

ACF 5130 INDIVIDUAL PROJECT COMPANY EVALUATION REPORT

Breville Limited

Sravanth Saranu

34165665

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Accounting Analysis

BRG's earnings quality was assessed using data from the past 20 years, offering a comprehensive evaluation of its long-term financial performance. Two key measures were examined: earnings persistence and predictability.

The regression analysis reveals a coefficient of 0.68, which is relatively close to 1, indicating a moderate to high level of earnings persistence. This suggests that BRG's earnings have been consistently maintained over time. The R Square of 0.46 further indicates that 46% of the variation in BRG's earnings can be explained by its past performance. When compared to its industry peers in Australia—Shriro Holdings Limited, JB Hi-Fi Limited, and Harvey Norman Holdings Ltd—BRG's persistence is similar to the broader industry trend, reflecting consistent financial stability and operational performance. (Since the main competitors are not listed in ASX, we have taken indirect peers from the local market for simplicity and accounting similarity)

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Regression Statistics</i>	
Intercept	0.0347	0.0195	1.7813	0.0917	Multiple R	0.68092
Lag NI before Abnormals					R Square	0.46365
					Adjusted R Square	0.43385
					Standard Error	0.02650

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	0.0460	0.0115	3.9952	0.0002
Lag NI before Abnormals	0.5730	0.1062	5.3935	0.0000
BRG	-0.0113	0.0243	-0.4660	0.6428
BRG*Lag NI before Abnormals	0.1063	0.2171	0.4894	0.6262

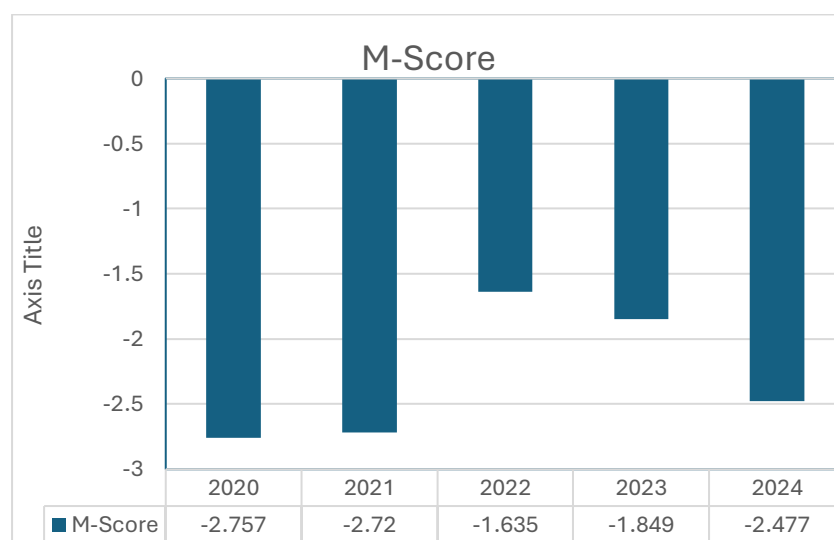
Earnings predictability was further analyzed using residuals. The mean residual for BRG is 0.00166, with a standard error of 0.00573. In comparison, the industry residuals show a mean of 0.10527 and a standard error of 0.00301. While BRG's residuals exhibit a higher standard error, indicating slightly more variability, the lower mean suggests that BRG's actual earnings align more closely with expected values, demonstrating strong predictability. An F-test for variances shows an F-value of 1.55728, which is below the critical F-value of 1.57427 at a 95% confidence level, confirming that there is no statistically significant difference in variances between BRG and the industry. This indicates that BRG's earnings predictability is on par with the broader industry.

F-Test Two-Sample for Variances

	BRG Residuals	Industry Residuals
Mean	0.00166	0.10527
Variance	0.00069	0.00044
Observations	21.00000	49.00000
df	20.00000	48.00000
F	1.55728	
P(F<=f) one-tail	0.10538	
F Critical one-tail	1.57427	

(In Millions A\$)	2018	2019	2020	2021	2022	2023	2024
Net Profit before abnormals	59	67	66	91	106	110	119
Net Operating Cash Flows	89	32	132	121	(41)	98	302

Analyzing the relationship between net profit and operating cash flows over the past seven years reveals inconsistencies. While net profit has generally trended upward—from A\$59 million in 2018 to A\$119 million in 2024—operating cash flows have fluctuated more significantly. For instance, while operating cash flows were strong in 2020 (A\$132 million), they dipped to A\$-41 million in 2022, even as net profit continued to rise. This raises concerns about the quality of earnings, suggesting that a significant portion of reported profits may not have been converted into cash. However, the recovery in operating cash flows to A\$302 million in 2024 aligns with the upward trend in net profit, supporting the overall earnings quality in recent years.



