

# PACIFIC B BRANDS

**Chairman's Report  
to the  
2009 Annual General Meeting**

**of**

**Pacific Brands Limited**

**Tuesday 20 October, 2009  
The Sebel, Albert Park in Melbourne**

Good morning ladies and gentlemen,

I'm James MacKenzie, the Chairman of your company.

I welcome you to the 2009 Annual General Meeting.

I have confirmed with the Company Secretary that we have a quorum present and I declare this Annual General Meeting open.

Let me start by introducing the Board members, senior executives and the company's auditor.

Joining me on the stage are:

- Sue Morphet, our Chief Executive Officer
- David Bortolussi, our Chief Financial and Operating Officer
- John Grover, our Company Secretary;

And my fellow non-executive directors:

- Max Ould, Chair of our Audit, Business Risk and Compliance Committee
- Maureen Plavsic, Chair of our Nomination & Remuneration Committee
- Andrew Cummins,
- Dominique Fisher,
- Nora Scheinkestel, and
- James King.

I would like to take this opportunity to welcome both Nora Scheinkestel and James King as non-executive directors. Both are standing for formal election today. In the relatively short time they have been on the board they have made a valuable contribution.

And I would like to take this opportunity to acknowledge Max Ould's long and significant contribution and commitment to Pacific Brands. Max is retiring from the board – effective as of the end of this meeting. Max, on behalf of the board and the company – thank you. Nora will replace Max as Chair of the Audit, Business Risk and Compliance Committee.

I would also like to mention and welcome the Pacific Brands senior executive team seated in the front rows. Thank you for your hard work and commitment this year.

Welcome also to representatives of KPMG, the Company's auditor.

I would also like to note that this year's new format of the AGM and Annual Report has allowed us to substantially reduce our costs – with savings of more than \$200k.

I'll now outline the procedure for today's meeting.

My Chairman's report followed by the formal business.

There are three items of business on today's agenda:

1. Financial Report: then
2. The election of directors
3. Remuneration report

At the conclusion of the meeting Sue Morphet will update us on the implementation of the Pacific Brands 2010 strategy.

As you will know, this year in our Annual Report and notice of meeting, we included an invitation for you to send us questions that you would like us to address today. To the extent that they are not covered in my address I will answer the questions we received at the end of my report.

At the end of this meeting I invite you to join us for some light refreshments in the foyer.

I will now move to my report.

We are gathered here after an extraordinary year in global markets – as well as here at home. While there is cautious optimism being expressed in various quarters, the world is a very different place than it was this time last year.

And much has been achieved by Pacific Brands this year.

The last twelve months have seen significant change in our business – changes that are positioning the Company well for the future.

The changes have been and are strategically developed and driven – and are not simply a response to the financial crisis.

This time last year your company had a:

- high cost base,
- high debt,
- a complex business unable to make quick changes to its portfolio, processes and skill sets, and, most importantly
- a virtually complete review underway to identify a new cost base and improvements to our model.

The market environment had changed with the currency collapsing and credit markets in crisis.

During the course of last year, led by Sue Morphet, your company completed a comprehensive strategic review of your business, driven by the imperative to keep Pacific Brands relevant, competitive and strong.

Sue Morphet's review confirmed that, there were areas of the business we could improve: we had too many brands, too much complexity, high cost structures in local manufacturing and limited synergy of processes and procedures.

The review also revealed the businesses that were using capital well, the ones that had opportunities that we weren't fully exploring, we identified cost saving opportunities and recognised where we had best in business and sector process and sourcing.

We know the businesses that will deliver value for our shareholders and that's where we will be focussing our efforts.

These learnings have driven the development of our strategic blueprint for the future shape of the business – 'Pacific Brands 2010'.

Its successful and full implementation will deliver the best future for our Company and your investment.

So while there is still work to do, today:

- we have a lower cost base,
- we have a stronger balance sheet,
- we are moving towards a cleaner, more agile business with a better alignment and understanding of the businesses and their markets and we are improving the balance of skills required for the future success of the business.

As I said, we still have more work to do – but we have made significant process.

I would now like to take you through last year's financial results.

Pacific Brands achieved solid operating earnings and cashflow in challenging market conditions.

Group sales contracted by 5.5% to \$2.0 billion as we divested businesses, discontinued brands and due to the general economic slowdown. Excluding divested businesses and discontinued brands, sales in the underlying business were down by approximately 1%.

EBITA before significant items was down 10.4% to \$205.3 million due to volume declines and adverse mix changes as consumers traded down, and through an increase in raw materials and input costs, partially offset by price increases and transformation benefits.

