Fisher & Paykel Appliances Holdings Limited

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FPA – Financial Results for the year ended 31 March 2012

Fisher & Paykel Appliances Holdings Limited announced today a group net profit after tax of $18.4 million for the financial year ending 31 March 2012. This result compares to $33.5 million for the previous year.

The three items affecting comparability were an onerous lease charge of $2.7 million before tax (Appliances business), a fair valuation adjustment for property held for sale (Appliances business) of $1.2 million before tax, and litigation costs of $6.8 million before tax (Finance Group). Total one-off adjustments for the period resulted in a charge of $10.7 million before tax compared to a gain of $5.1 million for the previous year.

Adjusting for items affecting comparability, normalised group net profit after tax was $26.3 million compared to $30.0 million last year.

Net bank debt as at 31 March 2012 was $65.2 million compared to $100.2 million as at 31 March 2011, excluding operating borrowings for the Finance business. Group interest charges, excluding Finance operating interest expense, decreased by 30% from $15.4 million to $10.9 million on lower debt levels.

Cashflow from operations, before the movement in loans to Finance business customers, was $117 million compared to $113 million for the previous corresponding period. Group capital expenditure for the period was $50.5 million including capital expenditure related to new motors contracts of $22 million. Capital expenditure in the last financial year was $28.3 million.

The Appliances business reported an operating profit before interest and tax of $7.3 million compared to $28.8 million last year. After adjusting for items affecting comparability of $3.9 million before tax, normalised profit before interest and tax was $11.3 million compared to $23.7 million last year. This result is ahead of market guidance provided in December 2011 of approximately $10 million.

For the second half the Appliances business reported a normalised operating profit before interest and tax of $13.7 million, compared to a loss of $2.4 million in the first half.

As foreshadowed in November 2011, the full year result reflects lower revenue as the business refocuses on profitable sales, notably in North America. Total operating revenue for the Appliances business was down 7.6% to $891 million compared with $965 million for the previous year. This reflected weaker retail market conditions, rebalancing for profitable sales and unfavourable currency translation.

Gross margin, as a percentage of sales, increased by 0.9% points to 31.2%. Appliances' gross margin in dollar terms decreased by $13.5 million to $278.4 million for the year ended 31 March 2012 as a result of lower sales, higher raw materials and freight costs. Sales, general & administration costs reduced by $10.9 million to $215 million on cost savings, in particular in North America and favourable currency translation.

The full year result was also impacted by transactional hedging losses of $25.6 million, with $5.3 million recorded in the second half following a mid year change in hedging policy.

On a segment reporting basis the North American distribution business reported an operating profit of $0.9 million for the year compared to a $9.8 million loss in the previous year.

The Finance business reported a solid result with reported operating earnings before tax of $31.0 million, compared to $34.7 million for the previous year. After adjusting for litigation costs of $6.8 million before tax, normalised profit before interest and tax was $37.8 million compared to $34.7 million last year. This result is above the market guidance provided in December 2011 of around $32 million. Net income remained steady on 2011 levels. Bad debt expenses were lower than the prior year, however operating costs were higher due to increased promotional activity to grow Q Card.

In respect of litigation costs, a case raised by a U.S. based software company was heard in the High Court at Auckland, New Zealand in 2011. A judgement on the issue is now expected this year. There are complex legal issues and a range of possible outcomes. Accordingly, the Directors took the prudent decision at the half year to make a provision given this uncertainty.

FY13 OUTLOOK

Retail market conditions are expected to remain soft across all of the Company's key markets in the near term due to global economic uncertainty. The Board remains particularly concerned about retail market conditions in Australia, which deteriorated in the second half of the 2012 financial year. While there was a slight improvement in the U.S. economic outlook, there are already signs that this might not be sustained.

In the past two years the Appliances business has rejuvenated investment in new products and at the same time has significantly reduced bank debt, controlled working capital and overheads. The business has been repositioned for the current economic climate and now has the financial flexibility to pursue market opportunities including growth in the components and technology business.

In FY13, the Appliances business will benefit from the commissioning of two new motor contracts signed in 2011. The Haier motor line was commissioned in April 2012. A second line for another customer is on track for production in the second quarter of FY13. In addition, the product development programme of the past few years will culminate in the release of new refrigeration, laundry and cooking products during the coming year. On the downside, raw material prices have increased in recent months.

The Finance businesses earnings should remain resilient in the coming year, despite an expectation that New Zealand retail trading conditions will remain soft. Increased promotional activity with the Farmers Trading Company and a broader merchant base for Q Card should improve interest income.

Capital expenditure for the Group is expected to be approximately $42 million in the 2013 financial year.

The Directors intend to restore dividend payments to shareholders as soon as possible. However, with conditions in our key markets remaining very uncertain, the Directors believe it is prudent to take a cautious approach and have resolved not to pay a dividend at this time.

An update on trading and market conditions will be provided at the Annual Shareholders Meeting in August 2012.

Full-year result at a glance:

- Group Operating Revenue was $1,038 million (FY11 $1,121 million).
- Reported Profit For The Year after Tax was $18.4 million (FY11 $33.5 million).
- Reported Group EBIT was $38.4 million (FY11 $63.5 million).
- Appliances normalised EBIT was $11.3 million (FY11 $23.7 million).
- Finance Group normalised EBIT was $37.8 million (FY11 $34.7 million).
- Net Bank Debt (excluding Finance operating borrowings) as at 31 March 2012 was $65.2 million ($100.2 million as at 31 March 2011).
- Cash flow from operations, before the movement in loans to Finance business customers was $117 million, up from $113 million last year.
- Capital expenditure was $50.5 million (FY11 $28.3 million).

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