Breville

25 August 2016

Manager, Company Announcements,
Australian Securities Exchange Limited,
Level 4, 20 Bridge Street,
Sydney NSW 2000

Year Ended 30 June 2016
Year End Report Announcement

Attached is a copy of the Breville Group Limited Year End Report Announcement for the Year Ended 30 June 2016.

Yours faithfully

Sasha Kitto
Company Secretary
Breville Group Limited

Telephone: (02) 9384 8100

Breville Group Limited
ABN 90 086 933 431
Ground floor, Suite 2,
170–180 Bourke Road
Alexandria NSW 2015 Australia
T + 61 (2) 9384 8100 F + 61 (2) 9700 1249
breville.com

We are FOOD THINKERS.

Breville

25 August 2016

Breville Group Limited results – year ended 30 June 2016

Revenue increase of 9.4% to $576.6m
EBIT increase of 5.9% to $73.7m
EPS increase of 7.5%
Final dividend increased to 14.0 cps (70% franked)

Group summary result

AUDm[1]	FY16	FY15	% Chng
Revenue	**576.6**	527.0	**9.4%**
EBITDA	**83.4**	77.0	**8.3%**
EBIT	**73.7**	69.6	**5.9%**
NPAT	**50.2**	46.7	**7.5%**
Basic EPS (cents)	**38.6**	35.9	**7.5%**
ROE[2] (%)	**20.4%**	20.2%	
Div per share – ordinary (cents)	**28.5**	27.0	**5.6%**
Franked (%)	**72.6%**	100%	
Net cash ($m)	**36.1**	32.8	

- Steady growth in Group revenue and EBIT
- North American segment revenues 10.3% higher in constant currency, reflecting sustained positive growth
- Breville designed products in ANZ performed well with revenue increasing 11.2%, however, mid-market segment continues to be challenging
- UK revenues increased, partially offsetting lower Rest of World Distribution revenues
- Final dividend increased to 14.0 cents per share, 70% franked
- Group is successfully progressing through execution of its strategic transformation

Commenting on the Group's performance, Breville Group CEO, Jim Clayton said, *"Despite the challenging nature of the global market, the Group was able to deliver in line with our expectations, while simultaneously making meaningful progress on our transformation program. I look forward to continue building on this success."*

Breville Group Limited
ABN 90 086 933 431

Ground floor, Suite 2,
170–180 Bourke Road
Alexandria NSW 2015 Australia

T + 61 (2) 9384 8100 F + 61 (2) 9700 1249
breville.com

We are FOOD THINKERS.

Segment results

AUDm[1]	REVENUE FY16	FY15	% Chng	EBIT FY16	FY15	% Chng
North America	**251.8**	203.1	**24.0%**	**43.6**	31.9	**36.9%**
Australia and New Zealand (ANZ)	**242.6**	245.1	**(1.0%)**	**16.6**	18.3	**(9.4%)**
Rest of World	**82.3**	78.8	**4.3%**	**22.1**	20.3	**8.4%**
Other	**-**	-	**-**	**(8.6)**	(0.9)	**-**
TOTAL	**576.6**	527.0	**9.4%**	**73.7**	69.6	**5.9%**

North America

The North American business has continued its strong growth with reported revenue for the financial year increasing to $251.8m (FY15: $203.1m) or by 24.0% compared to the pcp. In constant currency, revenues for this segment increased by 10.3%, reflecting the ongoing positive growth since the juicing category re-set, which commenced in calendar year 2014.

Increased North American revenues were underpinned by new product releases as well as the sustained performance of the existing product range in the key categories of beverage and cooking. Core products in these categories include the range of espresso machines, mini ovens, toasters and kettles.

Reported EBIT for the year was 36.9% higher than pcp increasing to $43.6m (FY15: $31.9m) driven by the increase in revenue along with a more favourable product mix. The segment EBIT margin, which increased to 17.3% (FY15: 15.7%), was also assisted by the introduction of new innovative products at higher margins.

ANZ

Our ANZ segment, which sells multiple brands, in multiple categories, across a full range of price points, from kitchen appliances to personal care and garment care, continues to face market challenges in the mid-market segment.

