

# Breville

12 November 2014

Manager, Company Announcements  
ASX Limited  
Level 4, 20 Bridge Street  
Sydney NSW 2000

Dear Sir

## **Breville Group Limited – Annual General Meeting Presentations**

Please find attached the Chairman's Address to shareholders and CEO's Review of Operations to be delivered at the Annual General Meeting of Breville Group Limited at 10am today.

Yours faithfully



Sasha Kitto  
Company Secretary  
Breville Group Limited

Telephone: + 61 2 9384 8100

12 November 2014

## **Chairman's Address**

### ***Slide 2***

Good morning ladies and gentlemen and welcome to Breville Group Limited's 2014 AGM.

### ***Slide 3***

It was 1974 when Breville first invented the jaffle maker, which back then was nicknamed a 'Breville'. Forty years later in 2014, it is this type of innovation that continues to remain core to the Breville strategy.

Your company's focus on its "Food Thinking" strategy and commitment to investment in product development, innovation and marketing continues.

The "Food Thinking" strategy is based on a deep understanding of food and the challenges facing consumers. The strategy also focuses on protectable innovation, superior quality and design and increased marketing communication.

In recent years, Breville's growing appreciation for food science and culinary trends has led to a fostering of relationships with several high profile food thinkers including well known baristas and chefs, some of whom have helped in a product development capacity.

In his ambassadorial role, world renowned chef Heston Blumenthal, works closely with Breville's product development teams, providing invaluable insights into the food science necessary for the Group to continue developing "best in class" products.

The combination of superior quality and design, together with the alignment of Heston Blumenthal as the brand ambassador, has enabled Breville via the Sage™ brand to establish itself as a leading player in the premium kitchen appliance category in the UK within a matter of 15 months from launch date.

### ***Turn to Slide 4***

I would like to turn now to the performance of your company for the 2014 financial year.

During the financial year, the company faced several key challenges including the ending of the majority of the Keurig distribution arrangement in Canada in June 2013. Despite this, the Group delivered a result that has largely filled the gap created by the previously flagged decrease in Keurig commission income with net profit after tax stable at \$48.8m, a decrease of 1.9% on the prior year.

Group revenue for the 2014 financial year increased by 11.3% to \$541.6m, with the reduced commission income being more than offset by revenue growth derived from new product launches across all geographies.

While the Group experienced full year revenue growth driven mainly by Breville product revenue increases, EBIT decreased by 1.6% to \$70.4m. This reduction was caused primarily by the decreased high margin Keurig commission income.

This is a balanced result for the year, demonstrating the value of diversifying into new categories and geographies following the “Food Thinking” strategy.

After assessing Breville’s financial performance, its working capital requirements and its future growth plans, your Board has increased dividends for the 2014 financial year to a fully franked 27 cents per share. This decision underscores our continued confidence in the company and our commitment to providing you with strong returns.

At 30 June 2014, the Group had a net cash position of \$47.0m compared to \$43.4m at the same time in the prior year. With a strong net cash position, Breville remains well placed to grow from both its existing business and future opportunities.

***Turn to Slide 5***

To emphasise the progress of your company, it is worth reflecting on the growth in EBIT returns that have been achieved from FY09 to FY14.

EBIT over this 5 year period has increased at a compound annual growth rate of 24.6%.

***Turn to Slide 6***

Since 2009, we are proud to have delivered consistent strong returns to our shareholders.

Over the last 5 years, earnings per share have increased at a compound annual growth rate of 32.8% and dividends per share have increased by 37.5% per annum over the same period.

***Turn to Slide 7***

Before I pass over to our Interim CEO for his Review of Operations, I would like to comment briefly on the outlook for your company.

In general, broader business conditions continue to remain challenging and competitive within the countries in which we operate.

