

Breville Group Limited (BRG)




UBS Conference

November 18th, 2019

Master Every Moment

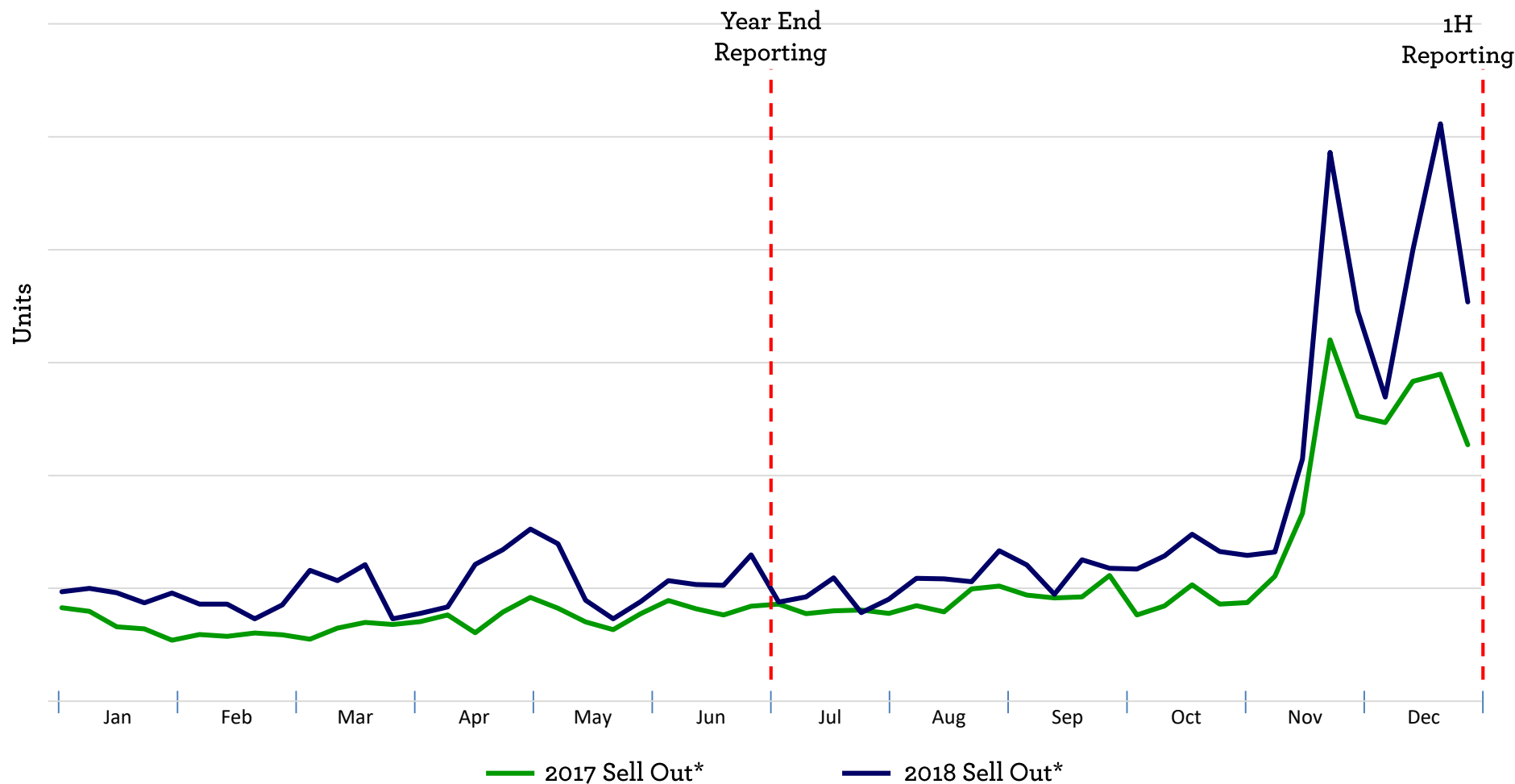
Breville | **Sage**

- 
- Trend Break & Reporting Windows
 - SDA Vertical Idiosyncrasy
 - Forward Inventory Flows
 - Acceleration Program Scorecard



