

# Pacific Brands Full Year Results 2010

**25 August 2010**

Sue Morphet, Chief Executive Officer

David Bortolussi, Chief Financial & Operating Officer

# Executive Summary and Segment Performance

**Sue Morphet**  
**Chief Executive Officer**

## Executive summary

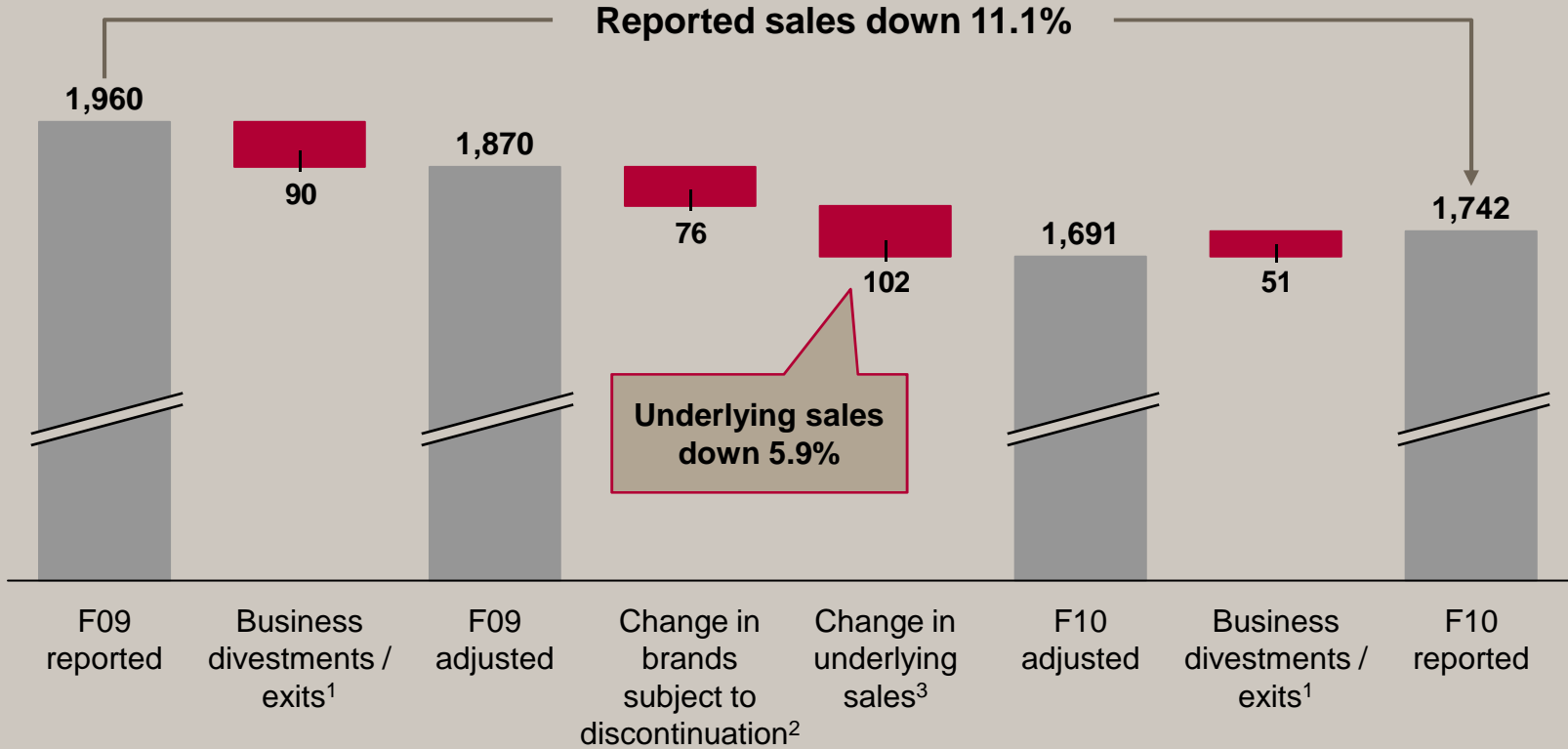
- Earnings in line with guidance
  - Full year down but 2H10 up
  - Margins steady despite lower hedged exchange rates
- Sales impacted by
  - Business divestments / exits and brand discontinuations
  - Pricing, challenging retail environment and DDS channel dynamics
- Transformation benefits ahead of plan, but one-off costs higher than expected
- Divisional performance overview
  - Underwear & Hosiery robust
  - Workwear performance strong
  - Homewares performance mixed
  - Footwear, Outerwear & Sport disappointing
- Cash flow exceptionally strong and net debt reduced substantially
- F11 outlook
  - Improvement in underlying sales performance
  - Increase in EBITA before significant items
  - Expect to resume dividends following 1H11 result subject to performance, financial position and outlook at the time

## Group results<sup>1</sup>

- Sales and earnings down as expected
  - Sales \$1,742.4m, down 11.1% (underlying sales down 5.9%)
  - Gross margin 42.0%, down 0.2% pts
  - CODB \$553.2m, down \$72.4m
  - EBITA \$181.4m, down 11.7% (2H10 up 13.7%)
  - NPAT \$90.3m, down 9.8%
  - EPS 9.7 cps
- Operating cash flow exceptionally strong
  - OCFPIT \$290.4m, up from \$206.0m
  - Cash conversion 144%, up from 90%
- Net debt reduced substantially
  - Net debt \$312.7m, down \$106.4m (or 25%) from 1H10
  - Including payment of \$46m of restructuring costs in 2H10
  - Conservative gearing of 1.6 times