The first half of the 2015 year is cycling against a strong 2014 first half, particularly in North America, which reported an exceptional juicing category performance in the comparative period. This category which has showed significant growth over the past two and a half years to 31 December 2013, experienced increased competition from other categories resulting in an overall decline from early in the second half of the 2014 financial year.

As foreshadowed in our results announcement in August this year, North American juicer sales are expected to be lower in the first half of the 2015 year as this category continues to re-set. Pleasingly, all other core categories in North America are continuing to experience low double-digit sales growth. However, in the short term this has not been sufficient to offset the decline in juicer revenue and currently Group sales are tracking behind that of the prior comparative period.

The Group's operating earnings for the first 4 months of the 2015 financial year to October 2014 have been consistent with our expectations for that period. However the key trading period of November and December, which was particularly strong last year, is always crucial to the Group's results, not only in the first half but also for the full year. It is therefore too early to provide more definitive guidance on the outlook for the 2015 financial year until after this key trading period.

The Group continues to work on a number of strategic cost reduction and revenue driving initiatives, the benefits of which are expected to flow through in 2015 and beyond.

The search for a new CEO is progressing well with a number of outstanding candidates being presented to the Board.

***Turn to Slide 8***

I would like to take a moment to formally thank and acknowledge the efforts and continued dedication of the Breville team. May I also thank my fellow Board colleagues, our suppliers, customers, consumers and of course, valued shareholders, for their continued support.

I also take this opportunity to welcome Tim Antonie (who joined the Board on 19 December 2013) in his capacity as Non-Executive Director.

In order to further enhance our corporate governance practices, effective 20 August 2014, the Board appointed existing Non-Executive Director, Lawrence Myers, to act as the company's Lead Independent Director and my fellow Board colleague Steven Klein and I both resigned as members of the Audit and Risk Committee. All members of the Audit and Risk Committee are now independent Non-Executive Directors.

Thank you for your attendance this morning and I, together with my Board colleagues, look forward to having a cup of tea and a chat with you at the conclusion of the meeting.

Prior to moving to the business of this meeting, I will now invite our Interim CEO, Mervyn Cohen to present his Review of Operations.

**END CHAIRMAN ADDRESS**

***Turn to Slide 9***

## CEO's Review of Operations

Thank you Steve and welcome ladies and gentlemen.

As many of you are aware, I have been CFO of Breville since September 2006 and took on the role as Interim CEO effective 21 August 2014.

The Breville Group is committed, and remains firmly focused, on its core "Food Thinking" strategy by continuing to invest in product development and innovation supported by the ongoing launch of flagship products and the expansion of geographic reach. This strategy remains the platform for growth.

"Food Thinking" is about creating those simple moments of brilliance in the home. Using innovation to make day to day processes like toasting your bread, boiling tea or brewing coffee that little bit better. It also encompasses finding ways to bring new and leading technology into the home to make you a chef in your own kitchen.

### ***Turn to Slide 10***

The 2014 financial year trading performance reflected the resilient nature of the business which is well diversified by product, category and geography. We pride ourselves not only on our ability to adapt to market trends but our ability to lead trends.

The Group's revenue and EBIT for the financial year were adversely impacted by the previously foreshadowed decrease in Keurig commission income following the cessation of the majority of the Keurig distribution arrangement in Canada on 30 June 2013.

New product launches across all geographies underpinned the increase in revenue, excluding Keurig commission income, by 15.0% to \$539.9m.

The Group's net profit after tax for the 2014 financial year of \$48.8m approximated that of the 2013 financial year.

### ***Turn to Slide 11***

The geographic diversity of the Group's business is a significant and valuable asset.

The performance of the Group is best analysed by reviewing each of the individual operating segments in which we operate.

### ***Turn to Slide 12***

The ANZ segment, comprising Australia and New Zealand, operated in a retail market environment where consumers remained cautious with their spending. Despite the overall difficult trading conditions, the segment performed well, gaining market share and outperforming its major competitors.

