

LINDT & SPRÜNGLI AG

INDIVIDUAL COMPANY REPORT

“THE FUTURE OF A CHOCOLATE GIANT”

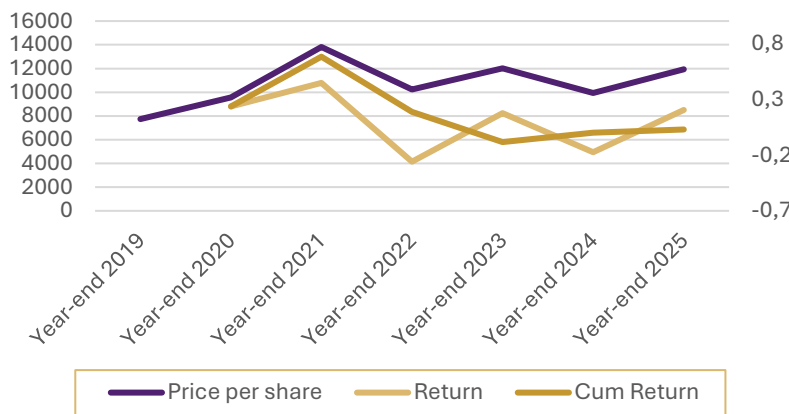
CONSUMER GOODS INDUSTRY

17 DECEMBER 2024

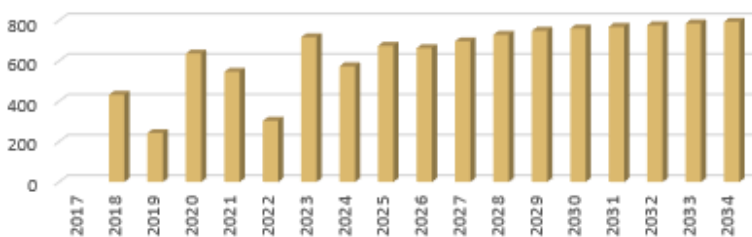
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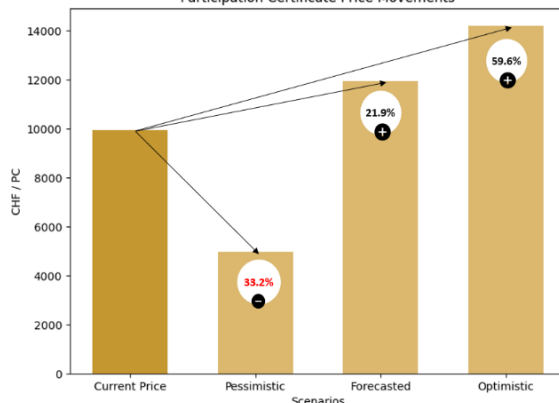
Lindt's PC Price Movements



Free Cash Flows, CHF Millions



Participation Certificate Price Movements



Recommendation: BUY

Price target FY2025: 11 943 CHF

Participation Certificate (+21.93%)

Price (as of 06/12/2024): 9 930 CHF

Bloomberg: LISP.SW (PC)

Price target FY2025: 118 591 CHF

Registered Share (+21.94%)

Price (as of 06/12/2024): 98 600 CHF

Bloomberg: LISN.SW (RC)

VALUES IN MILLIONS CHF	2022A	2023A	2024F
REVENUES	4'970	5'201	5'383
NET INCOME	570	672	699
NET MARGIN	11,4%	12,8%	12,7%
CORE INVESTED CAPITAL	3'710	3'714	3'871
ROIC	16,16%	18,67%	18,33%

Abstract

This report, supported by the annexed sheets from the valuation model file, aims to provide a Market Capitalization Target for Lindt & Sprüngli for end year 2025.

The report starts with a brief overview of the company and its history in the industry. Following, the complete breakdown of Lindt's business strategy throughout the years, going over our prevision of how the forward-looking strategy of the firm could look like, considering the industry and the company's competitors and their dynamics.

It is followed by a deep dive into Lindt's financials and company structure, where the company's sales, profitability, capital structure and management efficiency are contrasted with those of its competitors.

On to the valuation section, the report goes over the assumptions behind our analysis, their explanation and respective effects on the future financial statements of the firm, from 2024 to 2034. Using this data, we conducted various methodologies to determine Lindt's intrinsic value, encompassing the calculation of the Weighted Average Cost of Capital (WACC) for the firm, the application of a Discounted Cash Flow (DCF) approach, a Dividend Discount Model, and a multiples-based valuation. Furthermore, a sensitivity analysis was performed to assess the influence of critical line items on projected results, thereby enhancing the robustness of the valuation process.

This equity research report demonstrates the analytical rigor necessary to evaluate a leading firm in the premium chocolate industry. Thus, by combining financial modelling with strategic insights, it seeks to provide a comprehensive view of Lindt's potential for ongoing value creation in the future.

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY DUARTE MACHADO AND JOSÉ PATRÍCIO, MASTERS IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL.

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Company History

The history of Lindt & Sprüngli dates to 1845, when confectioner David Sprüngli-Schwarz and his son Rudolf Sprüngli-Ammann became the first to produce solid chocolate in the German-speaking region of Switzerland.

In 1879, Rodolphe Lindt acquired two fire-damaged factories with the intention of manufacturing chocolate. He then invented the "Conche", a process that allowed chocolate products to lose their coarse texture and bitter taste. This technique is now used by every chocolate manufacturer globally. Rodolphe is also responsible for the creation of Lindt's famous "chocolat fondant," which was the world's first melting chocolate. Thanks to this innovation, Rodolphe Lindt became the first chocolatier to taste and produce chocolate products as we know them today. His melting chocolate significantly contributed to the global reputation of high-quality Swiss chocolate.

In 1892, Rudolf Sprüngli-Ammann retired from his confectionary business, dividing the Sprüngli companies, chocolate factory, and confectionery shops between his two sons. Johann Rudolf expanded the factory and relocated it in 1899, merging it with Rodolphe Lindt's small but renowned chocolate factory, acquired for 1.5 million gold francs (or CHF 100 million today), thus creating "Chocolat Sprungli AG".

During the first two decades of the 20th century, Lindt&Sprüngli consolidates itself as one of the biggest titans in the Swiss Chocolate Industry, exporting almost three quarters of its production to more than twenty nations around the world. The Great Depression and the consequent protectionism lead to progressive losses in foreign markets and some unsuccessful

attempts to expand operations abroad. After the Second World War, the demand for Swiss chocolate rose across the world. The company began to develop and produce an heterogeneous variety of chocolate products, of different kinds and flavours, launching some iconic products that last on our traditions until nowadays. The innovative spirit of Lindt&Sprüngli allowed the firm to forged itself as a market leader worldwide, with 12 factories across the world, including in Switzerland, Germany, France, Italy, Austria and the United States, with around 14,500 employees. Lindt also operates also more than 410 chocolate cafés and shops, working to create the idealized image associated with their brand.

Business Strategy

Lindt & Sprüngli current governance based its entire business strategy over six guiding principles which influence every aspect of the day-to-day business of the group: **quality, commitment and qualification, customer orientation, social responsibility, and profitability**. These core values are the key drivers behind the success story of the firm.

As an importer of cocoa beans from all over the world, especially in developing countries where there are concerns regarding child/slave labour, sustainability in resource usage and disregard for local economies, Lindt is continuously focusing in taking special control over its entire supply chain, from harvesting to refinery and distribution, steering clear from scandals that can tarnish the brand's reputation. As a result, Lindt developed special programmes like the **Lindt& Sprüngli Farming Program**, which helps increasing the resilience and income of farming households, reducing the risk of child labour

and conserving biodiversity and natural ecosystems. Currently, around 72,3% of the cocoa products used by the firm come from these sustainability programmes and around 131 000 farmers from developing countries are over its vigilance and support. These kinds of actions enable Lindt to produce lifelong partnerships with its suppliers, establishing traceable and transparent supply chains, which allow the company to oversee product quality and sustainability of the production from the bean to the bar.

The company's strategy for the future aims to continue the expansion to new markets and specific segments, specially to emerging markets, developing simultaneously new products targeting popular trends, such as the premium chocolates or the dietary products (vegan, sugar-reduced, GLP1, among others). Meanwhile, Lindt expects to continue to improve its brand support, capitalize the potential of its secondary franchise network (a fundamental vehicle for brand expansion), to improve sustainability and digitalization efforts within the group, as well as to keep strong focus on gifting campaigns, which made Lindt a world symbol for special gifts and moments. Aligning all these business actions with its usual focus on quality and reputation, will allow the company to leverage its strengths and prevail to foster growth on the long-term.

SWOT Analysis



LINDT & SPRUNGLI	
Strengths	Weaknesses
<ul style="list-style-type: none"> Robust global distribution network. Diverse Brand Portfolio. Established Legacy with over 175 years of experience. 	<ul style="list-style-type: none"> Widespread belief that Lindt is perceived as a costly brand. Reduced liquidity over the years.
Opportunities	Threats
<ul style="list-style-type: none"> Strategic growth initiatives across different regions. Increasing production infrastructure and efficiency. Favourable trends on the global confectionery industry (increasing urbanization, fast-paced lifestyles, and a general rise in disposable income). 	<ul style="list-style-type: none"> Fluctuating raw material costs. Health-oriented trends. Currency exchange risks over growing world instability.

Figure 3 – Lindt&Sprungli SWOT analysis (Source: Our production)

Group structure and shareholders

The organizational structure of the company is streamlined. The Board of Directors is tasked with overseeing management, strategy, and supervisory responsibilities at the highest level, while the Executive Chairman, CEO, and members of Group Management are accountable for operational management functions and strategy.

According to the articles of association of the group, the board is composed by five to nine members elected on the general meeting, with functions currently being performed by Ernst Tanner (chairman of the board since 1994), Dr. Dieter Weisskopf (member of the board since 2022 and chairman of the Sustainability Committee), Dr. Rudolf K. Sprüngli (member since 1988, and also member of the Compensation & Nomination Committee), Elisabeth Gürtler (member since 2009, as well as part of the Audit Committee), Dr. Thomas Rinderknecht (member since 2016 and chair of the previous mentioned committee), Silvio Denz (member since 2018) and Monique Bourquin (member since 2023 and chair of the CNC committee). All directors on the board have an extensive curriculum either on the food industry or in the financial sector, with previous experiences on other listed companies or previous background on the group's management, relevant experiences that enrich the group's overall strategy.

Regarding the group's shareholders' structure, it presents as major shareholders the BlackRock Inc. as a parent company with 4,46% of the company's share capital and the "Fonds für Pensionsergänzungen der Schokoladefabriken Lindt & Sprüngli AG", the "Finanzierungsstiftung für die Vorsorgeeinrichtungen

der Chocoladefabriken Lindt & Sprüngli AG”, the “Lindt Cocoa Foundation”, and the “Lindt Chocolate Competence Foundation”, which held, as a group, a total of 20,61% of the company’s share capital. Ernst Tanner, group’s chairman of the Board, also owns approximately 2,29% of the group’s capital. The remaining capital is publicly traded in the Swiss Exchange Market.

The firm presents two different kinds of share capital publicly traded, the registered shares (trading under the ticker LISN.SW) with full voting and distribution rights and the participation certificates (trading under the ticker LISP.SW) with no voting rights, but full rights to the economic benefits of the company (such as dividends). For that reason, the complete market value of the company will always be a weighted sum of both shares and their outstanding emissions, knowing that the registered shares have a nominal value of CHF 100 and the participation certificates a nominal value of CHF 10.

For their lower nominal value, the PCs present higher liquidity on the financial markets, being the best instrument to evaluate the firm’s value perceived by the markets/investors and disabling the effects of one-off investments from big investors on price movements, which are more common when we consider the registered shares. That explains why the main focus of our report will be on the participation certificates, in order to place special focus on long-term value, instead of one-off circumstances.

Historical Financial Analysis

Asset Turnover

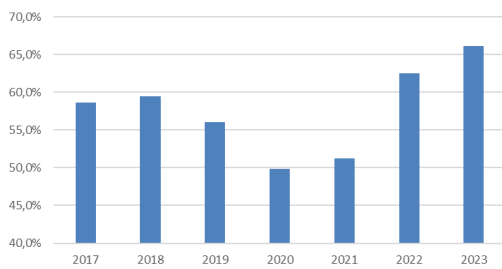


Figure 5 – Lindt's Asset Turnover between 2017 and 2023 (Source: Our Analysis based on Year-end Company Reports).

Lindt's return evolution

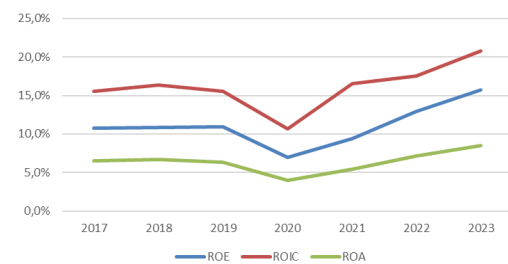


Figure 6 – Lindt's ROA, ROE and ROIC evolution between 2017 and 2023 (Source: Our Analysis based on Year-end Company Reports).

Operational Net Margin

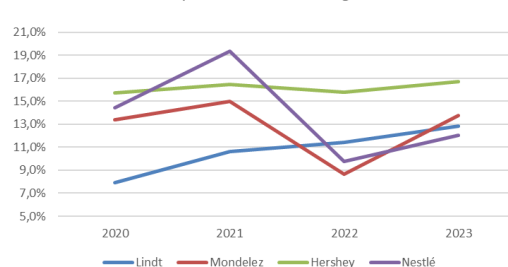


Figure 7 – Operational margin of Lindt and its competitors, between 2020 and 2023 (Source: Our Analysis based on Year-end Company Reports).

The following sector of this report addresses a financial analysis of the company and its competitors focusing on profitability, capital structure, cashflow management, return and efficiency ratios, to get a snapshot of numbers that define businesses. This serves the report as we for better informed hypothesis on Lindt's positioning and characteristics as a company, which in turn lead to better judgements and valuation.