2017 & 2018 Weekly Sell Out* Curves

Single Global Product SKU across ANZ, NA, and EU

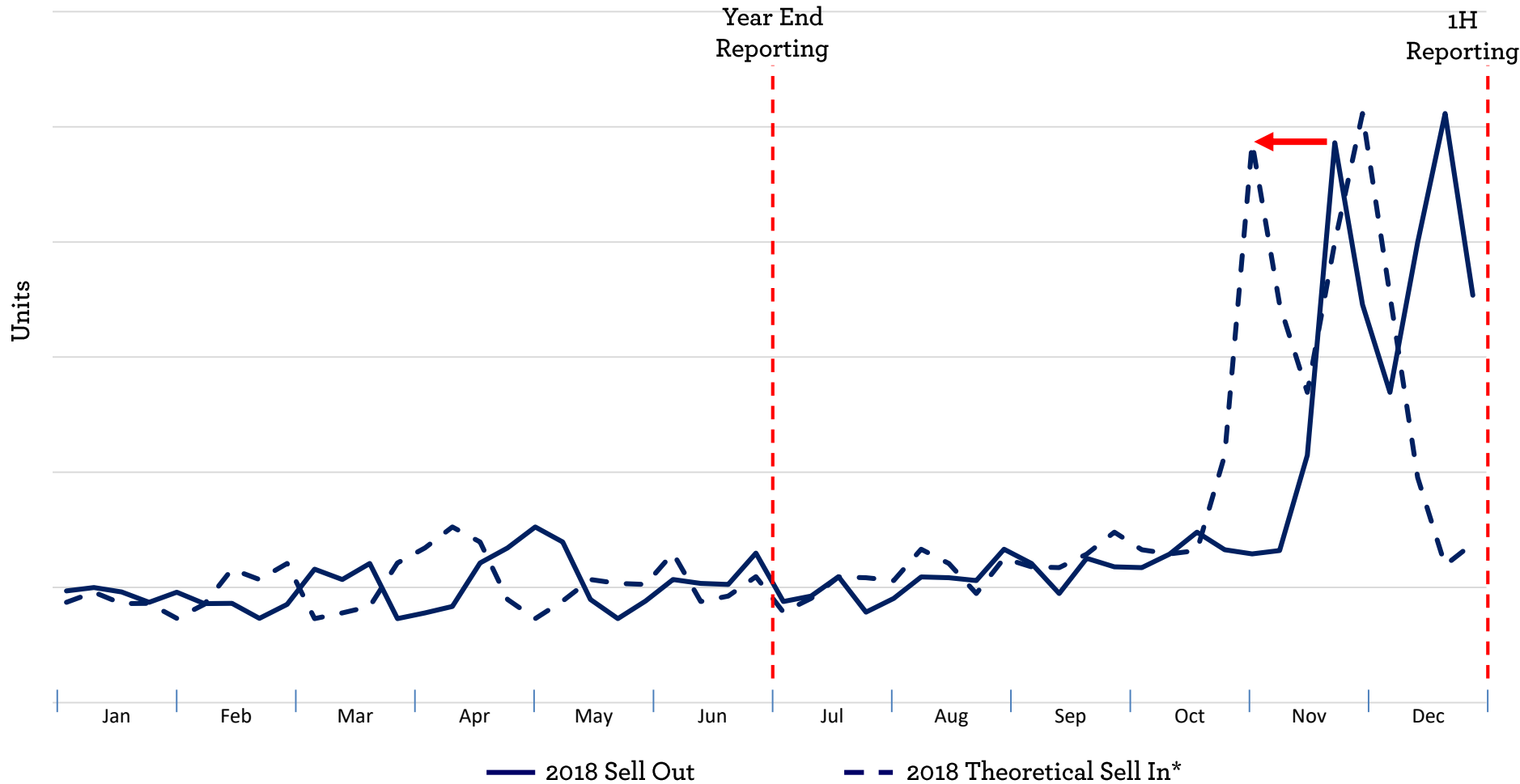


* Sell out is retailer sales to end the consumer. Curves represent actual weekly sales, in units, of a single global product sold by retailers from whom we collect sell out data across North America, ANZ, and Europe. Included retailers represents approximately 70% of total sales of this SKU in these regions.