The M-Score, used to detect potential earnings manipulation, was calculated for BRG from 2020 to 2024. An M-Score above -2.2 suggests a higher likelihood of earnings manipulation. BRG's M-Scores for 2022 (-1.635), and 2023 (-1.849) exceed this threshold, indicating potential manipulation risk in those years. Conversely, M-Scores for 2020 (-2.757), 2021 (-2.72), and 2024 (-2.477) are below the threshold, suggesting lower risk of manipulation during these periods.

The earnings change analysis for BRG shows that all changes are well outside the critical range of 0 to 0.001, which typically signals potential earnings management. The differences in BRG's earnings changes are significantly higher or lower than this range, suggesting that management has not engaged in practices to manipulate reported earnings through small adjustments. This indicates a generally transparent earnings reporting process.

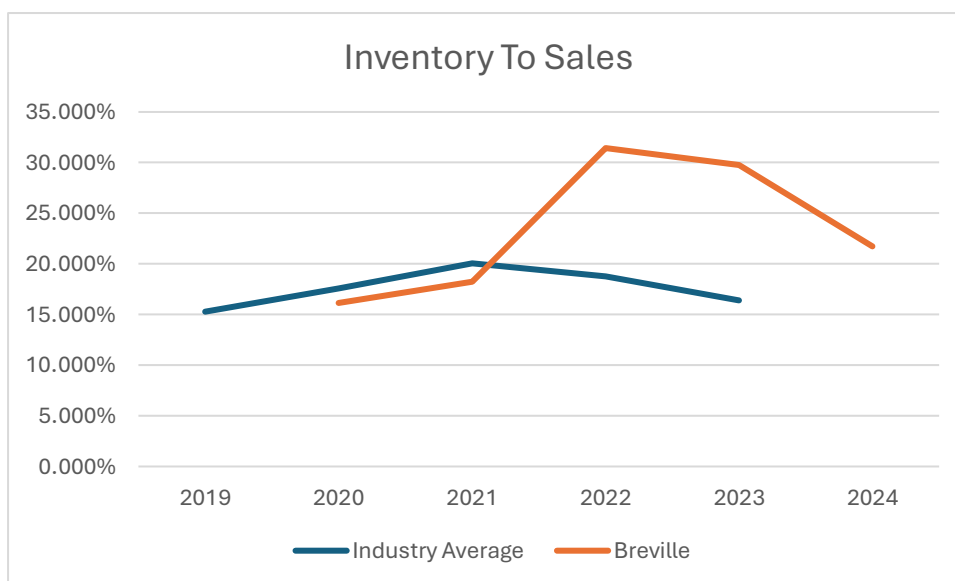
$$\Delta \text{Earningst} = (\text{Earningst} - \text{Earningst-1}) / \text{Total Assetst}$$

	2019	2020	2021	2022	2023	2024
Earnings Change	0.017	-0.002	0.032	0.013	0.003	0.006

Breville's financial statements over the past five years reveal several red flags that may distort the perception of its core performance.

Inventory Management:

There have been significant fluctuations in inventory, particularly in FY21 and FY22, as inventory was built up to mitigate supply chain risks. While strategic, these fluctuations have distorted working capital ratios and short-term cash flows. The downward adjustment in FY23 helped normalize inventory levels, but concerns about valuation accuracy and potential obsolescence remain.



Abnormal Items and One-Off Adjustments:

In FY20, Breville recorded abnormal expenses totalling \$19.09 million, comprising \$1.52 million in doubtful debt provisioning and \$17.57 million in IT platform write-downs.

Frequent adjustments of this nature suggest a tendency to exclude unfavourable events from core performance metrics, impacting the reliability of the income statement. To adjust for this, we have recalculated 2020's earnings by adding back the abnormal items separately, providing a clearer view of the core NPAT.

Failed M-Score Test:

Breville's M-Score exceeded the critical threshold of -2.2 in FY22 and FY23, indicating potential risks of earnings manipulation. This, combined with the adjustments for abnormal items and inconsistent inventory management, raises concerns about financial reporting practices.