# Group sales result

Net sales revenue  
\$ millions



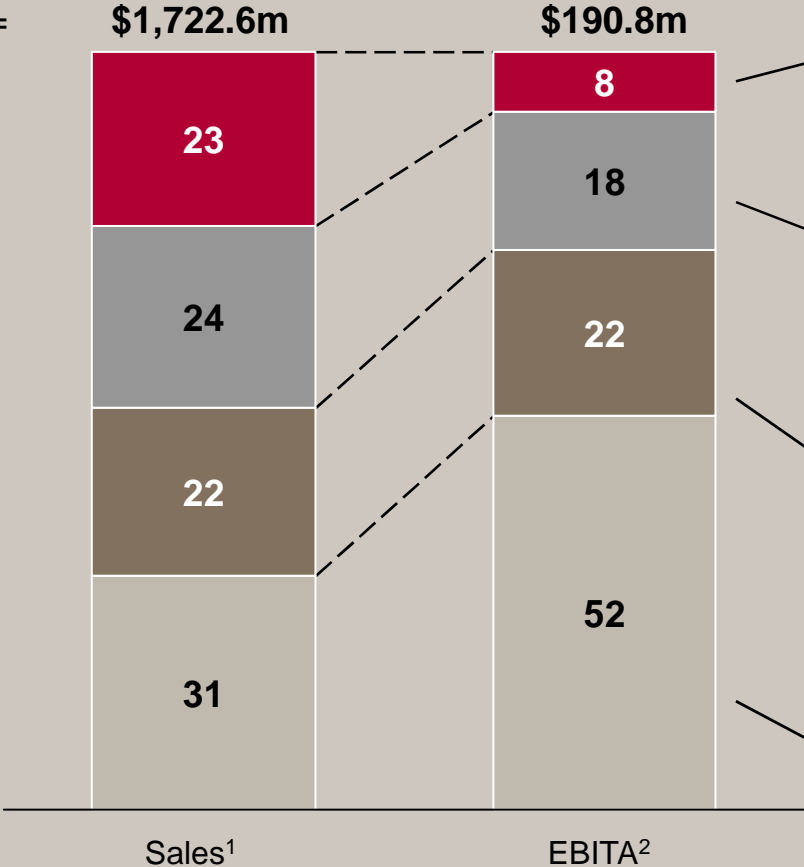
- Icon Clothing, Merrell and UK & China footwear operations divested / exited<sup>1</sup>
- Significant brand discontinuations actioned under PB2010 Transformation program<sup>2</sup>
- Underlying sales down due primarily to pricing, challenging retail environment and DDS channel dynamics<sup>3</sup>

Note: Individual numbers subject to rounding

# Results by segment

Percent

100% =



**Footwear, Outerwear & Sport**  
Footwear, casualwear, streetwear and sports clothing & equipment. Key brands include Clarks, Hush Puppies, Volley, Mossimo, Super Dry and Slazenger

**Homewares**  
Beds, pillows, quilts, bed linen, towels, carpet underlay and foam. Key brands include Sheridan, Tontine, Sleepmaker and Dunlop

**Workwear**  
Industrial workwear, corporate imagewear and protective clothing. Key brands include Hard Yakka, KingGee and NNT / Dowd

**Underwear & Hosiery**  
Underwear, intimates, hosiery and socks. Key brands include Bonds, Berlei, Holeproof, Rio, Jockey, Razzamataz and Voodoo

1. Excluding other segment revenue and inter segment revenue  
2. Excluding corporate expenses and before significant items

# Underwear & Hosiery

\$ millions	F10	F09	Change
Sales <sup>1</sup>	539.4	605.5	(10.9)%
EBITA <sup>2</sup>	99.9	93.4	7.0%
EBITA margin <sup>2</sup>	18.5%	15.4%	3.1pts

- Over one-third of sales decline due to brand discontinuations
  - Lane Bryant: contract manufacturing (US)
  - NZ: Thermals closure
  - Playtex: licence termination
- Unusually late winter season impact
- DDS channel down significantly
- Bonds, Holeproof and Rio down
- Berlei, Jockey and Voodoo up in 2H10
- Margins improved through pricing, mix improvements, portfolio rationalisation and off-shore sourcing benefits



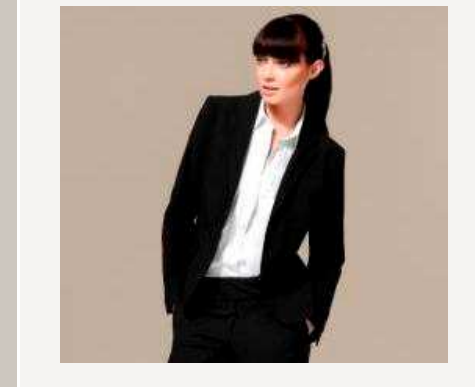
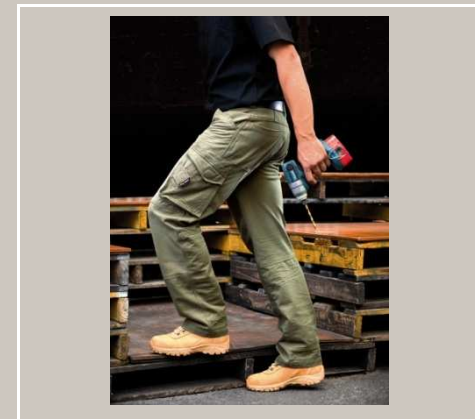
1. Excluding other segment revenue and inter segment revenue