Profitability

While embarking in a worldwide expansion, with successive acquisitions of unities (Hofbauer and Küfferle, Ghirardelli Chocolate Company, Caffarel, Russell Stover) and new distribution centers/stores, Lindt has continued to be able to generate value from its investments and consequent synergies, what allowed the firm to generate on average an asset turnover of 58%, with consecutive growth through the period of our analysis. This increasing efficiency on Lindt's revenue generation capacity has significantly contributed to increase indicators as its ROE (from 10,8% in 2017 to 15,8% in 2023) or ROIC (from 15,5% in 2017 to 20,8% in 2023), despite some macroeconomic downturns (e.g. global pandemic of 2020), and serves as a great indicator of Lindt's ability to resist temporary negative impacts on its revenues.

The investments made by the Group have enhanced operational improvements, causing lower increases in indirect costs of their production and, consequently, an improvement in Operational/Net Margin from 10,4%/7,9% in 2020 to 13,7%/10,7% in 2023, even though the rising price of its main direct inputs (specially the challenging environment of cocoa

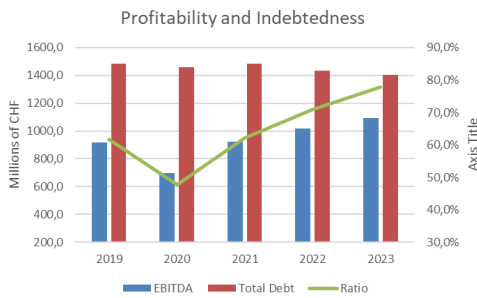


Figure 8 – Lindt’s EBITDA and Debt relation from 2019 to 2023 (Source: Our Analysis based on Year-end Company Reports).

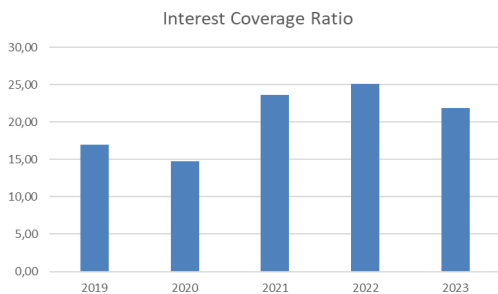


Figure 9 – Lindt’s Interest Coverage Ratio evolution from 2019 to 2023 (Source: Our Analysis based on Year-end Company Reports).

Cashflow Management

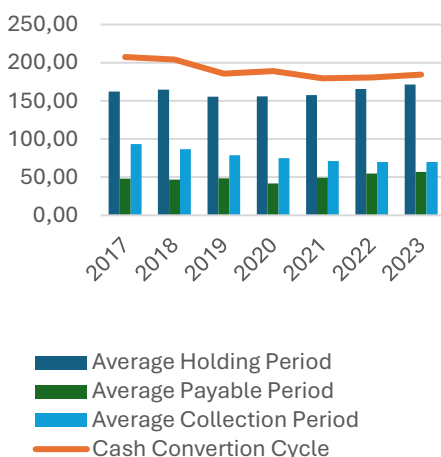


Figure 10 – Lindt’s cashflow management evolution from 2017 to 2023 and their impact on cash conversion cycle (Source: Our Analysis based on Year-end Company Reports).

markets with higher environmental/social regulations and an increasing price competition) had driven down the Gross Margin of the group, from 40,7% to 38,8% between 2020 and 2023. Nevertheless, those improvements in monitoring of personnel and other operating expenses, have positioned Lindt side by side with its biggest competitors regarding profitability (specially with Mondelez, Hershey and Nestlé).

Capital Structure

Between 2019 and 2023, the firm substantially increased its capacity to face its interest-bearing obligations from 61,8% to 77.8% on EBITDA/Debt, placing it with the highest ratio on the industry (among the studied peers). The low-interest ecosystem of Switzerland and the firm’s availability for other forms of funds (high reserves of excess capital / retaining earnings) had contributed to originate a capital structure that is substantially different from its peers. In fact, the levels of debt of the firm are almost constant and even decreased between 2021 and 2023, and this is the obvious conclusion when we look to the firm’s interest coverage ratio (on average 20.46, the highest among the comparable firms) or its financial autonomy/gearing ratio (on average 56,9%/20%, one of the highest dependences on equity capital to finance its assets in the sector), leaving no margin for doubt regarding Lindt’s capacity to honour its debt commitments. Usually, firms prefer to finance their investments through debt, an usual less expensive financing source than equity, with potential to increase the value of the firm through the consequent tax shields. However, Lindt’s low cost of equity allow the firm to increasingly invest equity capital in their activities, reducing its exposure to debt and consequently lower the impacts of its covenants on liquidity.

Management Efficiency

Regarding its day-to-day cashflow management, the company presents an high Cash Conversion Cycle (on average 190,20, between 2017 and 2023), what is common for industrial companies, but might indicate that the firm is paying to its suppliers (average payable period of 49.45, between 2017 and 2023) long before it receives the cash from its sales (average receivable period of 77,88, on the same period), a signal of bad operational efficiency that might prejudice liquidity and net working capital (which decreased from 1731 M CHF in 2017 to 766 M CHF in 2023). Nevertheless, this cashflow management indicator has been decreasing from 207,46 in 2017 to 184,50 in 2023.

Liquidity ratios on perspective

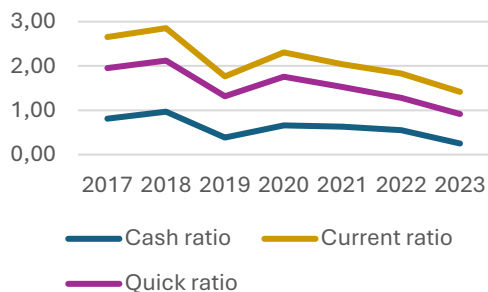


Figure 11 – Lindt’s Cash, Current and Quick ratio evolution, between 2017 to 2023 (Source: Our Analysis based on Year-end Company Reports).

Liquidity

In fact, when we look to Lindt’s liquidity measurements, its notorious the drastic reduction of cash reserves of the firm, partially induced by the above-mentioned inefficiencies, but also by the heavily invested capital, evidenced by the slump on liquidity ratios such as the cash ratio, the quick ratio or the current ratio, which show the increasing difficulty of the company to cover its short-term liabilities with its current assets. Despite these reduction on the liquidity of its assets and the increasing dependence on short-term debt, the company continues to present a quick/current ratio well over 1, meaning that serious motives for worries are still far away.

Valuation

The next section goes over the structure, methods and assumptions taken into consideration during the valuation exercise of the company, with explanations about the reasoning that led to these conclusions, aiming to forecast with accuracy the possible intrinsic value of the company's attributes and correspondent future market valuation.

Key Assumptions for the Financial Model

WACC

The Weighted Average Cost of Capital (WACC) translates the risks encountered and reflects the average return rate necessary to meet the expectations of creditors, shareholders, and other providers of capital. This rate serves as the discount factor applied to our projected free cash flows to determine their present value, as WACC-based discount models yield optimal results and provide a more precise price target for firms like Lindt. By employing a uniform rate to discount all anticipated cash flows, it is presumed that the company's capital structure remains unchanged.

The calculation of WACC involves three essential elements: the cost of equity, the after-tax cost of debt, and the proportion of equity to debt within the company's target capital structure. The market value of equity is inputted considering year end values, while the book value of debt serves as a proxy for its market value. The equity market value is determined by multiplying the share price by the total number of outstanding shares, taking into consideration the two types of share capital issued by the company: registered shares (traded with ticker LISN.SW) and participation certificates (traded with ticker LISP.SW). Given



Figure 12 – Switzerland 10-year treasury bond yield, between 2014 and 2024.

(Source: Trading Economics).

that most bond prices of the company are relatively stable (economic environment with few interest changes over the years) and often considered “stale” (firm creditworthiness is assumed constant on the long-term), the book value of debt is regarded as a reliable proxy for market value.

The cost of debt derives from the risk-free rate (assumed to be the yield of the Swiss Government 10-year Treasury Bond (historically low, with exception of the inflation combat’s public policy period, between 2022 and 2023), as this is the market where Lindt concentrates more of its debt exposure), and from the debt spread of the company, which was extracted from Aswath Damodaran (2024) findings. This research establishes a connection between the credit rating of corporate bonds on a large U.S. sample (based on interest coverage ratio) and the subsequent firm’s debt spread. Considering that Lindt presents an average interest coverage ratio of 21,34 between 2019 and 2023 and a credit rating of AAA on its bonds, the associated debt spread used was 0.59%. These results perfectly align with our analysis over the YTM of Lindt’s bond emissions currently available, with a default spread of 0,58. These values were then added to obtain a cost of debt for Lindt of 0.80%.

Moreover, the cost of equity was determined through the Capital Asset Pricing Model (CAPM), which outlines the correlation between an asset's expected return and its associated risk, as well as the return on risk-free investments. As of 6th of December 2024, the yield on a 10-year Swiss Government Treasury Bond was used as a benchmark for the risk-free rate, which was recorded at 0,21%. The equity risk premium (ERP), representing the disparity between the anticipated market return and the risk-free rate, was calculated to be 4.6%, based on current

Weighted Average Cost of Capital (WACC)	
Debt	
Lindt Debt Rating	AAA
Debt Spread	0,59%
Risk free rate	0,21%
Cost of Debt (Rd)	0,80%
Relevering the Beta	
Adjusted Levered Beta e (2 year - weekly)	21,00%
D/EV	4,40%
E/EV	95,60%
Relevering the Beta	
Target D/E	3,62%
Adjusted Levered Beta e (2 year - weekly)	0,83
Unlevered Beta	0,80
D/EV	4,40%
Market risk premium	4,60%
E/EV	95,60%
Discount rate	
Unlevered Beta	0,80
Market risk premium	4,60%
Beta e	0,83
Cost of assets (Ru)	3,87%
Cost of equity (Re)	3,98%
WACC	3,83%
Beta d	0,13
Beta e	0,83
Cost of assets (Ru)	3,87%
Cost of equity (Re)	3,98%
WACC	3,83%

Figure 13 – Main components and assumptions for our WACC calculation.

economic conditions and historical data, as reported by Aswath Damodaran (Damodaran 2024), using the traditional method for estimating the equity risk premium through historical returns in Switzerland, specifically the difference in annual returns between stocks and bonds over an extended timeframe from 2000 to 2022. In order to incorporate the firm-specific risk in our cost of equity, we have done a regression of the equity returns of the firm over the benchmark (Swiss Market Index) during the last 5 years in a weekly approach, and the same for some industry competitors. Over the timeframe analysed, Lindt presented an higher level of correlation with the market portfolio (competitors average beta was approximately 0,61), and therefore its own value was used as base for this analysis (0.83). The unlevered equity beta (0.79) was once again relevered using the firm's target D/E and used among the other mentioned inputs to extract a cost of equity for the firm of 3.98%.

After adjusting the after-tax cost of debt and cost of equity to the firm's target capital structure (assumed to be relatively stable and with tendency for the average), we have reached an estimated WACC of 3.83% for the company.

Multiples Valuation

In addition to the DCF Valuation, our report also implements a comparative valuation method known as comparable company analysis. This approach involves utilizing ratios from publicly traded firms that function within the same industry, and share similar characteristics with Lindt, regarding product lines, production methods or target markets. We referenced six competitors on this process (Hershey, Barry Callebaut, Mondelez, Lotte Wellfood, Nestlé and Rocky Mountain Chocolate Factory), identifying within this group three true comparable firms, that share higher level of comparability with our target company, from the financial perspective.

To evaluate Lindt's value in relation to its competitors, we employed four distinct multiples: EV/Revenue, EV/EBITDA, Price-to-book (P/B) and P/E. Then, we utilized forward-looking multiples to derive an estimated enterprise and equity value for Lindt. This approach is preferred as historical returns can be influenced by one-time events such as acquisitions or significant operational changes. By focusing on forward-looking multiples, we mitigate the impact of these one-time occurrences and adhere to the fundamental valuation principle that a company's value is equivalent to the present value of its future cash flows.

After performing a financial comparative analysis with the selected peers over profitability and capital structure, we have discovered deeper similarities between Lindt and three companies of the selection, the ones we called "true comparables": Hershey, Mondelez and Nestlé. Between 2019 and 2023, these companies have shown greater proximity on indicators like operating margin or net margin, varying on

average between 11% and 16%, reflecting these firms' higher control over market share and economies of scale on their large operations. Also, regarding capital structure, these comparable firms have shown larger interest coverage capability and similar equity/debt structures, although differing from Lindt on this indicator, as Lindt has shown higher ability in keeping indebtedness lower in relation to its equity value.

Rocky Mountain has been excluded from the comparable selection and considered an outsider for its reduced size, compared to Lindt, but also for the negative phenomenon of negative profitability currently faced by the company, which may impact the analysis/forecast.

Eventually, we reached an average for our sample of EV/EBITDA of 5.6x, an average EV/Sales of 1,92x, a price-to-book ratio of 3.96x, and P/E of 14.73x for the industry. After disregarding the outsiders from our sample of comparables and conducting the necessary steps to calculate Enterprise Value and Market Value of Equity for Lindt from these multiples, we have achieved the estimated prices per share of Lindt as: 6'135 CHF through the EV/EBITDA, 5'599 CHF through the P/E, 10'998 CHF through the P/B and 6'309 CHF through the EV/Sales, or on average, 7'260 CHF.

The forecasted value with higher similarity to our estimated price through DCF analysis is the P/B approach, what is consistent since this multiple is particularly preferred when the emphasis is on assets or a conservative view of intrinsic value, rather than earnings, revenues, or cash flows (which have higher potential to be influenced by temporary disturbances that may affect these asset-intensive manufacturing companies, as usual on the food industry). Unlike the Price-to-

Multiples Variation among peers

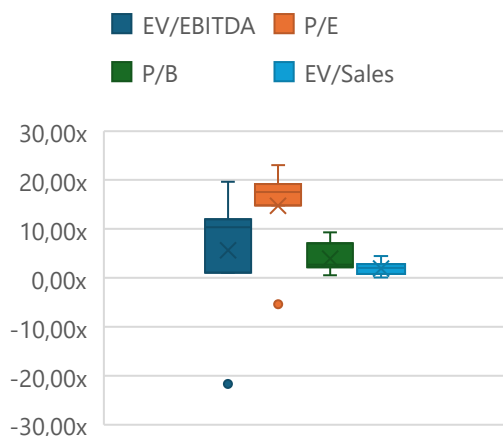


Figure 26 – Multiple Variation among peers.