Adjusting for these issues by separating abnormal items from core earnings and reassessing inventory helps to present a more accurate picture of Breville's financial health.

De'Longhi, Breville's main competitor, provides comprehensive financial disclosures similar to Breville, covering income statements, balance sheets, cash flows, and detailed notes. However, De'Longhi's reports are generally more transparent, particularly in detailing non-recurring items, provisions, and segment-specific performance. Breville's disclosures, while thorough, sometimes lack the depth found in De'Longhi's reports, especially regarding one-off adjustments and geographical breakdowns. De'Longhi's enhanced transparency, with more extensive notes accompanying each line item, offers better clarity for users. Overall, De'Longhi's disclosures set a higher benchmark for detail and clarity in financial reporting.

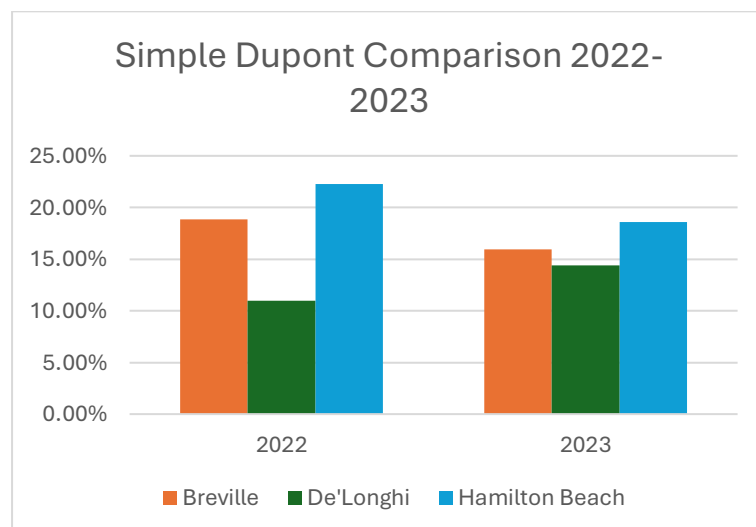
Aspect	Breville	De'Longhi
Transparency	Comprehensive but less detailed for non-recurring items and provisions.	More detailed, especially regarding provisions and segment performance.
Notes Accompanying Line Items	Covers major items but lacks depth in some areas.	Offers extensive notes, enhancing clarity.
Geographical Breakdown	Standard reporting with limited depth.	Detailed breakdowns across product lines and regions.

Financial Analysis

The Simple DuPont analysis breaks down Return on Equity into three components: Profitability, Asset Turnover, and Leverage. This allows for a deeper understanding of what drives ROE and helps identify areas of strength or weakness in a company's financial performance.

Simple Dupont - Breville Limited					
Breville Limited	2022	2023	Ratios	2022	2023
Revenue	1418	1479	Profitability Ratio	7.45%	7.45%
Net Income	106	110	Asset Turnover Ratio	1.45	1.16
Average 2y Total Assets	975	1277	Leverage Ratio	1.74	1.85
Average 2y Stockholder Equity	560	692	Simple Dupont ROE	18.86%	15.93%

For Breville, the DuPont analysis shows an ROE of 15.93% in 2023, driven by a Profitability ratio of 7.45%, an Asset Turnover of 1.16, and a Leverage ratio of 1.85. Compared to its competitors, De'Longhi and Hamilton Beach, Breville's profitability is higher than both but falls behind Hamilton Beach's asset turnover, which indicates more efficient asset utilization. De'Longhi has a lower profitability ratio but a similar leverage ratio, leading to a lower ROE of 10.97%. On the other hand, Hamilton Beach has the highest ROE at 18.57%, primarily due to a significantly higher leverage ratio of 3.40, suggesting higher financial risk.



Breville's stable profitability and moderate leverage show a more balanced approach to generating ROE compared to its peers. However, it lags behind in asset utilization, suggesting potential improvements in operational efficiency.

The advanced DuPont analysis for Breville provides a more comprehensive breakdown of its Return on Equity (ROE). In 2022, Breville had a Return on Net Operating Assets (RNOA) of 16.7%, indicating effective asset utilization, though this figure dropped to 11.6% in 2023 due to increased asset bases from expansion efforts. The Financial Leverage (FLEV) rose significantly from 3.05% in 2022 to 23.35% in 2023, driven by higher debt usage to fund growth. While this increased leverage might boost returns, it also adds risk.

