

Pacific Brands Half Year Results 2011

24 February 2011

Sue Morphet, Chief Executive Officer

David Bortolussi, Chief Financial & Operating Officer

Executive Summary and Operational Performance

Sue Morphet
Chief Executive Officer

Executive summary

- Earnings before significant items up and dividends reinstated
 - Margins up due to transformation and improved foreign exchange rates
 - Fully franked dividend of 3.1 cps declared
- Significant items of \$224.1m, mainly due to non-cash impairment charges
- Underlying sales down 2.3% as expected
- Divisional performance
 - Underwear & Hosiery: sales down but earnings up
 - Workwear: continued good performance
 - Homewares: sales up but earnings mixed
 - Footwear, Outerwear & Sport (FOS): disappointing, intangible value impaired
- Transformation benefits remain ahead of plan
- Cash flow remains strong
- Net debt continues to decline and bank debt facility has been refinanced
 - Competitive pricing and improved commercial terms
 - Maturity profile extended to 3-5 years
- Outlook
 - 2H11 outlook challenging due to soft trading conditions, import price increases and FOS performance, but confident F11 EBITA before significant items will exceed the F10 full-year result

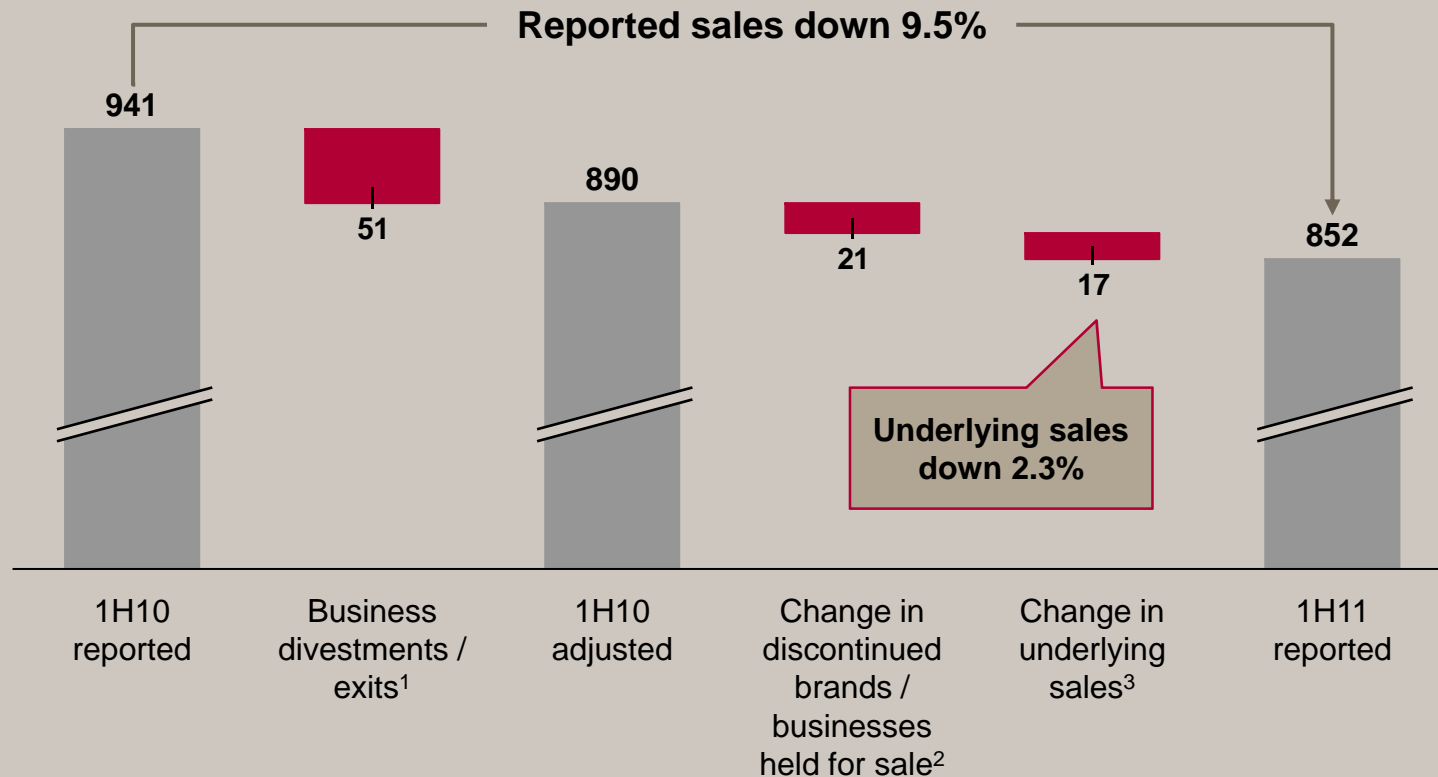
Group results

- Reported sales down as expected but earnings before significant items up
 - Sales \$852.1m, down 9.5% (underlying sales down 2.3%)
 - Gross margin 47.3%, up 7.4% pts
 - CODB¹ \$299.5m, up 0.9%
 - EBITA¹ \$104.5m, up 30.1%
 - NPAT^{1,2} \$58.0m, up 64.1%
 - EPS¹ 6.2 cps, up 64.1%
 - DPS¹ 3.1 cps fully franked
- Significant items of \$224.1m (post tax)
 - Impairment charges: FOS (\$174.8m), Sleepmaker/Dunlop Foams (\$39.9m)
 - Transformation period costs (\$9.4m)
- Operating cash flow remains strong
 - OCFPIT¹ \$102.2m, down from \$112.0m
 - Cash conversion 90.2%, down from 123.1%
- Net debt reduced significantly
 - Net debt \$267.2m, down \$45.5m (or 15%) from 2H10
