

Breville Group Limited
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17th August 2021

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



**Year Ended 30 June 2021
Year End Report Announcement**

Attached is a copy of the Breville Group Limited Year End Report Announcement for the year ended 30 June 2021.

The release of this announcement was authorised by the Board.

Yours faithfully,

Two handwritten signatures in black ink. The first signature is 'Sasha Kitto' and the second is 'Craig Robinson'.

Sasha Kitto and Craig Robinson
Joint Company Secretaries
Breville Group Limited

Telephone: (02) 9384 8100

Breville Group Limited (BRG) Results

Year ended 30 June 2021

Revenue growth of 24.7%

Global Product segment revenue growth of 37.0% (in constant currency)

EBIT growth 39.6%

EBIT growth over normalised FY20 of 24.1%

Group Summary Result

AUDm ^{1 3}	FY21	FY20	% Growth
Revenue	1,187.7	952.2	24.7%
EBITDA	163.3	120.1	36.0%
EBIT	136.4	97.7	39.6%
NPAT	91.0	63.9	42.3%
Normalised EBIT ²	136.4	109.9	24.1%
Normalised NPAT ²	91.0	72.7	25.1%
Normalised EPS ² (cents)	65.8	55.6	18.3%
Dividend per share - ordinary (cents)	26.5	41.0	(35.4)%
Franked (%)	100%	60%	
Net cash (\$m)	129.9	128.5	

- Record sales of nearly \$1.2bn with another year of growth on a strong prior year
- WFH (working from home) conditions and successful geographic expansion (France, Portugal, Italy and Mexico) offsetting the impact of intermittent supply challenges
- Global Product segment sales growth of 37.0% in constant currency (pcp 20.1%)
- Gross margins improving to 34.8% (pcp 33.7%) with higher average prices, boosted by premium mix and lower promotional activity, outpacing input cost inflation
- Operating leverage reinvested into the medium-term growth drivers of R&D, Marketing and IT with total investment increasing by \$49m or 43%. Core overheads were well contained
- Growth over statutory EBIT was 39.6%. EBIT growth rate (over normalised FY20) accelerated to 24.1% vs 16.2% in pcp
- Full year dividend of 26.5c cents per share (100% franked) reflects the previously announced revised target payout ratio of 40% to enhance internal funding of growth opportunities
- High net cash reflects working capital temporarily below normal or equilibrium level

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Master Every Moment™

Commenting on the Group's result, Breville Group CEO, Jim Clayton said:

"A fairly remarkable year for the Group with the accelerated demand experienced in the first half carrying through to the second half. Increased consumer demand, driven by the need/requirement to work from home, coupled with our continued geographic expansion, outweighed logistical challenges and a weakening USD. Constant currency Global Product sales grew by 37% over a strong prior year. All regions and all categories delivered good growth despite experiencing very different and often erratic retail and supply chain environments. Against this backdrop we continued to accelerate our double-digit EBIT growth, while substantially increasing our investment in medium-term growth drivers. Our continued geographic expansion is delivering an increasingly diversified and balanced global portfolio, supporting both growth and resilience in an unpredictable market environment. A big thank you to the entire Breville/Sage team for delivering such a solid performance for our customers and shareholders in a challenging year, overcoming short-term challenges whilst prioritising long-term growth"

Segment Results

AUDm ¹	Revenue			EBIT ³			EBIT Margin (%)	
	FY21	FY20	% Growth	FY21	FY20 ²	% Growth	FY21	FY20 ²
Global Product	984.2	764.4	28.7%	111.1	87.0	27.7%	11.3%	11.4%
<i>% Growth in constant currency</i>	37.0%	20.1%						
Distribution	203.5	187.8	8.4%	25.3	22.9	10.6%	12.4%	12.2%
TOTAL	1,187.7	952.2	24.7%	136.4	109.9	24.1%	11.5%	11.5%

Global Product Segment Revenue Growth – reported and constant currency

AUDm ¹	Global Product Segment Revenue			
	FY21	FY20	% Growth	% in constant currency
Americas	493.0	422.3	16.7%	27.6%
EMEA	257.0	170.0	51.2%	58.4%
APAC	234.2	172.1	36.1%	37.4%
TOTAL	984.2	764.4	28.7%	37.0%

Global Product Segment

The Global Product segment revenue grew by 28.7% to \$984.2m (FY20: \$764.4m). In constant currency, revenue grew 37.0% (FY20: 20.1%) driven by the relevance of our products to a working-from-home environment and continued geographic expansion. All geographies delivered a solid performance across the year, although supply chain disruptions drove a restricted inventory position at the tail end of 2H21.