Revenues for the year of $242.6m were marginally lower ($2.5m or 1.0%) than the pcp (FY15: $245.1m).

In line with prior reporting periods, ANZ revenues from the Breville designed and developed products have continued to increase, being 11.2% higher than the pcp. The remaining revenues from ‘sourced products’ (internally referred to as ‘Breville Local’), which account for a greater proportion of total revenue, have declined given the competitive nature of this segment of the market. The price-driven nature of this segment, coupled with discount retailers favouring their own home brands in the entry to mid-price points, contributed to the decline in the revenue of this market segment.

EBIT for the year decreased to $16.6m (FY15: $18.3m), with the overall EBIT margin decreasing from 7.5% in the prior year to 6.9%. EBIT for the second half of the year clawed back some of the shortfall reported in the first half by increasing to $5.3m from $2.1m in the pcp.

The overall EBIT margin was negatively impacted by the strengthened USD and the inability, due to market pressures, to process wholesale price increases across the entire range. The impact of the strong USD was partially offset by the sales mix shift towards the higher margin Breville designed and developed products and cost efficiency savings.

Commenting on the ANZ result, Jim Clayton added, "*In the last six months, ANZ has spent a considerable amount of time refining its 'Breville Local' business model, looking for further opportunities to create a more efficient and profitable business. As a result, we are expecting further improvements to flow through this segment in the 2017 financial year*."

Rest of World

This segment comprises the Rest of the World distribution business supplied from Hong Kong as well as the Group's UK business, which distributes Breville designed and developed products under company-owned brand, Sage.

Total segment revenue in AUD increased by 4.3% to $82.3m (FY15: $78.8m). In constant currency, segment revenues were less than the pcp, with lower Rest of World distribution business revenues only partly offset by higher UK business revenues, which increased by 7.4%.

Revenue in the Rest of World distribution business was negatively impacted by a number of our distribution partners' markets being exposed to the effects of a strengthening USD, as well as specific issues affecting some of the markets in which our partners operate.

The UK business has continued its solid performance with revenue in AUD growing by 15.2%. This increase has resulted from both an expanded customer base as well as a wider product range.

Reported EBIT of $22.1m (FY15: $20.3m) was 8.4% higher than pcp. The segment EBIT margin improved to 26.8% from 25.8% in the prior financial year, driven by a positive shift to higher margin products in both the Rest of World distribution business and the UK.

Other

The Group's Other reporting segment includes the Group's shared service facility, design and development and global marketing functions, as well as the depreciation/amortisation charge on Group assets including capitalised product development projects.

The net change from the prior year is mainly attributable to higher employee related expenses (mainly the Group short term and long term incentive expense) and increased depreciation/amortisation from new Group assets. These increases have been partially offset by an over-recovery of intra-group charges compared to the pcp.

Working capital

The total investment in working capital ended $10.4m higher compared to that of the prior year, driven primarily by a decrease in trade and other payables.

Inventory balances at 30 June 2016 of $107.7m (FY15: $108.3m) are $0.6m lower compared to the pcp and after excluding the translation effect at balance sheet date, are $1.9m lower. Likewise, inventory turns have improved.

The Group implemented a global 'sales and operations planning' (S&OP) process during the second half of the 2016 financial year. We are just beginning to see the benefits of this process change. We expect a majority of the benefit to be realised during the 2017 financial year.

The $10.3m reduction in trade payables compared to the prior year is primarily attributable to lower stock related purchases, a leading indicator of the S&OP process.

Receivables of $89.5m were flat compared to the prior year (FY15: $88.7m).

Net cash at 30 June 2016 was $36.1m compared to $32.8m at the same time last year. Net cash flow generated from operating activities of $52.3m was higher than the pcp (FY15: $45.7m).

Capital expenditure

The Group has continued its investment in efficiency, cost improvement and revenue driving projects to support a larger and more geographically diverse business, including the global roll out of a single business application stack: Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), eCommerce and S&OP.

Dividends

A partially franked final dividend of 14.0 cents per share (70% franked) has been declared (2H15: 13.0 cents, 100% franked) bringing the total dividends for the year to 28.5 cents per share, 72.6% franked (FY15: 27.0 cents per share, 100% franked). This final dividend will have a record date of 16 September 2016 and will be payable on 6 October 2016.