2. Excluding corporate expenses and before significant items

# Workwear

\$ millions	F10	F09	Change
Sales <sup>1</sup>	379.5	389.4	(2.5)%
EBITA <sup>2</sup>	41.8	40.3	3.8%
EBITA margin <sup>2</sup>	11.0%	10.4%	0.6pts

- Sales and earnings up in 2H10
- Strong rebound in business confidence
- Increased employment and employee turnover
- Uniform spending catching up after some freezes
- Greater share of corporate contracts
- Margins improved despite lower hedged exchange rates – partial protection in some B2B contracts



1. Excluding other segment revenue and inter segment revenue  
 2. Excluding corporate expenses and before significant items



# Homewares

\$ millions	F10	F09	Change
Sales <sup>1</sup>	404.4	448.5	(9.8)%
EBITA <sup>2</sup>	33.6	40.6	(17.2)%
EBITA margin <sup>2</sup>	8.3%	9.0%	(0.7)pts

- Sheridan sales flat despite pressure on discretionary spending
- Tontine sales down due to DDS channel dynamics
- Sleepmaker sales impacted by specialist bedding retailers
- Flooring domestic sales up due to stronger housing and construction market
- Foams sales down in line with reduced domestic bedding and furniture manufacturing activity
- Margins down due to lower manufacturing volumes



1. Excluding other segment revenue and inter segment revenue

2. Excluding corporate expenses and before significant items

# Footwear, Outerwear & Sport

\$ millions	F10	F09	Change
Sales <sup>1</sup>	399.3	491.2	(18.7)%
EBITA <sup>2</sup>	15.5	43.7	(64.4)%
EBITA margin <sup>2</sup>	3.9%	8.9%	(5.0)pts

- Significant portfolio rationalisation impact
  - Exited Icon Clothing, Merrell and footwear operations in UK and China (\$39m)
  - Discontinued housebrand, minor brands and labels
- Renewed key licences
  - Clarks, Hush Puppies, Mossimo and Everlast
- Mixed brand performance
  - Clarks, Grosby, Julius Marlow, Hush Puppies, Malvern Star, Mossimo and Superdry up
  - Dunlop, Everlast, Mooks, Slazenger and Volley down
- Margins impacted by lower hedged exchange rates and stock write-downs



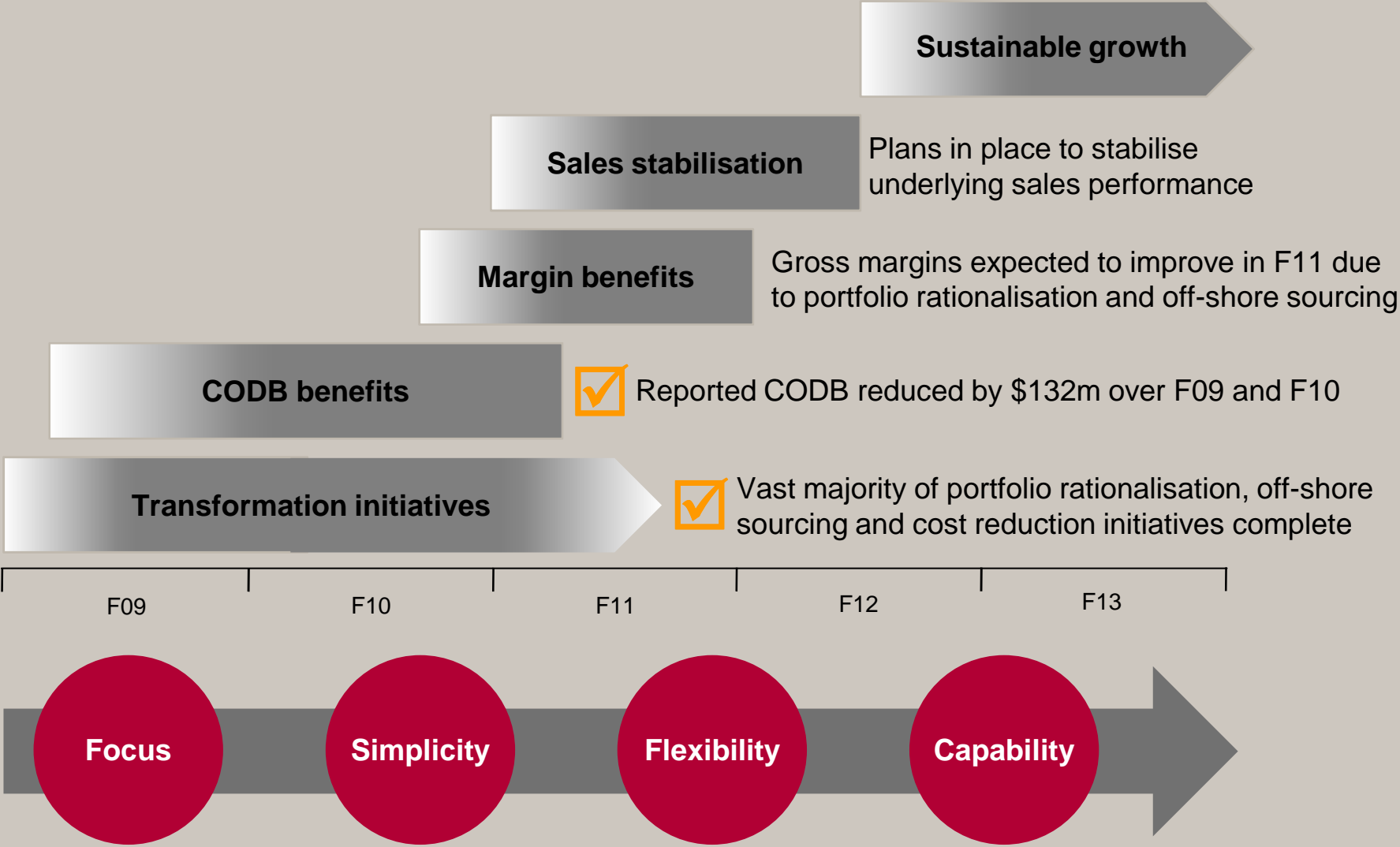
1. Excluding other segment revenue and inter segment revenue

