



Pacific Brands 2009 Half Year Results

ASX Release – 25 February 2009

Pacific Brands Chief Executive Sue Morphet today announced the company had achieved solid first-half results in line with guidance, has extended the maturity of its debt facilities and is implementing a new strategy - Pacific Brands 2010 - to restructure and sharpen the focus of the business.

“We will discontinue some of our smaller labels and brands to reduce complexity and cost and divest some non-core businesses and facilities, some as going concerns,” Ms Morphet said.

“Unfortunately these changes will necessitate 1,850 job losses in Australia over an 18-month period including 1,200 in clothing manufacturing.

“The reduction in complexity will deliver the future strength, growth, profitability and sustainability of the business - for our shareholders and employees.”

Pacific Brands HY2009 results were in line with guidance. For continuing operations:

- Sales \$1,041.6 million (down 2.9%)
- EBITA \$113.0 million (up 0.3%)
- NPAT (before amortisation and significant items) \$57.6m (up 0.1%)
- Operating cash outflow of \$33.7m

Ms Morphet said: “Pacific Brands has agreed with our lenders an extension of the scheduled debt maturity to August 2010. The extension reflects our capital management requirements through implementation of the Pacific Brands 2010 strategy. As the strategy is implemented we will use our increased operating cashflow to pay down debt, potentially complemented by asset sales, and will determine the most appropriate debt facilities for the reconfigured business.”

The Board has decided to suspend payment of an interim dividend to preserve capital in the current environment.

The company has also written down the carrying value of a number of assets by a total of \$206.4 million.

Pacific Brands 2010

“As the market is aware, we have been rigorously reviewing the company and our business for the past twelve months,” Ms Morphet said.

“The result is our Pacific Brands 2010 strategy which focuses effort on primary businesses and brands that have and will deliver the majority of our performance.

“This comprehensive plan reduces complexity and eliminates non-value added activity.”

Pacific Brands 2010 will realise \$150 million a year in cost savings by FY11 through:

- A complete sourcing overhaul, including closing the majority of Australian clothing manufacturing operations;
- Discontinuing small labels and brands to reduce complexity and cost;
- Divesting non-core businesses;
- Selling properties (with operations relocating or, where appropriate, continuing in existing premises under lease from new owners);
- Driving efficiencies and continual improvement processes throughout the business; and

- Achieving corporate savings such as office space consolidation and the relocation of head office functions into existing Pacific Brands facilities.

One-off expenses of approximately \$110 million will be incurred in 2H09 (including approximately \$31m in non-cash asset-write offs) with a further \$15 million across FY10 and FY11.

The Pacific Brands 2010 plan is designed to deliver:

- Significantly less complexity;
- Strategic realignment and repositioning;
- Reduction in our cost of doing business;
- Annualised cost savings of more than \$150 million by FY11; and
- Capital released from property sales, with potentially more from business divestments, to be used in addition to the cost savings to provide balance sheet flexibility.

Pacific Brands 2010 will see the company focusing on primary brands, refining its market offer, increasing delivery efficiency and effectiveness, and continually improving performance.

“Our top 20 brands provide us with almost two thirds of our sales – but we have a long tail, with more than 200 brands accounting for just two per cent of sales,” Ms Morphet said.

“We are applying resources and time to these according to each brand’s role and opportunity in the market. We are exiting non-core brands and businesses, refining the portfolio, rebalancing and targeting our resources.

“Focusing on the key businesses and brands in our portfolio will generate the cash, consistency and stability we need to grow the business organically.

“We are proactively reducing costs, including our cost of doing business, via a range of cost efficiency projects.

“We intend to sell a number of properties in order to pay down debt and fund future organic growth.

“Implementation risk has been carefully considered and is being thoroughly managed. The strategy will be accompanied by significant growth initiatives.”

Manufacturing

Ms Morphet said that after a great deal of consideration, Pacific Brands would exit the majority of its clothing manufacturing activities globally, in line with a review of our sourcing.

“We have persevered where others have stopped manufacturing before us,” Ms Morphet said. “This is the only responsible decision available to us.

“The current clothing manufacturing workforce will be reduced by approximately 1,200 people in Australia over an 18 month period.

“The following schedule details the Australian manufacturing sites which will be closed and the approximate numbers of people to be made redundant at each site.

Property	Location	Redundancies	Finalised by
Bonds	Cessnock	83	Q2 FY10
Bonds	Unanderra	207	Q3 FY10
Bonds	Wentworthville, NSW (manufacturing only)	233	Q3 FY10
CTE	West End, QLD	56	Q1 FY10
Holeproof	Nunawading, VIC	255	Q1 FY10
Hosiery	Coolaroo, VIC	298	Q3 FY10
King Gee	Bellambi, NSW	74	Q1 FY10

“There will also be approximately 650 redundancies among non-manufacturing employees in Australia, spread across the entire business. We also plan to exit our manufacturing operations in Asia but may divest them as going concerns.