The Directors have resolved to continue to suspend the operation of the Dividend Reinvestment Plan.

The ongoing contribution of the businesses outside of Australia will continue to impact the extent to which the Group is able to frank future dividends.

Group strategic transformation update

Progress against the transformation program outlined in February 2016 is on track, with the Group moving from a planning phase to an execution phase.

The following progress has been made against each of the key Group strategic levers in the last six months:

- Product: The Group has successfully shortened development cycles and made structural changes to the ANZ ‘product’ function, enabling alignment for portfolio acceleration
- Market: An end-to-end transformation of our Group go-to-market process has begun, and we have recently extended our machine partnership with Nespresso to include North America
- Scalable, global platform: The Group S&OP implementation is complete, the ANZ business now has a single integrated back end, and our ERP system is live in Canada, with the USA to follow in September

Product

Shortening development cycles and accelerating new global product releases is key to our product transformation program. A new innovative product, which will deliver the best quality outcome of any such product in its category, originally had a target release date of September 2017. The Group has now successfully managed to bring this release date forward to October 2016.

This new product will be launched, as opposed to released, at scale across multiple territories (ANZ, North America) with the launch to also include one of our distribution partners.

The structural changes made to the ANZ ‘product’ function in the last six months, resulting in an integrated category management structure, will enable us to accelerate our new product introduction and better align our product portfolio with both retailer and consumer needs.

Market
Further specific progress on market expansion and effectiveness is as follows:

- Sales force effectiveness: Multi-country pilots were undertaken to identify opportunities and improve the go forward sales force approach
- Go-to-market: End-to-end re-architecture of the Group go-to-market process to embrace the omni-channel approach, enabling the support of customers through each stage of their decision and post decision cycle
- Rest of World distributors: Market back pricing pilot was extended to other distributors and the future realignment of the supply chain is expected to overcome existing minimum order quantity (MOQ) challenges
- North American Nespresso machine partnership: This distribution will commence in the second half of the 2017 financial year

Scalable, global platform
The overall effectiveness and productivity of the Group will improve as the Global S&OP system provides us with a common and global 'single version of the truth' for the future. Each function within the business will use the system through the lens that makes most sense to them: the S&OP team in units, the warehouse team in cubic feet, and the corporate finance team in AUD.

Further scalability is anticipated through the implementation of a consolidation warehouse in China, which is expected to be operational by February 2017.

The roll out of the Group-wide business application stack (ERP, CRM, eCommerce) is expected to be completed by the end of 2017 financial year.

Next steps
During the 2017 financial year, the Group will continue to execute its transformation program. From a platform perspective, all global core systems and the consolidation warehouse will be implemented. The focus on the acceleration of new global product releases will continue, and the re-architecture of the go-to-market process will be progressing.

The cost structure re-allocation towards product and marketing will commence with the transition from spending 8.4% of net sales to 12% of net sales, a process that is expected to occur over multiple future reporting periods.

Key metrics to measure success

- Inventory: Inventory turns have improved slightly compared to the pcp and the trade payables reduction is a leading indicator of the S&OP process impact.
- Cost structure re-allocation towards product and marketing: The product and marketing spend as a % of net sales is expected to increase in the 2017 financial year, funded by cost re-allocations and efficiencies.
- Growth rate acceleration: The reported EBIT growth rate of 5.9% in the current financial year compares to a 1.2% decline in the pcp.

Outlook

The Board and management are encouraged by the full year financial performance of the Group.

The 2017 financial year is expected to be challenging as the Group progresses through the execution of its transformation plan and anticipates global business conditions to be increasingly challenging and competitive.

With a strong balance sheet, an increasing international presence, and continuing along its strategic transformation, the Group remains well placed to take advantage of future opportunities.

For further information, please contact:
Jim Clayton (CEO) / Mervyn Cohen (CFO)
(02) 9384 8100

[1] *Minor differences may arise due to rounding.*

[2] *ROE is calculated based on NPAT for the 12 months ended 30 June 2016 (FY15: 12 months ended 30 June 2015) divided by shareholders' equity at 30 June.*