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SharkNinja, Inc. (SN)

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MANAGEMENT DISCUSSION SECTION

Anna Kate Heller
Senior Vice President-Investor Relations, ICR

Good morning and thank you, everyone, for joining us at the Annual ICR Conference this year. I'm very excited to introduce SharkNinja. They're a global product design and technology company and many of you probably have their products in your homes today. SharkNinja made their debut as a public company last year in July of 2023, with the separation from former Hong Kong parent company, JS Global, and is listed on the New York Stock Exchange.

With that, I'll turn it over to Arvind.

Arvind Bhatia
Vice President-Investor Relations, SharkNinja, Inc.

All right. Thanks, Kate. Good morning, everyone. I'd like to welcome you to SharkNinja's presentation this morning. By way of introduction, my name is Arvind Bhatia, I'm the company's Head of Investor Relations. We are really excited to be here and to have the opportunity to share the incredible SharkNinja story with you. But before we begin, I'd like to draw your attention to the disclaimers on this page. Just the customary disclosures, I know hard to read but they're also on our website.

But with that, I'd like to introduce today's presenters. Our CEO, Mark Barrocas; and our Interim CFO and Chief Accounting Officer, Larry Flynn, is with us. And then from here, I'll turn it over to Mark. Mark?

Mark Adam Barrocas
Chief Executive Officer & Director, SharkNinja, Inc.

Thanks. Okay. Good morning, everyone. Thanks for joining us to hear a bit more about SharkNinja and our story and journey. To give you just a little bit of introduction on SharkNinja, our mission is to positively impact people's lives every day and every home around the world and we believe we do that through two market-leading brands. One is Shark, a market leader in the cleaning space, the home environment space and the beauty space. And the other is Ninja, a market leader in kitchen appliances as well as outdoor cooking appliances as well. The business has grown tremendously over the last 15 years. We've grown organically during that period of time at a compounded annual growth rate of about 20% a year. Today, our business is in excess of $4 billion. We participate in 31 different product categories and in 26 different markets around the world. The business is really focused on this product development concept of identifying known or unknown consumer problems and then having a team of 750 engineers around the globe that's able to solve those problems in a highly disruptive way.

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I talked about kind of the Shark and Ninja brands. Shark is in 13 different product categories ranging from corded vacuums, cordless vacuums, robot vacuums, mops, air purifiers, beauty. We've expanded into three new categories over the course of the last three years. New category expansion, geographic expansion, we'll talk more about it. It's a big growth driver for the business. Shark will be in excess of $2 billion this year, and again we've never acquired $1 of revenue under the Shark brand.

On the Ninja side, we're in 18 different product categories. We've expanded into seven new product categories just in the last three years. We had a major launch in Ninja with a product called the Ninja Thirsti, which is an at-home drink maker that just did very well during the holiday season. 2023, Ninja will also be a brand in excess of $2 billion. And again neither Shark or Ninja, has ever acquired $1 of revenue.

As you think about diversification, I mean, diversification is something that we spent the last 15 years really focused on in the business. I mean we feel that to be a consumer products company and to only be in one or two product categories is a very precarious situation to be in. And so we've worked hard over the last number of years to really drive diversification. I mean, one is obviously brand diversification, the Shark and Ninja brands. The second is product category diversification, 31 different product categories. The third is geographic diversification. I mean we'll end 2023 with an international business in excess of $1 billion, so we've really been able to scale our international business considerably. We came out of the third quarter with very significant growth in our international business, mainly Europe, Middle East and Latin America. And then the fourth piece of diversification is channel diversification. We have a robust direct-to-consumer business. We're the most searched brands on Amazon in our space, both the Shark and Ninja brands and we sell to over 150 retail outlets of our products. The business employs the same playbook from a go-to-market strategy, whether it's in the United States or the UK or Germany, which is this kind of dominant omni-channel strategy that we believe is the right approach from.

Who we serve? Look, the business is very, very focused on what we call kind of a discerning end consumer. When we were a small, $150 million business back in 2007, 2008, we felt like the great equalizer was online consumer reviews. I mean if you were going to go and buy a vacuum cleaner in 2007, odds are you were going to open up consumer reports and consumer reports was going to tell you which vacuum cleaner to buy. What we saw kind of from 2010 onward was that really transitioned into online reviews and consumers having an enormous amount of power to be able to be educated on their buying decision before they went out and made that purchasing decision. And so we really feel like we've built our business, won five-star review at a time to what we call a discerning consumer. We're not the highest priced products in the market. We're not the lowest priced products in the market. But we think that we've done an extraordinary job of moving the opening price consumer up and also being the brand or product of choice to a premium consumer. It's what allows us to be able to sell every retailer in the US, all the way from Walmart, all the way up to Sephora and Ulta and Macy's and everyone in between. We don't offer any channel exclusivity as a company. We want to be relevant where the consumer ultimately chooses to shop for our products.

