 2018, we have included recycled content in about 500 product packaging. And, in the same time frame, we have transformed more than 400 skin care formulations to make them more sustainable. This represents about 1/3 of our NIVEA & Eucerin portfolio.

[Astrid Hermann]

Welcome to our half-year results presentation also from my side. I'm happy to share more details about our strong performance in the first six months of the year.

Let's start with the results on group level. We achieved double-digit organic sales growth of 12.3% in H1 2023. Including foreign exchange effects, we recorded nominal sales growth of 10.3%.

This strong topline growth has fueled our profitability figures despite strong marketing investment in the business. We grew our EBIT significantly in both absolute and relative terms and reached an EBIT margin of 17.3% which is +140bps above previous year.

Mainly due to one-time adjustments in Beiersdorf's transfer pricing system in relation to the new operating model and tax charges for prior periods, tax payments increased in the first six months. The Profit after Tax margin went up by 20bps in the same period.

This means earnings per share excluding special factors of 2.50 euros, up 28 cents versus year-ago.

Turning to our segment view:

Consumer sales increased organically by 14.9% in the first half year. Including foreign exchange effects, this means nominal growth of 12.9%.

We increased our EBIT margin by +190bps to 17.0% of sales. Positive contributions came from the strong gross margin and from the slower development of our general and marketing expenses compared to sales growth. Our absolute marketing budget increased by around 100 million Euros year-on-year. With our clear focus on Skin Care and digital media, we increased efficiencies within the marketing budget and can report significant increases in absolute and relative terms in working media, specifically in digital spending. At the same time, the non-working media spend decreased in absolute terms despite the strong sales acceleration.

Our tesa business had to deal with a complex macro environment in the first half of the year. Nevertheless, we were able to grow this business slightly by 1.2% organically. Adverse foreign exchange and structural effects led to a nominal sales decrease of -1.3%.

As expected, given our ongoing investments in the main strategy pillars and the slower electronics business, the EBIT margin decreased by 70bps to 18.4%.

Let's briefly look at the performance of our Consumer business over the last one and a half years. We finished the full year 2022 with double-digit growth of +10.5%, then accelerated the Consumer topline in the first quarter to 14.8%. We remained at that high level also during the second quarter. This development is all the more impressive when considering the already strong double-digit sales growth in the first half of 2022 which is a tough basis for comparison.

Let's now take a look at how our different brands contributed to the overall excellent performance of the first six months of the year. Vincent

already shared a number of details on the second quarter, so I will just briefly comment on the brand performance through the first half.

Our core brand NIVEA continuously outperformed the market and grew by an outstanding +18.4% like-for-like - in all regions and categories. Throughout the first half of 2023, all major categories recorded impressive double-digit growth, with Skin Care outperforming the Personal Care portfolio - both growing on high levels. Notably, the Sun and Lip categories within the Skin Care portfolio showed particularly strong growth rates. In addition, NIVEA successfully concluded all pricing negotiations in Europe, ensuring stability and favorable conditions for the brand.

Our Derma brands Eucerin and Aquaphor once again demonstrated their unwavering potential, with remarkable sales growth of +26.1% like-for-like. Particularly noteworthy is the unbroken demand in North America driven by Aquaphor and in Latin America fueled by the hugely successful Sun category. At the same time, we increased our market share, especially in the categories Anti Age, Body Care and Sun.

Our plaster brands, Hansaplast and Elastoplast, kept delivering a solid performance, with sales increasing by +5.4% despite a tough base period. Next to our key markets, we saw good growth rates in Latin America and in India, among others. This is coming with market share gains and even stronger market leadership.

Vincent already shared a lot of details on the performance of La Prairie, so I will directly move to our Consumer sales on regional level.

Once again, we can report broad-based growth from a regional perspective as well. The three main regions and almost all subregions reported double-digit sales growth.

In the Europe region, organic sales climbed by +11.2%. In Western Europe, topline growth amounted to +9.2%, mainly driven by strong sales in the United Kingdom, Italy, and Spain. In the Eastern Europe region, sales were up significantly across all countries by +19.5% like-for-like.

Organic sales in the Americas region increased by +21.5%. North America was largely driven by the continued momentum of Eucerin and Aquaphor. At +31.0%, Latin America once again recorded the strongest sales growth across our portfolio. This remarkable performance was backed by double-digit growth rates in almost all countries.

The Africa/Asia/Australia region accelerated significantly in the second quarter and finished the first half of the year with organic sales growth of +14.7%. As mentioned, we faced a difficult environment for our luxury brands in the region, but this was compensated by the strong performance of NIVEA and Eucerin.

Let's have a brief look at our half-year income statement at group level. As already mentioned, the operating result increased significantly in absolute and relative terms in the first six months of the year. Profitability was materially fueled by our strong topline: Research and development as well as general and administrative expenses developed slower than sales. Our marketing and selling expenses increased in absolute terms by 146 million euros but grew slower than net sales due to efficient uses of resources and a higher level of spending on digital marketing activities.

In combination, this helped to significantly increase EBIT and profit after tax in both absolute and relative terms.

Let us now turn to the development of the Consumer gross margin in the first half of 2023.

Assuming constant exchange rates, our gross margin increased by 50bps to 59.8% from 59.3%.

We were able to nearly offset the ongoing cost inflation by meaningful and well-balanced price increases around the globe. Positive mix effects also contributed strongly. The main drivers of mix are the focus on our skin care categories as well as the outperformance of our Derma brands.

The development of our gross margin is very encouraging, and it makes us confident to deliver on our full-year profit guidance – despite the current weakness of the luxury market. The strong gross margin further solidifies our mid-term ambitions regarding the delivery of at least +50bps to Consumer EBIT margins every year.

Turning to Working Capital: In the first half of 2023, working capital increased to 6.1% of sales.

This increase was for one driven by inventory build-up to safeguard material supply and also by higher trade receivables due to the stronger Sun business with longer payment terms. The good performance of Trade Payables did not fully offset the developments in the other elements of working capital.

Let's continue with our tesa business.

We finished the second quarter with organic sales growth of +1.4%, bringing the first six months to a slight sales increase of +1.2%. Given the difficult market environment around the consumer electronics business, we are happy with this performance. It is very much driven by the outperforming automotive business which grew double-digit in the first six months.

Our EBIT margin came in at 18.4% which is below last year. We continue to invest in innovation, digital and sustainability activities.

We are happy to see that our sustainability efforts have just been awarded by EcoVadis, one of the most trusted provider of business sustainability ratings. With our Gold status, tesa is placed among the top 2 percent of companies in the industry. tesa achieved excellent results with its extensive sustainability initiatives, particularly in the areas of environment and energy, sustainable supply chains, working conditions and ethics.

Before I finish my presentation, a few words about our full-year guidance for 2023. Looking ahead, we are expecting a certain level of volatility in the coming months, especially around the recovery of the luxury market.

However, on the back of the strong sales development year-to-date, we increase our sales guidance for the Consumer segment. We now expect to achieve growth in the range of high-single to low-double digit. With better performance in the luxury segment, we expect to reach the upper end of this range. At the same time, we reiterate our guidance of +50 basis points of EBIT margin improvement. We plan to strongly drive investments in our business in the second half to continue to fuel future profitable growth, particularly in terms of marketing and digital investments.

For tesa we are confident regarding the second half of the year and maintain our guidance. We are looking for mid-single digit organic sales growth in the full year 2023. The EBIT margin will be slightly below last year's level.

This means for the Group that we are guiding for a high-single to low-double digit organic sales growth range in 2023, and for an EBIT margin slightly above last year's level.