 - Including payment of \$21.9m of restructuring costs in 1H11
 - Conservative gearing of 1.2 times

1. Before significant items
2. Excluding minority interests

Group sales result

Net sales revenue
\$ millions



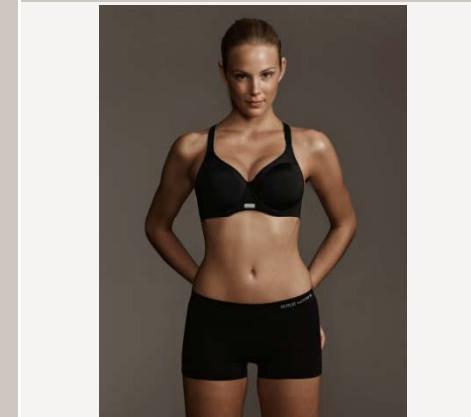
1. Icon Clothing, Merrell and UK & China footwear operations divested / exited in F10
2. Significant brand discontinuations actioned under PB2010 Transformation program plus Sleepmaker and Dunlop Foams held for sale (subject to ACCC approval)
3. Underlying sales down due primarily to pricing, challenging retail environment and discount department stores (DDS) channel dynamics

Note: Individual numbers subject to rounding

Underwear & Hosiery

\$ millions	1H11	1H10	Change
Sales ¹	249.2	281.6	(11.5)%
EBITA ²	59.6	34.9	70.8%
EBITA margin ²	23.9%	12.3%	11.6pts

- Over half of sales decline due to brand discontinuations (eg Lane Bryant US contract manufacturing and Playtex licence termination)
- Bonds, Holeproof and Rio down
- DDS and Supermarket channels down
- Temporary supply issues out of China constrained sales (particularly Bonds)
- Berlei, Jockey and Razzamatazz up
- Margins improved through portfolio rationalisation, off-shore sourcing benefits and improved foreign exchange rates
- Cotton price increase yet to impact (but will from 4Q11)



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

Workwear

\$ millions	1H11	1H10	Change
Sales ¹	196.5	184.3	6.6%
EBITA ²	24.4	16.6	47.0%
EBITA margin ²	12.4%	9.0%	3.4pts

- Wholesale sales of industrial workwear up
 - Continued strength in resources sector
 - Good demand from major resellers
- B2B sales of corporate imagewear / uniforms up
 - Business confidence robust
 - Employment levels and churn up
 - Further corporate contract wins
- New Zealand Defence Force renewal (NZ\$200m over 9 years)
- Margins improved through off-shore sourcing benefits, improved foreign exchange rates and operational leverage