Advanced Dupont - Breville Limited		
Breville Limited	2022	2023
RNOA	16.70%	11.61%
FLEV	3.05%	23.35%
NBC	-32.51%	-8.54%
Spread	49.21%	20.15%
Advanced Dupont ROE	18.20%	16.31%

Net Borrowing Cost (NBC) improved from -32.51% in 2022 to -8.54% in 2023, suggesting more favourable borrowing conditions or better debt management. The spread, which measures the difference between RNOA and NBC, narrowed significantly from 49.2% to 20.2%, indicating a reduced ability to earn returns exceeding borrowing costs. This decline impacted Breville's advanced ROE, which fell from 18.2% in 2022 to 16.3% in 2023. This shift emphasizes the importance of managing leverage effectively and controlling operating costs to sustain profitability.

The three selected asset management ratios for comparison are Inventory Turnover, PP&E Turnover, and Asset Turnover, chosen to assess Breville's efficiency in managing inventory, fixed assets, and overall asset productivity. Breville's Inventory Turnover of 3.36 is lower than both De'Longhi (6.09) and Hamilton Beach (4.94), indicating potential inefficiencies in converting inventory into sales. In contrast, Breville's PP&E Turnover is significantly higher at 27.50, compared to De'Longhi (6.43) and Hamilton Beach (22.83), demonstrating effective use of its fixed assets to drive sales. Additionally, Breville's Asset Turnover of 3.38 surpasses that of its peers, highlighting its strong capacity to generate revenue from its total assets. As an analyst, these findings suggest that while Breville excels in leveraging its fixed and total assets, it has room for improvement in inventory management to match the efficiency of its competitors.

Company	Inventory turnover	PP&E Turnover	Asset Turnover ratio
Breville Limited	3.36	27.50	3.38
De'Longhi	6.09	6.43	0.81
Hamilton Beach Ltd	4.94	22.83	1.63

Analyzing Breville’s Current Ratio over the past five years offers insights into its short-term liquidity position. The ratio has shown fluctuations, rising from 2.34 in 2020 to a peak of 2.52 in 2022, followed by a decline to 1.32 in 2024. The initial increase suggests improved short-term financial stability, likely due to efficient management of working capital amid growing sales. However, the subsequent decline indicates potential challenges in managing current liabilities or increased inventory holdings, which could impact liquidity in the short term. A ratio above 1 generally reflects that Breville has sufficient assets to cover short-term liabilities, but the declining trend warrants attention.

The Capital Structure Leverage (Debt-to-Equity Ratio) reveals Breville’s approach to financing growth. It remained stable from 2020 to 2021 at 1.52 but increased to 1.92 in 2022 before dropping to 1.58 in 2024. The peak in 2022 indicates higher reliance on debt financing, possibly to support expansion or R&D investments. The decline afterward suggests a shift towards equity or retained earnings, reducing financial risk. Overall, the analysis highlights Breville’s shift between debt and equity financing, indicating its adaptability in leveraging different funding sources based on strategic needs.

Details	2020	2021	2022	2023	2024
Current Ratio	2.34	1.59	2.52	1.48	1.32
Liquidity Ratios					
Capital Structure Leverage (Debt to Equity)	1.52	1.52	1.92	1.79	1.58

Forecasting

Breville Group Limited, a key player in the small kitchen appliance market, has maintained strong financial performance in a mature yet competitive industry. The company's growth strategy focuses on expanding its premium offerings and entering new markets, backed by solid cash positions. As a result, we forecast an 8% annual sales growth rate, reflecting the company's strategic initiatives and consistent performance. It is important to note that for forecasting the Pro Forma Income statement and Balance Sheets, although industry ratios and key competitors like De'Longhi and Hamilton Beach were considered in the analysis, it's important to recognize that these competitors do not match Breville's growth trajectory or valuation context. With market share declining for these competitors due to the emergence of newer, lower-cost players from the USA and China in this price-sensitive industry, the industry ratios may not be entirely representative or appropriate for Breville's unique positioning.