2018 Theoretical Sell In* Curve

Single Global Product SKU across ANZ, NA, and EU

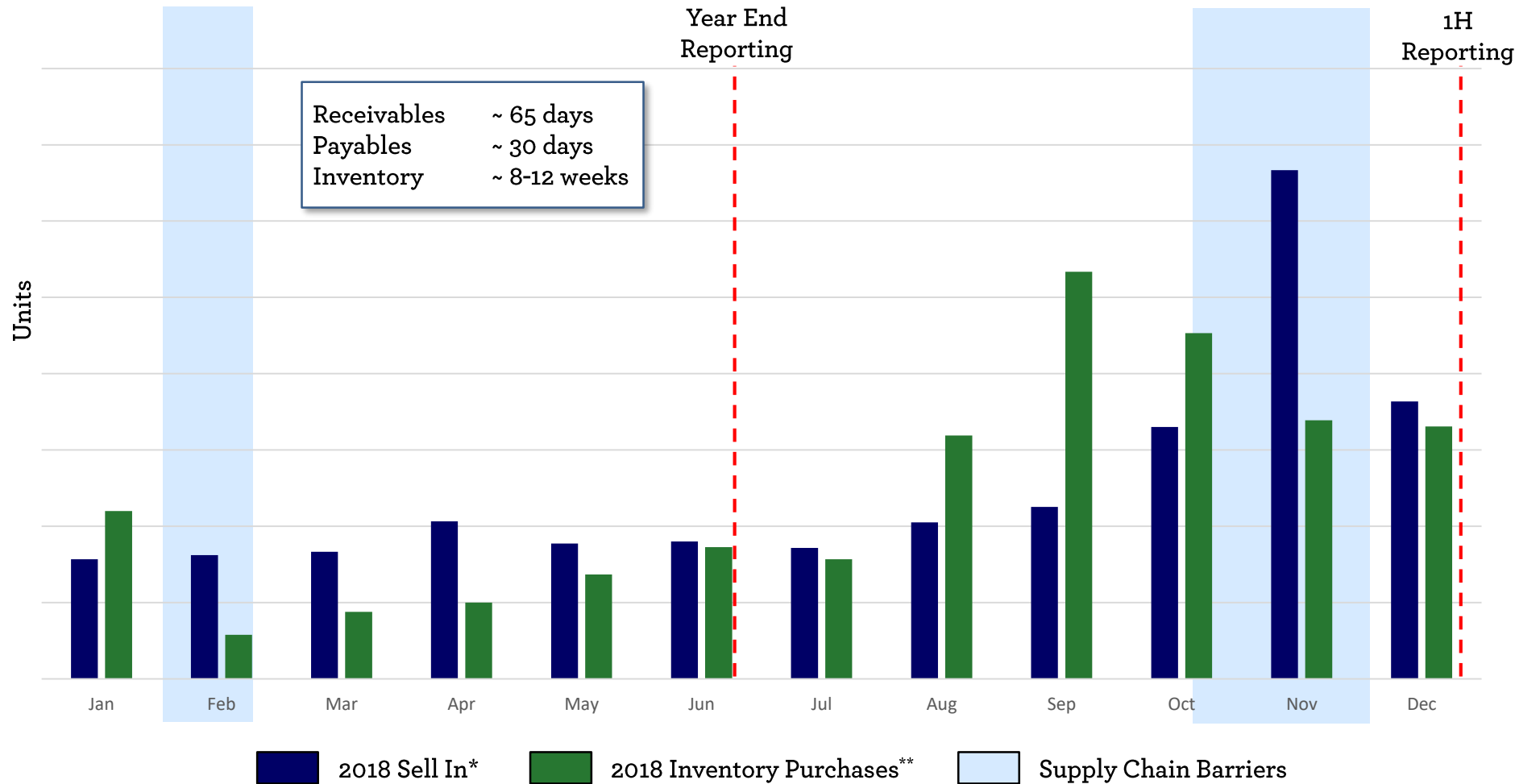


* Sell in is BRG sales to retailers in units. Analysis assumes 4 week delay between sell in and sell out, implying retailers accurately predicting forward sell out.