Revenue grew by 8.6% to \$261.6m compared to the prior financial year. This increase was driven by a strong consumer acceptance of new products launched across all brands including the Breville co-branded Nespresso range launched towards the end of the previous financial year.

Despite the higher revenues, the stronger USD compared to that of the prior year, especially in the second half, resulted in higher product landed costs placing pressure on margins. EBIT margins were also adversely impacted by highly competitive market conditions.

Going forward, the ANZ segment is expected to benefit from selective price increases that have already been implemented.

### ***Turn to Slide 13***

Total revenues in the 2014 financial year for the North American segment increased, despite the Keurig commission income decline.

Revenues from the sale of Breville products, that is excluding Keurig, increased to \$198.5m or by 13.2% compared to the prior comparative period. While revenue from the sale of Breville products increased by 29.9% in the first half, this revenue declined by 8.4% in the second half.

The second half revenue decline was impacted by the timing of retailer purchasing between the halves, adverse weather conditions and lower sales from the juicing category.

The juicing category which displayed significant growth over the past two and a half years to 31 December 2013 experienced a decline as consumer demand shifted from juicing to blending early in the second half. This shift extended through the second half of FY14 and into FY15 with retailers running their juicer stock holdings down as the category continues to re-set to establish a new base level.

Breville's new the Boss™ blender which commenced sales in October 2014 is expected to benefit from this shift to blending.

Pleasingly, North American sales in all other core categories in both halves, continued to show good low double digit growth.

North American EBIT in the 2014 financial year was adversely impacted by the decrease in high margin Keurig commission income and higher warranty expenses on products being phased out. The second half EBIT was further impacted by lower juicing revenue which was only partially offset by the growth in revenues from other core categories.

### ***Turn to Slide 14***

Our Rest of World segment comprises the distribution business supplied from Hong Kong and the new UK business which commenced trading in May 2013. Revenues in this segment grew by 56.1% in the 2014 financial year, this increase being derived equally by both businesses. EBIT of \$20.2m was 28.8% higher than that of the prior year.

The Rest of World distribution business delivered a strong result driven by growth from European strategic partners and from the Middle East and Asia. This business, not following the traditional replenishment model, tends at times to perform in a lumpy way from half to half.

The new UK business, which distributes Breville premium designed and developed products under a company-owned brand, Sage™, endorsed by internationally acclaimed chef Heston Blumenthal, delivered a positive earnings result in its first full year of trading.

The EBIT margins within this segment are impacted by business mix, as the EBIT margins from the UK business, with its in-market infrastructure, are lower compared to those from the Rest of World distribution business.

### ***Turn to Slide 15***

The Group continued to maintain a strong balance sheet, providing a solid foundation for future opportunities. The net cash position at year-end of \$47.0m was higher than the prior year end balance of \$43.4m.

The Group continues to invest in efficiency and cost improvement projects to better support our growing global business.

During the second half of the 2014 financial year the Australian distribution business commenced operating from a new leased distribution centre.

During 2015, the Group will relocate its Sydney-based Australian business and corporate head office to new leased offices and it has also commenced the implementation of a new Group-wide enterprise resource planning system (ERP). These investment projects will require an estimated \$11.0m of capital expenditure, approximately one third of which was spent prior to 30 June 2014.

### ***Turn to Slide 16***

One of Breville's most recent and exciting launches is the Boss™, an easy to use high velocity super blender.

I would now like to run a short video featuring Breville's global brand ambassador Heston Blumenthal, explaining some of the features of our new super blender.

### ***Turn to Slide 17***

Shortly after the end of the 2014 financial year, the Group acquired the PolyScience culinary division. PolyScience, a company founded in 1963 in the USA is one of the market leaders in the sous-vide category in the commercial and professional markets.

Sous-vide is a method of cooking food sealed in airtight plastic bags in a water bath in a temperature-controlled environment for longer cooking times. The aim is to cook the food evenly, ensuring that the inside is cooked properly without overcooking the outside, and retaining moisture, flavour and nutrients.