Earnings (P/E) ratio, which requires positive earnings, the P/B ratio remains meaningful for companies that are currently unprofitable or experiencing volatile earnings and also enables to identify a potential buying opportunity if investors believe the company's assets are underappreciated by the market. On average our forecast through multiples has come to an estimated price per share which is below current market value and below our forecast for its intrinsic value, what suggests that Lindt is currently trading at substantially higher multiples than its peers.

DDM Model

This approach of valuation aims to calculate the equity value of the firm through the sum of the discounted value of all future dividends to be paid by the firm, considering the firm's cost of equity and the estimated perpetual growth (considered to be half of the dividend growth for the last years of our forecast).

With a cost of equity of 3,98% (previously explained) and a perpetual growth rate of the firm of 2%, we have reached a forecasted market capitalization for year-end 2025 of 25'922 million CHF, translating into a participation certificate price of 11'029 CHF and a price of 109'515 CHF for the registered share.

These results evidence a capital gain around 12,75% for equity holders that follow our recommendation (including transfers to shareholders), which almost perfectly align with the results from the DCF analysis.

Recommendations for the future

Considering all the analysis developed over this report, and despite the slight decrease on the firm's capacity to growth revenues (which stabilize around 3,2%) and generate higher FCFs (which stabilize around 1%), typical of a mature company, it's notorious Lindt's potential to continue to generate moderate growth on the future, largely influenced by his expansion over new markets (specially emerging markets) and diversified product lines.

In fact, this potential for future value generation is traduced in our valuation exercise as a return gain of around 21,9% through the DCF approach or 16,7% through the DDM methodology for equity holders during the next year, what only can derive in our strong recommendation to BUY the firm's share (LISN.SW or LISP.SW).

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In millions CHF	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Core Result	460	481	460	300	454	571	623	681	716	730	745	761	770	779	787	796	805	814
Invested Capital	3 596	3 669	3 948	3 664	3 638	3 710	3 714	3 871	3 963	4 085	4 184	4 267	4 338	4 407	4 477	4 548	4 619	4 692
Change in IC	74	279	- 284	- 26	72	4	157	92	122	99	82	71	69	70	71	71	71	73
Average	20																	
CORE FCF	408	181	584	480	499	619	524	624	608	646	678	699	710	717	725	734	741	
Non-Core Result	5	22	84	47	60	22	74	37	38	38	38	38	38	38	39	39	39	39
Invested Capital	- 682	- 685	- 663	- 668	- 675	- 457	- 481	- 493	- 506	- 523	- 536	- 549	- 562	- 575	- 587	- 600	- 613	- 627
Change in IC	- 3	22,2	- 5,7	- 6	217	- 24	- 13	- 13	- 17	- 13	- 13	- 12	- 13	- 13	- 13	- 13	- 13	- 13
Non-Core FCF	25	62	53	66	- 196	98	50	50	55	51	51	51	51	51	51	52	52	52
FCF²	432	242	636	546	303	717	573	675	663	697	730	749	761	769	777	785	793	
% change		- 44%	163%	- 14%	- 44%	137%	- 20,1%	17,7%	- 1,8%	5,1%	4,7%	2,7%	1,5%	1,1%	1,0%	1,1%	1,0%	
g (Core Result)	-	-	- 4,45%	- 34,88%	51,62%	25,74%	9,07%	9,34%	5,18%	1,94%	1,99%	2,15%	1,19%	1,14%	1,12%	1,10%	1,10%	1,16%
g (FCF)	-	-	- 43,94%	162,54%	- 14,22%	- 44,50%	136,72%	- 20,07%	17,69%	- 1,75%	5,12%	4,72%	2,69%	1,50%	1,08%	1,03%	1,14%	1,00%
Financing Result	- 13	- 16	- 32	- 26	- 23	- 23	- 26	- 19	- 19	- 19	- 18	- 18	- 17	- 17	- 16	- 16	- 16	- 15
Invested Capital	2 914	2 984	3 286	2 996	2 964	3 253	3 233	3 501	3 457	3 562	3 648	3 717	3 776	3 832	3 889	3 947	4 005	4 065
Change in Fin IC	71	301	- 290	- 32	290	- 20	267	- 43	105	86	69	59	56	57	58	58	60	
Financing CF	- 87	- 333	264	9	- 313	- 5	- 287	24	- 124	- 104	- 87	- 76	- 73	- 73	- 74	- 74	- 75	
Dividends¹	223	237	418	264	284	304	315	388	398	435	474	506	532	557	582	609	635	
Avg / % of FCF³	66,6%	51,7%	97,7%	65,6%	48,4%	93,8%	42,3%	55,0%	58%	60%	63%	65%	68%	70%	73%	75%	78%	80,0%
Avg / Growth	6,8%		6,0%	76,4%	- 36,8%	7,6%	6,9%	3,9%	23,0%	2,5%	9,5%	8,9%	6,6%	5,3%	4,7%	4,5%	4,5%	4,3%

Appendix 3) Forecasted Free Cashflow Analysis 2017-2034.

In millions	-2	-1	0	1	2	3	4	5	6	7	8	9
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
FCF	717	573	675	663	697	730	749	761	769	777	785	793
% change		- 20,1%	17,7%					2,7%	1,5%	1,1%	1,0%	1,0%
dFCF				638	646	652	645	630	614	597	582	566
All values in millions of CHF, except per share data												
Value of Explicit Period	5 569											
WACC	3,83%											
g	1,39%											
Terminal Value	32 916											
Enterprise Value	29 038											
Net Debt	968											
Market Equity Value in 2025	28 070											
Price of registered shares (LISN.SW) / Price of participation certificates (LISP.SW)	9,93											
*As of 06/12/24												
Registered shares certificates outstanding	134 723											
Participation certificates outstanding	1 012 542											
*As of 06/12/24												
Current Market Value of Equity	23 338											
Price per Share Dec2025¹	11 943											
Current Price PC	9 930											
Current Price RS	98 600											
Price per RS Dec2025²	118 591											
Transfers to RS Holders in 2025	1 644											
*As of 06/12/24												
Capital Gain for PC holders	21,93%											
Capital Gain for RS holders	21,94%											

Appendix 4) Discounted Free Cash Flow Model 2023-2034.

(CHF million, except share price and shares outstanding)

Lindt Valuation based on peers (end 2023)					
Net Debt	Book Equity	Shares outstanding (PC, excluding registered shares)	EBITDA	Sales	Net Income
961	4641	1 012 542,0	1 170	5 483	699
Based on	EV/EBITDA	P/E	P/B	EV/Sales	Average Price per Share (CHF)
Estimation of EV	12076,87	13 195	19 324	11 244	
MV of Equity	11115,91	12234,1	18 363	10 283	
Price per share	4729,62	5205,41	7813,08	4375,36	5530,87
EV using true comparables	MV of Equity using true comp.	Price per share	EBITDA	Sales	Average Price per Share (CHF), using true comparables
	15381,35	14 121	26 811	15 790	
	14420,39	13159,9	25 850	14 829	
	6135,62	5599,32	10998,73	6309,49	7260,79

*True comparables analysis based on Hershey, Mondelez and Nestlé

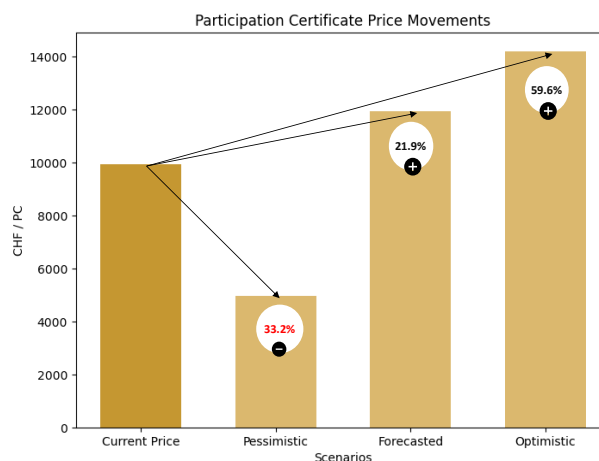
Appendix 5) Multiples based valuation (over PC price – LISP.SW).

In millions	-2	-1	0	1	2	3	4	5	6	7	8	9
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
FCF	717	573	675	663	697	730	749	761	769	777	785	793
Dividend	304	315	388	398	435	474	506	532	557	582	609	635
Discounted Div.				390	419	447	467	482	495	507	520	531
% of FCF	42%	55%	58%	60%	63%	65%	68%	70%	73%	75%	78%	80%
YoY growth		3,9%	23,0%	2,5%	9,5%	8,9%	6,6%	5,3%	4,7%	4,5%	4,5%	4,3%

Cost of equity g	3,98%
Explicit Period disc. Terminal Value	4 257 23 047
Market Equity Value in 2025	27 305
Current Value of Equity	23 338
Price per Share Dec2025 ¹	11 618
Current Price PC	9 930
Current Price RS	98 600
Price per RS Dec2025 ²	115 359
Transfers to RS Holders in 2025	1 644
Capital Gain for PC holders	18,65%
Capital Gain for RS holders	18,66%

Appendix 6) Dividend Discount Model (LISP.SW/LISN.SW).

Value of Explicit Period	3 548
WACC g	3,83% 0,00%
Terminal Value	12 773
Enterprise Value	12 655
Net Debt	939
Market Equity Value in 2025	11 716
Price of registered shares (LISP.SW) / Price of participation certificates (LISP.SW)	9,93
Registered shares certificates outstanding	134 723
Participation certificates outstanding	1 012 542
Current Market Value of Equity	23 338
Price per Share Dec2025 ¹	4 985
Current Price per Share 1	9 930
Price per RS Dec2025 ²	49 499
Transfers to Equity Holders in 2025	1 644
Capital Gain	- 33,2%



Value of Explicit Period	6 506
WACC g	3,83% 1,39%
Terminal Value	39 005
Enterprise Value	34 316
Net Debt	939
Market Equity Value in 2025	33 377
Price of registered shares (LISP.SW) / Price of participation certificates (LISP.SW)	9,93
Registered shares certificates outstanding	134 723
Participation certificates outstanding	1 012 542
Current Market Value of Equity	23 338
Price per Share Dec2025 ¹	14 201
Current Price per Share 1	9 930
Price per RS Dec2025 ²	141 012
Transfers to Equity Holders in 2025	1 644
Capital Gain	59,6%

Appendix 7) Sensitivity Scenarios (Pessimistic vs. Optimistic).

Glossary

Acronym	Meaning
ROW	Rest of the World, meaning Lindt markets that are not Europe and North America
SWOT	Strengths, Weaknesses, Opportunities and Treats
WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow
IS	Income Statement
BS	Balance Sheet
CF	Cash Flow
FCF	Free Cash Flow
ROE	Return on Equity
ROIC	Return on Invested Capital
PC	Participation Certificates (LISP.SW)
RS	Registered Shares (LISN.SW)
CAGR	Compounded Annually Rate of Growth
YoY	Year over Year
Capex	Capital Expenditure(s)
Opex	Operational Expenditure(s)
NWC	Net Working Capital
Forex	Foreign Exchange
CCE	Cash & Cash Equivalentents
FY, HY	Full Year, Half Year

Disclosures and Disclaimers

Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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LINDT & SPRÜNGLI AG

JOINT COMPANY REPORT

“THE FUTURE OF A CHOCOLATE GIANT”

CONSUMER GOODS INDUSTRY

17 DECEMBER 2024

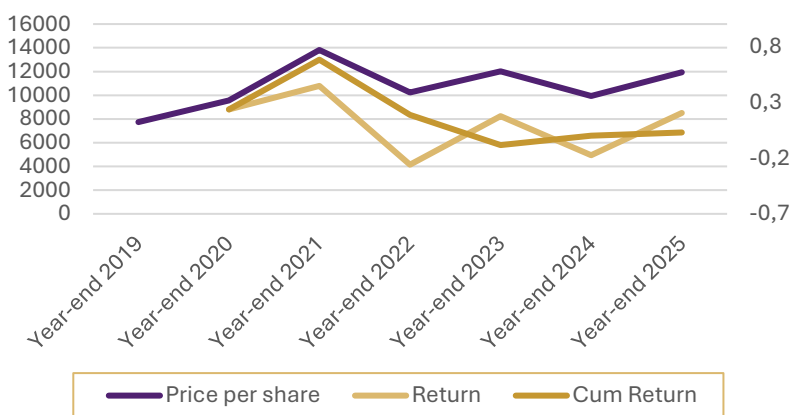
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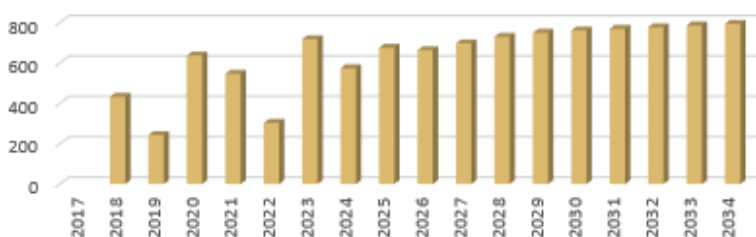
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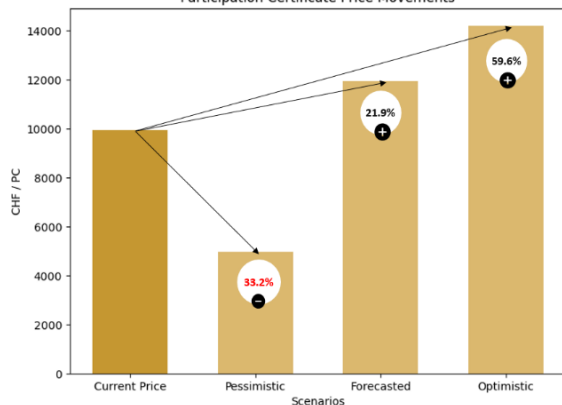
Lindt's PC Price Movements



Free Cash Flows, CHF Millions



Participation Certificate Price Movements



Recommendation: BUY

Price target FY2025: 11 943 CHF

Participation Certificate (+21.93%)

Price (as of 06/12/2024): 9 930 CHF

Bloomberg: LISP.SW (PC)

Price target FY2025: 118 591 CHF

Registered Share (+21.94%)

Price (as of 06/12/2024): 98 600 CHF

Bloomberg: LISN.SW (RC)

VALUES IN MILLIONS CHF	2022A	2023A	2024F
REVENUES	4'970	5'201	5'383
NET INCOME	570	672	699
NET MARGIN	11,4%	12,8%	12,7%
CORE INVESTED CAPITAL	3'710	3'714	3'871
ROIC	16,16%	18,67%	18,33%

Abstract

This report, supported by the annexed sheets from the valuation model file, aims to provide a Market Capitalization Target for Lindt & Sprüngli for end year 2025.