Details (\$m)	2025	2026	2027	2028	2029
Revenue	1652	1785	1927	2082	2248
Cost of Goods Sold	-1059	-1144	-1235	-1334	-1441
Gross Profit	593	641	692	748	807
Operating Expenses	-346	-373	-403	-436	-471
EBITDA	248	267	289	312	337
Depreciation	-51	-55	-59	-64	-69
EBIT	197	212	229	248	267
Interest Expense	-11	-11	-12	-12	-13
EBT	186	201	218	236	255
Income Tax	-53	-57	-62	-67	-73
NPAT	133	144	156	168	182
EBIT	197	212	229	248	267
Less: Tax	-56	-61	-65	-71	-76
NOPAT	140	152	164	177	191
Interest Expense	-11	-11	-12	-12	-13
Tax Savings	3	3	3	3	4
NFE	8	8	8	9	9

Methodology:

In developing our forecasts, we utilized key ratios that reflect Breville's operational dynamics and financial stability. For the next five years, the gross margin is projected at 35.10%, consistent with Breville's ability to manage costs and its historical margin over the last 6 years. The effective tax rate is set at 29%, reflecting historical medians and Australia's corporate tax rates.

Operating expenses are expected to remain at 21% of sales, indicating disciplined cost management aligned with Breville's historical trend. Depreciation is projected at 14% of PPE, consistent with the company's past depreciation rates and asset management practices.

Cash is expected to be 10.94% of sales, reflecting Breville's liquidity strategy and need for operational flexibility.

Receivables and payables are projected at 16.39% and 16.15% of sales, respectively, highlighting stable working capital management ratios which stayed within a particular range over the last 6 years. Inventories are estimated to be 21.82% of sales, using the average of the historical values and matching with its recent ratio. Investments in PPE are forecasted at 3.09% of sales, consistent with Breville's capital expenditure trends and their approach towards expansion. Intangibles are projected at 19.70% of sales, aligning with the company's focus on brand development and intellectual property.

Lease liabilities and other financial assets are expected to be 1% and 0.29% of sales respectively, while total debt is projected at 7.98% of assets, indicating a conservative capital structure as they have reduced their long-term debt in the recent two years.

These forecasts are grounded in historical data and industry trends, it's important to note that only Breville's management has the comprehensive insights needed to make precise projections. As external analysts, our analysis is based on available information, which may not fully capture strategic shifts or internal planning processes that could influence future outcomes.

Details (\$m)	2025	2026	2027	2028	2029
Receivables	270.9	292.6	316.0	341.2	368.5
Inventories	360.6	389.5	420.6	454.3	490.6
PPE	51.1	55.1	59.6	64.3	69.5
Intangibles	325.5	351.5	379.6	410.0	442.8
Total Operating Assets	1008.0	1088.7	1175.8	1269.8	1371.4
Payables	266.8	288.1	311.2	336.1	363.0
Total Operating Liabilities	266.8	288.1	311.2	336.1	363.0
Net Operating Assets (NOA)	741.2	800.5	864.6	933.7	1008.4
Cash	180.7	195.2	210.8	227.7	245.9
Other Financial Assets	4.9	5.2	5.7	6.1	6.6
Financial Obligations	159.1	165.5	172.1	179.0	186.1
Lease Liabilities	16.6	17.9	19.3	20.9	22.6
Net Financial Obligations (Assets)	-9.9	-17.1	-25.0	-33.9	-43.8

Cost of Capital

Beta Estimation

To estimate Breville's beta, a five-year daily return analysis was conducted using the stock's closing prices and the All Ordinaries Index as the market benchmark. The market model regression was applied, comparing Breville's stock returns with the index returns over this period. The resulting coefficient, **1.26**, represents Breville's beta.

This beta indicates that Breville is moderately more volatile than the overall market. A beta greater than 1 suggests that Breville's stock is more sensitive to market movements, meaning that it tends to outperform the market in bullish conditions but also has higher risk exposure during downturns.

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	0.00	0.00	-0.41	0.68
^AORD Ret	1.26	0.05	25.27	0.00

The cost of equity for Breville was estimated using the Capital Asset Pricing Model (CAPM), which accounts for the return required by equity investors based on risk. For the risk-free rate, the 10-year Australian government bond yield of 4.48% was used, sourced from Bloomberg. The equity risk premium for Australia was obtained from Professor Damodaran's estimates, at 4.60%. Incorporating Breville's beta of 1.26, the cost of equity was calculated to be 10.29%. This figure represents the expected return that compensates investors for taking on the specific risks associated with investing in Breville.

