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Evenlode Investment Management
Manager of the Curate Global Quality Equity Fund

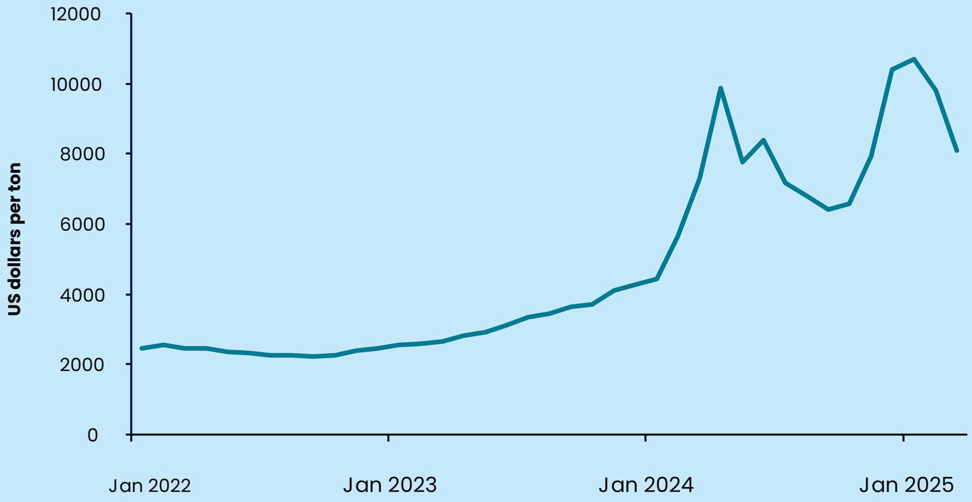
Unwrapping quality: The investment case for Lindt

Lindt is an exceptional business built on doing one thing extremely well, which is crafting premium chocolate, which offers a moment of everyday luxury. Its core product assortment is instantly recognisable: Round Lindor truffles, exquisite chocolate bars and the Easter Gold Bunny. Every year, Lindt sells more than 150 million Gold Bunnies globally. To put that in perspective, if you lined them up nose to tail, they would stretch from Lindt's headquarters in Switzerland to Cape Town in South Africa.

The company has long stood out to us for its consistent performance and high-quality fundamentals. However, the rich valuation prevented us from holding the stock in the portfolio. That changed in April 2024, when a sharp dislocation in Lindt's share price, driven by an unprecedented surge in the price of cocoa (a key input into chocolate production) created a compelling entry point. We initiated a position at that time and continued to build it throughout the second half of the year.

Before committing capital, it was important to understand whether the surge in cocoa prices could materially affect Lindt's long-term business success. Between 2022 and 2024, cocoa prices more than doubled, as production declined sharply, which was the result of long-term structural issues and short-term shocks (including crop disease, deforestation, adverse weather and years of underinvestment in West African farms). From early 2025, spot prices eased from their peak but remain well above the historical range of $2,000 to $3,000 per ton. Although we expect prices to continue moderating, they are likely to settle at a higher baseline in the medium term until there is a structural improvement in supply.

Cocoa prices from 2022 to 2025



Source: Evenlode Investment Management

For chocolate makers, this creates a tough backdrop, putting their ability to raise prices without losing customers to the test. Historically, chocolate demand has been relatively inelastic to price. Lindt has outperformed the market with an even stronger track record. A roughly 10% price increase has typically resulted in only about a 3% volume decline, still yielding c7% growth. The price increases implemented by the company in 2023 and 2024 had even less volume erosion than the historical average. Periods of rising input costs often favour companies with superior quality. As mass-market brands are forced to raise prices more aggressively, the relative gap with premium competitors narrows, making Lindt more attractive to new consumers, as the company has a smaller barrier to trading up.

This dynamic puts Lindt in a strong position to continue what it has done consistently for the past 15 years, which is grow organic sales at a high single-digit rate and expand margins by 20 to 40 basis points each year. While the company could expand margins more aggressively, it chooses to reinvest part of its earnings to grow future market share. This is a core tenet of our investment philosophy: We look for businesses willing to forgo some short-term profits to reinvest in opportunities that generate strong long-term returns. For example, Lindt's decision not to cut marketing spend during the pandemic (unlike many peers), helped the brand stay top-of-mind with consumers and likely contributed to its subsequent strong organic growth.

Premium chocolate consumption also tends to rise with income.
As middle classes grow, consumers trade up from sugary snacks and sweets. Per capita chocolate consumption in China, for instance, is still a fraction of what it is in the UK or US. Developing markets account for 30% of global chocolate consumption but just 10% of Lindt's revenues.
That's a significant runway for long-term growth. We are mindful of concerns around changing consumer habits towards healthy snacking and the effect of GLP-1 appetite-suppressant drugs. While these may present a modest headwind to industry-wide volumes, we think Lindt is well placed to offset this through product mix and innovation.
People don't eat Lindt chocolate to satisfy hunger. It's a moment of personal indulgence, that comes with cultural permission to enjoy a premium treat.

Our investment philosophy is not to chase what's cheap but to invest in durable quality.

Lindt perfectly exemplifies this. With global brand strength, resilient pricing power, disciplined reinvestment and significant whitespace for growth, it remains one of the highest-quality companies in our portfolio. We continue to have strong conviction in its ability to deliver consistent, sustainable growth for many years to come.

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