Breville

23 February 2017

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

Half Year Ended 31 December 2016
Half Year End Report Announcement

Attached is a copy of the Breville Group Limited Half Year End Report Announcement for the Half Year Ended 31 December 2016.

Yours faithfully

Sasha Kitto
Company Secretary
Breville Group Limited

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We are FOOD THINKERS.

Breville

23 February 2017

Breville Group Limited results – half year ended 31 December 2016

EBIT increase of 6.7% to $49.1m
Revenue of $339.2m increase of 2.4% (constant currency increase of 5.6%)
Interim dividend increased to 15.5 cps (60% franked)

Group summary result

AUDm[1]	1H17	1H16	% Chng
Revenue	**339.2**	331.2	**2.4%**
EBITDA	**54.2**	50.7	**7.0%**
EBIT	**49.1**	46.1	**6.7%**
NPAT	**33.7**	30.8	**9.4%**
Basic EPS (cents)	**25.9**	23.7	**9.4%**
ROE[2] (%)	**20.1%**	19.4%	
Div per share - ordinary (cents)	**15.5**	14.5	**6.9%**
Franked (%)	**60%**	75%	
Net cash ($m)	**32.7**	3.0	

- EBIT growth rate acceleration trend continues, increasing 6.7% compared to 5.7% in the prior comparative period (pcp)
- Improved Group EBIT margin of 14.5% from 13.9% in the pcp – reflecting a greater proportion of higher margin Global Product segment revenue
- Global Product segment reported double digit constant currency revenue growth of 12.9%
- Distribution segment revenue impacted by lower revenues from discount retailers
- Dividend increased by 6.9% to 15.5 cents per share, 60% franked
- The Group continues to make progress through its strategic transformation with key metrics on track
- Strong cash flow generation due to improved operating performance and a significant reduction in working capital

Commenting on the Group's result, Breville Group CEO, Jim Clayton said, "*The Group has again delivered an improved result, led by the continued strong performance of the Global Product segment. I am pleased with the progress we are making on our strategic transformation, with our key measurements of success on track.*"

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Segment results

AUDm[1]	REVENUE 1H17	REVENUE 1H16	REVENUE % Chng	EBIT 1H17	EBIT 1H16	EBIT % Chng	EBIT MARGIN (%) 1H17	EBIT MARGIN (%) 1H16
Global Product	**264.8**	245.1	**8.0%**	**45.9**	41.0	**12.0%**	**17.3%**	16.7%
Distribution	**74.3**	86.1	**(13.7%)**	**3.3**	5.1	**(36.0%)**	**4.4%**	5.9%
TOTAL	**339.2**	331.2	**2.4%**	**49.1**	46.1	**6.7%**	**14.5%**	13.9%

Change in reporting segments

As announced on 25 January 2017, the Group has changed its reporting segments in the period to reflect the two business models operating within the Group, namely the "Global Product" business and the "Distribution" business. This change more accurately reflects the way the company is being managed.

The Global Product segment includes the sale of Breville designed and developed products that are sold globally, either directly or through 3rd parties, and may be branded Breville, Sage or carry a 3rd party brand.

The 'Distribution' segment includes products designed and developed by a 3rd party. These products may be distributed pursuant to a license or distribution agreement, or they are sourced directly from manufacturers. These products may be branded Breville, Kambrook, or they may be distributed under a 3rd party brand (e.g. Nespresso, Philips). As of the reporting date, the Distribution segment operates only in the ANZ region.

Global Product segment

Global Product segment revenue

AUDm[1]	GLOBAL PRODUCT SEGMENT REVENUE 1H17	1H16	% Chng AUD	% Chng ConstCurr[3]
North America	**159.4**	151.8	**5.0%**	**10.0%**
Australia and New Zealand (ANZ)	**63.3**	52.7	**20.1%**	**19.6%**
Rest of World	**42.2**	40.6	**3.7%**	**14.8%**
TOTAL	**264.8**	245.1	**8.0%**	**12.9%**

The Global Product segment showed strong growth, with reported revenue for the half year increasing by 8.0% to $264.8m (1H16: $245.1m) compared to the pcp. In constant currency, revenue in this segment for the half year grew by 12.9%.

North American revenues, in constant currency, continued a double digit growth profile compared to the pcp. The cooking category performed well, benefiting from the continuing momentum of products released in the 2016 financial year. The beverage category experienced steady growth from both existing products as well as new products launched during the half.

ANZ revenues of $63.3m (1H16: $52.7m), contributed the highest growth rate of all regions, being 20.1% higher than the pcp on an AUD reported basis. This solid increase was driven primarily by new product releases in the beverage category. Existing products also continued to perform well.

Rest of World revenues increased by 3.7% in AUD to $42.2m (1H16: $40.6m). In constant currency, revenues were 14.8% higher than pcp, with both the Hong Kong distribution and the UK business reporting double digit growth in constant currency. Revenue in the UK business grew by 17.2% in constant currency.

The increased Hong Kong distribution business revenues, which traditionally exhibit a lumpy profile, were driven by an improved performance from certain distribution partners, the acceptance of new products in their markets, as well as the timing of orders placed. The higher UK business' revenue flowed from the sustained growth of products in the beverage category, which was marginally offset by lower revenues from the juicer range.

Global Product segment EBIT

Global Product segment EBIT for the half year increased by 12.0% to $45.9m (1H16: $41.0m), with the EBIT margin improving to 17.3% from 16.7% in the pcp.

