

# Letter to Shareholders 2019

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## Dear Shareholders

We are delighted to report another successful year for the Lindt & Sprüngli Group. As in previous years, the Lindt & Sprüngli Group once again expanded faster than the overall chocolate market in the fiscal year 2019. We increased our market share in strategically important markets and once again achieved sales growth within our target range. This has allowed us to continue to extend our leading position in the premium chocolate segment.

Although the market environment continues to be very challenging, we still managed to achieve a very strong performance. Various political instabilities, along with a changing retail landscape, are putting pressure on the already saturated US and European markets. Despite this, the premium chocolate market is experiencing higher than average growth worldwide – a trend that Lindt & Sprüngli can benefit from as a leading global manufacturer of premium chocolate. Group sales increased to CHF 4.51 billion. This represents organic growth of +6.1%, which is within the target range set for the financial year. The currency environment was volatile during the reporting period. The Swiss franc made significant gains against the euro and the US dollar. This had a negative currency effect on consolidated results, mainly due to the weaker euro. Sales therefore increased by +4.5% in Swiss franc terms.

Prices for our most important raw materials such as cocoa beans, cocoa butter and milk rose slightly in 2019, while the price of hazelnuts was notably higher. However, almond and sugar prices remained stable. Thanks to a successful procurement strategy, Lindt & Sprüngli managed to balance the price fluctuations in raw materials. The cost of packaging materials was slightly higher, pushing up overall material costs a little.

In “Europe”, Lindt & Sprüngli achieved solid organic growth of +6.2%. This result is very positive given the various political disruptions, such as Brexit. Lindt & Sprüngli once again managed to expand its market shares in all key countries and to grow faster than the market average. Sales growth was particularly strong in the United Kingdom, Germany and Austria. But sales also rose in the home market of Switzerland, as well as in Spain, Italy and France, while all the Eastern European markets even reported double-digit growth. In addition, we opened a new subsidiary in the Netherlands and are about to open a representative office in Portugal in 2020.

The “North America” region achieved strong organic sales growth of +5.4%. All three brands – Lindt, Ghirardelli and Russell Stover – contributed equally to this solid result. During the past year, a number of important strategic decisions were taken to improve efficiency on the sales, production and logistics side of our three US operations. First, merchandising for the three brands Lindt, Ghirardelli and Russell Stover was outsourced to a specialized third-party provider as of January 2020. This allows us greater flexibility in the deployment of resources during our busiest seasons. Another important decision was taken affecting the Russell Stover production: its oldest manufacturing facility in Montrose, Colorado will close in 2021 and production moved to sites in Kansas and Texas, which will be expanded. This measure allows

production efficiency to be optimized and capacities to be increased, while at the same time creating additional jobs at the remaining production sites. The third measure involves the closure of existing warehouses as part of the consolidation of the US logistics network already initiated two years ago. The cost savings created by these measures will improve the result of our US business in future, while at the same time providing greater support for the brands in achieving additional sustainable and profitable sales growth. These steps will enable Lindt & Sprüngli in North America to strengthen its position in the long term as No. 1 in the premium segment and No. 3 in the overall US chocolate market with its three brands Lindt, Ghirardelli and Russell Stover.

The “Rest of The World” segment continues to expand and generated sales growth of +7.6%. The markets of Japan, China and Brazil performed particularly well, with all three reporting strong double-digit growth. These countries hold substantial growth potential for Lindt & Sprüngli, as the consumption of premium chocolate is steadily rising in these markets.

The strategy of our own store network continues to pay off and “Global Retail” once again made a notable contribution to the overall Group result. Following numerous new shop openings, Lindt & Sprüngli is now present at around 500 locations worldwide and offers consumers a unique brand experience. Every year, millions of chocolate lovers visit the company’s own shops. The biggest drivers for the retail business were Japan and Brazil.

The solid growth path of our subsidiaries once again laid the foundation for a strong operating performance. Excluding one-off effects, Group operating profit (EBIT) rose by +6.0% to CHF 674.6 million. This represents an EBIT margin of 15.0% (previous year: 14.8%). Net income increased by 5.1% to CHF 511.9 million, providing a return on sales of 11.4%. Operating cash flow rose +27.5% to CHF 830.9 million. Our balance sheet is debt free on a cash basis, and with a equity ratio of 58.1% is very solid. The one-off effects for the reorganization of the North America business did not have an impact on the result at net profit level, nor subsequently on earnings per share. This is because the two effects at the level of EBIT and taxes, in the net amount of CHF 59 million each, offset each other.