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

Homewares

\$ millions	1H11	1H10	Change
Sales ¹	224.6	206.2	8.9%
EBITA ²	20.7	15.6	32.7%
EBITA margin ²	9.2%	7.6%	1.6pts

- Sheridan continues to perform well, increasing share in a growing category with own retail particularly strong
- “Tontine fresh” campaign helped drive sales growth but margins down due to up front spend on campaign and increased raw material (cotton and polyester) prices
- Flooring domestic sales and market share continue to rise in a healthy housing market
- Sleepmaker³ sales up in an improved bedding market, driven by campaign activity with key retailers
- Foams³ sales down due to reduced share in a declining and competitive market
- Margins up due to improved sales mix, increased manufacturing volumes and improved foreign exchange rates



1. Excluding other segment revenue and inter segment revenue

2. Excluding corporate expenses and before significant items

3. As announced on 1 November 2010, Sleepmaker and Foams are to be divested to Sleepyhead subject to ACCC approval

Footwear, Outerwear & Sport

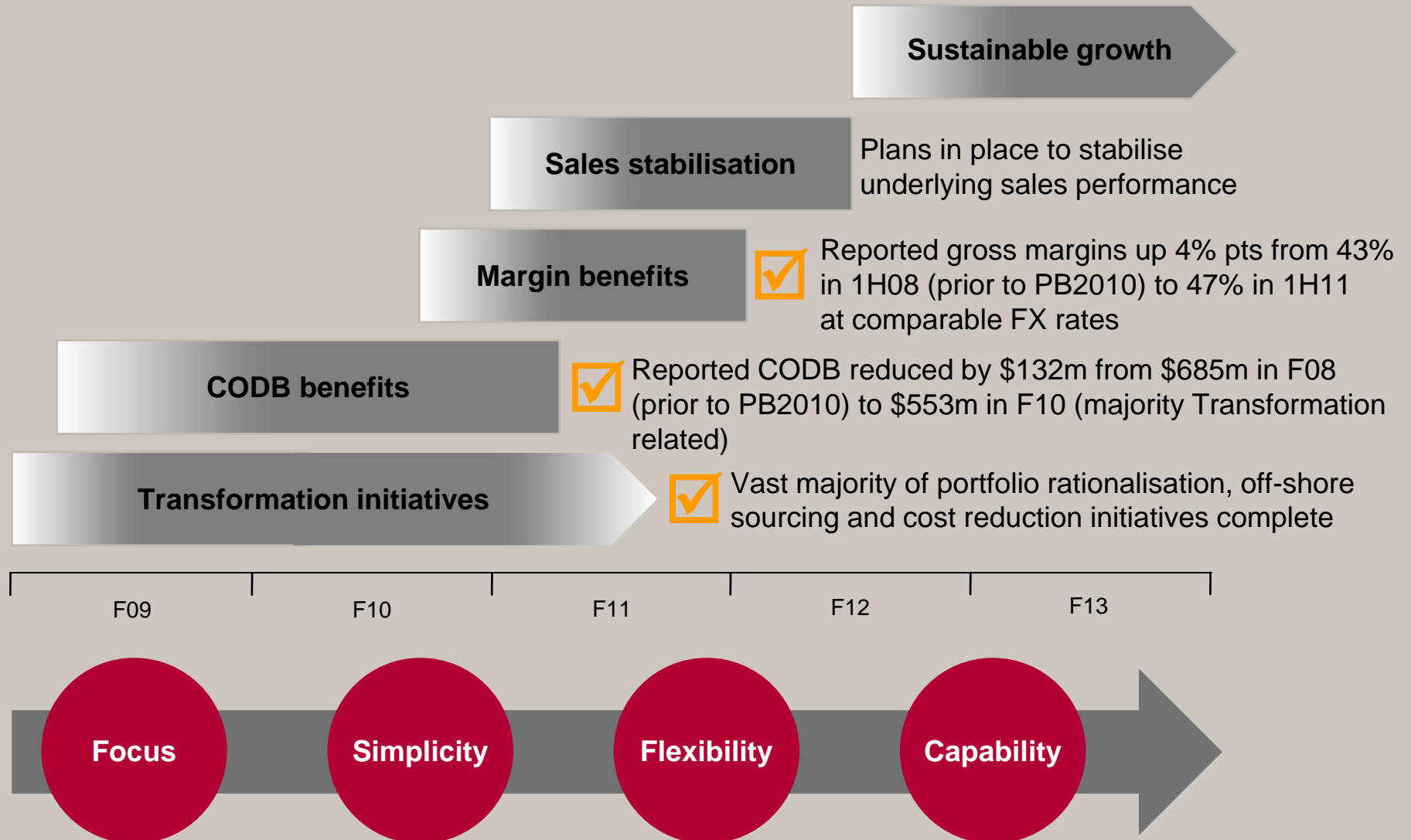
\$ millions	1H11	1H10	Change
Sales ¹	172.3	256.4	(32.8)%
EBITA ²	9.1	19.1	(52.4)%
EBITA margin ²	5.3%	7.5%	(2.2)pts

