

## Pacific Brands 2008 Half Year Results

### Strong performance driven by organic growth and acquisitions

#### GROUP HIGHLIGHTS

- ◆ Total net sales \$1,098.8m up 26.5% on previous corresponding half year
- ◆ Key financial indicators well above previous corresponding period
  - EBITDA \$126.0m up 21.0%
  - EBITA \$113.9m up 21.8%
  - NPAT (pre amortisation)<sup>1</sup> up 8.4% to \$58.3m
  - Reported NPAT up 6.0% to \$57.0m
  - Net operating cash flow, up 52.4% to \$31.4m
  - Earnings per share<sup>1</sup> up 8.4% to 11.6 cents per share for the half year
- ◆ Continued organic growth in Underwear & Hosiery and Home Comfort
- ◆ Outerwear and Sports core businesses return to growth
- ◆ Good performance from Yakka Group and Brand Collective acquisitions
- ◆ Footwear steady
- ◆ Interim dividend of 8.5 cents, fully franked to 30% for Australian shareholders
- ◆ Outlook for the full year confirmed

Half Year ended 31 December (A \$ million)	HY07	HY08	% Change
Total net sales	868.6	1,098.8	26.5
EBITDA	104.1	126.0	21.0
EBITA	93.5	113.9	21.8
EBIT	93.5	112.4	20.1
EBITA margin %	10.8	10.4	
NPAT (pre amortisation) <sup>1</sup>	53.8	58.3	8.4
Reported NPAT (post minority interests)	53.8	57.0	6.0
EPS (cents) <sup>1</sup>	10.7	11.6	8.4
Reported EPS (cents)	10.7	11.4	6.5
DPS (cents)	8.0	8.5	6.3

1. Unless otherwise indicated Net Profit After Tax (NPAT), and Earnings Per Share (EPS) exclude the impact of the amortisation of acquired intangible assets. Amortisation pre-tax of approximately \$1.5m is included in unallocated overheads.

## **Growth momentum continues**

Pacific Brands Limited today announced its results for the half-year ended 31 December 2007. Net sales exceeded \$1 billion for the first time in any 6-month period, increasing by 26.5% over the previous corresponding period to \$1,098.8 million. Earnings before interest, tax and amortisation (EBITA) was well above \$100 million for the first time in any 6-month period in the company's history, increasing by 21.8% to \$113.9 million.

A full half-year of trade from our two most recent acquisitions, The Yakka Group and Brand Collective, contributed substantially to the increase in both Sales and EBITA. A continued emphasis on our core brands and categories as well as improvements in customer service and operational efficiencies ensured our base business contributed positively to the result.

Underwear & Hosiery, Outerwear & Sport and Home Comfort continued momentum from the prior year and delivered robust growth in sales and EBITA. Acquisitions contributed substantial market share gains in workwear and casual outerwear. Footwear was not as buoyant as it has been in the past, but did improve its performance in the second quarter.

Net profit after tax (pre amortisation) was \$58.3 million, which represents an 8.4% increase over the previous period. This translates to improved earnings per share of 11.6 cents up from 10.7 cents per share in the previous corresponding period.

The directors have declared an interim dividend of 8.5 cents per share representing a 6.3% increase over the previous corresponding period. The company will continue its dividend reinvestment plan and expects a similar participation rate to that of FY07 being around 28%; the requirements of which will be satisfied by the issuance of new shares.

Commenting on the result, Chief Executive Officer, Sue Morphet said:

"I am very pleased to report our result for the half, which reflects that we have traded strongly and in line with our expectations and are confident about the future. Across the business we have consistently executed key elements of our strategy, mostly to good effect. While International Sales were impacted by conversion back to a strong Australian dollar, we saw good organic sales growth in our core Australian and New Zealand businesses. Underlying growth on the prior corresponding period was 4.7% before acquisitions and excluding sales through clearance stores.

"As one of our main requirements for growth is understanding and meeting our customer and consumer needs, we have made a substantial investment in building the emotional connection between consumers and our brands. Examples include the well-received Dunlop Volley and Bonds Baby easysuit campaigns. We strengthened our brands both by spending more on direct advertising campaigns and, together with our retail partners, through an increased focus on promotion and in-store execution.