And, over time, consumers, I think, have become the biggest ambassadors of the company. We're the most watched brands on TikTok and Instagram in our space. And that evolution of online reviews, as you look now in 2023, 2024 with consumers developing organic content about our products. If you go on to TikTok, you'll see nearly 1 billion impressions for our product, the Ninja CREAMi. Lots of our products have been able to effectively leverage social media to kind of drive awareness globally.

One key part of our strategy, I mean, folks ask us all the time kind of what's the big differentiator? Why have you been able to be so disruptive in a category that seems like it has rather small amount of growth historically. It starts with kind of disruptive product innovation. And, for us, what disruptive product innovation means is these

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four things: The first is speed. Being able to get to market faster than anyone else. We do that through an engineering organization that is global. We have 750 engineers. They're based in Boston, London and China. We operate our product development cycle on a 24/7 approach. I think we've developed that over the years and it's become a real competitive advantage for us. It's allowed us to be able to not just get products to market faster but it's been able to allow us to get more global insights and feedback from engineers around the globe.

The second is market-leading performance. So I think if you buy a Shark or Ninja product, you'll see that the performance is really extraordinary and it does something unique or different than the products that are out there in the market, whether it's our blenders that crush ice to snow or it's our vacuum cleaners that don't wrap hair. Every product is kind of based on some sort of problem solution that we've been able to identify as a whitespace in the market.

The third is quality and reliability. I mean our products are really built to last and it goes through a rigorous testing. We have five testing facilities around the globe that really puts our products through enormous torture testing. What happens if a consumer drops a spoon into their blender? What happens if they vacuum up the sock? What happens if the products fall down the stairs or outside if your grill falls over or is exposed to the harsh conditions of the outdoors. And so I think when consumers buy a product from us, they know they're buying a high-quality, reliable product.

And the fourth is extraordinary value. And I think this is something that is really, really critical and important. It's not – we're not the lowest priced products. We're not the highest priced products. But I think if you read reviews about our products, you'll hear that consumers made the right buying decision by buying a Shark or Ninja product. They got extraordinary value from the products that they purchased from us. And that's not just our product development approach but that's also through what I think is a really disruptive supply chain model that we've developed over the last 15 years based in China and Southeast Asia that's focused on really high-quality, fast turnaround time and very low cost relative to what it is that we offer to the consumer.

We aim to really delight consumers through lots of different ways. I mean, first and foremost, it's obviously our five-star products but it doesn't stop there. The 24/7 innovation cycle that I spoke about, the engineering organization that we have, a team of global ethnographic researchers. I mean I think that's one of the real competitive advantages of the business is the ability to be able to go into consumer homes, to go into restaurants, commercial environments, scrub online reviews, social media content and just find massive, massive amounts of insights from consumers and then glean opportunities from those insights that become the next possible great products that the company develops. Obviously, our disruptive innovation, the lifestyle solutions that we bring that really, for a rather low average sell price, are bringing a lot of excitement to a consumer's homes. I mean most Shark or Ninja products sell for about $199 to $299. And when you think about how those products are able to enhance the home, how often they're able to be used in the home, it's a relatively inexpensive price for the value that it brings to the consumer.

Solving pain points. I mean, I've talked about in some of my online content, how we go into homes and observe consumer problems that they don't even know that they have and those become the inspiration for our new ideas. Leveraging our reviews and this always-on insights group that we have.

So how do we do it? I mean, if you think about this kind of flywheel, it starts with this insight. We drive this disruptive product innovation but that's not enough. It also requires our ability to be able to create consumer demand that we'll talk about for our products. The ability for us to be able to have a dominant omni-channel strategy where our products are available and relevant, where the consumer wants to shop, and then this kind of disruptive supply chain model that I've talked about.

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We've looked at and really view kind of our gross margin and Larry will talk more about it as a competitive advantage for us in the business. I mean there's two really strong lifebloods to growth in our business: One of them is R&D. The business invests over 5.5% of sales where I think it's significantly higher than peers in our categories on R&D and innovation. And the business spends nearly 8.5% of sales on advertising and marketing.