We are extremely grateful for the continuing trust placed in the company by our shareholders. Thanks to a strong performance in 2019 we will not only be able to continue our attractive dividend policy, but will also be topping it up with a generous special dividend to celebrate our 175th anniversary. The Board of Directors is proposing to the 122nd Annual General Meeting scheduled for April 24, 2020, a +75.0% higher dividend of CHF 1,750.– per registered share (CHF 330.– from the approved capital contribution reserves (agio) free of withholding tax, and CHF 1,420.– from available retained earnings) and CHF 175.– per participation certificate (CHF 33.– from the approved capital contribution reserves (agio) free of withholding tax, and CHF 142.– from available retained earnings).

Lindt & Sprüngli completed the buyback program on July 21, 2019. In total, 536 registered shares and 64,771 participation certificates were bought back via a second trading line on SIX Swiss Exchange. The total buyback sum in 2018 and 2019 came to CHF 455.416 million.

As you all know, our concerns go well beyond purely our financial performance: we are a company with heart and soul. It is very much in our interest to act responsibly and in particular to continuously improve the sustainability of our business activities. The main focus is on our efforts to protect the environment and combat climate change, as well as ensuring the long-term supply of cocoa beans. In this sense, we are delighted that after 12 years of ground-work, we have managed to meet our first interim goal in 2020: all the beans we use come from a fully traceable and verifiable supply chain. This means that we not only know exactly where the cocoa beans come from and the conditions they are grown in, but that an external independent expert has also verified the source of the beans for the entire “Lindt & Sprüngli Farming Program”.

We have only been able to report all this positive news thanks to another outstanding performance from our employees in 2019. On behalf of the Board of Directors and Group Management, we would like to thank them all personally for their hard work. Thanks to their huge commitment, we have once again achieved another successful performance in what has been a challenging year in many respects.

### Outlook

For the coming years, Lindt & Sprüngli confirms its existing mid- to long-term organic sales growth target of 5–7% p.a., combined with a steady improvement in the operating margin of 20–40 basis points p.a. In achieving these targets, Lindt & Sprüngli will continue to grow faster than average in all its markets. We continue to pursue our global expansion plans in 2020.

Finally, we would like to draw your attention to a personnel change in Lindt & Sprüngli’s Group Management. On January 1, 2020 Dr Jennifer Picenoni joined the Group Management in the role of General Counsel and Corporate Secretary. Jennifer Picenoni has been with Lindt & Sprüngli since 2007 and will be an ideal complement to our management team thanks to her profound expertise in an increasingly complex legal environment.

*“2020 is a very special year for the company: we are celebrating Lindt & Sprüngli’s 175th anniversary. In our anniversary year, we are absolutely delighted to be able to present a flagship project of which we are incredibly proud. The Lindt Home of Chocolate will open its doors on May 10, 2020.” Ernst Tanner*

2020 is a very special year for our company: we are celebrating Lindt & Sprüngli's 175th anniversary. In 1845 David Sprüngli-Schwarz and his son Rudolf Sprüngli-Ammann produced the first solid chocolate in German-speaking Switzerland in their small confectionery in Zurich's Marktgasse. Legend has it that in 1879 Rodolphe Lindt forgot to switch off his invention the "conche" over the weekend. When he came back on Monday and found the first soft melting chocolate ever, he certainly had no idea that so many years later his name would be synonymous across the globe for the finest chocolate. Today, Lindt & Sprüngli is the global market leader for premium chocolate and delights consumers all over the world with more than 2,500 products. To achieve such a success story, it is crucial to continuously make the right strategically important decisions. We need to push forward innovations and make sure we cater for all our customers' and consumers' needs. The most important thing, however, is to maintain a clear vision.

*"We are delighted that after 12 years of groundwork, we will meet our first interim goal in 2020: all the cocoa beans we use come from a fully traceable and externally verified supply chain." Dieter Weiskopf*

One such vision that has recently evolved is now coming to life at Lindt & Sprüngli's headquarters in Kilchberg. In our special anniversary year, we are absolutely delighted to be able to present a flagship project of which we are incredibly proud. On May 10, 2020, on Mother's Day, Lindt Home of Chocolate, funded and realized by the charitable Lindt Chocolate Competence Foundation, will open its doors to the public. The multifunctional building strengthens Switzerland's position as a center of excellence for chocolate manufacturing and continues the pioneer work of the company's two founders. One particularly interesting feature is the research facility in the Lindt Home of Chocolate, which will be open to other research institutes as well. After all, innovation is deeply embedded in our DNA and is crucial for new developments in the chocolate industry.

Obviously we would be delighted to welcome you, our trusted shareholders, to share our vision when you come to visit our Lindt Home of Chocolate.

**Ernst Tanner**  
Executive Chairman of the Board of Directors

**Dr. Dieter Weiskopf**  
CEO Lindt & Sprüngli Group