The sous-vide method is used in many high-end gourmet restaurants by some of the most acclaimed chefs in the world. As always, Breville sees an opportunity to make this technology accessible and available to the home chef, creating another simple moment of brilliance.

### ***Turn to Slide 18***

Since its humble beginnings in 1932, Breville has grown to become an iconic Australasian brand through thoughtful design and innovation. Globally, Breville is recognised for its expertise in kitchen appliances.

Breville continues to engage with consumers through its core “Food Thinking” strategy, solving challenges that consumers face daily as they prepare and cook food and make beverages.

The Group intends to deliver sustainable growth through its product innovation, brand management and distribution capabilities across multiple geographies.

To that end, during the year, the Group has:

- continued its investment in product development and launched a number of flagship products in the 2014 financial year;
- completed its first year of trading in the portioned coffee market in Australia and New Zealand in partnership with Nespresso;
- recorded a pleasing first year of trading in the UK under a company owned new brand, Sage;
- increased its marketing and business development resources driving growth in the Rest of World segment;
- continued to review its distribution strategy and develop new ways to engage with consumers; and
- created marketing collateral and campaigns with Heston Blumenthal, the Group’s global brand ambassador.

### ***Turn to Slide 19***

Looking to the future, the Group’s strategy includes a number of initiatives aimed at addressing the expected challenging broader business conditions to be faced in the 2015 financial year. The team is focused on:

- integrating the culinary division of PolyScience and extending our product offering;
- growing the Rest of World segment including the launch in Brazil for the marketing and distribution of Breville designed premium products on a co-branded basis with leading Latin American homewares brand, Tramontina;
- ongoing product development leading to a strong pipeline of new products to be launched in the 2015 financial year and beyond; and
- continuing our successful collaboration with Group ambassador Heston Blumenthal.

### ***Turn to Slide 20***

Breville’s innovative the Oracle™ espresso machine automates grinding, tamping and milk frothing with the precision of a barista.

I would now like to show you our new the Oracle™ espresso machine commercial that will be running in certain of the geographies that we operate in, as we approach the all-important holiday season.



***Turn to Slide 21***

On a personal note, I would like to thank the Board and the entire Breville Group team for their ongoing support and assistance. While we've had a challenging year, the team has demonstrated resilience, strength and continued creativity.

Thank you for joining us today and please do stay for some morning tea and the opportunity to see some of our products in action.

I will now hand you back to the Chairman.