2. Excluding corporate expenses and before significant items

# **Pacific Brands 2010 Transformation Update**

**Sue Morphet**  
**Chief Executive Officer**

# Transformation roadmap



# Implementation progress by workstream

## Rationalise and focus portfolio

## Optimise revenue base

## Rebase overhead cost structure

## Transform supply chain

## Reduce capital employed

## Build capability

### Achieved

☑ Exited non-core businesses / operations

☑ Rationalised brand portfolio

☑ Reduced stock keeping units

☑ Increased prices and improved mix

☑ Refocused advertising on key brands

☑ Increased investment in consumer insights

☑ Reduced non-manufacturing roles by 650

☑ Overachieved CODB targets

☑ Closed 10 manufacturing sites and sold another

☑ Successful transition to overseas sourcing

☑ Reduced air freight usage

☑ Reduced inventory holdings

☑ Sold 6 properties

☑ Tightly managed capital expenditure

☑ Renewed talent significantly across the group

☑ Reviewed IT systems capability

☑ Enhanced employee grading, evaluation and reward model

### In progress / ongoing

- Discontinuing remaining non-core brands/labels
- Ongoing business, brand, label and SKU reviews

- Increasing investment in brands
- Improving customer investment
- Increasing merchandising support

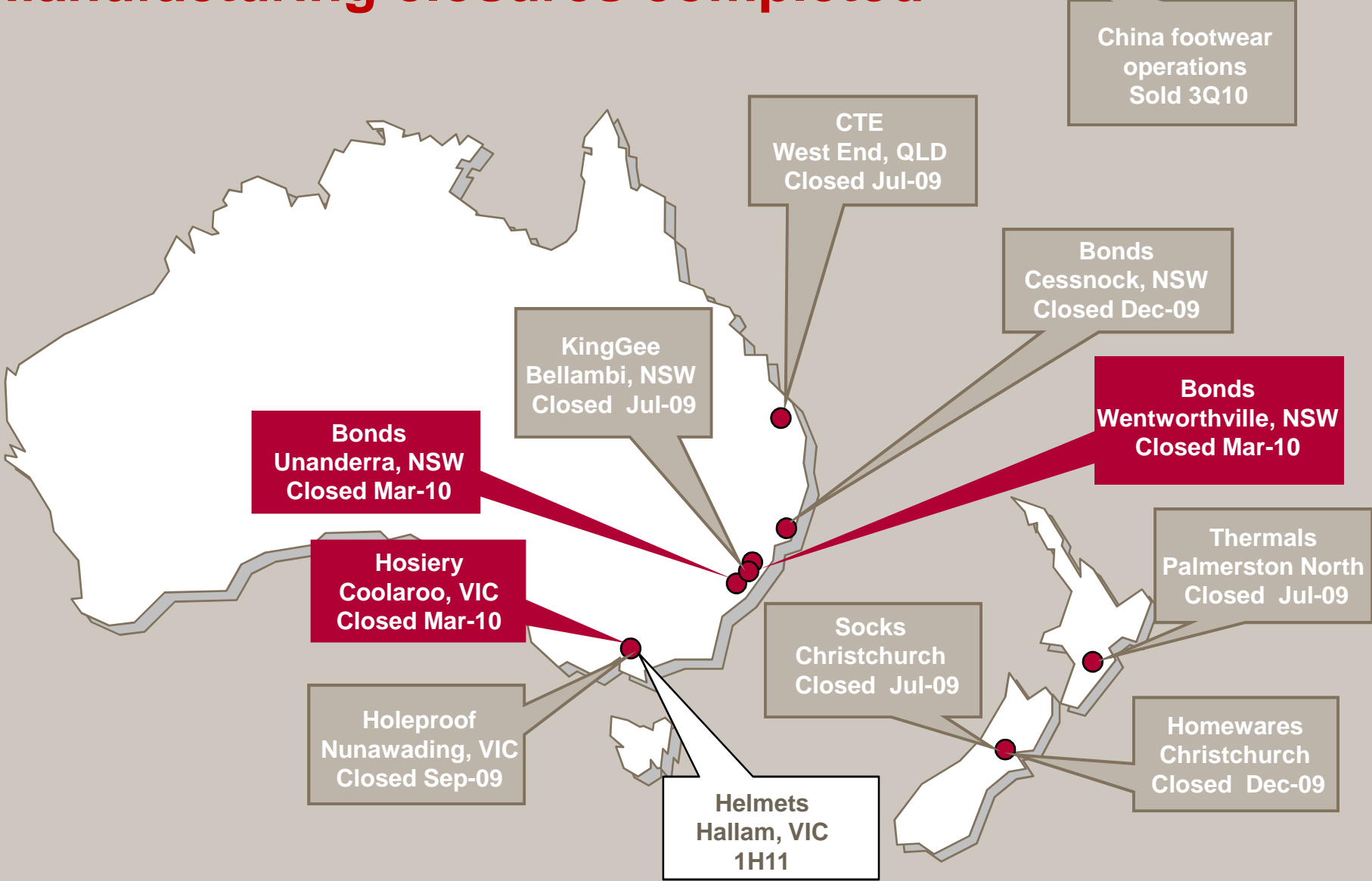
- Reviewing indirect sourcing (eg media and advertising)