Beta	1.26
Equity Premium (%)	4.60%
Risk-free Rate (%)	4.48%
Cost of equity (%)	10.29%

The cost of debt for Breville was determined using the book value of debt, assumed to represent its market value, totalling \$156 million. To estimate the cost of debt, the interest expense of \$20 million from the last fiscal year was used. The pre-tax cost of debt is calculated by dividing the interest expense by the total debt, resulting in 12.84%. Adjusting for the 30% marginal tax rate, the post-tax cost of debt is 8.99%.

The Weighted Average Cost of Capital (WACC) was estimated using the proportion of debt and equity in Breville's capital structure. The equity value was derived from the market capitalization of \$4,638 million, while the total debt was \$156 million. This results in a capital structure composed of 96.7% equity and 3.3% debt.

The WACC calculation incorporates the cost of equity (10.29%) and the post-tax cost of debt (8.99%):

$$WACC = (Equity\ Weight \times Cost\ of\ Equity) + (Debt\ Weight \times Post \\ - tax\ Cost\ of\ Debt)$$

$$WACC = (0.967 \times 10.29\%) + (0.033 \times 8.99\%)$$

$$WACC = 10.24\%$$

This WACC of 10.24% represents Breville's overall cost of capital, reflecting the return required by both equity and debt holders, and will be used as the discount rate for the valuation.

Valuation

For Breville's valuation, the Discounted Cash Flow method was applied using the Free Cash Flow to Firm and the Dividend Discount Model. The Free Cash Flow to Firm model was chosen as it estimates the enterprise value first, allowing us to subtract the value of debt directly to obtain the equity value. This is more straightforward than using the Free Cash Flow to Equity model, which requires additional assumptions, such as changes in leverage, interest payments, and new debt issuance.

The Dividend Discount Model was also utilized, given Breville's consistent dividend payout history. The model captures the intrinsic value of equity based on expected future dividends, aligning well with Breville's shareholder return policy. Together, these methods offer a comprehensive view of Breville's valuation, addressing both growth potential and income distribution.

DDM

The Dividend Discount Model was used to value Breville's equity, given its stable dividend payout policy. The model projects dividends from 2025 to 2029 based on a calculated dividend payout ratio of 40% and a cost of equity of 10%. These figures were derived from Breville's financial statements and the cost of capital analysis.

The terminal growth rate was set at 2.5%, reflecting Australia's long-term GDP growth and inflation rate. This growth rate is deemed sustainable for Breville, considering its mature industry and established market position. The DDM calculates the present value of projected dividends and terminal value, resulting in a total equity value of \$818 million and a share price of \$6.

The lower share price is attributed to the high cost of equity and the wide spread between the cost of equity and terminal growth rate. This demonstrates a limitation of the DDM, as it may undervalue firms with higher required returns and moderate growth rates.

Details (\$m)	2025	2026	2027	2028	2029	2029+
NPAT	133	144	156	168	182	
Dividend payout ratio	40%					
Cost of equity	10%					
Shares outstanding	143					
Terminal growth rate	2.5%					
Dividend	53	57	62	67	73	957
Number of Years	1	2	3	4	5	
PV of Dividend	48	47	46	45	45	586
Value of Equity	818					
Share price (\$)	6					

FCFF

The Free Cash Flow to Firm model was applied to estimate Breville's enterprise value by projecting free cash flows from 2025 to 2029. The model starts with EBIT, which is adjusted for taxes (at 30%) to calculate after-tax operating income. Depreciation, changes in working capital, and capital expenditures were incorporated to arrive at the annual free cash flow.

The terminal value was estimated using a terminal growth rate of 2.5%, which aligns with long-term GDP growth and inflation rates. The projected cash flows were discounted at Breville's Weighted Average Cost of Capital of 10.24%, reflecting its cost of capital.

The present value of free cash flows and the terminal value sum up to an enterprise value of \$4,180 million. After deducting the book value of debt (\$156 million), the estimated equity value is \$4,024 million, translating to a share price of \$28.

This valuation reflects Breville's operational efficiency and potential for growth, providing a more comprehensive view than the DDM by incorporating both reinvestment needs and operational performance.