- Excluding impact of divestments sales down 14.6% and EBITA down 37.8%
- Premium footwear (Clarks, Hush Puppies, Julius Marlow and Naturalizer) in growth and Clarks retail commenced
- Outerwear/apparel stabilising (Superdry up)
- DDS channel down with de-ranging impacting key brands in Sport and non-premium footwear (eg Grosby)
- Sport (Bikes, Dunlop, Slazenger and Volley) performing poorly across all channels (especially independent retailers) and impacted by inclement spring/summer weather
- Improved exchange rates more than offset by rising import costs and lower volumes
- Restructuring and turnaround strategy progressing but will take time to improve results



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

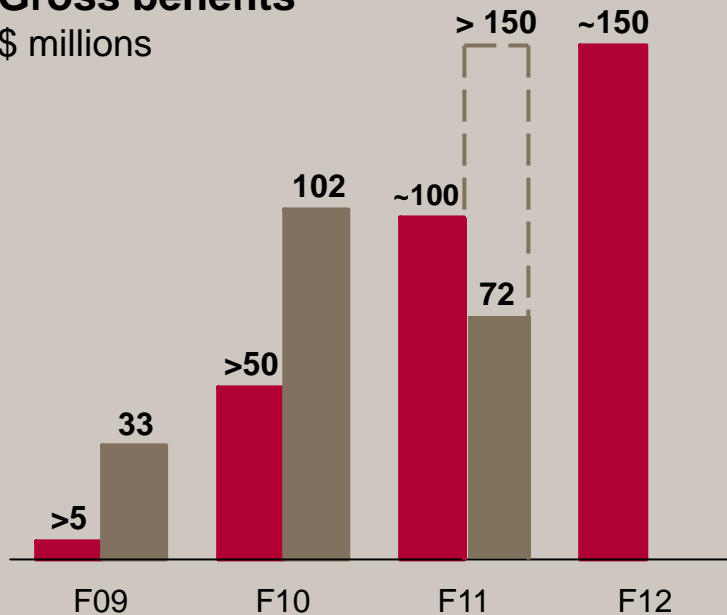
Transformation update



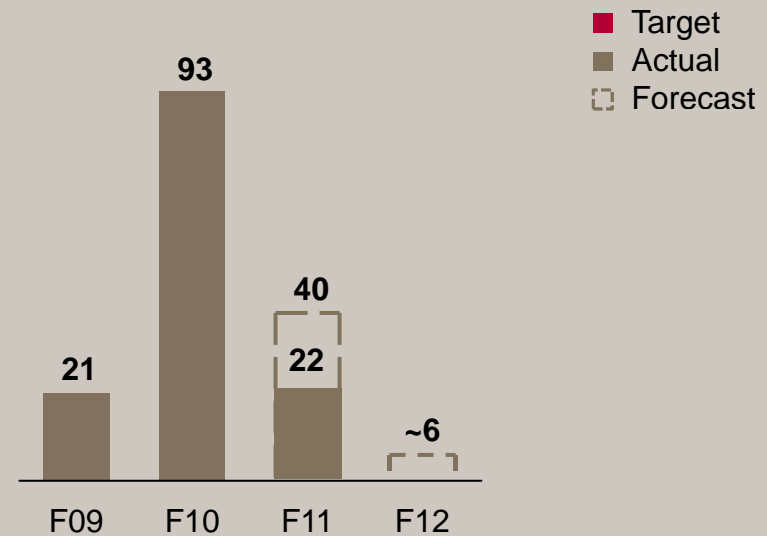
Transformation cost savings and one-off costs

