

Oddity Tech

Reiterate Buy, Strong repeats drive 3Q beat and raise

Reiterate Rating: BUY | PO: 37.00 USD | Price: 29.76 USD

3Q exceeded expectations on all metrics

We reiterate our Buy rating given ODD's strong & profitable growth profile and view its enhanced technological capabilities as a differentiator vs legacy peers. ODD's 3Q results exceeded its October positive preannouncement on all metrics, posting sales +37% (pre was 29-31%), GM of 70.3% (pre was 68.5%), and adj. EBITDA of 22% (pre was 21-21.5%); 3Q EPS of \$0.21 beat our/VA cons of \$0.15/\$0.13. Sales were bolstered by better-than-expected repeat rates at both brands, which reflects brand health and customer loyalty. We are maintaining our \$37 PO, still 16x EV/EBITDA on our C24 estimate.

Raised F23 guidance on 3Q beat, 4Q momentum

Mgmt raised F23 guidance to account for the 3Q beat and strong momentum in 4Q. Sales are now expected to be \$493-497mn (vs \$475-480mn prior), GM of 70% (vs 69.5% prior), adj EBITDA margin of 21% (vs 20-21% prior), and EPS of \$1.21-1.23 (vs \$1.11-1.17 prior). Over half of F23 sales will be from repeats, which come at a higher margin. SpoiledChild is expected to achieve \$100mn in net revenue this year, and we see long a runway for continued growth through new products and international expansion.

Sustainable >20% margins

F23 adj EBITDA margin target of 21% is aligned with the company's LT algo of 20% margins annually. The company continues to reinvest revenue upside into various initiatives, including new brands, Oddity Labs, and testing new markets, which we think positions them well for future growth. We expect the company will continue reinvesting a level of upside going forward and manage margins above 20%. Gross margin in the quarter benefited from supply chain & logistics efficiencies, offset partly by negative mix shift towards SC which carries a lower margin than IM, though this gap is narrowing.

New product & brand launches on track

The company is on track to launch 10 new products in 2024 using molecules from Oddity Labs (AI-based molecule discovery platform), which we view as a point of differentiation vs legacy beauty players. Additional products (not lab-related) on top of these 10 will also be introduced throughout the year. Brand 3 is still slated for launch in 2025 and will leverage the company's hyperspectral vision technology for skin diagnostics while the products utilize molecules developed at Labs.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS | NA | NA | 1.17 | 1.50 | 1.62 |
| EPS Change (YoY) | NA | NA | NA | 28.2% | 8.0% |
| Consensus EPS (Bloomberg) | | | 1.17 | 1.51 | 1.59 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| P/E | NA | NA | 25.4x | 19.8x | 18.4x |
| GAAP P/E | NA | NA | 25.4x | 19.8x | 18.4x |
| EV / EBITDA* | 63.4x | 42.8x | 16.1x | 12.4x | 11.5x |
| Free Cash Flow Yield* | 0.5% | 2.1% | 2.9% | 4.2% | 4.7% |

* For full definitions of *IQmethod*SM measures, see page 4.

09 November 2023

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|---------|
| 2023E Rev (m) | 484.2 | 495.9 |
| 2024E Rev (m) | 579.4 | 591.3 |
| 2025E Rev (m) | 696.0 | 705.7 |
| 2023E EPS | 1.15 | 1.17 |
| 2024E EPS | 1.55 | 1.50 |
| 2025E EPS | 1.68 | 1.62 |

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Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 29.76 USD |
| Price Objective | 37.00 USD |
| Date Established | 4-Oct-2023 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 24.12 USD - 56.00 USD |
| Mrkt Val (mn) / Shares Out (mn) | 1,711 USD / 57.5 |
| Average Daily Value (mn) | 17.59 USD |
| BofA Ticker / Exchange | ODD / NAS |
| Bloomberg / Reuters | ODD US / ODD.OQ |
| ROE (2023E) | 37.6% |
| Net Dbt to Eqty (Dec-2022A) | -33.4% |

GM: gross margin

LT: long-term

SC: SpoiledChild

IM: Il Makiage

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Timestamp: 09 November 2023 12:01AM EST