# Breville Group Limited

## Annual General Meeting

12 November 2014  
Sydney

# Chairman's Address

Mr Steven Fisher

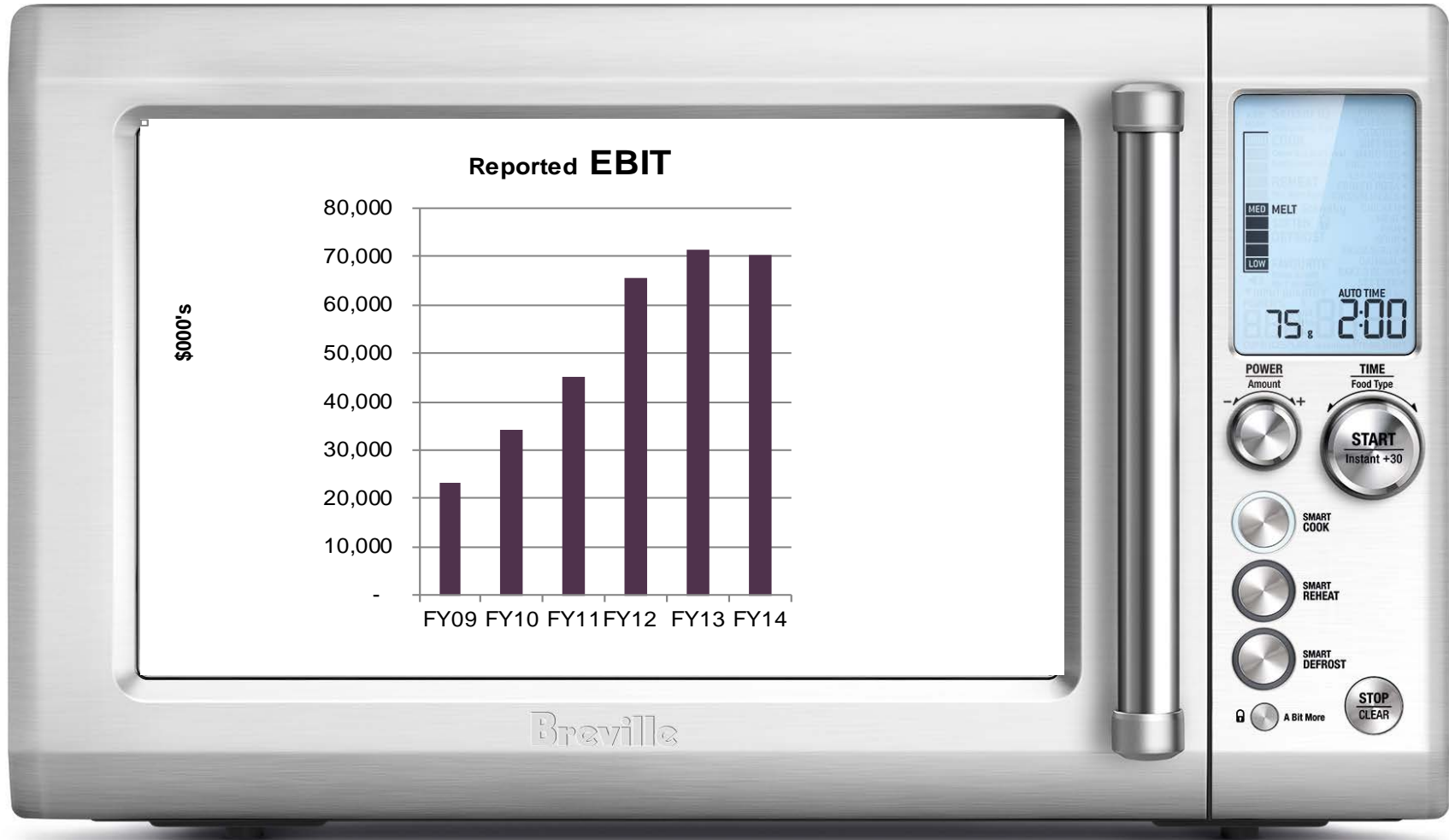
# Strategy

*The Group's focus on its “Food Thinking” Strategy and commitment to investment in product development, innovation and marketing continues*