Currency has impacted the Company's profitability over the year with imported unit costs increasing sharply from the significant currency volatility in F09. Our hedging program delayed the impact by around six to nine months, however, as anticipated, earnings were impacted in 4Q09.

The unrest in the global credit markets and the currency collapse came at a difficult time, coinciding with our key pricing period and indent sell in.

The currency market volatility at the time made hedging difficult and options were expensive.

Significant costs have been taken out in all businesses as we accelerated the implementation of the Pacific Brands 2010. They were down \$61.7 million or 8.5% for the year.

NPAT (pre amortisation and significant items) was \$102.5 million down 14.1%

Earnings per share is 17.4 cents down 18.3%.

Reported earnings in F09 were impacted by a number of significant items not related to ongoing operations. The group booked non-cash asset impairment and write-down charges and incurred restructuring expenses of \$334.6 million (post tax) associated with the implementation of Pacific Brands 2010.

Importantly, we've maintained solid net operating cashflow of \$81.2 million after significant items and capital expenditure through tight control of expenses and improved inventory management.

We were pleased to finalise the new capital structure

The Company now has a much stronger balance sheet following the equity raising and debt refinancing completed during the year.

As we announced in April, Pacific Brands has extended the maturity date of its debt, with no significant refinancing now required until March 2012. This is a good result that demonstrates continued support from our banking syndicate.

We were also pleased with the results of our \$256.0 million equity raising, successfully completed in June this year. Such strong support from our investors has resulted in a strengthening of Pacific Brands' balance sheet and provided the Company with additional financial flexibility.

As a result of the equity raising and our solid cash flow generation, we have reduced our net debt levels to \$452.8 million at 30 June 2009, from \$742.7 million at 30 June 2008. Our gearing levels have dropped during the year to 2.0 times from 2.9 times, we have fully repaid tranche 1 of our debt and have reduced tranche 2 by \$117.5 million.

Interest cover improved over the period from 3.5x to 3.9x following the removal of the interest expense associated with Tranche 1 which was repaid in the second half.

We welcome our new shareholders and thank our existing shareholders who supported us during the equity raising.

Let's look at the performance by group.

### **Underwear and Hosiery**

Underwear and Hosiery sales were down 1.8% to \$625.6 million and EBITA (before significant items) down 7.9% to \$93.4 million. Hosiery, Bonds and Berlei grew but this was offset by declines in Clothing New Zealand and Holeproof.

Bonds continued to deliver new products to the market, such as the youth Sloppy Joe, the revamp of the iconic Cottontails and the men's Fit and Active ranges.

Bonds introduced cricketer Michael Clarke as a brand ambassador alongside Sarah Murdoch and Pat Rafter.

Berlei extended its offering during the year to include an intimates range.

Playtex launched the Secrets range led by new brand ambassador, Kate Ceberano.

## **Outerwear and Sport**

Outerwear and Sport sales were down 2.3% to \$641.4 million and EBITA (before significant items) down 3.8% to \$56.0 million. Streetwear and sports segments were up, workwear was flat and unbranded sales down.

Our B2B (Business to Business) contract uniform business grew 6%, with new contracts and roll outs including the NSW Police Force and Compass Group in Europe.

Hard Yakka launched a new, modernised women's workwear range.

Malvern Star launched the Oppy range of performance road bikes featuring an exclusively Australian designed carbon frame.

Slazenger brand management was consolidated bringing together previously independent elements of apparel, footwear, socks and sporting equipment.

## **Home Comfort**

Home Comfort sales were down 13.1% to \$456.0 million and EBITA (before significant items) down 18.3% to \$40.6 million. The tough housing and construction markets, consumer slowdown and fixed cost structures in the manufacturing businesses all impacted profitability.

We significantly restructured many of these businesses over the year reducing manufacturing shifts, overheads and discretionary spend.

New products include a unique Pillow Selection System by Tontine; and Simmons introduced a new memory foam mattress.

## **Footwear**

Footwear sales were down 7.0% to \$251.9 million and EBITA (before significant items) down 23.0% to \$28.0 million. While branded businesses such as Dunlop Volley, Hush Puppies, Clarks, and Julius Marlow performed strongly, Footwear sales overall were down – mainly due to the poor performance of Grosby, unbranded and international operations. Profitability was also impacted by currency movements. Management is in the process of restructuring the international footwear operations.

Volley Uggly closed the gap between slippers and street footwear.

Dunlop Sport collaborated with running legend Cathy Freeman to develop the Freeman performance running shoe.