The report starts with a brief overview of the company and its history in the industry. Following, the complete breakdown of Lindt's business strategy throughout the years, going over our prevision of how the forward-looking strategy of the firm could look like, considering the industry and the company's competitors and their dynamics.

It is followed by a deep dive into Lindt's financials and company structure, where the company's sales, profitability, capital structure and management efficiency are contrasted with those of its competitors.

On to the valuation section, the report goes over the assumptions behind our analysis, their explanation and respective effects on the future financial statements of the firm, from 2024 to 2034. Using this data, we conducted various methodologies to determine Lindt's intrinsic value, encompassing the calculation of the Weighted Average Cost of Capital (WACC) for the firm, the application of a Discounted Cash Flow (DCF) approach, a Dividend Discount Model, and a multiples-based valuation. Furthermore, a sensitivity analysis was performed to assess the influence of critical line items on projected results, thereby enhancing the robustness of the valuation process.

This equity research report demonstrates the analytical rigor necessary to evaluate a leading firm in the premium chocolate industry. Thus, by combining financial modelling with strategic insights, it seeks to provide a comprehensive view of Lindt's potential for ongoing value creation in the future.

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY DUARTE MACHADO AND JOSÉ PATRÍCIO, MASTERS IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL.

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Company History

The history of Lindt & Sprüngli dates to 1845, when confectioner David Sprüngli-Schwarz and his son Rudolf Sprüngli-Ammann became the first to produce solid chocolate in the German-speaking region of Switzerland.

In 1879, Rodolphe Lindt acquired two fire-damaged factories with the intention of manufacturing chocolate. He then invented the "Conche", a process that allowed chocolate products to lose their coarse texture and bitter taste. This technique is now used by every chocolate manufacturer globally. Rodolphe is also responsible for the creation of Lindt's famous "chocolat fondant," which was the world's first melting chocolate. Thanks to this innovation, Rodolphe Lindt became the first chocolatier to taste and produce chocolate products as we know them today. His melting chocolate significantly contributed to the global reputation of high-quality Swiss chocolate.

In 1892, Rudolf Sprüngli-Ammann retired from his confectionary business, dividing the Sprüngli companies, chocolate factory, and confectionery shops between his two sons. Johann Rudolf expanded the factory and relocated it in 1899, merging it with Rodolphe Lindt's small but renowned chocolate factory, acquired for 1.5 million gold francs (or CHF 100 million today), thus creating "Chocolat Sprüngli AG".

During the first two decades of the 20th century, Lindt&Sprüngli consolidates itself as one of the biggest titans in the Swiss Chocolate Industry, exporting almost three quarters of its production to more than twenty nations around the world. The Great Depression and the consequent protectionism lead to progressive losses in foreign markets and some unsuccessful

attempts to expand operations abroad. After the Second World War, the demand for Swiss chocolate rose across the world. The company began to develop and produce an heterogeneous variety of chocolate products, of different kinds and flavours, launching some iconic products that last on our traditions until nowadays. The innovative spirit of Lindt&Sprüngli allowed the firm to forged itself as a market leader worldwide, with 12 factories across the world, including in Switzerland, Germany, France, Italy, Austria and the United States, with around 14,500 employees. Lindt also operates also more than 410 chocolate cafés and shops, working to create the idealized image associated with their brand.

Business Strategy

Lindt & Sprüngli current governance based its entire business strategy over six guiding principles which influence every aspect of the day-to-day business of the group: **quality, commitment and qualification, customer orientation, social responsibility, and profitability**. These core values are the key drivers behind the success story of the firm.

As an importer of cocoa beans from all over the world, especially in developing countries where there are concerns regarding child/slave labour, sustainability in resource usage and disregard for local economies, Lindt is continuously focusing in taking special control over its entire supply chain, from harvesting to refinery and distribution, steering clear from scandals that can tarnish the brand's reputation. As a result, Lindt developed special programmes like the **Lindt& Sprüngli Farming Program**, which helps increasing the resilience and income of farming households, reducing the risk of child labour

and conserving biodiversity and natural ecosystems. Currently, around 72,3% of the cocoa products used by the firm come from these sustainability programmes and around 131 000 farmers from developing countries are over its vigilance and support. These kinds of actions enable Lindt to produce lifelong partnerships with its suppliers, establishing traceable and transparent supply chains, which allow the company to oversee product quality and sustainability of the production from the bean to the bar.

The company's strategy for the future aims to continue the expansion to new markets and specific segments, specially to emerging markets, developing simultaneously new products targeting popular trends, such as the premium chocolates or the dietary products (vegan, sugar-reduced, GLP1, among others). Meanwhile, Lindt expects to continue to improve its brand support, capitalize the potential of its secondary franchise network (a fundamental vehicle for brand expansion), to improve sustainability and digitalization efforts within the group, as well as to keep strong focus on gifting campaigns, which made Lindt a world symbol for special gifts and moments. Aligning all these business actions with its usual focus on quality and reputation, will allow the company to leverage its strengths and prevail to foster growth on the long-term.

Market Analysis and Trends

Chocolate products are a massive consumer market, with estimates of its size going from CHF 95.5B to CHF116.5B (Statista, Mordor, Grandview) in 2024. The industry displayed a CAGR in period 2018-2023 of 3.78%. The market is moderately fragmented, with 60% of the market is represented by the top 5 players, with these being Mars Incorporated and Ferrero International SA (both privately owned), Nestlé SA, Mondelez International and The Hershey Company, all traded in the markets. Lindt has about 5% global total market share, having had 2023 sales of CHF 5.2B (Statista, Mordor, Grandview).

Lindt positions itself exclusively on the premium chocolate market, estimated to be worth around \$ 37B in 2023. This means Lindt has market share of around 14% and is the market leader (Straits Research 2024, Grand View Research 2024, Mordor Intelligence 2024).

In the premium market, we see the main focuses being maintaining craftsmanship and superior ingredients marketing and the expansion into emerging Asian markets, which are commonplace across the luxury industries. Specifically in the Consumer-Packaged Goods, choice of sustainably sourced ingredients and Vegan-friendly options are highlighted by research (Straits Research 2024, Grand View Research 2024, Mordor Intelligence 2024) and this is also visible in the company’s reports. (Lindt 2024)

This differentiation can also be seen in distribution channels, where, across the market, these are mainly super- and hypermarkets, accounting for 60% of sales, and convenience stores accounting for 30% of sales. In these stores, consumer

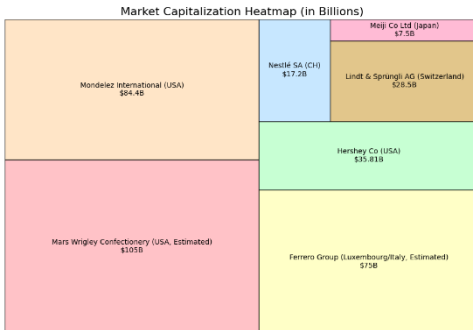


Figure 1 – Lindt’s Market Capitalization compared with its peers. (Source: Bloomberg)

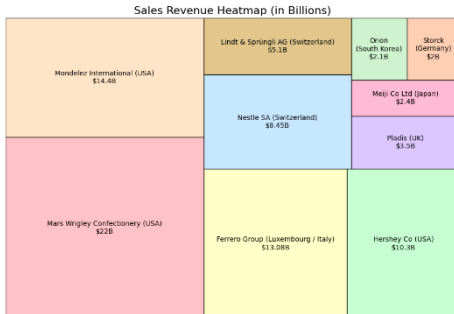


Figure 2 – Lindt’s Revenues compared with its peers. (Source: Our analysis based on Company Reports)

preferences are driven by seasonal offers, discounts on bulk purchase and access to product variety (Straits Research 2024, Grand View Research 2024, Mordor Intelligence 2024).

While Lindt does not disclose the weight of each of their distribution channels, they do report on a global growth of their D2C channel, be it brick-and-mortar or online.

Lindt's preference for direct-to-consumer is primarily motivated by higher margins and a greater level of control over product placement and consumer experience. The company presents global retail as one of their focuses for delivering higher margins and one of the levers for market growth, with retail revenue growing 16.5% YoY. In spite of this, in 2023, 20 new stores were opened, representing a 4% increase in stores (Lindt 2024)

Online retail and the "MyLindt" loyalty program (which recorded 400k members in its first year) are also mentioned as a vehicle for stronger client relations, and the company reports a "double-digit" sales growth for the online channel.

Online is especially relevant in Europe and North America, with these areas making 78% of the online chocolate market (Straits Research 2024, Grand View Research 2024, Mordor Intelligence 2024).

When it comes to geography, North America has recently displaced Europe as the biggest region for this market. Both regions make up 80% of chocolate consumption worldwide. The average American consumer spends \$145 yearly on chocolate and 90% of consumers gift chocolate for Christmas. In Asia, China is projected to have a \$4billion chocolate market by 2025, up 4.1x from \$976M in 2010 (Financial Mirror 2011). The second largest economy is presented as a moot point for Lindt's

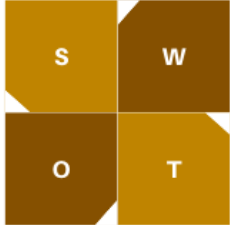
management, with growth failing to meet estimates. Japan and Brazil are both good performers at a reported double-digit growth.

Analysing raw materials, the list is mostly unchanged invariant on market position of chocolatiers, being mainly cocoa, milk and sugar. Even so, there are stark differences in quality and cost between companies with different market strategies. Given the geographic and temperature requirements for cocoa production, this is the focal point for chocolatiers when it comes to raw materials. For Lindt, as expected and disclosed by the company, Cocoa is one of biggest costs for raw materials (Lindt, 2020-2023), even if the Board does not disclose concrete values. For premium brand like Lindt, there is a need to source high quality cocoa strains, both from a product and marketing perspective. The market for the fundamental raw material, cocoa, is highly volatile, influenced by weather patterns, disease outbreaks, and geopolitical factors in these producing regions (Lindt, 2020-2023). Furthermore, when combined increasing public & government scrutiny on deforestation, child labour and modern slavery, this is an important part of strategy to get right. The power dynamics between and chocolatiers is balanced, with importers diverting with importers diverting with importers diverting with importers diverting with importers diverting with importers diverting with importers diverting with importers diverting with importers diverting demand between regions and taking advantage of volume and consortium buying discounts.

Furthermore, forward contracts are used to add a layer of protection against problematic harvests and striving for price stability.

In Lindt's case, their positioning as a premium brand allows management to pass increasing or unexpected costs to consumers, as was the case in 2023 with the stark coca price increase (Yahoo Finance, 2024).

SWOT Analysis





LINDT & SPRUNGLI	
Strengths	Weaknesses
<p>Robust global distribution network.</p> <p>Diverse Brand Portfolio.</p> <p>Established Legacy with over 175 years of experience.</p>	<p>Widespread belief that Lindt is perceived as a costly brand.</p> <p>Reduced liquidity over the years.</p>
Opportunities 	Threats 
<p>Strategic growth initiatives across different regions.</p> <p>Increasing production infrastructure and efficiency.</p> <p>Favourable trends on the global confectionery industry (increasing urbanization, fast-paced lifestyles, and a general rise in disposable income).</p>	<p>Fluctuating raw material costs.</p> <p>Health-oriented trends.</p> <p>Currency exchange risks over growing world instability.</p>

Figure 3 – Lindt&Sprüngli SWOT analysis (Source: Our production)

Group structure and shareholders

The organizational structure of the company is streamlined. The Board of Directors is tasked with overseeing management, strategy, and supervisory responsibilities at the highest level, while the Executive Chairman, CEO, and members of Group Management are accountable for operational management functions and strategy.

According to the articles of association of the group, the board is composed by five to nine members elected on the general meeting, with functions currently being performed by Ernst Tanner (chairman of the board since 1994), Dr. Dieter Weisskopf (member of the board since 2022 and chairman of the Sustainability Committee), Dr. Rudolf K. Sprüngli (member since 1988, and also member of the Compensation &

Nomination Committee), Elisabeth Gürtler (member since 2009, as well as part of the Audit Committee), Dr. Thomas Rinderknecht (member since 2016 and chair of the previous mentioned committee), Silvio Denz (member since 2018) and Monique Bourquin (member since 2023 and chair of the CNC committee). All directors on the board have an extensive curriculum either on the food industry or in the financial sector, with previous experiences on other listed companies or previous background on the group's management, relevant experiences that enrich the group's overall strategy.

Regarding the group's shareholders' structure, it presents as major shareholders the BlackRock Inc. as a parent company with 4,46% of the company's share capital and the "Fonds für Pensionsergänzungen der Schokoladefabriken Lindt & Sprüngli AG", the "Finanzierungsstiftung für die Vorsorgeeinrichtungen der Schokoladefabriken Lindt & Sprüngli AG", the "Lindt Cocoa Foundation", and the "Lindt Chocolate Competence Foundation", which held, as a group, a total of 20,61% of the company's share capital. Ernst Tanner, group's chairman of the Board, also owns approximately 2,29% of the group's capital. The remaining capital is publicly traded in the Swiss Exchange Market.

The firm presents two different kinds of share capital publicly traded, the registered shares (trading under the ticker LISN.SW) with full voting and distribution rights and the participation certificates (trading under the ticker LISP.SW) with no voting rights, but full rights to the economic benefits of the company (such as dividends). For that reason, the complete market value of the company will always be a weighted sum of both shares and their outstanding emissions, knowing that the registered

shares have a nominal value of CHF 100 and the participation certificates a nominal value of CHF 10.