As we're greenfielding and entering into new countries, into new product categories, the ability for us to be able to invest significantly in creating consumer demand is a compelling part of our strategy. That investment comes in the form of lots of different ways. I mean, if you go back 15 years ago, we didn't have much money at that time and so that was driven through long-form infomercials. We still have a portion of our ad spending that goes towards long-form infomercials. But as I said today, we're the most watched brands in our space on Instagram TikTok, other social media platforms globally. We run a tremendous amount of TV advertising, a lot of digital advertising. So there's lots of different touch points and connection points that we have with the consumer to be able to drive demand. As we enter into new countries, we could invest upwards of 25% to 30% of sales on advertising in the first couple of years as we're launching to build our brand, build awareness for our products and really get ourselves kind of a good foothold and stable position within that country. On the fulfilling demand side, as I said direct-to-consumer, online, Amazon, brick-and-mortar and it's that same model that applies to every country that we sell in.

From a growth strategy perspective, we've talked a lot about what we consider our three-pillar growth strategy, which is, one, gaining share in the existing categories that we're in. SharkNinja has a demonstrated track record of gaining share and not giving up that share in category-after-category that we've entered into and we'll talk a little bit more about that. Our ability to be able to enter into new and adjacent product categories. If you would have asked me five years ago, is Shark going to be one of the best-selling haircare brands in the US and Canada and the UK, are we going to have influencers waiting outside of New York Fashion Week to get into a Shark Beauty event, are we going to be one of the fastest-growing outdoor cooking companies with our Ninja brand. We've been able to just continuously reinvent the company over and over again through new categories that we've entered into. And then third is international expansion. As I said, we really have a scaled model internationally but we have very, very low market share in many of the countries that we're in and are still very much in our infancy in growing our international business. I mean we believe, over time, that our business could be 50% outside of North America, 50%inside of North America. So we think there's a lot of runway for growth for us as we expand globally. Our products are ripe for a global market. We're investing heavily in media and advertising. We've got tremendous retailer support in new markets that we've entered into and so we think there's a lot of runway for us in the international space.

This is just market share. You've seen, over the last three years, we've grown share in nearly every category that we participated in. Entering into new and adjacent categories. We entered into the ice cream space back a few years ago, a $50-million market. We felt like there was a massive opportunity if we could develop the right solution for the consumer. Today, we have $150 million business in the space. Beauty, you can go and look at Shark Beauty. I mean, again, to see J.Lo getting ready for the Golden Globes using a Shark Beauty hairdryer, probably not something that we thought about five or six years ago. And outdoor cooking, a great expanding growth category for us. We think we're just getting started. I mean we think there's lots more categories, both in the home as well as outside of the home for the Shark and Ninja brands to be able to expand into.

And then from a geographic standpoint, I mean it's not just Europe that we're expanding. We've got a nice business in the Middle East. We're expanding considerably in Latin America, Mexico, Panama, Chile. So we think, from an international perspective, there is a lot of growth opportunity for the business. And as I said, we've historically grown the business 20% a year since 2008. We've grown 14 out of the last 15 years. We've got a

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scaled, diversified model. I think as you walk through retailer stores, you will see our products all over the place. And we think that it's continued to be able to scale both internationally and across new product categories.

Larry?

Larry Flynn

Interim Chief Financial Officer & Chief Accounting Officer, SharkNinja, Inc.

All right. Thanks, Mark. Good morning, everyone. So I'll start just by taking you through the key components of our financial profile. So what we have shown, as Mark talked about, robust growth throughout our history. And as Mark said, we have not bought a $1 of sales in our lifetime. This is all organic growth at-scale and that organic growth has been driven by our continuous innovation, expanding our consumer reach and distribution, both domestically and internationally. We hold an industry-leading margin profile that's driven by our scale, our supply chain and our operational efficiency. And that combination of organic growth and margin profile allows us to continue to invest in innovation and expand internationally, which creates a true flywheel for growth. We are an efficient, low-capital intensity business that delivers strong free cash flow. And that strong free cash flow, coupled with our low level of leverage, gives us significant capital allocation flexibility as we look forward.

So as we look at what drives our sustained growth over the long-term, first, from a top-line perspective, you heard Mark talk about our three-pillar growth strategy in terms of growing share within existing categories, expanding into new sub-categories and adjacencies, and expanding internationally and truly globalizing our brands. On the margin side, it's all about leveraging our highly scalable manufacturing and supply chain and our data-driven tracking process to manage our inventory and drive efficient working capital. And with these top-line growth and margin drivers, it allows us to continue to drive disruptive innovation and gives us confidence to believe that we're well-positioned for continued growth into the future.