Sue will take you through more of the detail on the thinking and structure behind Pacific Brands 2010 later this morning.

But in overview:

As I said at the outset today, the results our strategic review left us in no doubt that we need to make significant structural changes to the company.

While Pacific Brands had performed well in the environment that existed in previous years, the new environment – including new consumer behaviours and with production and performance benchmarked by global standards – meant that we had to update the way we did business in order to ensure the future strength and performance of the company.

As I mentioned a few moments ago – the strategic review highlighted that we had an extremely cluttered portfolio – our top twenty brands provided us with almost two-thirds of our sales – and our long tail of almost two hundred other brands accounted for just 2% of sales.

The strategic review confirmed we could get better returns by concentrating on our key brands and devoting more resources to growing them. Under Pacific Brands 2010, we are progressively discontinuing, merging or divesting brands to create a stronger and more focused portfolio of brands. We are putting more of the right skills and resources into the teams that support our key brands.

I would like to make some comments on the people who have left your company through the manufacturing closures.

While the Pacific Brands 2010 strategy has involved many decisions and changes, the most significant of these in terms of the impact on our employees has been the cessation of the majority of clothing manufacturing in Australia and New Zealand and the resulting outsourcing to offshore suppliers.

Pacific Brands was the last major Australian company still manufacturing clothing in any significant capacity onshore. Until now, we have maintained as much manufacturing here as possible. Yet we have sourced approximately 70% of our products from overseas for many years.

As you are aware the decision is resulting in more than 1,200 manufacturing employees being made redundant. While the rationale of making so many people redundant was plain, it didn't make the decision any easier or more palatable. Many of these people have been with us for decades and have made an important contribution to the development of Pacific Brands.

In the course of deciding to restructure the business, our considerations included ensuring that we would do everything possible to give the employees being made redundant the best chance of getting a new job in sustainable industries.

Driven by Sue Morphet, we have been working in consultation with the Textile Clothing and Footwear Union of Australia to develop, fund and implement an extensive retraining program for all manufacturing employees being made redundant.

I would like to take this opportunity to acknowledge both Michele O'Neil and the Federal Minister for Industry Kim Carr's roles in establishing the re-training program. Michele has worked in close collaboration with us, sharing our objective to achieve the best outcome for our employees. Senator Carr understood the hard decisions faced by the company and never lost sight of the fact that these decisions protected the jobs of the almost 7000 employees who remain.

The program is unique in Australia and has been extended to our New Zealand employees in consultation with the National Distribution Union in New Zealand.

Most significantly, impacted employees have already, and will continue to, receive retraining and re-skilling while still in their current jobs.

All affected manufacturing workers have been offered retraining and have access to \$3,000 worth of courses and up to three weeks paid leave while they are still in their jobs, which is over and above any government retraining they may be eligible for.

We are determined to support our employees and assist them with their transition to new work and new opportunities.

We made the call that while the law says that we only had to give our employees 6 weeks' notice – we have given some up to 18 months – or 60 weeks – notice in some cases.

Our decision to give our employees as much notice as possible is allowing us to practically help our employees prepare for the future while they are still in their jobs. And also so that they can best manage the financial transition in their lives. It is a significant challenge that can't be under-estimated.

While we are very focused on our people, we are also focused on maintaining our commitment to quality. I would like to assure you that Pacific Brands, like most other major wholesalers, has been importing from Asia for more than 50 years. We will continue to work closely with our supply partners to ensure all our products and fabrics manufactured offshore maintain our high quality standards.

We are also committed to attaining the highest standards in the ethical, responsible and sustainable conduct of our business. We have continued our program of auditing our supply chain for adherence to ethical practices spanning safety, quality and the environment.

This is an appropriate moment to acknowledge the extraordinary contribution and commitment of our Chief Executive Officer, Sue Morphet.

As everyone in this room will know Sue became very well known, very quickly.

She became the face of company's tough decisions, decisions made on behalf of shareholders, our employees and our customers. And have no doubt while they were tough decisions – they were the right decisions.

In doing her job, and doing it extraordinarily well, involving extraordinarily difficult decisions – Sue took enormous personal attention – much of it unwarranted and unfair.

Through it all Sue kept her eye on the job. She did not buckle. She did what she had to do – and she did it with as much compassion and thoughtfulness as any of us will ever see.

Indeed all the employees of Pacific Brands handled what was a difficult month extremely well. February/March each year is a critical time for the company. All staff kept their eye on the business, they didn't miss a beat and the Board thanks them for their commitment.