Our acquired businesses have broadened our current category mix and through Business to Business sales at Yakka Group have introduced new channel opportunities for Pacific Brands. We expect this to lead to improved earnings, particularly as we leverage the whole Group's capabilities across Business to Business activity.

"Our Asian operation continues to provide benefits arising from the alignment of our sourcing office more closely with product categories and greater use of direct shipments flowing from source to customer. Cost effective sourcing, improved product quality and enhanced speed to market strengthens the entire value chain, providing benefits to both Pacific Brands and our retail partners.

"Our product design teams delivered a number of important innovations and we continue to make our products fresh and relevant in each of our major categories.

“We have driven growth by extending our level of direct engagement with our major customers with more information sharing, more targeted service delivery and greater support.

“We did have to deal with some cost pressures during the half with producer prices rising in China and with energy costs hitting record highs. Overall inflation in China is running at 4-7% with wage costs rising sharply. Although this affects the whole market we believe we are well placed to counter cost pressures through extending our strong sourcing capability into new areas and in working more closely with our strategic supply partners on efficiency and speed, reducing waste and duplication.

As we seek to optimise our cost base the continuing imperative is to drive operational efficiency and speed to market helping us mitigate cost pressures and raise service levels.

Pacific Brands’ consistently applied; conservative hedging policy has enabled us to manage our businesses consistently during the recent period of volatility in international currency markets. The main driver of our organic growth is through sales of branded consumer goods at margins that provide value to our retail customers and consumers – with pricing appropriate to prevailing market conditions.

“Our strong profitability and good working capital management has enabled us to increase our Net Operating Cashflow to \$31.4 million (up 52.4%). We had a slightly higher cash balance at the end of December 2007 compared to the end of December 2006. Our operating cashflow is seasonal, weighted strongly to the second half and we expect an uplift in the full year.

“Good cash generation allows us to invest in growth through attracting the right talent, investing in the consumer and customer relationship and in providing more efficiency and better service. Acquisitions also remain an important part of our long-term growth strategy. We are now concentrating on maximising the value from Sheridan, the Yakka Group and Brand Collective but we will always review and evaluate further opportunities in appropriate categories.”

## Review of Operating Groups

### Underwear & Hosiery

	HY07	HY08	Change %
Total net sales	309.4	316.0	2.1%
EBITA (\$m)	40.7	44.4	9.1%
EBITA %	13.2%	14.1%	

*Note: For each Operating Group EBIT = EBITA.*

The Underwear and Hosiery Group has continued to build on the momentum created in the second half of the 2007 Financial Year. Continued focus on category management, core brands and operational efficiencies has led to an improved profit performance in the first half of the current Financial Year. Apart from the intimates category, which suffered from difficult domestic and international retail conditions, sales improvements were realized across all core categories.

The 2.1% sales increase demonstrates a concerted effort to trade only in profitable sales - also reflected in the improved margin performance and a solid 9.1% EBIT growth. The earnings improvement has been driven mainly by the men’s and women’s underwear, socks and hosiery categories with Bonds, Jockey, Rio, Kayser and Razzamatazz all outperforming the broader market.

Some examples of providing improved value to the consumer in the half include the introduction of a number of new products such as the Bonds Kaleidoscope range for the youth market, Holeproof

Copper socks and underwear, Jockey “3D Underwear”, the Rio range of products and the Bonds baby Easy Suit. The hosiery category has continued to lead and capitalize on current fashion trends with innovative contemporary product leading to another strong profit result.

The Underwear and Hosiery Group continues to build a strong program centered around category leadership product innovation and creative marketing initiatives ensuring future growth.

#### Outerwear & Sport

	HY07	HY08	Change %
Total net sales (\$m)	134.1	341.9	155.0%
EBITA (\$m)	12.5	29.6	136.8%
EBITA %	9.3%	8.7%	

The Outerwear & Sport operating group more than doubled in size following the acquisitions of the Yakka Group and Brand Collective (which are reported in more detail later). It is a leader in apparel worn to work and has strong positions in lifestyle apparel and recreational categories including bikes and sporting goods.