# Group FY14 Results Summary

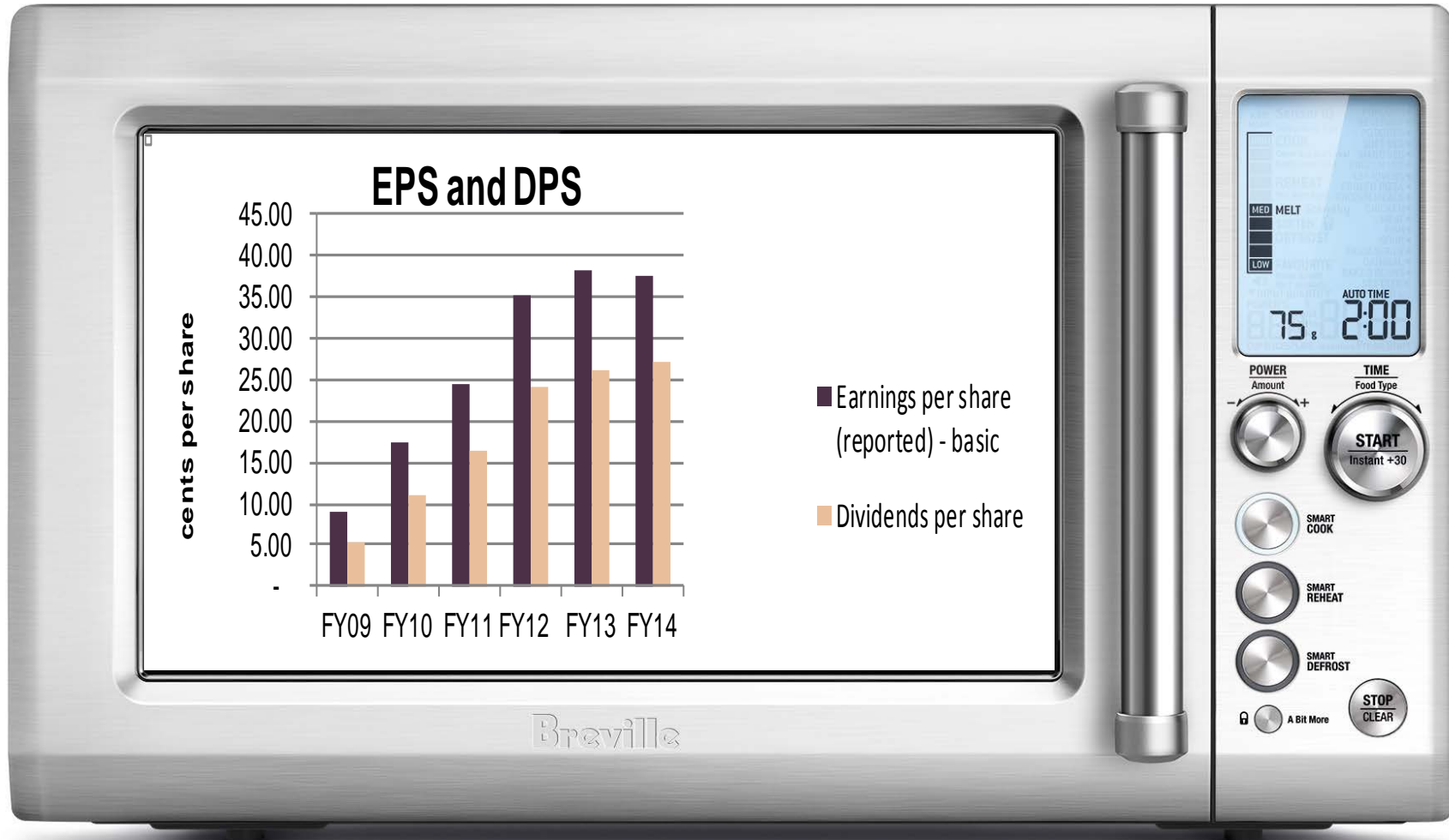
	% change from FY13
Revenue (including Keurig commission income) \$541.6m	+11.3%
EBIT \$70.4m	-1.6%
NPAT \$48.8m	-1.9%
EPS 37.5 cents (FY13: 38.2 cents)	-1.9%
DPS: 27.0 cps, fully franked (FY13: 26.0 cps, 21.5 cps franked)	+3.8%
Net Cash \$47.0m (FY13: \$43.4m)	

# EBIT Returns



5 year compound annual growth of 24.6%

# EPS and Dividends



5 year compound annual growth

- EPS of 32.8%
- DPS of 37.5%

# Outlook FY2015

- Broader business conditions challenging and competitive
- First half of the 2015 year cycling against a strong 2014 first half – particularly North American juicer sales
- Group's operating earnings through to October 2014 consistent with expectations
- Too early to provide guidance on 2015 outlook given the importance of November/December trading
- Number of strategic cost reduction and revenue driving initiatives