- Closing Helmets factory in Victoria
- Centralising sourcing and supply chain organisation
- Resourcing remaining supply base
- Reconfiguring distribution network

- Improving supplier / creditor terms
- Selling remaining surplus properties

- Improving key business processes (eg new product development)
- Building capability across the group
- Embedding a performance culture

# Manufacturing closures completed



# Board and Senior Executive Renewal

■ New appointment post 1 January 2009

## Board of Directors

- James MacKenzie, Chairman , Non-Executive Director
- **Peter Bush**, Non-Executive Director
- Andrew Cummins, Non-Executive Director
- Dominique Fisher, Non-Executive Director
- **James King**, Chair of Remuneration Committee, Non-Executive Director
- Maureen Plavsic, Chair of Nomination Committee, Non-Executive Director
- **Nora Scheinkestel**, Chair of Audit, Business Risk & Compliance Committee, Non-Executive Director
- **Arlene Tansey**, Non-Executive Director

**Sue Morphet**  
**Chief Executive Officer,**  
**Executive Director**

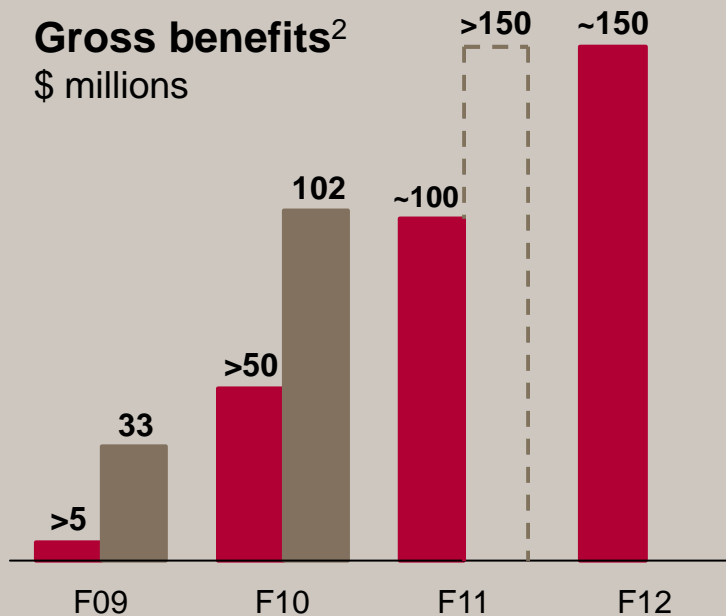
## Senior Executive Team

- **Melanie Allibon**  
Group General Manager, Human Resources
- **David Bortolussi**  
Chief Financial & Operating Officer
- Kate Hann  
Group General Manager, Bonds
- **Anthony Heraghty**  
Group General Manager, Footwear, Outerwear & Sport
- **Holly Kramer**  
Group General Manager, Homewares
- **Simon Smith**  
Group General Manager, Workwear
- Ross Taylor  
Group General Manager, Underwear & Hosiery

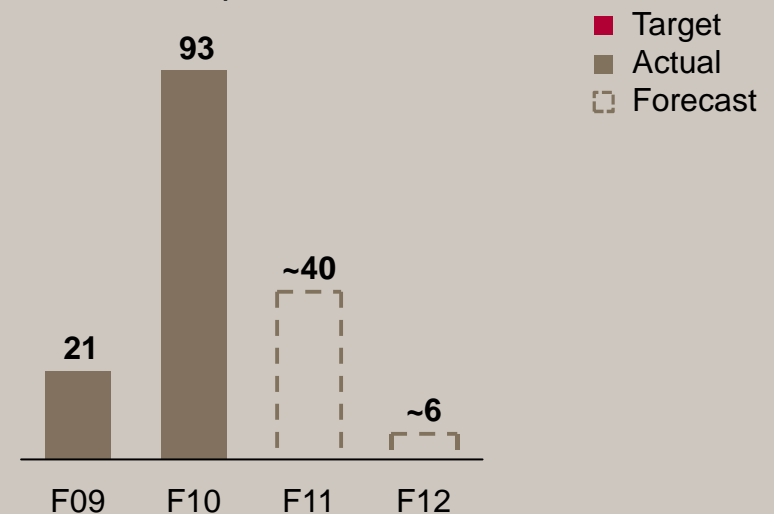
# Transformation cost savings and one-off costs