iQprofileSM Oddity Tech

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | NA | 23.7% | 33.7% | 26.7% | 21.8% |
| Return on Equity | 40.2% | 28.4% | 37.6% | 28.1% | 22.6% |
| Operating Margin | 10.2% | 10.8% | 19.4% | 21.0% | 19.0% |
| Free Cash Flow | 8 | 37 | 49 | 72 | 81 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|--------|--------|--------|--------|--------|
| Cash Realization Ratio | 0.6x | 1.4x | 0.7x | 0.8x | 1.0x |
| Asset Replacement Ratio | 0.6x | 0.5x | 0.4x | 0.4x | 1.9x |
| Tax Rate | 25.3% | 25.0% | 25.6% | 25.0% | 25.0% |
| Net Debt-to-Equity Ratio | -30.1% | -33.4% | -11.9% | -26.3% | -35.0% |
| Interest Cover | NA | NA | NA | NA | NA |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|-----------|--------------|---------------|--------------|-------------|
| Sales | 223 | 325 | 496 | 591 | 706 |
| % Change | NA | 45.8% | 52.8% | 19.2% | 19.3% |
| Gross Profit | 153 | 218 | 346 | 409 | 486 |
| % Change | NA | 42.4% | 58.7% | 18.3% | 18.6% |
| EBITDA | 27 | 39 | 105 | 136 | 147 |
| % Change | NA | 48.2% | 165.0% | 29.9% | 8.3% |
| Net Interest & Other Income | 1 | 0 | 0 | 0 | 0 |
| Net Income (Adjusted) | 16 | 27 | 74 | 94 | 102 |
| % Change | NA | 67.7% | 171.1% | 27.8% | 8.3% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------------------|-----------|---------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 16 | 27 | 74 | 94 | 102 |
| Depreciation & Amortization | 4 | 4 | 9 | 12 | 13 |
| Change in Working Capital | 5 | 20 | (24) | (11) | (16) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | (16) | (12) | (6) | (18) | 7 |
| Capital Expenditure | (2) | (2) | (3) | (5) | (25) |
| Free Cash Flow | 8 | 37 | 49 | 72 | 81 |
| % Change | NA | 369.5% | 34.7% | 46.2% | 12.0% |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|------------|------------|------------|------------|------------|
| Cash & Equivalents | 29 | 41 | 34 | 103 | 180 |
| Trade Receivables | 5 | 8 | 10 | 11 | 14 |
| Other Current Assets | 59 | 97 | 203 | 248 | 292 |
| Property, Plant & Equipment | NA | NA | NA | NA | NA |
| Other Non-Current Assets | 50 | 71 | 129 | 125 | 124 |
| Total Assets | 143 | 216 | 374 | 487 | 610 |
| Short-Term Debt | 4 | 4 | 0 | 0 | 0 |
| Other Current Liabilities | 51 | 87 | 81 | 84 | 86 |
| Long-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Non-Current Liabilities | 7 | 15 | 11 | 12 | 11 |
| Total Liabilities | 62 | 105 | 92 | 96 | 97 |
| Total Equity | 81 | 111 | 282 | 391 | 514 |
| Total Equity & Liabilities | 143 | 216 | 374 | 487 | 612 |

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Softline

Company Description

Oddity is a consumer tech platform of DTC brands aimed at disrupting the beauty and wellness market. The company takes a data-centric approach to identifying consumer needs and developing science-backed, high-quality products. The company's proprietary machine learning, AI-driven algorithms collect & leverage user data to deliver highly accurate product matching recommendations. Products are sold 100% online through each brand's website.

Investment Rationale

Our rating on ODD is Buy. We see opportunity for ODD to use its enhanced technological capabilities to capture share from legacy players. We model 20% sales growth annually but see potential upside to that, driven by new product launches and continued high repeat rates (which come with higher margins) on a growing customer cohort. Two new brand launches in 2025 should drive further opportunities targeting new end users.

Stock Data

Average Daily Volume 591,033

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|------|-------|
| Q1 | NAA | NAA |
| Q2 | NAA | 0.56A |
| Q3 | NAA | 0.21A |
| Q4 | NAA | 0.12E |

Price objective basis & risk

Oddity Tech (ODD)

Our PO of \$37 uses a 16x 2024E EV/EBITDA multiple. This is in line with the peer group average. We think this is warranted given ODD's stronger growth profile and superior margins to peers, and softer C24 sales growth and slightly lower margins vs ELF.

Risks to our PO are a significant slowdown in consumer demand for beauty & wellness products, delays in product launches, inability to attract new customers to existing & future brands which may result in having to increase marketing spend. Upside would be faster than planned launch of new brands with successful customer reception, and faster international expansion.

