PACIFIC BRANDS

Chief Executive Officer's Presentation

to the

2015 Annual General Meeting

of

Pacific Brands Limited

Tuesday 27 October 2015

Melbourne

Introduction

Thanks Peter.

Good morning everyone and thank you for attending our AGM.

My presentation today will cover the following:

- Firstly, I'll provide an overview of the shape of our business and brand portfolio going forward post the divestments of Workwear and Brand Collective
- Secondly, I'll cover our group results for the year and the performance of our three business units: Underwear, Sheridan and Tontine & Dunlop Flooring
- Thirdly, I'll take you through some of our operational achievements and business development initiatives over the past year
- And finally, I'll share with you our strategic priorities, an update on current trading, and our outlook for the current financial year

Hopefully this will give you a better understanding of our results for the year, and what we're focusing on in the year ahead. For those of you who have had an opportunity to review our August results announcement, the themes and outlook are all consistent with that.

At the conclusion of my presentation I'll hand back to Peter who will chair the formal part of the AGM agenda.

Strategic review completed

Further to Peter's earlier comments, you can see from the chart on the right hand side how much simpler our brand portfolio is post divestments. Our two biggest brands, Bonds and Sheridan, now represent a combined 70% of group sales and our six key brands represent 90% of the group.

This slide also highlights the quality of our brand portfolio. As you can see each of our key brands holds the No.1 position in their respective categories.

In addition, we have taken significant action to reduce corporate costs over the last year in order to appropriately size our organisation following the divestments and to mitigate the impact of stranded costs. As a result, approximately $25 million of costs will have been successfully removed or offset through various cost saving initiatives following full transition of the divested businesses by the end of this calendar year.

Improvement in Group results

Turning to our group results for F15. When we were here last year, I said that I wasn't satisfied with our performance in the previous year and said that we should be able to do a lot better by focusing on our key brands and improving execution. Which is exactly what we have done in parallel with reshaping the business and taking costs out. Whilst we have a long way to go to realise the full potential of our business, I'm pleased that this year's result is a step in the right direction.

Focusing first on the full year numbers on the left hand side of the table. Sales were up 5.4% underpinned by our Bonds and Sheridan brands which were up 13% and 15% respectively. As Peter has mentioned, these results were driven by our retail performance with strong comp store growth.

This growth more than offset lower wholesale sales which were impacted by challenges in the discount department store or DDS channel.

EBIT before significant items was down 4.8% to $64.2 million due to lower wholesale margins for the year overall, but with a much improved trajectory which I will come back to shortly.

The net loss after tax of $98 million was largely due to the non-cash impairment charges announced in the first half which addressed the carrying value of certain assets.

Our balance sheet is strong. Our focus on working capital management has delivered strong cash conversion – which more than doubled to 119% for the last financial year. This, along with the divestment proceeds, means that the Company was debt free at 30 June for the first time in its history.

Moving now to the second half numbers on the right hand side of the page – you can see that all key financials were up on last year.

In particular, EBIT before significant items increased by 26% versus last year with earnings growth in all business units. This is a great result, particularly given some of the challenges we experienced in the wholesale channel over this period as well as significant currency depreciation year on year.

As Peter mentioned, our current intention is to reinstate dividends in conjunction with the F16 first half results. We have set out our dividend policy with a pay out ratio of at least 50%, subject to financial position and outlook at the time which is consistent with our previous dividend policy.

I fully appreciate the importance of dividends to our shareholders, particularly retail shareholders, and appreciate your patience during the last year while we reshaped and restructured the business and restored our balance sheet position.

Underpinned by Business Unit results

I'll now briefly take you through the operational performance of each of the three business units, focusing on sales and EBIT before significant items.

Starting with Underwear, which now represents about two thirds of the business:

- Underwear sales were up 4% and EBIT before significant items was marginally down versus last year

- Bonds continued to perform well. Retail sales grew significantly through comp store sales growth of 20% and new store openings, while wholesale sales were flat
- Non-Bonds sales, which are largely wholesale, were down mainly due to challenges in the DDS channel. Sales in this channel were impacted by trade destocking, systems transition and resulting declines in stock availability on replenishment lines
- Underwear's EBIT result was impacted by lower wholesale gross margins. However, a significant turnaround was achieved in the second half with earnings up 33% due to growth in both wholesale and retail contribution

Turning now to Sheridan, which comprises nearly a quarter of our total group sales:

- The business performed well overall with sales up 13% and earnings up 9% driven by strong Australian retail performance
- Earnings growth didn't match sales growth due mainly to poor performance in the UK business which was down by almost $3 million year on year, due to market conditions and unprofitable prior period growth initiatives, compounded by a change in our IT systems. A turnaround plan is underway for the UK and I'll provide an update at our half year results

- I see significant further opportunity to improve the absolute return on sales for Sheridan overall, taking account of the premium nature of the brand, its historical profitability and peer comparisons
- To that end, we have commenced key initiatives to improve the profitability of the Australian operations, including consolidation of Sheridan's distribution centre with the Underwear Group in Melbourne which is now complete, reviewing our sourcing arrangements with a view to moving to direct sourcing through our Asian sourcing office, moving our wholesale business to concession where possible, and reducing Sheridan's cost of doing business
- These initiatives are all well underway and some restructuring costs may be incurred this year. We don't expect such costs to be significant to the group overall, but they may impact Sheridan earnings in the first half

Turning now to the result for Tontine & Dunlop Flooring where we have improved profitability:

- Sales were broadly flat, but EBIT before significant items was up 16% to $5.9 million which is indicative of what a more dedicated focus on this group can achieve
- While Tontine sales were down due to DDS challenges, Flooring grew as the domestic housing market improved and due to the launch of a new hard flooring product range

- Earnings growth was largely driven by CODB savings across both businesses

That covers the business unit results and I'd now like to briefly highlight the progress we have made in some of our key growth initiatives.