“We have not made these decisions lightly. We have considered the well-being and contributions made by all our staff. Ultimately this is the correct course of action for the future strength of the business and the remaining employees.

“All entitlements of affected staff will be met. We are working closely with our employees, their unions, the Commonwealth and relevant state governments to provide appropriate assistance to those being made redundant.

“We maintain our commitment to developing and improving the skills of our people. With the emphasis on brand excellence, improved processes and strengthened capabilities, we will continue to invest in our people remaining with the business.

“This is a plan for the future of the business. It will not only take us through the difficult trading conditions we are all experiencing now, importantly it will deliver future growth and generate shareholder value, generating significant results that will begin to flow in FY10.

“Pacific Brands will continue to build its strategic relationships with key retail partners through leading consumer and market insight. Removing complexity and cost will enable us to build on our competencies quickly and effectively to accelerate organic growth.

“Greater business level empowerment and flexibility within a non-negotiable compliance framework will ensure more efficient and effective decision making closer to the market.

“Pacific Brands 2010 has commenced and will be completed by the end of the 2010 financial year.

HY2009 Results in line with guidance

“Pacific Brands continues to operate in a difficult trading environment,” Ms Morphet said. “However, after a period of declining retail sales and very low levels of consumer confidence across the country, Christmas trading was strong with the December 2008 result ahead of December 2007. Clearly the economic environment that we are operating in is still very uncertain and will remain so for some time to come.

“Our preliminary results for ongoing businesses were in line with guidance. The headline results for continuing businesses (with the prior period result adjusted for business subsequently sold) for Pacific Brands HY2009 were:

- Sales \$1,041.6 million, down 2.9%
- EBITA \$113.0 million, up 0.3%
- NPAT (before amortisation and significant items) \$57.6 million, up 0.1%
- Operating cash outflow of \$33.7 million

“Despite market conditions, Pacific Brands had strong performances across key brands and businesses including Bonds and Workwear.

“Underwear and Hosiery sales were down 1.4% to \$ 311.5 million and EBITA down 1.1% to \$43.9 million. Strong performances at Bonds, Berlei and Hosiery were offset by declines in Clothing NZ and Holeproof.

“Outerwear and Sport sales were up 2.2% to \$ 345.2 million and EBITA up 23.2% to \$ 37.7 million after adjusting the prior period for the divestment of the World Brands Joint Venture. Workwear drove the result with growth in all segments and good back office efficiency gains. Everlast also grew.

“Home Comfort sales were down 7.4% to \$ 233.0 million and EBITA down 17.2% to \$ 20.3 million after adjusting the prior period for the divestment of the Foams, Flooring and Bedding businesses in New Zealand. Sheridan and Sleepmaker were both sharply down reflecting the decline of discretionary consumer expenditure on bedlinen and beds. Tontine had a good half.

“Footwear sales were down 8.8% to \$ 138.7 million and EBITA down 18.8% to \$ 18.2 million. Grosby suffered from quality and consistency issues and the performance of the international businesses in the UK, New Zealand and China were well down. Volleys continued to grow.

“In line with the broader market, in Australia our sales to Discount Department Stores grew marginally with declines in Department Stores and the independent/specialty channel.

“Operating cash outflow arose from increased working capital following the seasonal stock build and increased debtors in the lead up to Christmas.”

Dividend

The Pacific Brands Board has decided to preserve the company's capital and no interim dividend will be declared or paid. Suspending the dividend will contribute to strengthening the company's balance sheet and enhance its financial flexibility.

The Board will continue to review the company's capital structure and will determine the final dividend and payout ratio, if any, in the light of current and expected business conditions at that time.

Asset Impairment

As required under the Australian Accounting Standards, the company has recently completed detailed impairment testing of its assets, including the goodwill and other intangible assets recognised at IPO on 2 April 2004.

As at 31st December 2008, the carrying value of these assets exceeds their recoverable amount determined for impairment purposes.

The company has written down the carrying value of its international assets and certain Australian assets, identified during the strategic review, by a total of \$206.4 million. There was no impairment of assets recently acquired with Sheridan, Yakka, or Brand Collective.

This is a non-cash adjustment and in no way affects the cash-flow or the ongoing profitability of the company.

Debt facilities

With the continued support of its banking syndicate, Pacific Brands has extended the maturity date of its earliest maturing debt facilities until August 2010.

“The extension gives us time to implement our Pacific Brands 2010 strategy while we determine the most appropriate debt facilities for the reconfigured business in the longer term,” Ms Morphet said.

Outlook

“The current economic climate remains challenging and uncertain with consumer confidence remaining at low levels,” Ms Morphet said.

“While we have been pleased with the performance of the company in the first half of this year and the growth achieved by a number of our brands, the potential for the continuation of deterioration in the market means we are not in a position to confidently predict the second half performance.”

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