The Boydex business (marketing value casual apparel) has delivered a marked turnaround following a consistent focus on brand management, product range development and service to retailers. The growth in sales of Slazenger apparel highlights this improvement, with strong product ranges and new product launches such as BioSlyx performance-wear.

A better product mix saw the recreationally focused businesses of Leisure & Fitness and Dunlop Sport lift their EBITA result over the prior corresponding period.

Everlast was impacted by retailer consolidation in its sector. With its trading environment now stabilizing, improved product development will drive better performance in the second half.

Our Stubbies brand has been integrated into the Boydex business. With an already improved focus on the brand, its ranges and its customers, we expect a slightly improved position in the second half.

Following a first half of strong sales growth, King Gee are on track to deliver a record sales year.

As the year progresses, further opportunities in the uniform sector, expansion of wholesale offering and additional gains in direct business are all being pursued in our workwear category.

#### Home Comfort

	HY07	HY08	Change %
Total net sales (\$m)	252.0	274.2	8.8%
EBITA (\$m)	21.6	25.2	16.7%
EBITA %	8.6%	9.2%	

Strong organic growth was delivered by all Home Comfort businesses in the 6-months to December 2007.

Sheridan continues to innovate in bed linen launching a new high-end, range, “SHE by Sheridan” exclusively at David Jones. Complementing existing distribution channels, Sheridan's own Flagship stores continued to perform well, playing an important role in consumer positioning and brand development.

Sleepmaker’s improvement continued with sales growth across all major bedding retailers in the half including the return of Sleepmaker to the floors of David Jones. Product innovation continues to drive strong growth in the bedroom category.

Tontine successfully relocated from Brunswick to its new purpose-built factory in Campbellfield enabling operational improvements in manufacturing and distribution. Targeted marketing campaigns supported growth in the half, particularly evident in the growth in Tontine Doona sales.

Dunlop Foams maintained strong returns despite significant rises in input costs and competitive pressures. Consumer focussed product development continues to open up new market opportunities for higher-margin consumer and specialty foam products.

The Dunlop Flooring business continues to deliver record domestic sales of Dunlop Carpet Cushion underlay. Operational improvements and investments in manufacturing facilities provide a platform for sustainable and strong returns for the business.

Before Christmas, we announced that we had reached agreement to sell the New Zealand Foams, Flooring and Bedding businesses. This sale is not material to the result and is subject to regulatory approval.

#### Footwear

	HY07	HY08	Change %
Total net sales (\$m)	154.5	152.0	(1.6) %
EBITA (\$m)	22.3	22.4	0.4%
EBITA %	14.4%	14.7%	

Footwear have been challenged by changes at retail where risk averse behaviour and tighter inventory management programs have impacted performance - particularly in women’s fashion where we also need to lift our product offering.

However, a major series of branded marketing campaigns maintained total sales, while a restructure in New Zealand and the increased use of direct to customer shipments from China helped to improve profit margins.

Sporting and outdoor shoes were particularly strong, taking greater share of the category. The Dunlop brand continued to attract new customers with its continued strategy of range extensions, while Merrell had another 6-months of strong growth – again demonstrating Pacific Brands' ability to acquire brands and see them thrive through its brand management capabilities.

Footwear has increased its expenditure on consumer research, is focusing on developing standout merchandising at retailer point of sale and is improving its service offering to independent retailers. Positive signs from this investment have already emerged with branded sales in the second quarter showing strong signs of improvement.

Further improvement in direct-to-store and replenishment programs is planned - ensuring that strong margins are maintained.

## **Acquisition Update**

Our recent acquisitions have met our original strong expectations. In particular we have been able to apply our brand management competencies to achieve revenue growth as well as removing duplication and providing shared services where appropriate.

At Sheridan and Brand Collective, brand management has improved and we have had stronger product ranges with better marketing support. We have seen increased sales and good margins. The Yakka Group businesses showed top-line growth with some immediate benefits from Pacific Brands scale and reach particularly in corporate uniforms.

### Yakka Group

Pacific Brands acquired the Yakka Group in April 2007. In the half it continued to trade well, slightly ahead of expectations.

We have now completed a strategic review of the business which spans a number of workwear sub-categories – from the iconic Hard Yakka brand through to market leading corporate apparel businesses, defence apparel, protective clothing and casual outerwear.