So now looking at our financial results. First, before talking about 2023, we'll just look back at the past few years. We grew top-line adjusted net sales at a CAGR of 16% from 2020 to 2022. Now, you can see a portion of that was a lift from 2020 to 2021. And that wasn't a COVID bump where we saw our sales ramp and then decline in the following year. It was a true lift across all three of our growth strategies, taking share in existing categories, entering new categories and expanding internationally and you can see that demonstrated in the middle and right-hand charts on the page where growth came from across all product categories and across all regions in 2021.

Now, with the investments we made during and prior to the pandemic, we exited COVID strong. But with the overall market declined in our existing categories, we were able to hold the top-line flat through growth in new categories and in new markets, demonstrating the power of diversification within our business. And now, in 2023, we're growing the top-line from this higher base, which I'll talk to in just a minute.

From an adjusted gross profit and adjusted gross margin perspective, like all companies, we faced the gross margin pressures in 2022, driven by higher average inbound freight, higher component cost and higher commodity costs. Those same gross margin pressures flowed through to adjusted EBITDA dollars and margin. But I think what's important to note here is that in the back-half of 2022, as we saw what was happening in the economy, we continued to invest in the business. We didn't just cut expenses to hit a profitability metric and that commitment to investment has really benefited us in 2023.

So now looking at our financial results for the first nine months of 2023, first, you can see we've grown top-line adjusted net sales at 13.4% year-over-year to nearly $2.8 billion, with a lot of that fueled by growth in Europe. From an adjusted gross profit and margin perspective, we expanded gross margins by 560 basis points through the first three quarters as the supply chain pressures from 2022 abated. But also in here were cost optimization

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efforts that we drove as well as favorable pricing and promotion mix in 2023. Now, we chose to reinvest some of those gross margin dollars back into the business, specifically through advertising and personnel to support our growth in new markets and in new product categories. And adjusted EBITDA was up nearly 28% with adjusted EBITDA margins expanding 210 basis points through the first three quarters of the year.

Looking quickly just at our Q3 financial results alone, in Q3 we grew top-line nearly 15% to over $1 billion in the third quarter, adjusted gross profit was up with adjusted gross margins expanding 950 basis points within Q3 alone, and adjusted EBITDA was up over 38% to nearly $209 million with adjusted EBITDA margins expanding 340 basis points.

Just to quickly touch upon our capital structure. On the slide here is our cap structure as of the end of Q3 2023 and this was not impacted at all by the – all secondary offering that we completed last month in December. So we finished Q3 with a leverage ratio of 1.0 times and we've historically operated at this low level of leverage. Take this low leverage, coupled with our industry-leading margin profile and strong free cash flow, and this gives us significant flexibility when it comes to capital allocation.

Next, quickly just to touch upon our ongoing partnership with JS Global following the successful separation in July. This really cuts across three main areas: Supply chain services, a product development agreement and a brand license agreement. On supply chain services, we source and procure certain products from JS Global. And then on supplier management and supply chain strategy, we actually purchase products directly from suppliers in Asia and JS Global provides certain relationship management coordination and process support for a transitional period of about 24 months post-separation as needed. Product development agreement. Our teams in engineering and product development provide certain R&D services to JS Global. And then on the brand license agreement, JS Global continues to own the APAC region and this is how we license the Shark and Ninja brands to JS Global for their use in distributing products in APAC through which we earn a royalty.

Lastly, given our strong performance through the first three quarters of the year and our confidence in sustaining positive momentum through the balance of the year, we raised our full-year guidance in conjunction with our Q3 earnings call back in November. So from a top-line perspective, we guided adjusted net sales up 12.5% to 13.5% for 2023 and adjusted EBITDA up 33% to 36% on a full-year basis. And we look forward to sharing our Q4 and full-year 2023 results with our earnings call in mid-February.

Mark?

Mark Adam Barrocas

Chief Executive Officer & Director, SharkNinja, Inc.

Okay. Thank you. So just in closing, our financial performance in 2023 is a testament to our track record of delivering profitable organic growth, through high-performance products that address everyday consumer challenges. We just wrapped up the 2023 holiday season and I'm thrilled with the way our team came together to deliver for our customers and our retailers throughout a very important quarter for SharkNinja. We had a strong holiday season and look forward to giving you further updates in mid-February earnings as Larry mentioned. We've made incredible progress so far but I'm even more excited and looking forward to the business in 2024 and beyond.

So thanks so much for joining us.

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