- Transformation benefits ahead of plan
  - Effectively 12 months ahead in realising cost benefits
  - Expect >\$150m in gross benefits in F11 with off-shore sourcing impact
- One-off pre tax cash costs expected to be c.\$20m higher from \$140m to c.\$160m
  - Increased WorkCover premiums associated with manufacturing closures<sup>1</sup>
  - Expanded scope of distribution network reconfiguration
  - Additional divisional restructuring

**Gross benefits<sup>2</sup>**  
\$ millions



**One-off cash costs**  
\$ millions; pre tax



Year	Post tax (\$m)
F09	15
F10	65
F11	~28
F12	~4

1. Some residual WorkCover premium risk remains which the Company is taking steps to mitigate  
 2. Based on current market conditions and currency rates, and before any reinvestment



## **Group Financial Results**

**David Bortolussi**  
**Chief Financial & Operating Officer**

# Income statement

Group results before significant items

\$ millions	F10	F09	Change	
			\$m	%
<b>Sales</b>	<b>1,742.4</b>	<b>1,959.8</b>	<b>(217.4)</b>	<b>(11.1)</b>
Gross margin	732.2	827.9	(95.7)	(11.6)
<b>Gross margin</b>	<b>42.0%</b>	<b>42.2%</b>	<b>(0.2) pts</b>	<b>n.m.</b>
CODB	553.2	625.6	(72.4)	(11.6)
EBITDA	201.0	230.0	(29.0)	(12.6)
Depreciation	19.6	24.7	(5.1)	(20.6)
<b>EBITA</b>	<b>181.4</b>	<b>205.3</b>	<b>(23.9)</b>	<b>(11.7)</b>
EBITA margin	10.4%	10.5%	(0.1) pts	n.m.
EBIT	179.0	202.3	(23.3)	(11.5)
Net interest	48.3	63.2	(14.9)	(23.6)
<b>NPAT<sup>1</sup></b>	<b>90.3</b>	<b>100.1</b>	<b>(9.8)</b>	<b>(9.8)</b>
Weighted average number of shares	929.4m	587.9m	341.5m	n.m.
EPS	9.7 cps	17.0 cps	(7.3) cps	(42.9)
Significant items after tax	(37.5)	(334.6)	(297.1)	n.m.
<b>Reported NPAT<sup>1, 2</sup></b>	<b>52.7</b>	<b>(234.5)</b>	<b>287.3</b>	<b>n.m.</b>

1. After minority interests

2. After significant items

## Cost of doing business

\$ millions	F10	F09	Change	
			\$m	%
Sales	1,742.4	1,959.8	(217.4)	(11.1)
Freight & distribution	126.7	140.8	(14.1)	(10.0)
Sales & marketing	272.4	324.6	(52.2)	(16.1)
Administration	154.1	160.2	(6.1)	(3.8)
<b>CODB</b>	<b>553.2</b>	<b>625.6</b>	<b>(72.4)</b>	<b>(11.6)</b>
CODB / Sales	31.7%	31.9%	(0.2) pts	n.m.

- CODB reduction component of transformation program is largely complete and has exceeded plan
- Total absolute reduction in reported CODB over F09 and F10 of \$132m<sup>1</sup>
- Some reinvestment in brands, customers and capability expected going forward

1. Adjusted for expense reclassification impact on F08 base year

## Financial position

\$ millions	F10	F09	Change	
			\$m	%
Working capital	316.1	425.5	(109.4)	(25.7)
PP&E	117.0	144.4	(27.4)	(19.0)
Intangibles	1,307.6	1,321.3	(13.7)	(1.0)
Other	(48.5)	(171.7)	123.2	(71.8)
Total capital employed	1,692.2	1,719.5	(27.3)	(1.6)
<b>Net debt</b>	<b>312.7</b>	<b>452.8</b>	<b>(140.1)</b>	<b>(30.9)</b>
Equity <sup>1</sup>	1,379.5	1,266.7	112.8	8.9
Net debt / equity (%)	22.7	35.7	(13.0)pts	n.m.
<b>Gearing (x)</b>	<b>1.6</b>	<b>2.0</b>	<b>(0.4)</b>	<b>n.m.</b>
Interest cover (x)	4.3	3.2	1.1	n.m.
ROCE <sup>2</sup> (%)	10.7	12.0	(1.3)pts	n.m.
Tangible ROCE <sup>3</sup>	47.2	51.6	(4.4)pts	n.m.

- Net debt reduced substantially and conservative credit metrics
  - Gearing of 1.6 times and interest cover of 4.3 times

1. Includes minority interest

2. Last 12 months return on total tangible and intangible capital employed

3. Last 12 months return on total tangible capital employed

## Working capital management

\$ millions	F10	F09	Change	
			\$m	%
Trade debtors	194.3	231.5	(37.2)	(16.1)
<b>Inventories</b>	<b>241.3</b>	<b>311.4</b>	<b>(70.1)</b>	<b>(22.5)</b>
Trade creditors	119.5	117.4	2.1	1.8
<b>Working capital</b>	<b>316.1</b>	<b>425.5</b>	<b>(109.4)</b>	<b>(25.7)</b>
Debtors days (days)	46.9	47.2	(0.3)	n.m.
<b>Inventory turns (x)</b>	<b>3.6</b>	<b>3.2</b>	<b>0.4</b>	<b>n.m.</b>
Creditor days (days)	46.8	44.1	2.7	n.m.