Significant progress in key growth initiatives

Innovation and brand building has and will continue to be a focus. A number of key ranges have been launched during the year and we have invested in new and expanded ambassador relationships for both Bonds and Berlei. We are also in the process of setting up an Innovation Hub in our Underwear business.

Our store rollout program is on track. In particular, our Bonds stores are performing well and consistently rank in the top few stores by sales density, not just in underwear but in the larger unisex fashion category in the centres that we are in. We opened 18 Bonds stores and 3 Sheridan stores last year, and expect to open around another 20 stores this year in total.

There has been a substantial focus on business development, which I will cover shortly.

We also continued to focus on improving our supply chain, both internally and also externally with key suppliers through the application of Lean process improvement principles, resulting in lower product costs and shorter lead times. These efficiencies are delivering a simpler, faster supply chain with lower working capital and logistics costs, and improved customer service levels.

Successful celebration of Bonds 100th birthday

2015 marks Bonds' 100 year anniversary and to celebrate we launched a new range across all categories and channels, supported by the biggest campaign investment we've ever made. I hope that you enjoyed the Bonds history reel and some of our TV commercials before we started the meeting.

In store, this campaign has truly come alive with high impact merchandising in all of our major wholesale partners and in our own retail network. Importantly sell-thru to date has been above expectations.

Overall, I'm really pleased with how we executed the Bonds 100 program.

Substantial focus on business development activity

The next slide covers four key business development highlights which will hopefully give you an idea of how we are moving the company forward:

- Firstly, at the top are two examples of how we are partnering with our major retail customers:

- We have a new Kids & Baby concession in David Jones, providing additional trading space for the Sheridan brand. A new product range has been developed including soft toys, clothing, character towels, room décor, a broad gift offering and extensions to our core kids and baby bed and bath ranges. Sheridan is also the first Australian bed linen partner of SIDS and Kids
- And a significant move for Bonds this year was committing to our first concession arrangement with Myer which will showcase the new Bonds Sport range. Bonds has a terrific opportunity to grow in the activewear market at more accessible price points than the global majors, and our Myer concession is an important step forward in that direction

▪ These concessions are expected to contribute positively to earnings this year. At full run rate we expect the two new concession arrangements in total to generate around $20 million of sales on a capital investment in fixtures and fittings of around $3 million plus inventory

▪ If you'd like to have a look at the concession stores, the Sheridan Kids and Baby concession is already open in DJs Bourke Street store and the Bonds activewear concession should be open in Myer Melbourne by mid-November. So please stop by, take a look and purchase some of our great product!

- Turning to Berlei. Our Berlei sports bras are world class and are genuinely endorsed and have been worn by Serena Williams for years. We've always owned the brand in Australia and New Zealand, and have recently signed a global joint venture agreement and extended our endorsement with Serena to be a global arrangement. We have already launched the brand to the trade in the UK and France, and the US is our next priority. Domestically, we have also just launched the new Sensation bra range, designed to target a younger consumer and supported by a new ambassador and leading Australian actor, Jessica Marais
- Finally, in June we acquired the Crestell pillows and bedding accessories business. Adding this business to our portfolio will reinforce Tontine's distribution footprint and relationships with key customers, and also provide additional manufacturing volumes and efficiency for our Melbourne factory

Clear strategic priorities to achieve earnings growth

Looking ahead, we have three group strategic priorities.

- Be a house of leading brands – by leading in product design, innovation and quality; investing in marketing; and expanding into adjacent categories

- Reshape and expand distribution – by reshaping and growing our wholesale channels, and progressively expanding our retail and international footprints
- And finally to develop a sustainable, Lean global supply chain – through focusing on costs, lead times, forecast accuracy and service levels, as well as enhancing sustainability and ethical trading outcomes which are critical and consistent with our values

These strategies flow throughout our individual operating group priorities, and I expect them to deliver sales and earnings growth going forward, with the objective of improving our overall return on sales from 8% currently to over 10%.

Trading update and outlook

Finally, turning to the F16 trading update and outlook where there is essentially no change to what we said at our results presentation in August.

- Sales for the first 16 weeks of 1H16 are up 7% versus PCP, but as in prior years, first half results will largely depend on November and December trading which are key trading months
- For the continuing business, F16 EBIT before significant items is expected to be up on last year

- FX headwinds continue and may impact future earnings, however, as I mentioned, we have plans in place to mitigate the dollar impact of FX depreciation on margins through a combination of sourcing benefits, mix improvement, CODB reduction and price increases
- And finally, as previously mentioned, it is the Board’s current intention to resume dividends in relation to the 1H16 result with a target dividend pay out ratio of at least 50% of profit

In conclusion, Pacific Brands is now a very different business: much higher quality and substantially simplified, with greater growth potential and a strong balance sheet.

We have delivered two key divestments and achieved substantial corporate cost reductions in order to offset stranded costs, which could have become a significant drag on earnings going forward.

Our key brands of Bonds and Sheridan are performing well, as are our retail networks.

F15 marks a turning point in our earnings trajectory. We’re off to a good start this year and I'm confident that we have the right strategy to deliver earnings growth and dividends in F16 and beyond.

Thank you again for joining us today and I look forward to talking with you after the formal part of the agenda. I’ll now hand back to Peter.

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