- Transformation benefits remain ahead of original plan
 - Majority of actions to realise savings now complete
 - Expect >\$150m in gross benefits in F11 with off-shore sourcing impact evident in 1H11 result
- One-off pre tax cash costs still expected to be c.\$160m
 - WorkCover premium exposure associated with manufacturing closures now confirmed with no increase from prior estimate

Gross benefits¹
\$ millions



One-off cash costs
\$ millions; pre tax



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

1. 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	1H11	1H10	Change	
			\$m	%
Sales	852.1	941.4	(89.3)	(9.5)
Gross margin	402.7	375.8	26.9	7.2
Gross margin	47.3%	39.9%	7.4pts	n.m.
CODB	(299.5)	(296.8)	(2.8)	(0.9)
EBITDA	113.3	91.0	22.3	24.5
Depreciation	(8.8)	(10.7)	1.9	17.8
EBITA	104.5	80.3	24.2	30.1
EBITA margin	12.3%	8.5%	3.8pts	n.m.
EBIT	103.2	79.1	24.1	30.5
Net interest	(18.5)	(26.4)	7.9	29.9
NPAT¹	58.0	35.3	22.7	64.1
EPS	6.2 cps	3.8 cps	2.4 cps	64.1
DPS – fully franked	3.1 cps	0.0 cps	3.1 cps	n.m.
Significant items after tax	(224.1)	(13.3)	(210.8)	n.m.
Reported NPAT^{1,2}	(166.1)	22.2	(188.3)	n.m.

1. Excluding minority interests

2. After significant items

Significant items

- **Impairment of intangible value: Footwear, Outerwear & Sport (\$174.8m¹)**
 - Further decline in 1H11
 - Challenging outlook over next 12 to 18 months
 - Impairment of 2004 IPO intangibles down to tangible value
 - Write-off comprises goodwill (\$137.1m), brand names (\$28.8m) and other (\$8.9m)
- **Impairment of intangible value: Sleepmaker/Dunlop Foams (\$39.9m¹)**
 - Share sale agreement reached with Sleepyhead in November 2010
 - Gross purchase price of \$55m
 - Currently subject to ACCC approval
 - Classified as 'held for sale' at 31 December 2010
 - Written down to estimated net sale proceeds
- **PB2010 transformation costs (\$13.4m pre tax, \$9.4m post tax)**
 - Restructuring costs as expected and incurred mainly in relation to
 - Organisational restructuring and redundancies
 - Onerous lease and make-good costs
 - Rosebank manufacturing plant closure
 - Program management and consulting costs

Cost of doing business

\$ millions	1H11 change vs			
	1H11	1H10	\$m	%
Sales	852.1	941.4	(89.3)	(9.5)
Freight & distribution	66.9	67.0	(0.1)	(0.2)
Sales & marketing	150.2	149.5	0.7	0.5
Administration	82.4	80.3	2.1	2.6
CODB	299.5	296.8	2.7	0.9
CODB / Sales	35.1%	31.5%	3.6pts	n.m.

- Additional benefits from transformation savings partly offsetting cost pressures, including an increase in salary costs following a freeze in F10
- Decreased volumes offset by increase in freight rates and other distribution costs
- Increased investment in advertising, retail expansion and general capability building
- Modest increase in Administration costs including the impact of immaterial reclassifications
- Underlying increase in CODB in line with inflation

Financial position

\$ millions	1H11 change vs				
	1H11	2H10	1H10	2H10	1H10
Working capital ⁴	322.3	316.1	387.9	6.2	(65.6)
PP&E ⁴	118.8	117.0	130.4	1.8	(11.6)
Intangibles ⁴	1,090.3	1,307.6	1,318.5	(217.3)	(228.2)
Other	(90.2)	(48.5)	(103.0)	(41.7)	12.8
Total capital employed	1,441.2	1,692.2	1,733.8	(251.0)	(292.6)
Net debt	(267.2)	(312.7)	(419.1)	45.5	151.9
Equity ¹	1,174.0	1,379.5	1,314.7	(205.5)	(140.7)
Net debt / equity (%)	22.8	22.7	31.9	0.1pts	(9.1)pts
Gearing (x)	1.2	1.6	2.2	(0.4)pts	(1.0)pts
Interest cover (x)	5.5	4.3	3.6	1.2	1.9
ROCE ² (%)	14.3	10.7	9.8	3.6pts	4.5pts
Tangible ROCE% ³	58.6	47.2	40.7	11.4pts	17.9pts