# Thank you

- Thank you
  - Breville team
  - Board colleagues
  - Suppliers, customers and consumers
  - Valued shareholders
- Board
  - New appointments
    - Non-Executive Director: Tim Antonie
    - Lead Independent Director: Lawrence Myers
  - Audit and risk committee resignations
    - Steven Fisher and Steven Klein

# CEO's Review of Operations

Mr Mervyn Cohen  
Interim CEO

# Group Summary Result

<b>AUDm</b>	<b>FY14</b>	<b>FY13</b>	<b>% Chng</b>
Sale of goods	<b>539.9</b>	469.4	<b>15.0%</b>
Keurig commission income	<b>1.7</b>	17.1	<b>(90.1%)</b>
<b>Revenue</b>	<b>541.6</b>	486.5	<b>11.3%</b>
<b>EBITDA</b>	<b>77.9</b>	78.9	<b>(1.2%)</b>
<b>EBIT</b>	<b>70.4</b>	71.6	<b>(1.6%)</b>
<b>NPAT</b>	<b>48.8</b>	49.7	<b>(1.9%)</b>

*Minor differences may arise due to rounding*

- Business is well diversified by product, category and geography
- Revenue and EBIT adversely impacted by Keurig commission income decrease
- FY14 NPAT approximated FY13

# Segment Results

AUDm	REVENUE			EBIT		
	FY14	FY13	% Chng	FY14	FY13	% Chng
Australia and New Zealand (ANZ)	261.6	240.9	8.6%	24.9	27.3	(9.1%)
North America	200.2	192.4	4.1%	30.1	37.9	(20.5%)
Rest of World	79.8	51.1	56.1%	20.2	15.7	28.8%
Other	-	2.1		(4.7)	(9.3)	
<b>TOTAL</b>	<b>541.6</b>	<b>486.5</b>	<b>11.3%</b>	<b>70.4</b>	<b>71.6</b>	<b>(1.6%)</b>

*Minor differences may arise due to rounding*

# Australia and New Zealand (ANZ)

	1H			2H			FY		
AUDm	1H14	1H13	% Chng	2H14	2H13	% Chng	FY14	FY13	% Chng
Revenue	144.6	130.9	10.4%	117.0	110.0	6.4%	261.6	240.9	8.6%
EBITDA	16.6	17.4	(4.9%)	9.4	10.9	(13.4%)	26.0	28.3	(8.2%)
EBIT	16.1	16.9	(5.0%)	8.8	10.4	(15.7%)	24.9	27.3	(9.1%)
EBIT %	11.1%	12.9%		7.5%	9.5%		9.5%	11.3%	

*Minor differences may arise due to rounding*

- Market share gains in an environment where consumers remained cautious with spending
- Strong consumer acceptance of new products launched across all brands
- Strengthening USD (especially in second half) and competitive market place - adverse impact on EBIT margins
- Going forward, expected to benefit from selective price increases

# North America

	1H			2H			FY		
AUDm	1H14	1H13	% Chng	2H14	2H13	% Chng	FY14	FY13	% Chng
Sale of goods	128.7	99.1	29.9%	69.8	76.2	(8.4%)	198.5	175.3	13.2%
Commission income	1.3	12.7	(89.8%)	0.4	4.4	(90.8%)	1.7	17.1	(90.1%)
<b>Revenue</b>	<b>130.0</b>	111.8	<b>16.3%</b>	<b>70.2</b>	80.6	<b>(12.9%)</b>	<b>200.2</b>	192.4	<b>4.1%</b>
<b>EBITDA</b>	<b>22.9</b>	26.0	<b>(11.9%)</b>	<b>7.5</b>	12.5	<b>(39.8%)</b>	<b>30.4</b>	38.5	<b>(20.9%)</b>
<b>EBIT</b>	<b>22.8</b>	25.8	<b>(11.9%)</b>	<b>7.3</b>	12.1	<b>(39.1%)</b>	<b>30.1</b>	37.9	<b>(20.5%)</b>
EBIT %	17.5%	23.1%		10.5%	15.0%		15.0%	19.7%	