For their lower nominal value, the PCs present higher liquidity on the financial markets, being the best instrument to evaluate the firm's value perceived by the markets/investors and disabling the effects of one-off investments from big investors on price movements, which are more common when we consider the registered shares. That explains why the main focus of our report will be on the participation certificates, in order to place special focus on long-term value, instead of one-off circumstances.

Price History & Market Sentiment

Lindt & Spruengli AG shares were first listed in 1986 on the SIX, the Swiss Stock Exchange. The company's shares have been traded since 1879.

Lindt's stock is flat year-to-date, despite the companies' positive earnings reports. It trades at a P/E ratio of 33x, down from 35x at the beginning of the year (Trading View, 2024). The index covering the Swiss market's largest 50 companies trade at PE 17.6x, which outlines a positive outlook on Lindt's stock, or a possible overpricing. (iShares MSCI Switzerland EWL, 2024). It is trading close the 52-week floor at CHF 9'825, and ~14% away from the peak of CHF 11'420.

Being a premium consumer good that targets the masses, it is expected that the company's topline faces strong headwinds in crisis scenarios, where disposable income for non-essential items by consumers is reduced (PricewaterhouseCoopers 2023, Croud Luxe, 2023).

Despite this, Lindt's revenue profile in the global recession of the early 10's does not necessarily reflect the above dynamics. While topline decreased 14% in 2009, Lindt still grossed CHF 2.5B, exactly what it had grossed in 2007. Even so, topline grew single digitally and only returned to 2008 values five years later.

Among their peers, we also see strong resilience in Hershey's and Mondelez's¹ revenue figures, perhaps suggesting that the chocolate industry is more resilient than some of Consumer Discretionary industry companies.

Even so, we can see the crashing market's reaction to Lindt's Discretionary Business. In the period from 17th December 2007 to 17th March 2009, Lindt's price per share went down 57% to CHF 1'662. In that same period, the SPX was down 48.5%, and the SMI (Swiss market index) was down 45%.

Moving forward to 2020, the health crisis caused by the pandemic set a different stage. Not only were consumer's disposable incomes lowered, but lockdowns also meant that people did not go outside and did not have as much exposure to Lindt's offering.

The company's revenues for FY'20 receded to '18 levels (-10%), whereas Hershey and Mondelez did better with their revenues decreasing slightly YoY (3.6% and 3%, respectively), displaying strong resilience for the chocolate market.

¹ Mondelez had a 19% decrease followed by a 14% increase in revenue figures, though has never recovered to such high revenue values due to the separation from Kraft Foods Group.

Price wise, Lindt’s stock fell 17.5% from 17th Feb through to 23rd March ’20, compared to losses of 28% for the SPX and for the 22% SMI. Given that Hershey and Mondelez lost around 23% each, this can be interpreted as a possible market signal that chocolate giants’ stocks are somewhat resilient during recessions.

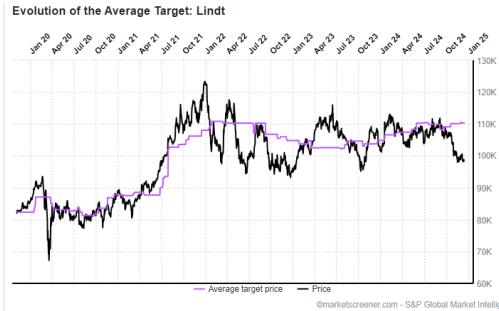


Figure 4 – Lindt’s stock price (black) vs Average IB Target Price (Pink). (Source: Market Screener, 2024)

As for current IB price targets and market sentiment on Lindt, it is classified as a “Buy” by Barclays, UBS and Goldman Sachs. (Market Screener, 2024), with these banks’ analysts highlighting (Cercle Finance) a favourable outlook for revenue and margin projections, along with a perceived control of rising cocoa prices due to improved harvests in West Africa. Some analysts also maintain a sell recommendation on Lindt: while specific data for target prices is not public, Market Screener lists them as ranging from CHF 93’000 to CHF 126’000 and averaging CHF 110’000. These insights suggest a predominantly optimistic sentiment tempered by varied perspectives on future movements of the stock.

Historical Financial Analysis

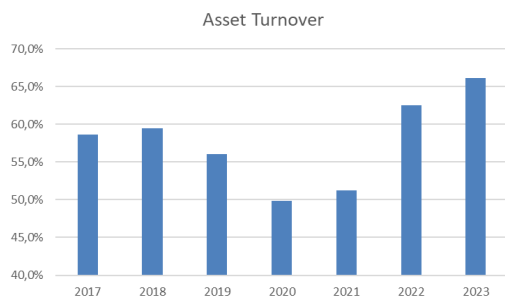


Figure 5 – Lindt’s Asset Turnover between 2017 and 2023 (Source: Our Analysis based on Year-end Company Reports).

The following sector of this report addresses a financial analysis of the company and its competitors focusing on profitability, capital structure, cashflow management, return and efficiency ratios, to get a snapshot of numbers that define businesses. This serves the report as we for better informed hypothesis on Lindt’s positioning and characteristics as a company, which in turn lead to better judgements and valuation.

Profitability

While embarking in a worldwide expansion, with successive acquisitions of unities (Hofbauer and Küfferle, Ghirardelli Chocolate Company, Caffarel, Russell Stover) and new distribution centers/stores, Lindt has continued to be able to generate value from its investments and consequent synergies, what allowed the firm to generate on average an asset turnover of 58%, with consecutive growth through the period of our analysis. This increasing efficiency on Lindt’s revenue generation capacity has significantly contributed to increase indicators as its ROE (from 10,8% in 2017 to 15,8% in 2023) or ROIC (from 15,5% in 2017 to 20,8% in 2023), despite some macroeconomic downturns (e.g. global pandemic of 2020), and serves as a great indicator of Lindt’s ability to resist temporary negative impacts on its revenues.

The investments made by the Group have enhanced operational improvements, causing lower increases in indirect costs of their production and, consequently, an improvement in Operational/Net Margin from 10,4%/7,9% in 2020 to 13,7%/10,7% in 2023, even though the rising price of its main direct inputs (specially the challenging environment of cocoa markets with higher environmental/social regulations and an increasing price competition) had driven down the Gross Margin of the group, from 40,7% to 38,8% between 2020 and 2023. Nevertheless, those improvements in monitoring of personnel and other operating expenses, have positioned Lindt side by side with its biggest competitors regarding profitability (specially with Mondelez, Hershey and Nestlé).

Lindt's return evolution

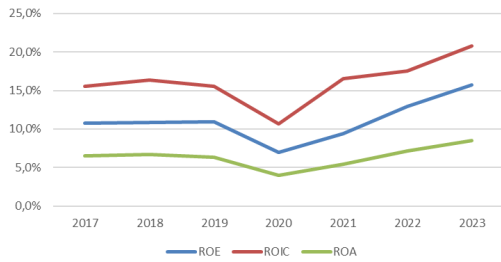


Figure 6 – Lindt’s ROA, ROE and ROIC evolution between 2017 and 2023 (Source: Our Analysis based on Year-end Company Reports).

Operational Net Margin

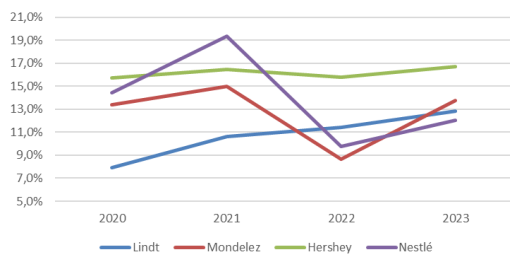


Figure 7 – Operational margin of Lindt and its competitors, between 2020 and 2023 (Source: Our Analysis based on Year-end Company Reports).

Profitability and Indebtedness

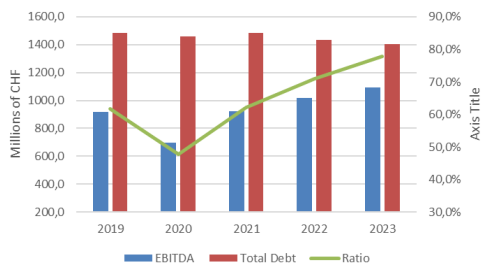


Figure 8 – EBITDA and Total Debt evolution of Lindt, between 2019 and 2023 (Source: Our Analysis based on Year-end Company Reports).

Capital Structure

Between 2019 and 2023, the firm substantially increased its capacity to face its interest-bearing obligations from 61,8% to 77.8% on EBITDA/Debt, placing it with the highest ratio on the industry (among the studied peers). The low-interest ecosystem of Switzerland and the firm's availability for other forms of funds (high reserves of excess capital / retaining earnings) had contributed to originate a capital structure that is substantially different from its peers. In fact, the levels of debt of the firm are almost constant and even decreased between 2021 and 2023, and this is the obvious conclusion when we look to the firm's interest coverage ratio (on average 20.46, the highest among the comparable firms) or its financial autonomy/gearing ratio (on average 56,9%/20%, one of the highest dependences on equity capital to finance its assets in the sector), leaving no margin for doubt regarding Lindt's capacity to honour its debt commitments. Usually, firms prefer to finance their investments through debt, an usual less expensive financing source than equity, with potential to increase the value of the firm through the consequent tax shields. However, Lindt's low cost of equity allow the firm to increasingly invest equity capital in their activities, reducing its exposure to debt and consequently lower the impacts of its covenants on liquidity.

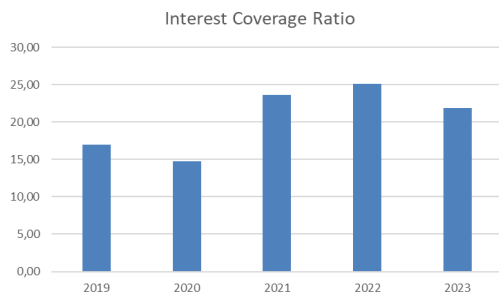


Figure 9 – Lindt's Interest Coverage Ratio evolution from 2019 to 2023 (Source: Our Analysis based on Year-end Company Reports).

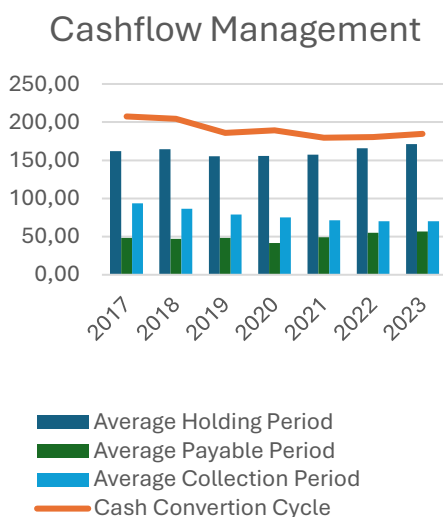


Figure 10 – Lindt's cashflow management evolution from 2017 to 2023 and their impact on cash conversion cycle (Source: Our Analysis based on Year-end Company Reports).

Management Efficiency

Regarding its day-to-day cashflow management, the company presents an high Cash Conversion Cycle (on average 190,20, between 2017 and 2023), what is common for industrial companies, but might indicate that the firm is paying to its suppliers (average payable period of 49.45, between 2017 and 2023) long before it receives the cash from its sales (average

receivable period of 77,88, on the same period), a signal of bad operational efficiency that might prejudice liquidity and net working capital (which decreased from 1731 M CHF in 2017 to 766 M CHF in 2023). Nevertheless, this cashflow management indicator has been decreasing from 207,46 in 2017 to 184,50 in 2023.

Liquidity ratios on perspective

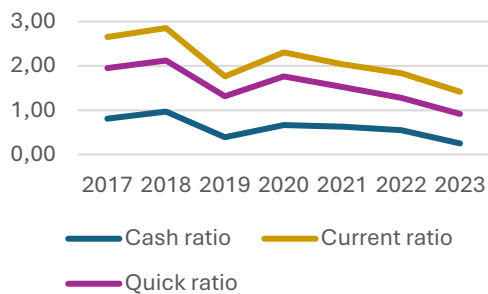


Figure 11 – Lindt’s Cash, Current and Quick ratio evolution, between 2017 to 2023 (Source: Our Analysis based on Year-end Company Reports).

Liquidity

In fact, when we look to Lindt’s liquidity measurements, its notorious the drastic reduction of cash reserves of the firm, partially induced by the above-mentioned inefficiencies, but also by the heavily invested capital, evidenced by the slump on liquidity ratios such as the cash ratio, the quick ratio or the current ratio, which show the increasing difficulty of the company to cover its short-term liabilities with its current assets. Despite these reduction on the liquidity of its assets and the increasing dependence on short-term debt, the company continues to present a quick/current ratio well over 1, meaning that serious motives for worries are still far away.

Valuation

The next section goes over the structure, methods and assumptions taken into consideration during the valuation exercise of the company, with explanations about the reasoning that led to these conclusions, aiming to forecast with accuracy the possible intrinsic value of the company’s attributes and correspondent future market valuation.

Key Assumptions for the Financial Model

WACC

The Weighted Average Cost of Capital (WACC) translates the risks encountered and reflects the average return rate necessary to meet the expectations of creditors, shareholders, and other providers of capital. This rate serves as the discount factor applied to our projected free cash flows to determine their present value, as WACC-based discount models yield optimal results and provide a more precise price target for firms like Lindt. By employing a uniform rate to discount all anticipated cash flows, it is presumed that the company's capital structure remains unchanged.

The calculation of WACC involves three essential elements: the cost of equity, the after-tax cost of debt, and the proportion of equity to debt within the company's target capital structure. The market value of equity is inputted considering year end values, while the book value of debt serves as a proxy for its market value. The equity market value is determined by multiplying the share price by the total number of outstanding shares, taking into consideration the two types of share capital issued by the company: registered shares (traded with ticker LISN.SW) and participation certificates (traded with ticker LISP.SW). Given that most bond prices of the company are relatively stable (economic environment with few interest changes over the years) and often considered “stale” (firm creditworthiness is assumed constant on the long-term), the book value of debt is regarded as a reliable proxy for market value.