- Net debt reduced further and conservative credit metrics
 - Gearing of 1.2 times and interest cover of 5.5 times
- Improved returns with increased earnings on reduced tangible capital employed

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

4. Includes assets held for sale at 31 December 2010

Working capital management¹

\$ millions	1H11 change vs				
	1H11	2H10	1H10	2H10	1H10
Trade debtors	210.1	194.3	246.0	15.8	(35.9)
Inventories	274.0	241.3	296.9	32.7	(22.9)
Trade creditors	(161.8)	(119.5)	(155.0)	(42.3)	(6.8)
Working capital	322.3	316.1	387.9	6.2	(65.6)
Debtors days (days)	47.9	46.9	49.3	1.0	(1.4)
Inventory turns (x)	3.3	3.6	3.4	(0.3)	(0.1)
Creditor days (days)	59.0	46.8	45.1	12.2	13.9

- Trade debtors decrease in line with a reduction in sales with an incremental operational improvement in debtor days versus 1H10
- Inventory reduction also in line with a reduction in sales with an incremental reduction in inventory turns versus 1H10 mainly due to higher stock levels to mitigate challenging supply conditions in China
- Improvement in creditor days mainly due to temporary timing issues rather than permanent or structural change

Cash conversion

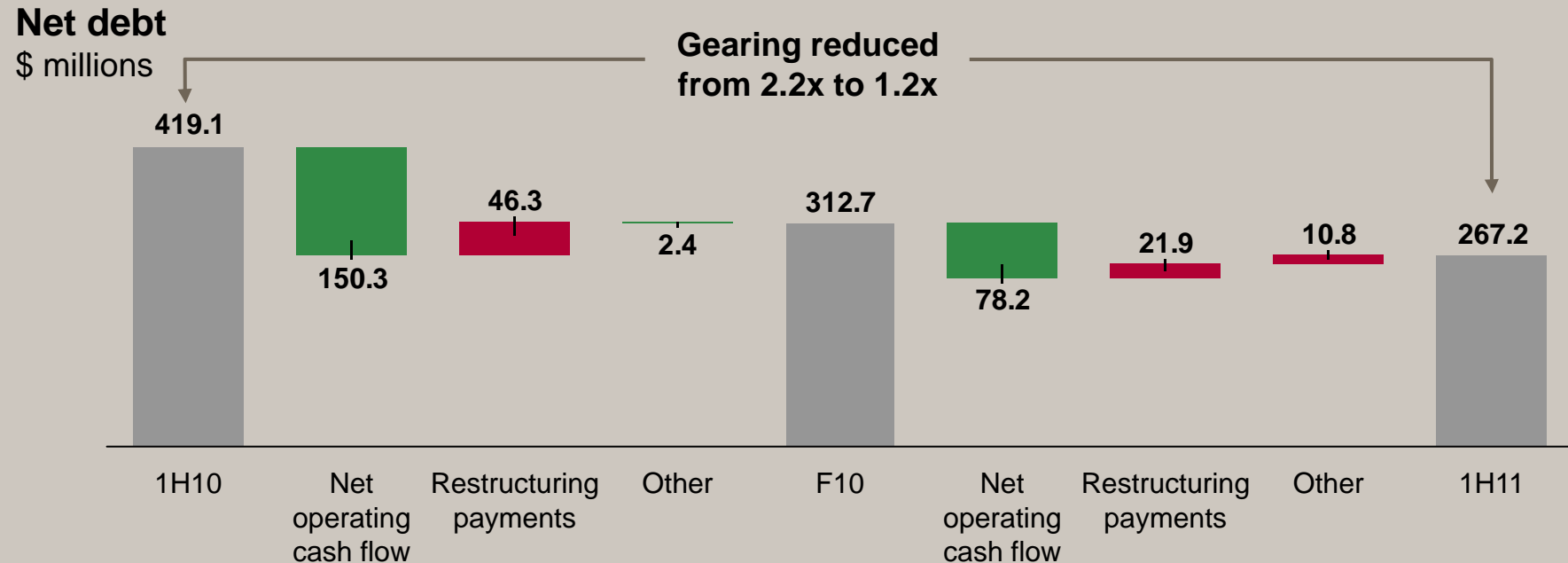
\$ millions	1H11	1H10
EBITDA¹	113.3	91.0
Change in working capital	(8.9)	24.9
Change in other assets and liabilities	(2.3)	(3.9)
Other	(2.3)	(3.9)
OCFPIT	102.2	112.0
Net interest paid	(17.3)	(24.3)
Tax paid	(6.7)	(9.7)
Net operating cash flow (pre restructuring payments)	78.2	78.0
Restructuring payments	(21.9)	(46.8)
Net operating cash flow (post restructuring payments)	56.3	31.2
Capex	(12.3)	(4.3)
Divestments / (acquisitions)	7.0	12.0
Net repayment of borrowings	(7.4)	0.5
Dividends paid	0.0	0.0
Other	(5.0)	(3.1)
Net cash flow	38.6	36.3
Cash on hand	188.6	162.8
Cash conversion²	90.2%	123.1%