2018 Sell In* vs. Purchase Pattern

Single Global Product SKU across ANZ, NA, and EU



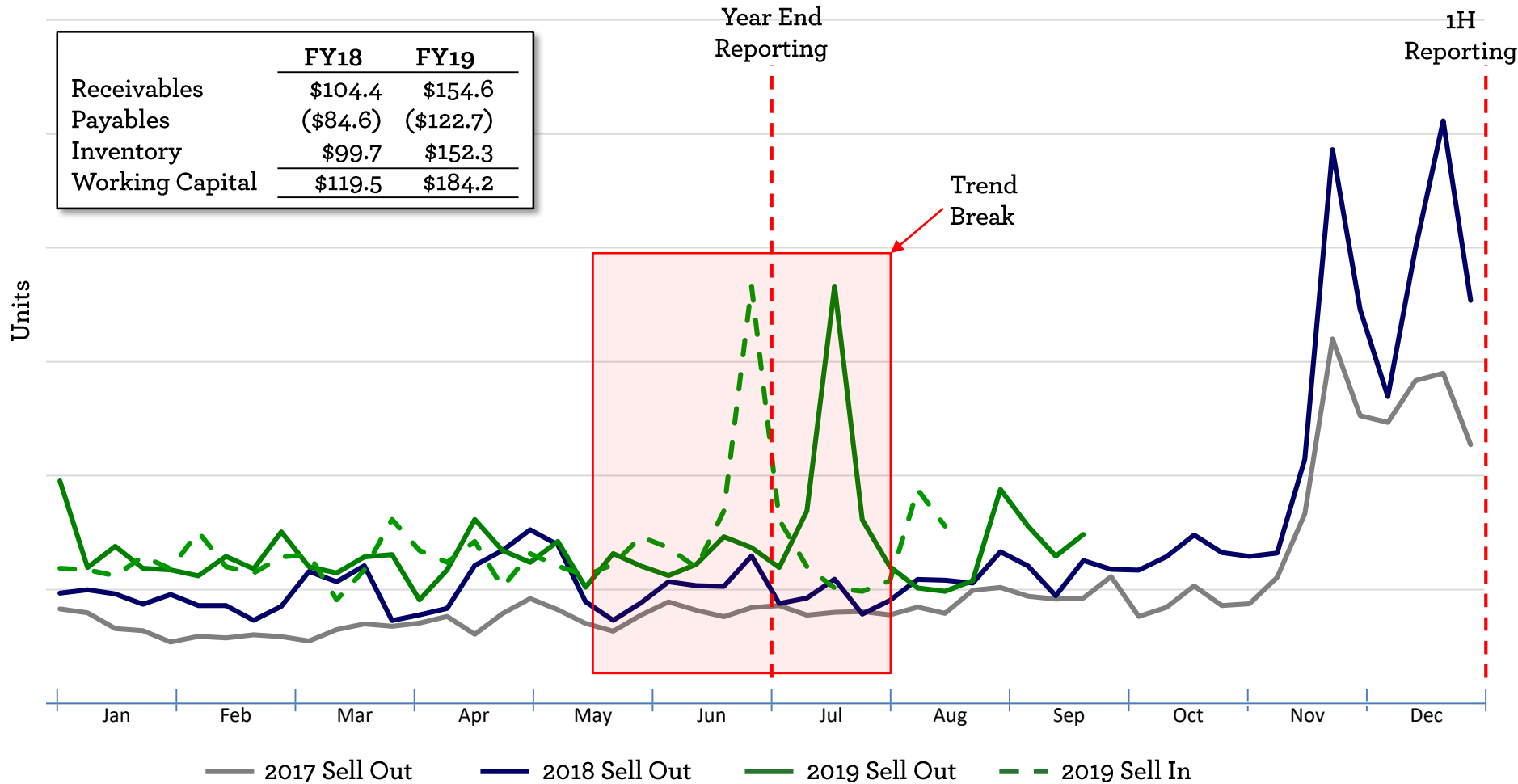
* Sell in is BRG sales to retailers in units. Analysis assumes 4 week delay between sell in and sell out.

** Inventory purchases are BRGs purchases from Suppliers in units.



2019 Sell Out* Trend Break

Single Global Product SKU across ANZ, NA, and EU



*Sell out is retailer sales to end consumers in units.



Impact of Sell Out Shift on Reporting Windows

- Peak “cash conversion” continues to occur in Feb-Mar, but will see Christmas-like working capital pattern in June
- FY20 over FY19 will be a valid comparison because the sell out shift will be like-for-like



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Economic Underpinnings of SDA

For all products sold in the US that are 8 years old or older, the average Net Sales Price / Unit increased 1% per year between FY12 and FY19.