The cost of debt derives from the risk-free rate (assumed to be the yield of the Swiss Government 10-year Treasury Bond (historically low, with exception of the inflation combat's public



Figure 12 – Switzerland 10-year treasury bond yield, between 2014 and 2024. (Source: Trading Economics).

policy period, between 2022 and 2023), as this is the market where Lindt concentrates more of its debt exposure), and from the debt spread of the company, which was extracted from Aswath Damodaran (2024) findings. This research establishes a connection between the credit rating of corporate bonds on a large U.S. sample (based on interest coverage ratio) and the subsequent firm's debt spread. Considering that Lindt presents an average interest coverage ratio of 21,34 between 2019 and 2023 and a credit rating of AAA on its bonds, the associated debt spread used was 0.59%. These results perfectly align with our analysis over the YTM of Lindt's bond emissions currently available, with a default spread of 0,58. These values were then added to obtain a cost of debt for Lindt of 0.80%.

Weighted Average Cost of Capital (WACC)	
Debt	
Lindt Debt Rating	AAA
Debt Spread	0,59%
Risk free rate	0,21%
Cost of Debt (Rd)	0,80%
Swiss Tax Rate	21,00%
Relevering the Beta	
Adjusted Levered Beta e (2 year - weekly)	0,83
D/EV	4,40%
E/EV	95,60%
Target D/E	3,62%
Unlevered Beta	0,80
Market risk premium	4,60%
Discount rate	
beta u	0,79
beta d	0,13
beta e	0,83
Cost of assets (Ru)	3,87%
Cost of equity (Re)	3,98%
WACC	3,83%

Figure 13 – Main components and assumptions for our WACC calculation.

Moreover, the cost of equity was determined through the Capital Asset Pricing Model (CAPM), which outlines the correlation between an asset's expected return and its associated risk, as well as the return on risk-free investments. As of 6th of December 2024, the yield on a 10-year Swiss Government Treasury Bond was used as a benchmark for the risk-free rate, which was recorded at 0,21%. The equity risk premium (ERP), representing the disparity between the anticipated market return and the risk-free rate, was calculated to be 4.6%, based on current economic conditions and historical data, as reported by Aswath Damodaran (Damodaran 2024), using the traditional method for estimating the equity risk premium through historical returns in Switzerland, specifically the difference in annual returns between stocks and bonds over an extended timeframe from 2000 to 2022. In order to incorporate the firm-specific risk in our cost of equity, we have done a regression of the equity returns of the firm over the benchmark (Swiss Market Index) during the

last 5 years in a weekly approach, and the same for some industry competitors. Over the timeframe analysed, Lindt presented an higher level of correlation with the market portfolio (competitors average beta was approximately 0,61), and therefore its own value was used as base for this analysis (0.83). The unlevered equity beta (0.79) was once again relevered using the firm's target D/E and used among the other mentioned inputs to extract a cost of equity for the firm of 3.98%.

After adjusting the after-tax cost of debt and cost of equity to the firm's target capital structure (assumed to be relatively stable and with tendency for the average), we have reached an estimated WACC of 3.83% for the company.

Forecasted Statements

This following section considered research and data from the company's annual reports, from central banks, governmental agencies, analysis and data aggregators online, news articles, and investment banks sentiment for figures such as GDP growth projections, Inflation estimates and targets, Lindt's market penetration in different geographies, consumer's preferences, market sizes, CAGRS and natural ceilings, disposable income over a long timeframe, among others. The researchers avoided using secondary data sources when reasonably feasible. The above informed our judgement on margins forecasts, common size analysis with expenses and Balance Sheet entries as a % of sales, and YoY changes in the different line items.

Sales by Geography

Adequately starting with the top line, we mirrored Lindt's reports in the way that the company looks at revenue. It is stated on the annual reports that management does not take as central

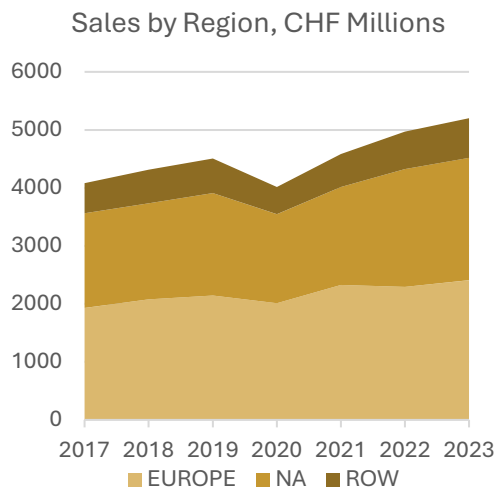


Figure 14 – Sales by region in millions of CHF between 2017 and 2023. (Source: Our Analysis based on Year-end Company Reports)

figures such as sales per employee or per store, when considering where the company is heading strategically. Mirroring the company’s management, the report breaks down the business into 3 geographic sections, between Europe, North America and the “Rest of the World” (hereinafter ROW). In the latter, the biggest markets are China, Japan, Australia and Brazil.

Our sales predictions can be separated into two periods: in the short term, in the next 5-year horizon, the authors were more confident to predict how the company’s strengths and positioning could be levered to improve turnover in NA and ROW. For horizons wider than 5 years, the authors recognize that qualitative predictions about sales figures grow decreasingly realistic, and that sales numbers must align with the macroeconomic framework under which Lindt operates.

Centrally, consumer goods are a cyclical industry, especially in the premium market (Accenture, 2024, Pricewaterhouse Coopers, 2023). As such, historical revenue figures and historical data and future expectations for GDP growth and disposable income for all regions are considered, downloaded from primary sources such as central banks, OECD and World Bank (among others) were utilized. *Ad Hoc* adjustments also took place, when the researchers wanted to convey smoother changer or probabilistic scenarios for revenue pieces were taken into account. The company, across the board, has 4.1% sales CAGR since '17, and 7% since '20, evenly distributed between the markets.

2024 Revenue by Region, CHF Millions

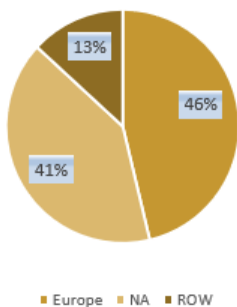


Figure 15 – Revenue breakdown by region on 2024, in millions of CHF. (Source: Our Analysis/Forecast based on Year-end Company Reports)

The *Rest of the World* group, where Australia, Japan, Brazil and China are the most important markets, faced the most severe sales drop amidst the pandemic (-22%), seeing as developing

economies are suffer greater decreases in disposable income than US and Europe. On the other hand, it also enjoyed the greatest post-pandemic boom and displays an impressive 10% CAGR since '20 (Lindt 2018-2023, Accenture 2024).

ROW Revenue, CHF Millions

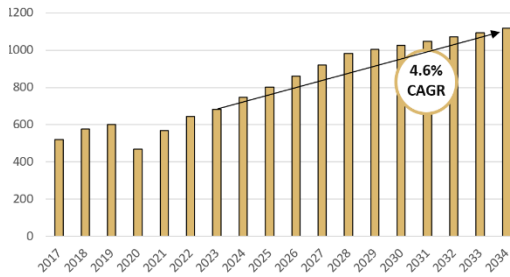


Figure 16 – Revenues in the Rest of the World segment between 2017 and 2034. (Source: Our Analysis/Forecast based on Year-end Company Reports)

Given the analysed forecasts, markets projections for Disposable income and penetration rates, ROW is attractive for Lindt as increasingly, there are more individuals that can afford Lindt, as disposable income goes up. However, ROW's revenue is also the most elastic in regard to fluctuations in economic prosperity and disposable income (Lindt, 2013-2024, OECD, 2024, Accenture 2024). Given the above, we forecast ROW maintain its growth strength for longer than the other more mature markets. Lindt's half year 2024 report discloses a 10% YoY growth for this region. The researchers set the region's growth at 9.5% for FY'24 taking into account historic seasonality. Looking ahead, growth of around 7% YoY is predicted until 2028, with revenue in ROW growing below GDP estimates of 9.3%. Turnover is expected to growth below predicted nominal GDP rates due to Australia and Japan's weight on the company's revenues, along with valuation of the franc in regards to emerging economies' countries such as the Yuan and Real, which are devalued by central banks to facilitate exports.

In *North America*, the company has a 12% of CAGR since '20, becoming the board's poster child for the online distribution channel. Their 10.7% revenue growth in 2021 was reported to have been "most (...) via online channels" (Lindt, 2021). The strong growth was replicated in 2022 (20%), across the product offering, and especially dark chocolate, consolidating their position as the market leader in the premium segment (Lindt,

2021). In 2023 there was CHF denominated growth of 4% given the appreciation of the franc. Likewise, in this 2024’s Half Year report, growth is reported at 3%, with re-stocking issues and Easter season pre-orders having taken place in 2023 place forward as reasoning. This report mirrors this value as the FY’24 value for growth. This value might signal market saturation for Lindt, which enjoyed two periods of stellar growth in 21-22 that make future YoY values look less impressive. From 2025 forward, the researchers adapted the (OECD 2023) estimates for nominal GDP growth. Furthermore, the (Energy Information Administration, 2023) estimates for disposable income do not favour Lindt, outlining a CAGR for of less than 1% until 2030. As previously discussed, disposable income is an extremely important metric for Lindt, which is predicted to do not so exemplary in NA as before thought. Finally, recession periods such as in 2008 and 2020 seem to harm Lindt more in the US than in Europe (reports), deepening preference for these more controlled values.

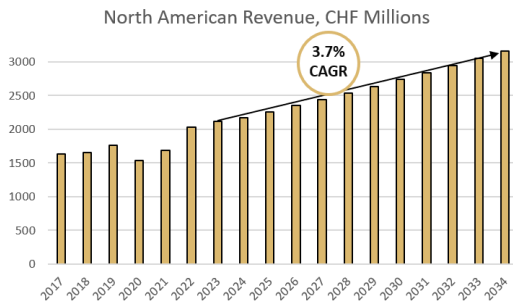


Figure 17 – Revenues in North America segment between 2017 and 2034, in millions of CHF. (Source: Our Analysis/Forecast based on Year-end Company Reports)

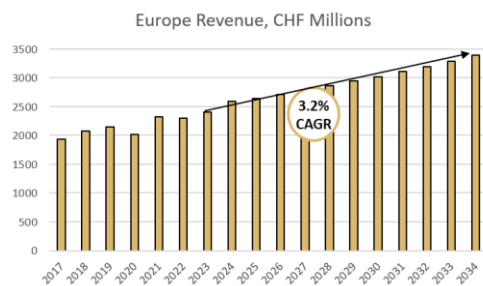


Figure 18 – Revenues in Europe’s segment between 2017 and 2034, in millions of CHF. (Source: Our Analysis/Forecast based on Year-end Company Reports)

Lastly, Lindt’s largest and most mature market, *Europe*, has seen slow 2% CAGR since ’20, even reporting a revenue drop in 2022. To the market’s surprise, Lindt’s 2024 HY report discloses a unexpected 10% YoY growth. While positive, this growth is not expected to be sustainable looking at macro-economic conditions and historical values for revenue and market share, and so we predict topline growth under the regions expected GDP CAGR of 2.6% through ’29, with further alignments with expected nominal GDP growth closer to 2034 (Lindt, 2020-2024).

2034 Revenue by Region, CHF Millions

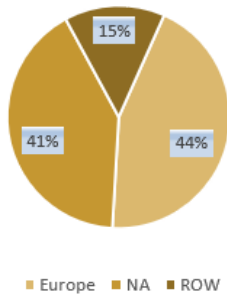


Figure 19 – Revenue breakdown by region on 2034, in millions of CHF. (Source: Our Analysis/Forecast based on Year-end Company Reports)

To conclude, these figures lead the '24 revenue numbers to be forecasted at CHF 5'510, a 2.3% difference from the CHF 5'383M in the 2024 Half Year report (figure was annualized using backward looking seasonality patterns). At the end of our forecasting period, topline is estimated to be around CHF 7'674M, a 1.47x on the '23 values, for a CAGR of 3.5%, compared to projected chocolate market CAGR of 7.3% (Grand View Research 2024, Mordor Research 2024, Straits Research 2024). This '23 value of CHF 5'201M was itself a 1.28x multiplier of the '13 values for revenue (2.5% CAGR) (Lindt, 2013-2024). This comparison is in line with Lindt's path, of a mature global leader expanding to new markets, and being able to sustain their "existing" revenue by maintaining their position in the older markets.

Cost of Goods Sold

When considering the OpEx lines in the Forecasted IS, the report uses Gross and Operating Margins, as well as % of sales (common size) and YoY metrics regarding the Income Statement Entries.

Regarding COGS, Lindt does not include personnel costs in these lines, only accounting for material expenses. This report assumes as 25% weighting on Personnel Costs that are allocated to COGS, based on industry standards.

Scenarios like the doubling of cocoa prices in 2023 did not dramatically alter the company's costs, which was explained by Lindt's power in the upstream section of their supply chain, and procurement measures introduced in '22, according to the annual report of '23. The researchers theorize that an

understanding and leveraging of the futures market also played a role. Given the nature of Cocoa price increase, in combination with the increasing Government efforts to afford a Cocoa harvesting process increasingly focused on sustainability and human rights, a slight increase in future COGS as a % of sales was forecasted. Looking at the half year report of 2024, and annualizing it using the seasonality characteristics of former years, a 8% YoY increase in COGS is predicted to be shared in the next full year report. Given the opposite levers above described a slight increase in COGS/Sales is predicted across the period, with Gross Margin remaining stable at 60%, or a 1.44x scalar on the '23 value.

Operating Expenses & Personnel Expenses

For operating expenses, the main lines for Lindt are logistics, maintenance, utilities, storage, and marketing.

The company discloses in that they use marketing as an important tool for expansion, client awareness and brand crafting, and demonstrate a willingness to allocate spend there. Unfortunately, concrete numbers are not disclosed.