In the **Americas**, the Group delivered 27.6% constant currency growth with bricks and mortar retailers largely open by the end of the period but disrupted during the year. The Americas posted growth comfortably above the long-term average for the geography, despite being inventory constrained at the tail end of the year. We also entered Mexico in the 4th quarter.

In **EMEA**, despite on-off retail lock down disruption, the region performed well, delivering 58.4% growth. UK sales were strong across the year and mainland Europe posted continued growth in both new and existing markets. Our entry into France was completed in Q1, and Portugal and Italy were added in Q4. In dollar terms, EMEA's Global Product segment growth outstripped both the Americas and APAC.

APAC achieved good 2H growth (+24.3%) after a remarkable 1H (+49.7%). Retail stayed largely accessible to consumers throughout the period, and the region was supported by nimble supply chain management with inventory levels almost restored to normal by the end of the period.

The Global Product segment **EBIT** for the year was \$111.1m (FY20: \$87.0m), representing a +27.7% increase, with the EBIT margin largely unchanged despite absorbing significantly increased investment into Marketing, R&D and IT capabilities.

Distribution Segment

The Distribution segment fulfilled its strategic role by delivering an incremental \$2.4m in EBIT for investment into the Global Product segment. Double-digit sales growth in "Breville Local", including the Breville Air™ range, was partially offset by single-digit growth in Kambrook and Nespresso.

Financial Position

The Group's total working capital position (\$160.2m) as at 30 June 2021 was largely flat year-on-year (pcp \$161.9m) despite strong sales growth that would normally have seen a build in working capital. Lower than target inventory cover and suppressed receivables at the end of the year saw working capital finish approximately \$80m below an estimated "equilibrium" or normal level.

Inventory levels recovered towards the end of the year to \$216.7m (pcp \$153.7m); however over a third of this reported inventory was still goods in transit, with in-warehouse inventory only recovering 10% from the low position of June 2020.

Net receivables (\$119.3m) were below pcp (\$156.1m) with an excellent improvement in collections and debtor days across the group, coupled with a weakening USD and constrained deliveries at the tail end of the half caused by disruptions in the supply chain (Suez Canal, Covid-related closure of the Yantian port and inbound port delays).

The moderate inventory increase and receivables decrease, combined with payables growing in line with the business, resulted in a flat working capital position year-on-year.

Intangibles of \$229.8m increased \$85.8m over the pcp reflecting the Baratza acquisition (\$81.6m) and the ongoing investment in new product development.

The Group's ROE remains healthy at 19.7% (FY20: 17.9%).

Net Cash

Net cash at 30 June 2021 was \$129.9m and largely flat year-on-year (pcp \$128.5m). Strong cash flow before acquisitions, despite good sales growth, reflects the below equilibrium working capital outlined above.

The Group is planning for a significant rebuild in working capital and cash outflow in FY22 as it transitions back to an equilibrium state. Adequate debt facilities are in place for this planned rebuild.

Dividends

A final dividend of 13.5 cents per share (100% franked) has been declared (FY20: 20.5 cents, 60% franked) bringing the total dividends for the year to 26.5 cents per share.

The dividend reflects the previously announced decision to reduce the target payout ratio from 70% of EPS to 40% on a full year basis to enhance internal funding of numerous growth opportunities on a sustainable basis.

The final dividend will have a record date of 15 September 2021 and will be payable on 7 October 2021.

FY20 Normalised Results and FY21 accounting changes

No normalisation of results has been made in FY21.