	Margin \$ as multiple of carry cost*
US Product 1	6 years
US Product 2	16 years
US Product 3	46 years

- Vertical has abnormally long product life cycles without price degradation.
- Cost of stocking out is materially higher than the carrying cost of the SKU. Absence of obsolesce/price decline risk is one of the reasons companies in SDA tend to have low inventory turns.
- Net, net, there are many benefits to flowing inventory, but the real cost hits if you come up short.

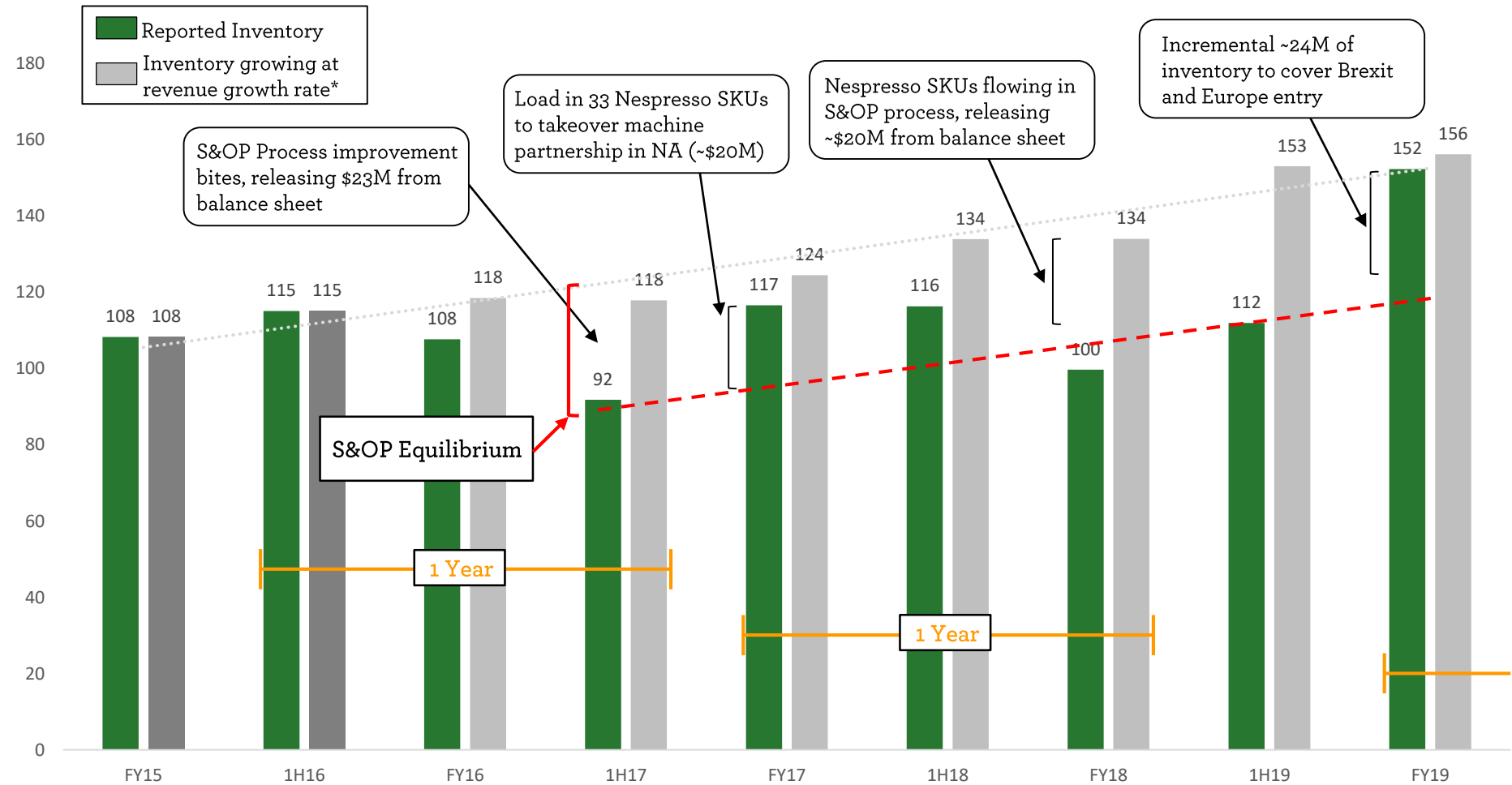
* Calculated as gross profit dollars per unit sold divided by the holding cost per unit for an entire year (storage plus working capital cost).