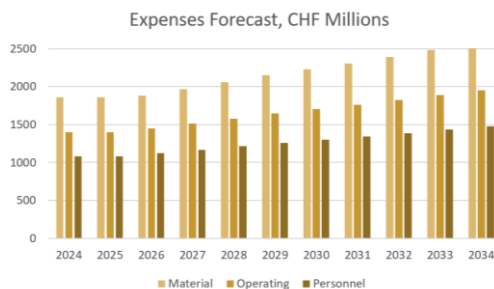


Figure 20 – Main components of good production related expenses. (Source: Our Analysis/Forecast based on Year-end Company Reports)

Lindt's operates its bean-to-bar factories next to mega consumption hubs, both in Europe and in the US. This remarks a concern for logistics and transportation but locks the company into producing their product where wages are costlier. Given Lindt's product, manufacturing could be moved to low-cost regions or within-region best cost alternatives. However, Lindt's positioning as a Swiss premium brand will probably block them from realizing these savings, which, as the researchers see, can be a moot point for shareholders.

Even still, personnel expenses are expected to grow below inflation, as they have done (Swiss Federal Statistical Office, 2024) reducing as a % of sales to 20%. Once again, given the above quantitative and qualitative drivers and the historical cost trends, we expect Operating Margin to worsen slightly through '34 to 18.4% (from 20.5%) and OpEx to scale 1.45x its 2023 value.

Depreciation & PPE

Depreciation expenses accounted for 6.3% of OpEx in 2023. Over the years, these are expected to keep the same proportional ratio to the company's PPE, representing approximately 19% of its value and reflecting similar depreciation schedules.

In the HY'24 report, there was a 6% YoY increase in PPE, justified by expansion. This entry is of utmost importance to Lindt as it is a big mover of Core Invested Capital, relevant for cash flow analysis, and also of the depreciation line in regard to taxing. PPE is expected to grow at ever decreasing rates, reflecting consolidation following operational expansion, namely in the US and ROW hubs. As such, PPE in '34 is computed to be 1.34x greater than in '23.

Taxes

The tax rate is not expected to deviate from historical norms, remaining constant as a percentage of operating income. This stability is predicated firstly on the absence of foreseeable regulatory changes for Switzerland, and the fact that it is not foreseen Lindt ever relocating its headquarters out of Switzerland, given their connection to the country due to

Forecasted Balance Sheet Entries, CHF Millions

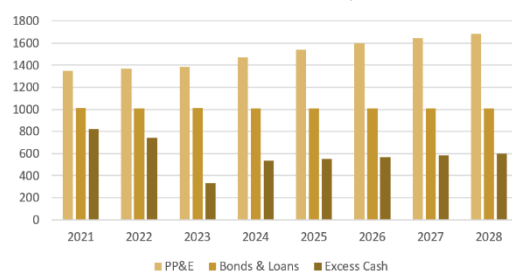


Figure 21 – Main components of the Forecasted Balance Sheet. (Source: Our Analysis/Forecast based on Year-end Company Reports)

historic, fiscal and marketing reasons. Switzerland is generally seen as a favourable destination for corporations (Portal 2022, PwC 2024), when it comes to fiscal burden and regulation, further informing the view on this report. Secondly, this report does not foresee shifts in the company's revenue distribution that could influence tax obligations, given the growth trajectory set out for the company. Consequently, the tax expense is forecasted as a fixed proportion of operating income, reaching values of CHF 210M by 2034.

Other Income

Other income was classified as non-core and comprises of license fees, reimbursement of freight charges, and gains from the sale of assets and PPE. The forecast assumes no extraordinary movements here and the values follow historical averages being scaled with inflation.

Financing Results

Financing results are expected to remain a net expense over the forecast horizon, driven primarily by the company's cash management and hedging practices. Interest income is limited due to cash being predominantly held in accounts which yield minimal returns. Additionally, Lindt's securities portfolio serves strategic purposes rather than income generation targets (Lindt, 2017-2023). This includes foreign currency forwards, option trading and raw material forwards used for hedging exposure to exchange rate and commodity price volatility. Given the conservative and operational nature of Lindt's financial strategy, financing result is projected to be flat and slightly net negative.

Inventories, Accounts Receivables & Payables

The inventory holding period is forecasted to remain flat, reflecting a mature status for production efficiency. New production innovation techniques are not expected to cause a big impact in asset turnover. Technological improvements in management and operations are expected to improve the company through other vehicles other than production.

The collection period is anticipated to decrease over time. This is in part driven by the increasing weight of online sales and direct-to-consumer channels, particularly in the U.S. and European markets (Lindt, 2020-2023). Reduced reliance on distributors in these regions contributes to lower payment cycles, reducing Accounts Receivables. Most importantly, historical figures indicate a stark trend downwards. Lindt is expected achieve a collection period of 60 in '34, down from 70 in '24 (90 in '17).

The average payable period is expected to lengthen, consistent with recent historical trends (up 16% since 2017) and the company's procurement leverage as a vertically integrated Swiss giant. Lindt's strong bargaining position with suppliers can enables extended payment terms haggling, as seen by the historical figures. Together, the above support a slight decrease in NWC YoY, which is positive for FCF.

Intangibles and Rights of Use

Intangible assets include goodwill, brand and intellectual property rights, enterprise data processing (EDP) software, and customer relationships. These components form a significant part of Lindt's asset base, approximately 1:1 to PPE, reflecting

the premium nature of its brand and its strategic investments in customer engagement and technological infrastructure. Intangibles are expected to increase modestly ('34: 1.19x on current values) aligning with the historical trend observed over the past decade.

Rights of use represent lease-related assets recognized under updated accounting standards and are closely tied to PPE. With PPE expansion in line with the aforementioned dynamic, rights of use are projected to increase correspondingly.

Excess Cash, Debt and Securities

Given Lindt's enormous cash position (33% of PPE in '23, 60% in '22), excess cash is computed at 95% CCE, with 2.5% (CHF 130M) left as operating cash.

Excess cash expected to remain constant, mirroring the consistent levels observed over the past decade. There was a CHF 300M stock repurchase in '23, and management states to hold more in the future years. Lindt has demonstrated a preference for maintaining this specific cash reserve, which can be used to fund dividends when facing headwinds and for the above-mentioned stock buy backs.

In line with the above, Debt levels are expected to remain unchanged, consistent with Lindt's historical financial philosophy. The company has consistently kept maintaining a low debt structure of around CHF 1B (flat since '17), which seems to be an optimal point for their management. Moreover, funding needs can also be covered by their cash position. No changes are forecasted.

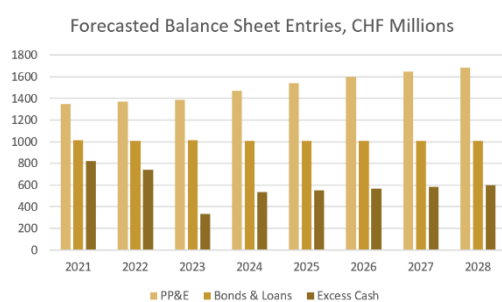


Figure 22 – Forecasted Balance Sheet main components overview. (Source: Our Analysis/Forecast based on Year-end Company Reports)

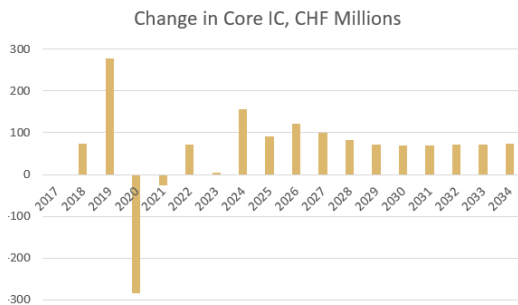


Figure 23 – Change in Core Invested Capital, in millions of CHF. (Source: Our Analysis/Forecast based on Year-end Company Reports)

The securities portfolio is projected to grow in line with Lindt’s core invested capital. As outlined in *Financing Results*, their Securities entry, primarily include hedging instruments and low-yield investments, are strategically used for coverage in Forex and raw material exposures.

Capex, Net Working Capital and Core Invested Capital

These entries are computed from the above forecasts for the IS and BS, and together with depreciation will lead to predictions for free cash flows, taking core result as an input.

This report groups CAPEX and NWC as Changes to Core Invested Capital, with average out to CHF 20 M in the last 7 years. Despite this, the ranges are quite wide (+200, -200).

Values for change in Core IC are set to CHF 157 M for ’24, and decrease over the period to CHF 73 M in ’34.

DCF Model

The above-described efforts during this research have been focusing on creating a robust DCF model, that is based on reasonable assumptions, and that pertain to the biggest drivers of firm value. For this DCF model, the report assumes a steady state by the year of 2034. This forecasted explicit period is then discounted to 2025, using our computed WACC of 3.83%.

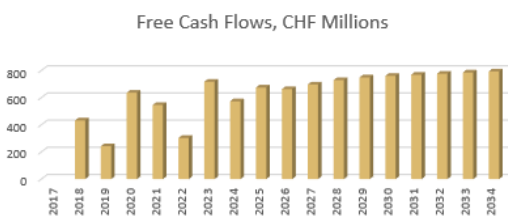


Figure 24 – Free Cash Flows evolution 2017-2034. (Source: Our Analysis/Forecast based on Year-end Company Reports)

The Free Cash Flow value for ‘34 is the last before our assumed steady state and serves as the baseline for our Terminal Growth Formula, that outputs Lindt’s Enterprise Value in ‘34.

The researchers opted out of used ROIC, RONIC and RR within the analysis and to establish value drivers. Given Lindt’s policy

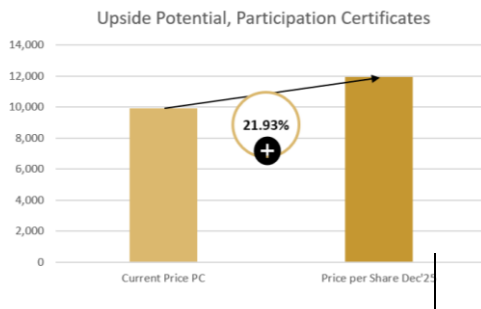


Figure 25 – One-year Participation certificate price evolution accordingly to our estimation.

with shareholder's transfers and share buybacks, as covered before, we felt that using RONIC and RR for the Terminal Value formula would be the most adequate method to forecast g for perpetual growth rate of the FCF. The value was computed to 1.39%, being extracted from the multiplication of the long-term RONIC over the Retention Rate of the firm, once these values stagnate. This decision was made as the last value for FCF growth was 1%, which was deemed to low compared to expected global GDP growth given sales, profitability and capital management.

After extracting Net Debt from the Enterprise Value calculation, computed value of equity for 31st December 2025 is CHF 28B, compared to the current Market Equity Value of CHF 23.3B, as of 06th December 2024.

Taking into account the Transfers with Shareholders through to 2025, this results in a forecasted upside potential of 21.93%.

Multiples Valuation

In addition to the DCF Valuation, our report also implements a comparative valuation method known as comparable company analysis. This approach involves utilizing ratios from publicly traded firms that function within the same industry, and share similar characteristics with Lindt, regarding product lines, production methods or target markets. We referenced six competitors on this process (Hershey, Barry Callebaut, Mondelez, Lotte Wellfood, Nestlé and Rocky Mountain Chocolate Factory), identifying within this group three true comparable firms, that share higher level of comparability with our target company, from the financial perspective.

To evaluate Lindt's value in relation to its competitors, we employed four distinct multiples: EV/Revenue, EV/EBITDA, Price-to-book (P/B) and P/E. Then, we utilized forward-looking multiples to derive an estimated enterprise and equity value for Lindt. This approach is preferred as historical returns can be influenced by one-time events such as acquisitions or significant operational changes. By focusing on forward-looking multiples, we mitigate the impact of these one-time occurrences and adhere to the fundamental valuation principle that a company's value is equivalent to the present value of its future cash flows.

After performing a financial comparative analysis with the selected peers over profitability and capital structure, we have discovered deeper similarities between Lindt and three companies of the selection, the ones we called "true comparables": Hershey, Mondelez and Nestlé. Between 2019 and 2023, these companies have shown greater proximity on indicators like operating margin or net margin, varying on average between 11% and 16%, reflecting these firms' higher control over market share and economies of scale on their large operations. Also, regarding capital structure, these comparable firms have shown larger interest coverage capability and similar equity/debt structures, although differing from Lindt on this indicator, as Lindt has shown higher ability in keeping indebtedness lower in relation to its equity value.

Rocky Mountain has been excluded from the comparable selection and considered an outsider for its reduced size, compared to Lindt, but also for the negative phenomenon of negative profitability currently faced by the company, which may impact the analysis/forecast.

Multiples Variation among peers

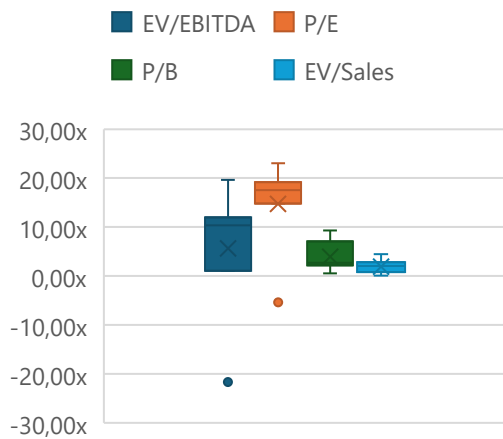


Figure 26 – Multiple Variation among peers.

Eventually, we reached an average for our sample of EV/EBITDA of 5.6x, an average EV/Sales of 1,92x, a price-to-book ratio of 3.96x, and P/E of 14.73x for the industry. After disregarding the outsiders from our sample of comparables and conducting the necessary steps to calculate Enterprise Value and Market Value of Equity for Lindt from these multiples, we have achieved the estimated prices per share of Lindt as: 6'135 CHF through the EV/EBITDA, 5'599 CHF through the P/E, 10'998 CHF through the P/B and 6'309 CHF through the EV/Sales, or on average, 7'260 CHF.