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



Debt profile (1) \$ millions	31 December 2010		
	Maturity date	Facility	Drawn
Tranche 1	31-Jan-14	225.0	332.1
Tranche 2	31-Jan-15	175.0	
Tranche 3	31-Jan-16	100.0	
Securitisation	24-May-13	200.0	125.0
Overdraft	364 day	39.0	0.0
Total facilities		739.0	457.1
Cash and other			(189.9)
Net debt			267.2

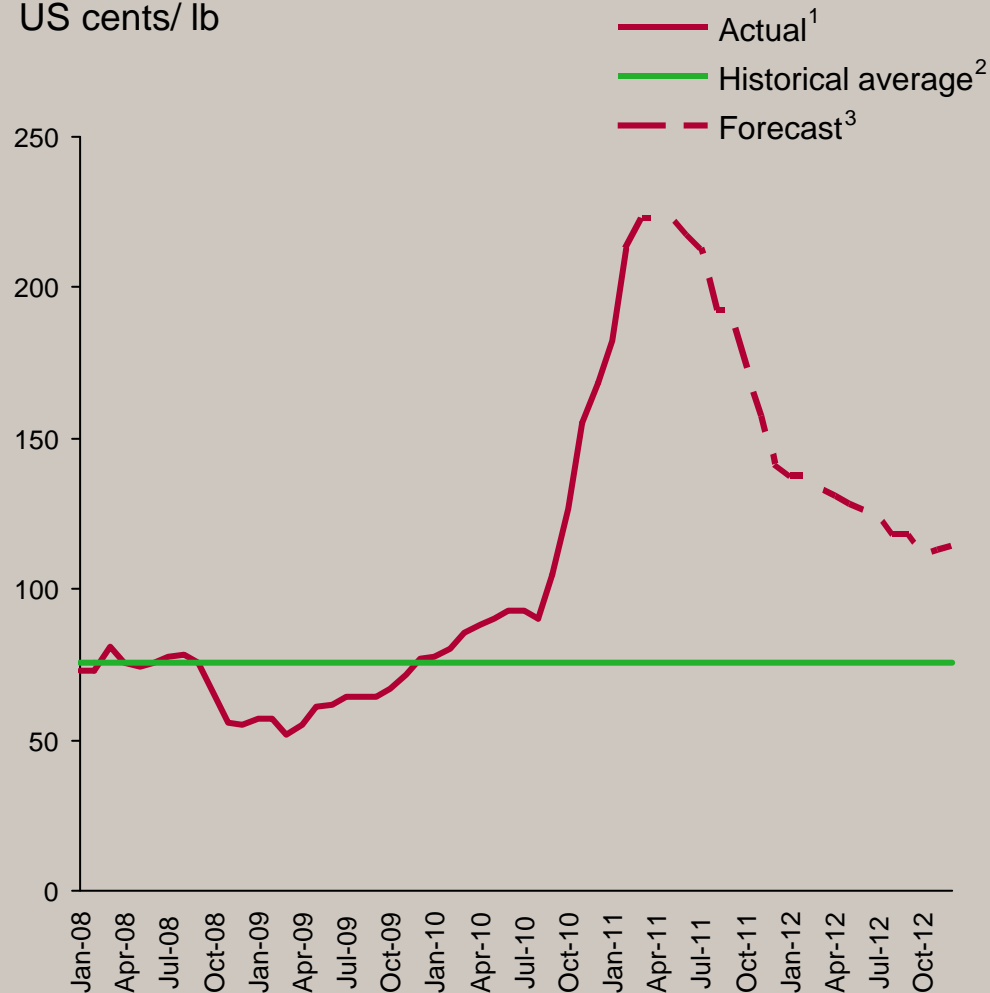
- Net debt of \$267m down \$46m (or 15%)
- Bank debt successfully refinanced in February 2011 on improved terms
 - extended maturities (3 to 5 years)
 - competitive pricing
 - improved commercial terms
 - \$1.7m of capitalised deferred borrowing costs to be expensed in 2H11
- Securitisation facility downsized by \$25m to \$200m at the same time