There were a number of changes to the structure and composition of the Board and senior executive team during the past year:

- In November 2008, Pat Handley resigned as Chairman of Pacific Brands after seven years in the position.
- Dr Nora Scheinkestel joined the Board in June. Nora brings invaluable experience to Pacific Brands, having served as a non-executive Chairman and director of companies in a wide range of sectors in the public, government and private spheres.
- James King joined the board in September. James brings invaluable experience in fast moving consumer goods and retail. Experience that is clearly valuable to the board and company.

Sue Morphet has led a meaningful renewal of your executive team, developing a team that possesses the skills and energy to lead the company.

- In April this year, CFO Stephen Tierney resigned after nineteen years at Pacific Brands.
- David Bortolussi joined the Company as Chief Financial and Operating Officer in June this year. David joined from Foster's and prior to that was with McKinsey & Company and PricewaterhouseCoopers. Welcome David.
- Simon Smith joined Pacific Brands to lead our Home Comfort division from eBay Australia where he spent eight years as Managing Director – Simon is with us today as is Melanie Allibon.
- Melanie joined the Company to manage Human Resources across the group following roles at Amcor, Foster's and BHP.
- There were a number of other changes – all of which make your company stronger for the future.

The board believes that Sue Morphet has a skilled management team in place – with the experience and enthusiasm to continue the successful implementation of Pacific Brands 2010 – and to lead the ongoing operations of the Company.

## **Dividend**

I would now like to comment on our dividend policy.

We are mindful of the importance of dividends to shareholders and there has been significant consideration of our dividend policy.

Despite the strengthening of our capital structure through the raising and refinancing and restructuring of the debt, the board has decided to preserve the Company's capital and no dividends have been declared in the year ending 30 June 2009.

The board will make a decision in respect of future dividends after assessing the Company's operating performance at each half and the outlook at that time.

## **AGM Questions**

As mentioned earlier in the day, this year in our Annual Report and notice of today's meeting, we included an invitation for you to send us questions that you would like us to address today. In my experience this gives all shareholders an opportunity to ask questions whether or not they can make the meeting. All the questions we have received today have been covered in what I have said today other than the following.

**1. Two people asked about the workload of NEDs – specifically my work load and that of another director.**

Every member of this board, is conscious of the obligations they have assumed by being a director of Pacific Brands. In the last twelve months we have had 19 board meetings – many called at short notice.

I respect the Australian Shareholder Association's guidelines on commitments and fully embrace the sentiment. As a board we continue to monitor our effectiveness and indeed do this in a formal and structured way on an annual basis. At the moment I do not believe any of us is over committed and this is a sentiment that has been confirmed in my discussions with the Australia proxy houses in the lead up to today's meeting.

In relation to myself, I did miss two meetings during the last year. The first in November was before I became Chairman, called at short notice and I was unable to attend because I was on a plane.

The second meeting was in March when due to a mishap in the surf I was in hospital, heavily doped up with morphine with a fractured vertebra. My fellow board members and shareholders should be grateful I missed that meeting.

**2. Another shareholder sent through this question – I notice on page 8 of the Annual Report that all directors hold shares in our company with the exception of John Grover. Having been a stockholder of many companies over the years I have been a great believer in directors having a stake in the company they serve. Why does John not hold any? Has he been encouraged to purchase any? Has the company now adopted a policy whereby all directors as a condition of employment are required to purchase a minimum number of shares?**

John Grover is the company secretary and is not a director / board member of Pacific Brands. He does hold shares in the company – but is not required to disclose these as part of the directors report. Only the directors are required to disclose their interests in share capital.

**4. One person noted that P13 refers to several worthwhile community causes. What is the total \$ value of such charitable donations etc by PBG (including in-kind support) for the FY09?**

I am advised this is approximately \$2m

**5. Note 15 suggests that there are no tax losses, either recognised on balance sheet or unbooked. Is that correct?**

The answer is yes.

**6. P3 states that there is no significant debt refinancing required until March 2012. However, note 24d refers to “various maturity dates through to 2012”, and p14 of the rights prospectus mentioned that the \$250m securitisation facility matures on 15 March 2011. Is that still true, and do the other facilities have any requirement for principal amortisation before March 2012?**

The answer is that we have a debtor securitisation facility of up to \$250m. It is current for a further 18 months with an extendable option. There is no requirement for principal amortisation of our senior debt facilities.

Let me conclude my address by reflecting that the origins of Pacific Brands can be traced back to 1893. Our brands have been an important part of Australia and Australian culture for more than a century. We believe that the changes we have made last year and are continuing to make will make these wonderful brands an important and relevant part of Australia for the future.