The forecasted value with higher similarity to our estimated price through DCF analysis is the P/B approach, what is consistent since this multiple is particularly preferred when the emphasis is on assets or a conservative view of intrinsic value, rather than earnings, revenues, or cash flows (which have higher potential to be influenced by temporary disturbances that may affect these asset-intensive manufacturing companies, as usual on the food industry). Unlike the Price-to-Earnings (P/E) ratio, which requires positive earnings, the P/B ratio remains meaningful for companies that are currently unprofitable or experiencing volatile earnings and also enables to identify a potential buying opportunity if investors believe the company's assets are underappreciated by the market. On average our forecast through multiples has come to an estimated price per share which is below current market value and below our forecast for its intrinsic value, what suggests that Lindt is currently trading at substantially higher multiples than its peers.

DDM Model

This approach of valuation aims to calculate the equity value of the firm through the sum of the discounted value of all future dividends to be paid by the firm, considering the firm's cost of equity and the estimated perpetual growth (considered to be half of the dividend growth for the last years of our forecast).

With a cost of equity of 3,98% (previously explained) and a perpetual growth rate of the firm of 2%, we have reached a forecasted market capitalization for year-end 2025 of 25'922 million CHF, translating into a participation certificate price of 11'029 CHF and a price of 109'515 CHF for the registered share.

These results evidence a capital gain around 12,75% for equity holders that follow our recommendation (including transfers to shareholders), which almost perfectly align with the results from the DCF analysis.

Sensitivity Analysis

This piece is crucial for a better understanding of the price, as it allows the appreciator to experiment within reasonable values for key variables. By doing so, it is possible to pinpoint their effect on the final valuation. Specifically, we analysed the effects of changes in the WACC, and perpetual growth rate, g; within a predefined range of interval values.

Finally, this report goes beyond looking at EV by moving WACC & g between reasonable intervals, and also looks at the Financial Statements forecasted with a positive and negative outlook on Lindt’s future.

The biggest movers for Free Cash Flow were identified and a “% better/worse” slider was created. The biggest movers of FCF are Sales, COGS, Opex and Personnel Expenditures and Changes in PPE. The researchers tweaked these values to get to relevant levels of sales and profitability, which them computed to Price per share in 2025 using the same DCF Model, with Terminal Growth Adjusted. Adjusting for 5% worse revenues across all regions and reducing Operating Margin to 14.53% (from forecasted 18.5% in ‘34) and Net Margin to 7.25% (from 10.65%). Moreover, Change in Invested Capital was multiplied by 1.25x (25% worse) to allow for less efficiency of capital invested for topline generation.

Current forecast	1.00%	1.15%	1.23%	1.31%	1.39%	1.47%	1.55%	1.63%	1.71%	1.79%	1.87%	1.95%	2.03%	2.11%	2.19%	2.27%	2.35%	2.43%	
11.943	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66	13700.66
3.20%	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04
3.33%	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04	12933.04
3.45%	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33	12244.33
3.58%	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98	11622.98
3.70%	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56	11059.56
3.83%	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33	10546.33
4.16%	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15	9384.15
4.50%	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93	8443.93
4.83%	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64	7667.64
5.17%	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85	7015.85
5.50%	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86	6460.86

Figure 27 – Sensitivity analysis for the estimated Weighted Average Cost of Capital.

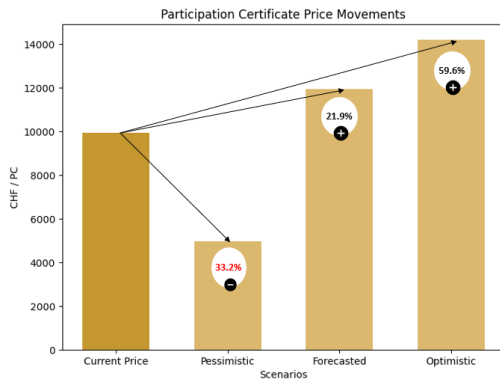


Figure 28 – Participation Certificates price movements, considering current price, our estimation and the scenarios. (Source: Our Analysis/Forecast based on Year-end Company Reports)

For the optimistic scenario revenues were set to be 3% higher than predicted, reflecting a stellar hypothetical performance in market capture and brand positioning. Operational Margin was 21.2% and Net Margin was 12.82% and there was no change in Capex and NWC. Irrespective of mentioned price move sizes that were predicted, this exercise brings value in the sense that it allows a greater feel for stock price flows in relation to the statements' movements and allows deeper analysis.

Recommendations for the future

Considering all the analysis developed over this report, and despite the slight decrease on the firm's capacity to growth revenues (which stabilize around 3,2%) and generate higher FCFs (which stabilize around 1%), typical of a mature company, it's notorious Lindt's potential to continue to generate moderate growth on the future, largely influenced by his expansion over new markets (specially emerging markets) and diversified product lines.

In fact, this potential for future value generation is traduced in our valuation exercise as a return gain of around 21,9% through the DCF approach or 16,7% through the DDM methodology for equity holders during the next year, what only can derive in our strong recommendation to BUY the firm's share (LISN.SW or LISP.SW).

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In millions CHF	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Core Result	460	481	460	300	454	571	623	681	716	730	745	761	770	779	787	796	805	814
Invested Capital	3 596	3 669	3 948	3 664	3 638	3 710	3 714	3 871	3 963	4 085	4 184	4 267	4 338	4 407	4 477	4 548	4 619	4 692
Change in IC	74	279	- 284	- 26	72	4	157	157	92	122	99	82	71	69	70	71	71	73
Average	20																	
CORE FCF	408	181	584	480	499	619	524	624	608	646	678	699	710	717	725	734	741	
Non-Core Result	5	22	84	47	60	22	74	37	38	38	38	38	38	38	39	39	39	39
Invested Capital	- 682	- 685	- 663	- 668	- 675	- 457	- 481	- 493	- 506	- 523	- 536	- 549	- 562	- 575	- 587	- 600	- 613	- 627
Change in IC	- 3	22,2	- 5,7	- 6	217	- 24	- 13	- 13	- 17	- 13	- 13	- 12	- 13	- 13	- 13	- 13	- 13	- 13
Non-Core FCF	25	62	53	66	- 196	98	50	50	55	51	51	51	51	51	51	52	52	52
FCF²	432	242	636	546	303	717	573	675	663	697	730	749	761	769	777	785	793	
% change		- 44%	163%	- 14%	- 44%	137%	- 20,1%	17,7%	- 1,8%	5,1%	4,7%	2,7%	1,5%	1,1%	1,0%	1,1%	1,0%	
g (Core Result)	-	-	- 4,45%	- 34,88%	51,62%	25,74%	9,07%	9,34%	5,18%	1,94%	1,99%	2,15%	1,19%	1,14%	1,12%	1,10%	1,10%	1,16%
g (FCF)	-	-	- 43,94%	162,54%	- 14,22%	- 44,50%	136,72%	- 20,07%	17,69%	- 1,75%	5,12%	4,72%	2,69%	1,50%	1,08%	1,03%	1,14%	1,00%
Financing Result	- 13	- 16	- 32	- 26	- 23	- 23	- 26	- 19	- 19	- 19	- 18	- 18	- 17	- 17	- 16	- 16	- 16	- 15
Invested Capital	2 914	2 984	3 286	2 996	2 964	3 253	3 233	3 501	3 457	3 562	3 648	3 717	3 776	3 832	3 889	3 947	4 005	4 065
Change in Fin IC	71	301	- 290	- 32	290	- 20	267	267	- 43	105	86	69	59	56	57	58	58	60
Financing CF	- 87	- 333	264	9	- 313	- 5	- 287	- 287	24	- 124	- 104	- 87	- 76	- 73	- 74	- 74	- 75	
Dividends¹	223	237	418	264	284	304	315	388	398	435	474	506	532	557	582	609	635	
Avg / % of FCF³	66,6%	51,7%	97,7%	65,6%	48,4%	93,8%	42,3%	55,0%	58%	60%	63%	65%	68%	70%	73%	75%	78%	80,0%
Avg / Growth	6,8%		6,0%	76,4%	- 36,8%	7,6%	6,9%	3,9%	23,0%	2,5%	9,5%	8,9%	6,6%	5,3%	4,7%	4,5%	4,5%	4,3%

Appendix 3) Forecasted Free Cashflow Analysis 2017-2034.

In millions	-2	-1	0	1	2	3	4	5	6	7	8	9
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
FCF	717	573	675	663	697	730	749	761	769	777	785	793
% change		- 20,1%	17,7%					2,7%	1,5%	1,1%	1,1%	1,0%
dFCF				638	646	652	645	630	614	597	582	566
All values in millions of CHF, except per share data												
Value of Explicit Period	5 569											
WACC	3,83%											
g	1,39%											
Terminal Value	32 916											
Enterprise Value	29 038											
Net Debt	968											
Market Equity Value in 2025	28 070											
Price of registered shares (LISN.SW) / Price of participation certificates (LISP.SW)	9,93											
*As of 06/12/24												
Registered shares certificates outstanding	134 723											
Participation certificates outstanding	1 012 542											
*As of 06/12/24												
Current Market Value of Equity	23 338											
Price per Share Dec2025¹	11 943											
Current Price PC	9 930											
Current Price RS	98 600											
Price per RS Dec2025²	118 591											
Transfers to RS Holders in 2025	1 644											
*As of 06/12/24												
Capital Gain for PC holders	21,93%											
Capital Gain for RS holders	21,94%											

Appendix 4) Discounted Free Cash Flow Model 2023-2034.

(CHF million, except share price and shares outstanding)

Lindt Valuation based on peers (end 2023)					
Net Debt	Book Equity	Shares outstanding (PC, excluding registered shares)	EBITDA	Sales	Net Income
961	4641	1 012 542,0	1 170	5 483	699
Based on	EV/EBITDA	P/E	P/B	EV/Sales	Average Price per Share (CHF)
Estimation of EV	12076,87	13 195	19 324	11 244	
MV of Equity	11115,91	12234,1	18 363	10 283	
Price per share	4729,62	5205,41	7813,08	4375,36	5530,87
EV using true comparables	MV of Equity using true comp.	Price per share	EBITDA	Sales	Average Price per Share (CHF), using true comparables
	15381,35	14 121	26 811	15 790	
	14420,39	13159,9	25 850	14 829	
	6135,62	5599,32	10998,73	6309,49	7260,79

*True comparables analysis based on Hershey, Mondelez and Nestlé

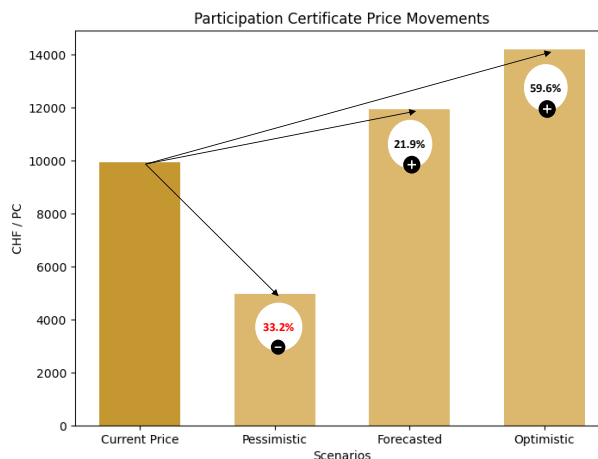
Appendix 5) Multiples based valuation (over PC price – LISP.SW).

In millions	-2	-1	0	1	2	3	4	5	6	7	8	9
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
FCF	717	573	675	663	697	730	749	761	769	777	785	793
Dividend	304	315	388	398	435	474	506	532	557	582	609	635
Discounted Div.				390	419	447	467	482	495	507	520	531
% of FCF	42%	55%	58%	60%	63%	65%	68%	70%	73%	75%	78%	80%
YoY growth		3,9%	23,0%	2,5%	9,5%	8,9%	6,6%	5,3%	4,7%	4,5%	4,5%	4,3%

Cost of equity	3,98%
g	2,00%
Explicit Period	4 257
disc. Terminal Value	23 047
Market Equity Value in 2025	27 305
Current Value of Equity	23 338
Price per Share Dec2025 ¹	11 618
Current Price PC	9 930
Current Price RS	98 600
Price per RS Dec2025 ²	115 359
Transfers to RS Holders in 2025	1 644
Capital Gain for PC holders	18,65%
Capital Gain for RS holders	18,66%

Appendix 6) Dividend Discount Model (LISP.SW/LISN.SW).

Value of Explicit Period	3 548
WACC	3,83%
g	0,00%
Terminal Value	12 773
Enterprise Value	12 655
Net Debt	939
Market Equity Value in 2025	11 716
Price of registered shares (LISP.SW) / Price of participation certificates (LISP.SW)	9,93
Registered shares certificates outstanding	134 723
Participation certificates outstanding	1 012 542
Current Market Value of Equity	23 338
Price per Share Dec2025 ¹	4 985
Current Price per Share 1	9 930
Price per RS Dec2025 ²	49 499
Transfers to Equity Holders in 2025	1 644
Capital Gain	- 33,2%



Value of Explicit Period	6 506
WACC	3,83%
g	1,39%
Terminal Value	39 005
Enterprise Value	34 316
Net Debt	939
Market Equity Value in 2025	33 377
Price of registered shares (LISP.SW) / Price of participation certificates (LISP.SW)	9,93
Registered shares certificates outstanding	134 723
Participation certificates outstanding	1 012 542
Current Market Value of Equity	23 338
Price per Share Dec2025 ¹	14 201
Current Price per Share 1	9 930
Price per RS Dec2025 ²	141 012
Transfers to Equity Holders in 2025	1 644
Capital Gain	59,6%

Appendix 7) Sensitivity Scenarios (Pessimistic vs. Optimistic).

Glossary

Acronym	Meaning
ROW	Rest of the World, meaning Lindt markets that are not Europe and North America
SWOT	Strengths, Weaknesses, Opportunities and Treats
WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow
IS	Income Statement
BS	Balance Sheet
CF	Cash Flow
FCF	Free Cash Flow
ROE	Return on Equity
ROIC	Return on Invested Capital
PC	Participation Certificates (LISP.SW)
RS	Registered Shares (LISN.SW)
CAGR	Compounded Annually Rate of Growth
YoY	Year over Year
Capex	Capital Expenditure(s)
Opex	Operational Expenditure(s)
NWC	Net Working Capital
Forex	Foreign Exchange
CCE	Cash & Cash Equivalentents
FY, HY	Full Year, Half Year

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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