In 2H20, as the Covid pandemic emerged, the Group incurred significant abnormal expenses and equally, made some sizable abnormal cost savings. In our FY20 results presentation, we looked through these abnormal pluses and minuses to report a normalised EBIT of \$113.1m compared to our reported statutory EBIT of \$100.9m.

In FY21, the Group implemented the recent accounting policy change related to SaaS (software as a service) capitalisation. The Group also adopted an accounting estimate change to the amortisation period of capitalised product development costs (moving to a range of 3-5 years which better reflects the life span of our new products launched across a global market, and is in line with key peers, rather than using the previous flat 3 years).

The impacts of the accounting changes were partly offsetting at the EBIT level in FY21 (net negative EBIT impact of \$3.0m). The adoption of a revised accounting policy requires prior years to be restated on a comparable basis so statutory and normalised FY20 EBIT were reduced by \$(3.2)m. Adoption of the revised accounting estimate has not been retrospectively applied.

Details of the impact of the accounting adjustments is included in the relevant notes to the accounts and a reconciliation table is included in the appendix to this announcement.

For further information, please contact:
Jim Clayton (Group CEO) or Martin Nicholas (Group CFO)
(02) 9384 8100

Footnotes:

¹ Minor differences may arise due to rounding.

² FY20 EBIT, NPAT and EPS shown normalised for impact of abnormal expenses (doubtful debt provisioning and IoT platform write down) and abnormal cost savings (compensation and marketing). Net impact on EBIT \$12.2m; NPAT \$8.8m; EPS 6.8c.

³ FY21 and FY20 reflects the impact of the new IFRIC agenda decision on configuration and customisation costs in cloud computing arrangements ("SaaS accounting"). This has decreased FY21 EBITDA by \$10.3m (FY20: \$6.5m) and EBIT by \$6.1m (FY20: \$3.2m).

Appendix – Group EBIT Summary

FY21 Accounting Changes and FY20 Normalisation Impacts

Group EBIT Summary	FY21	FY20	% Growth
EBIT pre impact of accounting changes	139.4	100.9	38.1%
<i>Impact of SaaS accounting policy change¹</i>	(6.1)	(3.2)	
<i>Impact of NPD amortisation accounting estimate change²</i>	3.1		
Statutory EBIT reported	136.4	97.7	39.6%
<i>Abnormal Doubtful Debt Provision³</i>		13.6	
<i>Abnormal IOT Impairment⁴</i>		9.6	
<i>Abnormal Compensation cut FY20⁵</i>		(7.7)	
<i>Abnormal Marketing cut FY20⁶</i>		(3.3)	
Normalised FY20 EBIT	136.4	109.9	24.1%

Footnotes:

¹ Adoption of SaaS accounting policy change resulted in IT implementation costs being expensed in year as opposed to capitalised and also reduced related amortisation costs. FY21 EBITDA impact \$(10.3)m and EBIT \$(6.1)m. FY20 EBITDA impact \$(6.5)m and EBIT \$(3.2)m.

² Impact of accounting estimate change related to the amortization of capitalized product development costs. Amortization period moved to a range of 3-5 years from a flat 3 years. The policy is now in line with key peers and remains prudent with most products staying in market for at least 5 years from the initial country launch. The impact on FY21 has been to reduce amortization and increase EBIT by \$3.1m.

³ In Q420 a step change in the Group doubtful debt provision was taken to reflect heightened credit risk with retailers weakened by changes in consumer patterns and physical lock downs as well as reduced availability of credit insurance.

⁴ In Q420 a one-off impairment charge arose as a result of strategic decision to move to a standards-based IoT platform and to write off development work on our proprietary IoT platform.

⁵ In Q420 temporary compensation reductions were implemented. Base salaries were reduced by an average of 20% in May and June 2020. The FY20 STI scheme was also suspended. These employee cost savings were considered abnormal.

⁶ In Q420 in response to uncertainty in the COVID-19 environment, marketing spend was reduced. Spend would normally grow at least in line with gross profit. The \$3.3m add back reflects specific abnormal cuts made in April-June 2020.