- Trade debtors improvement in line with reduction in sales
- Significant reduction in inventory levels and improved turns
- Creditor days up slightly due to year end timing of payments

## Cash conversion

\$ millions	F10	F09
<b>EBITDA<sup>1</sup></b>	<b>201.0</b>	<b>230.0</b>
Change in working capital	86.4	(22.5)
Other	3.0	(1.5)
<b>OCFPIT</b>	<b>290.4</b>	<b>206.0</b>
Net interest paid	(48.4)	(67.2)
Tax paid	(13.7)	(13.5)
<b>Net operating cash flow (pre restructuring payments)</b>	<b>228.3</b>	<b>125.3</b>
Restructuring payments	(93.1)	(21.6)
<b>Net operating cash flow (post restructuring payments)</b>	<b>135.3</b>	<b>103.7</b>
Capex	(10.0)	(22.5)
Divestments	18.7	0.5
Net repayment of borrowings	(118.4)	(268.5)
Dividends paid	-	(42.7)
Equity raising	-	248.6
Other	(2.0)	2.6
<b>Net cash flow</b>	<b>23.5</b>	<b>21.7</b>
<b>Cash on hand</b>	<b>150.0</b>	<b>126.5</b>
<b>Cash conversion<sup>2</sup></b>	<b>144%</b>	<b>90%</b>

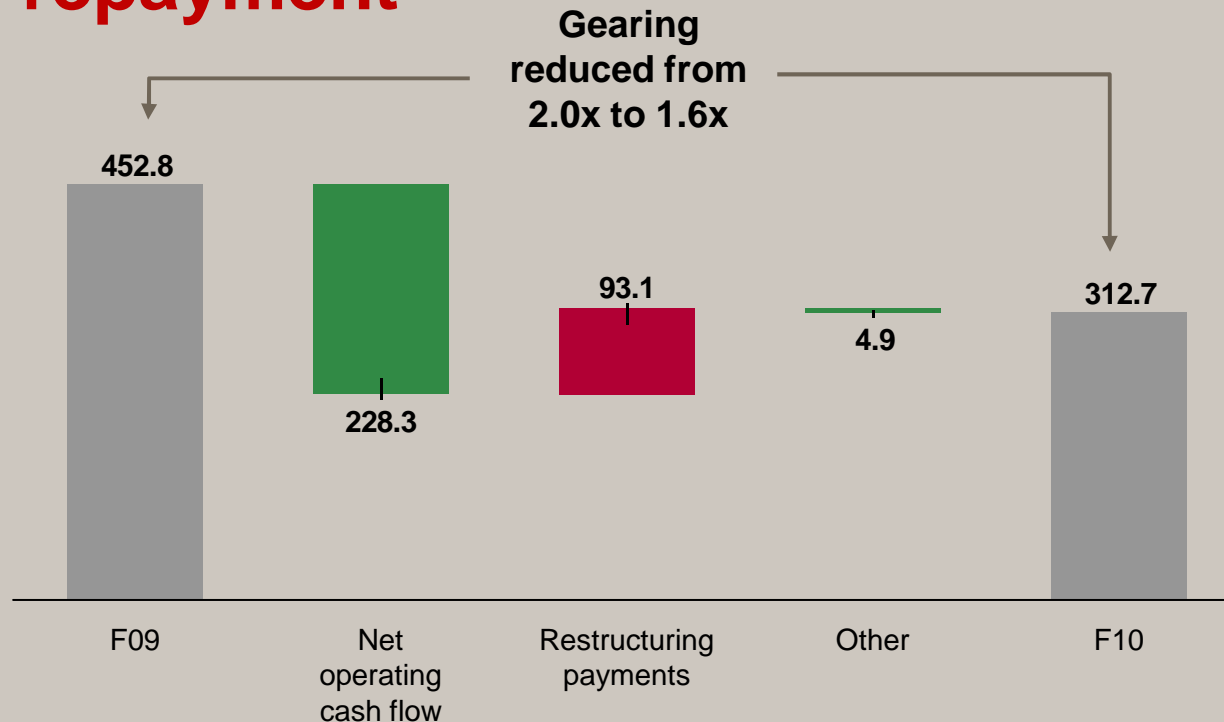
1. Before significant items

2. Cash conversion is defined as OCFPIT divided by EBITDA before significant items

Note: Individual numbers subject to rounding

# Net debt repayment

Net debt  
\$ millions



Debt profile \$ millions	Maturity date	30 June 2010	
		Facility	Drawn
Tranche 2	28-Mar-12	330.0	125.0
Tranche 3	28-Mar-12	219.5	219.5
Securitisation	24-May-13	250.0	120.0
Overdraft	364 day	39.0	0.0
<b>Total facilities</b>		<b>838.5</b>	<b>464.5</b>
Cash and other			(151.8)
<b>Net debt</b>			<b>312.7</b>