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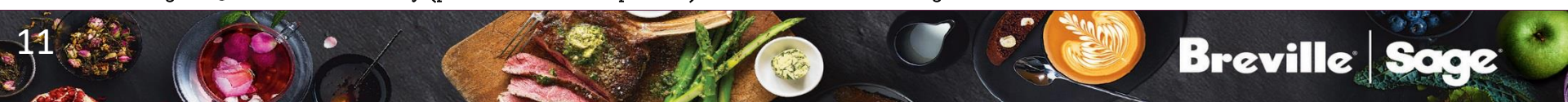


FY15-FY19 Inventory Analysis (A\$m)



S&OP Process improvement released \$23M in 1H17. This was reinvested to launch Nespresso in NA, then released in FY18. It was then reinvested to cover for Brexit and European entry risks. It will release, again, once the risks have passed.

* Growing FY15 & 1HFY16 inventory (pre-S&OP baseline periods) at same rate as revenue growth



FY20 1H/2H Inventory: Puts and Takes

1H Inventory Components

June 2019: \$152M (inclusive of Brexit insurance policy and Europe demand variance cushion)

- (-) High season sales
- (+) Business growth
- (+) Tariff cost increase plus tariff flow effect
- (+) Chinese New Year (less of impact for tariffed SKUs)
- (+) Fx translation

2H Inventory Components

December 2019 Ending Inventory

- (-) Tariff effect bleed off as flow SKUs
- (-) Europe cushion bleed off as learn market
- (-) Brexit insurance policy release or use (Brexit dependant)
- (+) Business growth (Amazon Prime Day)
- (+) FY21 Christmas build begins (goods in transit)



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Acceleration Program Scorecard

Acceleration Program Scorecard	FY15	FY16	FY17	FY18	FY19	FY19/FY15
BRG Revenue (AUDm)	527.0	576.6	605.7	646.8	760.0	44.2%
Global Segment	373.3	427.2	469.6	522.2	612.0	63.9%
Distribution Segment	153.7	149.4	136.2	124.6	148.0	(3.7)%
Distribution Segment EBIT	N/A	8.6	6.6	13.6	18.5	
BRG EBIT	69.6	73.7	79.0	86.9	97.3	39.8%
EBIT Yr/Yr Growth	(1.2)%	5.9%	7.2%	10.0%	12.0%	
Marketing / R&D as % Revenue	8.0%	8.5%	9.5%	10.5%	11.0%	+300 bps
Marketing and R&D Spend	42.2	49.0	57.6	68.7	83.3	97.4%
Inventory	108.3	107.7	116.6	99.7	152.3	40.6%
Inventory as % of COGs	34.7%	31.7%	32.3%	27.0%	35.3%	(60) bps
ROE¹	21.0%	21.0%	21.3%	21.5%	22.7%	+170 bps
ROA¹	13.4%	13.7%	13.7%	13.5%	14.1%	+70 bps

- Transformation driving both Revenue and EBIT broadly in line with one another (some currency effects in revenue line)
- Remixed revenue to the Global Segment while turning around EBIT line of the Distribution Segment
- Doubled Marketing and R&D over 4 years while growing EBIT 39.8% at the same time
- Inventory growth in line with revenue, though inclusive of FY19 inventory investments (\$33m)
- Improving ROE and ROA metrics reflecting solid return on investment in organic growth
- Total reported “non-recurring” expense adjustments affecting reported EBIT: \$0

¹ ROE is calculated based on NPAT for the 12 months ended 30 June for the financial year (FY15 – FY19) divided by the average of shareholders’ equity at the beginning and the end of the financial year. ROA is calculated based on NPAT for the 12 months ended 30 June for the financial year (FY15 – FY19) divided by the average of total assets at the beginning and the end of the financial year.



Key Takeaways

- The Small Domestic Appliance market has extremely long product cycles without price degradation, meaning, as a general rule, inventory does not devalue.
- Breville's year end reporting window is no longer the window for seeing our cash conversion. The quiet period in the annual cycle is Feb-Mar.
- Inventory is moving around in response to external forces acting on the business. Absent future shocks, we expect to get through the lion's share of rebalancing the system by the end of FY20.
- Despite the dynamic environment, Breville is continuing to show healthy return metrics while managing through the external forces and growing the business.



Disclaimer

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