Based on the Yakka Group's corporate and business-to-business strength we have established Pacific Brands Solutions and although in its infancy we see many opportunities for cross-selling a broad range of our products and in deepening the relationship with Yakka's existing corporate customer base.

We expect to see strong growth in the future, through both increasing revenue and improving the Yakka Group EBITA to Sales ratio up to at least the Pacific Brands average.

### Brand Collective

The acquisition of Brand Collective, formerly the Streetwear division of Globe International was completed on 2nd January 2007. The remaining Globe International business has now moved to new premises following a seamless separation without disruption to either business. Brand Collective has continued to provide logistical services to Globe.

The integration of Brand Collective into Pacific Brands' lifestyle outerwear category has proceeded smoothly. The performance of Brand Collective in the first half has slightly exceeded targets with growth to both independent retailers and in its concept stores. The focus for Brand Collective will now extend from systems integration to realizing the full potential of its brand portfolio. Increased investment in brand marketing, product development and other initiatives driving strong sell through at retail are to be launched in the coming period.

## **Supply Chain**

In the half we continued to work on end-to-end product flow to add value to the quality of the process, improve speed and reduce cost. We have worked with our major customers in a number of areas, including: order delivery and frequency particularly to country areas, order aggregation, cooperative forecasting, merchandising and increasing our automated stock reordering through vendor managed inventory (VMI).

We continue to improve our Chinese warehouse capability, with increased volumes in the half and improved supply lead times. The Yakka Group have begun to utilise the facility for direct delivery from China to Australian corporate customers.

We successfully managed our shipping requirements and contained costs well in the half despite a tight market where there is strong growth in market demand for shipping out of Asia.

We progressed a number of strategic procurement initiatives including several that are new to our recently acquired businesses and increased our direct real-time links to raw materials and finished goods suppliers through our integrated IT capabilities.

## **Tax**

The effective tax rate for the group on its earnings was 28.0%, slightly more than the 27.5% of the previous corresponding period and in line with expectations.

## **Balance Sheet**

The net assets of Pacific Brands have increased only marginally since June 30<sup>th</sup> 2007 with the significant changes consequent on the acquisition of the Yakka Group and Brand Collective taking place before the end of the last financial year.

In comparison with the position at the end of FY07, the Total Capital Employed rose 1.8 % to \$2,154.3 million, following a small seasonal increase in working capital and some capital expenditure on properties, plant and equipment.

Our Net Debt was up 2.9% to \$825.7 million with repayment of core debt being offset by the seasonal increase in working capital as we built stock levels in the run up to Christmas 2007 and ahead of the Chinese New Year early in 2008. As in prior periods these will continue to reduce as we move towards the end of the financial year and cashflow will again be much stronger in the second half.

The maturity profile of our senior debt is approximately 16% due in 2009, 36% in 2010, 22% in 2011 and 27% in 2012.

Our continuing strong cashflow will enable us to continue to reduce debt pending further acquisition opportunities.

## **Outlook**

The current financial year has started successfully. The integration of our acquired businesses is progressing well and we have achieved organic growth with our core business. Internally, we are well positioned to maintain our growth and deliver our previous guidance for the full year. The sales growth in the second half will be lower than in the current result as we included a full 6 months of Brand Collective and 3 months of Yakka Group sales in the second half of FY07. However, as previously stated, we will grow Sales and EBITA by 15 to 20% for the full year. NPAT will rise in excess of 10% for the full year reflecting increased growth in the second half. We will continue to generate strong cashflow.

Externally there will be a number of factors influencing consumer behaviour across our categories. While consumer sentiment was strong during the half, do not take this for granted. The retail environment will always have its ups and downs, however, as most of our categories are consumer staples, we are confident that we will continue to perform well.

As we move out of a deflationary environment, cost pressures on our business will continue but we are confident of maintaining our margins. We are constantly examining our cost base, leveraging our efficiency gains and our commercial relationships with Asian suppliers sourcing value-added product rather than low-cost commodities.

The fundamentals of brand, category and scale continue to drive our performance and we will deliver growth and reliable shareholder returns over the balance of the financial year.

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