The sale of higher margin products resulted in a more favourable product mix which, together with cost efficiencies, more than offset the adverse impact of the stronger transactional USD and the incremental increase in marketing and R&D expenditure.

Distribution Segment

Distribution segment revenue

The Distribution segment continued to face challenges, particularly in the entry to mid-market segment, with revenues declining by 13.7% to $74.3m in the half year (1H16: $86.1m).

The revenue decline came primarily from products sold through the mass channel, with discount retailers continuing to favour their private label brands in the entry to mid-price points. In channels outside of the mass channel, however, the Distribution segment revenue was only slightly down over the pcp.

Distribution segment EBIT

Distribution Segment EBIT in the half year reduced by $1.8m to $3.3m (1H16: $5.1m).

The segment's EBIT margin decreased to 4.4% from 5.9% in the pcp. The margin reduction was driven mainly by the impact of a stronger transactional USD. This reduction in gross margin was offset marginally by lower marketing expenses and cost efficiency savings.

Working capital

The Group's peak investment in working capital usually occurs in December. The total investment in net working capital decreased by $15.7m compared to the pcp.

Inventory balances at 31 December 2016 were $91.8m (1H16: $115.1m), $23.3m lower than the pcp. The reduced inventory holding is primarily due to the realisation of benefits from the introduction of the global sales and operations planning (S&OP) process in the second half of the 2016 financial year.

Receivables compared to the pcp were $18.3m higher, with the increase driven by stronger sales in the second quarter of the 2017 financial year compared to the second quarter of the 2016 financial year.

Trade and other payables increased $10.6m over the pcp to $107.0m (1H16: $96.4m). Increasing stock turns and the timing of customer incentive allowance payments contributed to the majority of the increase.

Net cash at 31 December 2016 was $32.7m compared to $3.0m at the same time last year. This increase in net cash resulted from an improved operating performance and a significant reduction in working capital, marginally offset by increased spending on intangible assets including product development projects and global IT systems. Operating activities in the current half generated net cash of $23.9m which compares to a $6.1m net cash reduction in the pcp.

Dividends

An interim dividend of 15.5 cents per share (60% franked) has been declared (1H16: 14.5 cents, 75% franked). This interim dividend will have a record date of 16 March 2017 and will be payable on 6 April 2017.

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

The ongoing relative 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

During the last six months, the Group has continued to progress through its strategic transformation in the key areas of product, market and building a scalable global platform.

Product
Shortening product development cycles and bringing forward new product releases, followed by their global launch, are important ingredients for pulling the “product” lever in the transformation program. The product team has successfully compressed the development cycle for two products, and they are applying the process learning to other projects in the innovation pipeline.

Market
Our second growth lever is to expand the market into which we sell. In the last six months we have made the following progress:

- Since the reporting date we have commenced shipping Nespresso products in North America (under the expanded license agreement);
- The go-to-market team executed a series of global marketing programs across our markets for the Christmas trading period;
- Our launch process has become more systematic, resulting in improved retailer support for new products; and,
- In February 2017, we executed our first Sage brand transition in Europe with our distribution partner in the Baltics. We are also piloting the consolidation warehouse process with this partner, which has resulted in a range expansion of approximately 40%.

Scalable, global platform
A fundamental requirement for growth acceleration is a corporate platform designed to scale efficiently and effectively.

Our global systems rollout is on track. Currently, all regional markets, with the exception of Hong Kong, are live on our new global ERP system. It is anticipated that Hong Kong will go live in the last quarter of this financial year. Once the ERP system is live in Hong Kong, we will commence the implementation of the China based consolidation warehouse.

Our new global Customer Relationship Management (CRM) system rollout is in process, with North America live and other regions to follow in the coming months. Our new eCommerce platform is expected to launch by the end of the 2017 financial year.

With the new S&OP system in place, we are now moving forward with the next phase, which is linking in our suppliers and retail partners. Our suppliers will have a portal that gives them continuous visibility into our future manufacturing needs. For our retail partners, we are developing a co-planning process. We will begin piloting this co-planning process in the next few months with select retailers.

Key metrics to measure success

- Inventory: Given that we are still transitioning, inventory turns, as a metric, does not accurately reflect the run rate impact of our transformation. Instead, we are monitoring inventory as a percentage of cost of sales[4], with inventory at 31 December 2016 representing 26.3% of the last twelve months of cost of sales compared to 33.9% as at 31 December 2015.
- Cost structure re-allocation towards product and marketing: We are on track to spend approximately 9.5% of revenue on marketing and R&D for the 2017 financial year, up from the 8.4% spent in the 2016 financial year.
- Growth rate acceleration: The EBIT growth rate of 6.7% in the current half year compares to 5.7% in the pcp.

Outlook

The Board and management are encouraged by the first half performance as well as the progress of the transformation program.

Assuming no significant change in current economic conditions in the Group's major trading markets, we currently expect the EBIT growth rate in the second half of the 2017 financial year to be generally consistent with the first half of the 2017 financial year.

For further information, please contact:
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[1] *Minor differences may arise due to rounding.*

[2] *ROE is calculated based on NPAT for the 12 months ended 31 December 2016 (1H16: 12 months ended 31 December 2015) divided by shareholders' equity at 31 December.*

[3] *ConstCurr - constant currency.*

[4] *Cost of sales comprises only the cost of inventory.*