PACIFIC BRANDS

10 June 2014

Trading update for the year ending 30 June 2014

- Pacific Brands now expects F14 EBIT before significant items[1] in the range of $90-93 million with sales growth of c.3% versus the prior year
- Reduced earnings, higher working capital and capital expenditure, and additional restructuring costs are expected to lead to an increase in net debt at 30 June 2014 versus the prior year, to approximately $250-260 million
- Performance improvement and cost reduction initiatives have been accelerated and expanded, and a strategic review has been initiated with the appointment of Macquarie Capital Limited

As previously indicated, F14 is a year of investment and transition. The company has continued to invest in its growth strategies for each business, against which substantial strategic progress has been made in an increasingly challenged environment.

At the time of its interim results announcement, the company expected group EBIT before significant items for the second half to be down by a similar percentage to the first half (c.14%). This implied full year EBIT before significant items of around $105 million.

However, a combination of challenging markets, declines in consumer sentiment and a warm autumn, which have been highlighted by other apparel and footwear retailers, have led to lower than expected sales growth and increased margin pressure.

Accordingly, based on year to date trading to the end of May and current indications for June, which is a significant trading month for the company, F14 EBIT before significant items is now expected to be in the range of $90-93 million with sales growth of c.3% versus the prior year.

For F14 (compared to F13): Underwear and Sheridan Tontine sales are expected to be up but EBIT is expected to be materially down. In Underwear, this is driven by wholesale sales and gross margin being significantly lower than expected. In Sheridan Tontine, earnings have been impacted by increased investment in brand, new categories and capability. Workwear sales are expected to be broadly flat, with earnings down consistent with the first half and guidance at the interim results announcement. Brand Collective sales are expected to be down, with earnings broadly in line with last year.

Working capital is expected to increase at 30 June 2014 relative to the prior year. This is driven by significantly higher inventory levels due to: the inflationary impact of currency; investment in retail expansion, adjacent categories and acquisitions; and sales being more volatile and lower than expected.

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1 Significant items as disclosed in Note 7 to the interim Financial Statements, primarily relating to asset impairments (non-cash) and restructuring costs (cash)

The combination of reduced earnings, higher working capital and capital expenditure, and additional restructuring costs (see below) is expected to lead to an increase in net debt at 30 June 2014 versus the prior year, to approximately $250-260 million.

Actions are being taken to mitigate earnings pressure. Performance improvement and cost reduction initiatives which were already underway across the group have been accelerated and expanded, including decentralisation of certain group functions to reduce the role and cost of the corporate centre in order to transfer more end-to-end cost accountability to the business units.

One-off cash restructuring costs to implement these initiatives are now expected to be approximately $25-30 million (before tax) for the 6 months ending 30 June 2014.

In addition, the Board appointed Macquarie Capital Limited in April to undertake a strategic review. An update on progress will be provided with the full year result on 26 August 2014.

For further information contact:

Investors

Joanne Higham
General Manager, Investor Relations
Pacific Brands Limited
+61 3 9947 4919
+61 421 568 395
jhigham@pacbrands.com.au

Media

Sue Cato
Cato Counsel
+61 419 282 319