Analyst Certification

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US - Softline Retailing and Dept Stores Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|-------------------------|-------------|------------------|--------------------------|
| BUY | | | | |
| | Bath & Body Works Inc | BBWI | BBWI US | Lorraine Hutchinson, CFA |
| | Burlington Stores | BURL | BURL US | Lorraine Hutchinson, CFA |
| | Deckers Outdoor Corp | DECK | DECK US | Christopher Nardone |
| | European Wax Center | EW CZ | EW CZ US | Lorraine Hutchinson, CFA |
| | lululemon athletica Inc | LULU | LULU US | Lorraine Hutchinson, CFA |
| | Oddity Tech | ODD | ODD US | Lorraine Hutchinson, CFA |
| | PVH Corp | PVH | PVH US | Christopher Nardone |
| | Ralph Lauren | RL | RL US | Christopher Nardone |
| | Ross Stores Inc | ROST | ROST US | Lorraine Hutchinson, CFA |
| | Tapestry Inc. | TPR | TPR US | Lorraine Hutchinson, CFA |
| | TJX Companies | TJX | TJX US | Lorraine Hutchinson, CFA |
| | Urban Outfitters | URBN | URBN US | Lorraine Hutchinson, CFA |
| | Victoria's Secret & Co | VSCO | VSCO US | Alice Xiao |
| NEUTRAL | | | | |
| | Birkenstock | BIRK | BIRK US | Lorraine Hutchinson, CFA |
| | FIGS, Inc. | FIGS | FIGS US | Alice Xiao |
| | Foot Locker | FL | FL US | Lorraine Hutchinson, CFA |
| | Levi Strauss & Co. | LEVI | LEVI US | Christopher Nardone |
| | Nike | NKE | NKE US | Lorraine Hutchinson, CFA |
| | Signet Jewelers | SIG | SIG US | Lorraine Hutchinson, CFA |
| | Ulta Beauty | ULTA | ULTA US | Lorraine Hutchinson, CFA |
| | Under Armour Inc | UAA | UAA US | Lorraine Hutchinson, CFA |
| UNDERPERFORM | | | | |
| | American Eagle | AEO | AEO US | Christopher Nardone |
| | Aritzia | YATZ | ATZ CN | Alice Xiao |
| | Aritzia | ATZAF | ATZAF US | Alice Xiao |
| | Carter's Inc | CRI | CRI US | Christopher Nardone |
| | Gap Inc. | GPS | GPS US | Lorraine Hutchinson, CFA |
| | Kohl's | KSS | KSS US | Lorraine Hutchinson, CFA |
| | Macy's | M | M US | Lorraine Hutchinson, CFA |
| | Nordstrom | JWN | JWN US | Lorraine Hutchinson, CFA |
| | Revolve | RVLV | RVLV US | Alice Xiao |



US - Softline Retailing and Dept Stores Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|----------|-------------|------------------|--------------------------|
| | V F Corp | VFC | VFC US | Lorraine Hutchinson, CFA |

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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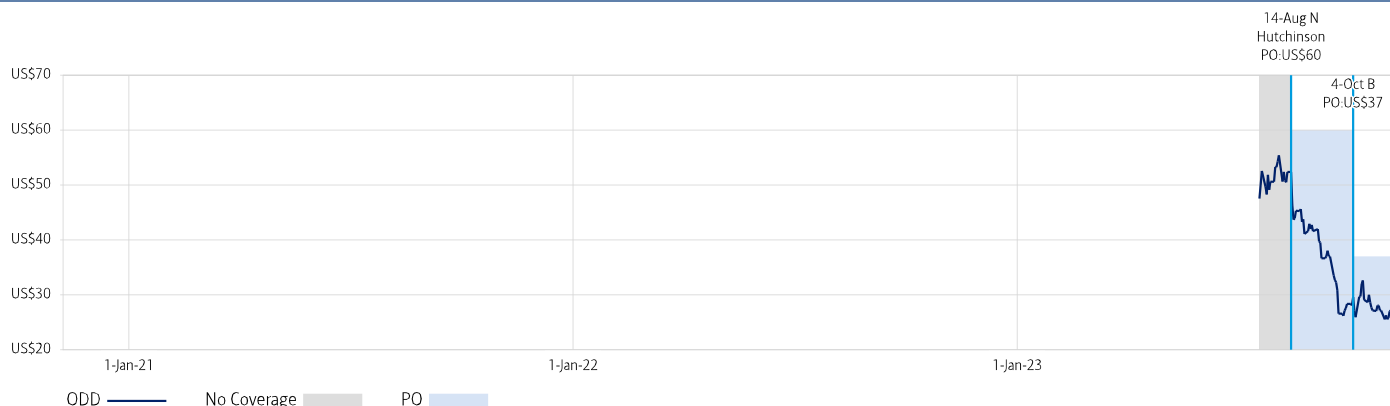
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Oddity (ODD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 30 Sep 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|------------------------------------------|-------|---------|
| Buy | 89 | 53.94% | Buy | 37 | 41.57% |
| Hold | 34 | 20.61% | Hold | 14 | 41.18% |
| Sell | 42 | 25.45% | Sell | 19 | 45.24% |

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|------------------------------------------|-------|---------|
| Buy | 1869 | 53.48% | Buy | 1046 | 55.97% |
| Hold | 828 | 23.69% | Hold | 461 | 55.68% |
| Sell | 798 | 22.83% | Sell | 370 | 46.37% |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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