1. Tranches shown reflect February 2011 refinancing. Amount drawn of \$332.1m is aggregate amount owing as at 31 Dec 2010 under previous facilities 18

Import costs

Cotton Price

US cents/ lb



1. Cotlook A Index to 22/02/11

2. 5 year historical average

3. Forecast movement based on % movements in Cotton No. 2 Futures at 22/02/11

- Global cotton prices have increased rapidly in F11 to unprecedented levels (over double historical norms) primarily due to
 - Weather driven supply shortages
 - Increasing global demand
 - Market speculation
- Polyester prices are also up over 50% since the beginning of F11
- Other China supply pressures include
 - Increases in minimum labour rates
 - Labour availability
 - Power outages
 - Utility and other input cost pressure
- Pacific Brands is actively managing the risk through
 - Proactively securing cotton supply
 - Strategic supplier relationships
 - Continuing resourcing efforts in and outside of China

Dividend and outlook

Sue Morphet
Chief Executive Officer

Dividend

- Much improved financial position over the past 18 months
 - Net debt substantially reduced
 - Syndicated Debt and Securitisation facilities extended
 - Strong operating cash flow
- 1H11 dividend of 3.1 cps fully franked
- Target payout ratio at least 50% of NPAT (before significant items)
- Significant items – including non-cash impairments – have no impact on dividends

Outlook

- Market outlook
 - Challenging retail conditions
 - Volatile and increasing import costs
- Sales outlook
 - Underlying sales movement in 2H11 relative to the prior corresponding period is expected to be broadly in line with that of 1H11 which saw a 2.3% decline
 - Reported sales movement will also continue to be impacted by divestments and ongoing brand discontinuations
- EBITA (before significant items) outlook
 - Key drivers of the 1H11 earnings improvement, being off-shoring benefits and improved foreign exchange rates, will stabilise in 2H11
 - However, earnings in 2H11 are likely to be adversely impacted by soft trading conditions, import price increases (especially due to higher cotton prices which are expected to impact from 4Q11) and FOS performance
 - Consequently, while EBITA in 2H11 is expected to be lower than 2H10, the company remains confident that F11 EBITA will exceed the F10 full-year result

Conclusion

- Result before significant items are creditable in current market conditions
- Underlying sales down slightly in difficult retail conditions but plans in place to turn around over time
- Margins up due to transformation and improved foreign exchange rates, but limited impact to date from cotton price increases
- Majority of actions to realise savings from transformation now complete and benefits expected to reach \$150m by end of F11 (ie one year ahead of schedule)
- FOS write-down necessary at this point to comply with accounting standards
- Balance sheet and cash flow remain strong
- Refinancing of bank debt was a milestone and provides additional financial security and flexibility
- Dividends reinstated out of 1H11 earnings as planned
- 2H11 outlook challenging due to soft trading conditions, import price increases and FOS performance, but confident F11 EBITA before significant items will exceed the F10 full-year result

Questions

Appendix - Definitions

- CODB – operating expenses (freight & distribution, sales & marketing and administration) below gross margin
- EBITA – earnings before interest, tax, amortisation of acquired finite life 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)