Details (\$m)	2025	2026	2027	2028	2029	2029+
Terminal Growth Rate	2.5%					
WACC	10.24%					
Shares Outstanding	143					
EBIT	197	212	229	248	267	
Effective Tax Rate	30%					
EBIT* (1-t)	138	149	161	173	187	
Depreciation	51	55	59	64	69	
Change in WC	16	25	27	30	32	
Capex	59	64	69	75	81	
Free Cash Flow	264	293	317	342	370	4,891
Number of Years	1	2	3	4	5	
PV of FCF	240	241	236	232	227	3,004
Enterprise Value	4,180					
Book value of Debt	156					
Value of Equity	4,024					
Share Price	28					

Relative valuation

To assess Breville's valuation using market multiples, De'Longhi (Italy) and Hamilton Beach (USA) were selected as primary competitors, given their similar product offerings in the small kitchen appliance industry. The Price-to-Sales (P/S), Price-to-Earnings (P/E), and Price-to-Book (P/B) ratios were considered.

The valuation was conducted by applying the average multiples to Breville's financial metrics, resulting in an estimated share price range of \$11 to \$17, depending on the specific multiple used. De'Longhi's and Hamilton Beach's differing market environments and geographical focus provide varied perspectives on valuation, yet both serve as reasonable benchmarks for Breville in terms of market positioning and profitability.

Multiples	P/S	P/E	P/B
De'Longhi	1.44	17.68	2.44
Hamilton Beach Ltd	0.66	16.29	2.79
Average	1.05	16.98	2.62

Breville Valuation (\$m)	P/S	P/E	P/B	Average	
Equity Value	1,550	1,872	2,221	1,881	1,885
BRG Shares Outstanding (million)	143				
Share Price	11	13	15	13	13
Breville Average Equity (2019-2024)	577				
Valuation using De'Longhi only	2,128	1,795	2,368		
Share Price	15	13	17		16
Valuation using all competitors			1,512	11	
Valuation using De'Longhi only			1,411	10	

The Free Cash Flow to Firm (FCFF) model offers an intrinsic valuation of Breville by focusing on operational cash flows, reinvestments, and long-term growth potential. It effectively captures the company's strategic expansion into premium products and new markets, making it a strong tool for evaluating Breville's true economic value. However, a significant limitation of the FCFF model is its heavy reliance on assumptions such as sales growth, WACC, and terminal growth rates which can introduce bias and skew the valuation based on the analyst's perspective. This makes the FCFF model sensitive to changes in these inputs, particularly in a mature industry where stable growth is often expected.

The Relative Valuation approach provides a more market-oriented perspective by comparing Breville with its peers, De'Longhi and Hamilton Beach. While this method reflects current market sentiment and provides a comparative view, it's limited in this context. The competitors operate in different markets with varying economic factors, investor behaviours, and regulatory environments, leading to inconsistencies in the comparison. Additionally, Hamilton Beach's lower net profit margins and different business model reduce the reliability of direct comparisons.

Ultimately, while the FCFF model offers a detailed assessment of Breville's intrinsic value, its results are highly assumption driven. In contrast, relative valuation provides a more grounded market perspective, though it may not accurately reflect Breville's strategic strengths in global markets.

Method	Pros	Cons
FCFF	<ul style="list-style-type: none"> - Captures intrinsic value - Accounts for strategic growth - Suitable for mature industries 	<ul style="list-style-type: none"> - Highly assumption-driven - Sensitive to input changes - Potential for bias
Relative Valuation	<ul style="list-style-type: none"> - Market-reflective - Easier to compare with peers - Quick to implement 	<ul style="list-style-type: none"> - Varies by market differences - Limited by competitor comparability - Ignores unique strategic advantages

Based on our analysis, we recommend a Sell for Breville. While DDM and relative valuation serve as supplementary tools, they are less suitable for Breville's context. Focusing on the FCFF model, which considers various strategic factors, we estimate a fair value of \$28 per share, 12.5% lower than the current market price of \$32. This suggests that the market is overly optimistic, with the current price already reflecting expected growth. As a result, any deviation from these assumptions could trigger significant volatility, making it risky to hold or buy given its current market price.

Conclusion

In this project, we evaluated Breville's financial health through earnings quality analysis, cost of capital estimation, and various valuation models. The analysis showed Breville's operational efficiency and potential risks in earnings persistence and cash conversion. The FCFF model, offering a comprehensive view, indicated a fair share price of \$28, suggesting the current market price of \$32 may be overly optimistic. However, this analysis has notable limitations, such as heavy reliance on growth rate assumptions, WACC estimates, and terminal value calculations, all of which introduce sensitivity to changes. Additionally, relative valuation was constrained by Breville's distinct market positioning and geographical differences from peers, potentially affecting comparability and accuracy.

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