Minor differences may arise due to rounding

- Keurig commission income reductions
- Breville full year revenue growth of 13.2%
- Second half revenue impacted by timing of retailer purchasing, adverse weather and juicing category decline
- EBIT impacted primarily by Keurig decrease and higher warranty expenses – certain SKU's being phased out

# Rest of World

	1H			2H			FY		
AUDm	1H14	1H13	% Chng	2H14	2H13	% Chng	FY14	FY13	% Chng
Revenue	36.6	21.7	69.1%	43.2	29.4	46.6%	79.8	51.1	56.1%
EBITDA	9.6	7.5	27.9%	10.7	8.2	30.0%	20.2	15.7	29.0%
EBIT	9.5	7.5	27.8%	10.7	8.2	29.8%	20.2	15.7	28.8%
EBIT %	26.1%	34.5%		24.7%	27.9%		25.3%	30.7%	

*Minor differences may arise due to rounding*

- Increased revenues derived equally from UK and Rest of World distribution business
- Strong result from Rest of World distribution business
- UK business delivered positive earnings result in first full year
- UK EBIT margin lower than Hong Kong based Rest of World distribution business

# Financial Position at 30 June

AUDm	FY14	FY13
Inventory	94.3	83.8
Receivables	78.4	90.8
Trade and other payables	(81.8)	(82.3)
<b>Working Capital</b>	<b>90.9</b>	92.3
Fixed assets	6.9	3.7
Intangibles	74.9	72.2
Other (liabilities)/assets (net)	(6.7)	(10.4)
<b>NET ASSETS EMPLOYED</b>	<b>166.0</b>	157.8
(Cash) (net)	(47.0)	(43.4)
Shareholders' equity	213.0	201.2
<b>CAPITAL EMPLOYED</b>	<b>166.0</b>	157.8

*Minor differences may arise due to rounding*

- Strong balance sheet – solid foundation
- Group continues to invest in efficiency and cost improvement projects
  - leased distribution centre (Sydney-based Australian distribution business)
  - leased offices (Sydney-based Australian business and corporate head office)
  - Group-wide ERP system



# *the Boss™ Blender*

Thought for Food with Heston Blumenthal

# PolyScience

- PolyScience culinary division acquired shortly after end of 2014 financial year
- Market leader in the sous-vide category – commercial and professional markets
- Sous-vide cooking method:
  - Food sealed in airtight plastic bags in a water bath in a temperature-controlled environment
  - Used by many high-end gourmet restaurants



# Strategic Initiatives

- Core strategy
  - “Food Thinking”
  - Deliver sustainable growth through product innovation, brand management and distribution capabilities across multiple geographies
- The Group has:
  - Continued to invest in product development and launched a number of flagship products in FY14
  - Completed its first year of trading in the portioned coffee market in Australia and New Zealand in partnership with Nespresso
  - Recorded a pleasing first year of trading in the UK under company owned brand, Sage
  - Increased its marketing and business development resources driving growth in the Rest of World segment
  - Continued to review its distribution strategy and develop new ways to engage with consumers
  - Created marketing collateral and campaigns with Heston Blumenthal, the Group’s global brand ambassador

# Strategic Initiatives cont'd

- The Group's strategy includes a number of initiatives aimed at addressing the expected challenging broader business conditions to be faced in FY15. The team is focused on:
  - Integrating the culinary division of PolyScience and extending our product offering
  - Growing the Rest of World segment including the launch in Brazil with Tramontina
  - Ongoing product development leading to a strong pipeline of new products in FY15 and beyond
  - Continuing our successful collaboration with Group ambassador Heston Blumenthal

*the Oracle*<sup>TM</sup>



**Breville**  
Thought for food