- Net debt reduced by \$140m in F10 (\$106m in 2H10)
- Securitisation and overdraft facilities refinanced and extended by 2 years
- Facility limits proactively reduced post year end (refer following)
- Available liquidity of \$424m<sup>1</sup> post limit reduction

1. Undrawn facilities at 30 June 2010 of \$374.0m less \$100m limit reduction + \$150m cash on hand

# Financial review

- **Capital structure review**
  - Gearing – appropriately conservative at present
  - Funding mix – combination of securitisation and bank debt appropriate
  - Maturity profile – longer maturity profile preferred (Securitisation extended)
  - Liquidity – required level of cash and facility headroom determined (led to Securitisation and Tranche 2 limit reduction of \$25m and \$75m respectively, post year end)
  - Dividend policy
  - Capital management
  
- **Foreign exchange hedging policy review**
  - Confirmed current practice – no major changes in policy
  - Operational hedging of c.80% of forecast purchases up to 12 months forward by business (typically 6 - 9 months overall)
  - Customary range of financial instruments available for use
  - Board approval required for hedging outside of operational policy
  
- **Expense reclassification**
  - Certain Sales and Marketing expenses now more appropriately netted against Sales revenue
  - Resulting reduction in Sales and Marketing expenses and Sales revenue by \$40.2m and \$36.3m in F09 and F10 respectively
  - Prior year restated, no impact on reported earnings



## **Dividend and outlook**

**Sue Morphet**  
**Chief Executive Officer**

## Dividend

- Much improved financial position over the past 18 months
  - Net debt substantially reduced
  - Securitisation facility extended
  - Strong operating cash flow
- Current expectation is to resume dividends following 1H11 result
  - Subject to performance, financial position and outlook at the time
  - Target payout ratio at least 50% of NPAT going forward
- Continue to consider capital management alternatives

# Outlook

- Market outlook
  - Uncertain economic environment
  - Challenging retail conditions
- Sales outlook
  - Improvement in underlying sales performance
  - Reported sales continue to be impacted by business divestments / exits and brand discontinuations
- EBITA outlook
  - Transformation benefits and improved hedged exchange rates expected to outweigh increasing product costs, temporary supply constraints and CODB reinvestment
  - Improvement in EBITA before significant items

## Conclusion

- F10 was a challenging year
  - Toughest retail conditions for some time
  - While fundamentally restructuring the business
- Gross margins have held up well and CODB reductions have been achieved
- Pacific Brands 2010 transformation is on track and ahead of plan
- Balance sheet and cash flow are now very strong
- Exchange rates for F11 are largely locked in
- Confident of improvement in EBITA in F11
- Resumption of dividends in 1H11 expected subject to performance, financial position and outlook at the time
- Pacific Brands is building a stronger business to realise its earnings potential and drive top-line growth

# Questions

# Appendices

## Impact of reclassification on group result<sup>1</sup>

\$ millions	F10			F09		
	Pre reclass.	Reclass.	Reported	Reported	Reclass.	Adjusted
Sales	1,778.7	(36.3)	1,742.4	2,000.0	(40.2)	1,959.8
Gross margin	768.5	(36.3)	732.2	868.1	(40.2)	827.9
Gross margin	43.2%		42.0%	43.4%		42.2%
Freight & distribution	126.7		126.7	140.8		140.8
Sales & marketing	308.7	(36.3)	272.4	364.8	(40.2)	324.6
Administration	154.1		154.1	160.2		160.2
CODB	589.5	(36.3)	553.2	665.8	(40.2)	625.6
EBITDA	201.0		201.0	230.0		230.0
Depreciation	(19.6)		(19.6)	(24.7)		(24.7)
EBITA	181.4		181.4	205.3		205.3
EBITA margin	10.2%		10.4%	10.3%		10.5%
EBIT	179.0		179.0	202.3		202.3
Net interest	(48.3)		(48.3)	(63.2)		(63.2)
NPAT	90.3		90.3	100.1		100.1

1. Reclassification of certain amounts of Sales and Marketing expense now netted against sales revenue. No impact on reported earnings

## Reclassification amount by segment<sup>1</sup>

\$ millions	F10	1H10	F09	1H09
Underwear & Hosiery	18.3	9.6	20.1	10.0
Workwear	2.8	1.4	2.9	1.3
Homewares	7.2	3.4	7.5	3.7
Footwear, Outerwear & Sport	8.0	5.0	9.7	5.5
Other	-	-	-	-
Pacific Brands total	36.3	19.4	40.2	20.5

1. Reclassification of certain amounts of Sales and Marketing expense now netted against sales revenue. No impact on reported earnings



## Definitions

- CODB – operating expenses (freight & distribution, sales & marketing and administration) below gross margin
- EBITA – earnings before interest, tax, amortisation of acquired intangibles and significant items
- Gearing – Net debt / LTM EBITDA (annualised for acquisitions) and before adjusted significant items
- Gross Margin – gross profit plus other income
- Interest cover ratio – (LTM EBITDA before adjusted significant items - Capex) / Adjusted net interest
- Inventory, Debtors and Creditors turns / days – calculated on a 3 point average
- LTM – Last Twelve Months
- Operating Cash flow (OCFPIT) – cash flow from operations before interest and tax and significant items
- ROCE – Return on Capital Employed (EBITA / CE) before significant items
- Underlying sales – sales of continuing businesses, brands and labels (ie excludes sales from divested / exited businesses, and brands and labels subject to discontinuation)