



## NEWS RELEASE FOR IMMEDIATE RELEASE

### Pumpkin Patch ready as markets improve

Pumpkin Patch Limited  
Audited results for the 12 months ended 31 July 2009  
Headline Financial Numbers

	July 2009 (\$'000)	July 2008 (\$'000)	
Operating revenue (excluding discontinued activities)	412,348	399,466	3.2%
Net profit after tax (excluding discontinued activities and non-recurring items)	18,549	19,353	(4.2%)
Operating losses from discontinued activities and non-recurring items after tax	(45,288)	(2,274)	
Net profit (loss) after tax	(26,739)	17,079	
Net bank debt	18,436	81,337	(77.3%)
Inventory	80,210	121,761	(34.1%)
Total dividend for the year	7.50cps	7.50cps	

Pumpkin Patch, Australasia's leading specialty childrenswear brand, today announced its full year result for the year ended 31 July 2009.

The Company highlighted a number of major achievements in 2009 including a significant reduction in bank debt, lower inventory levels, and the implementation of a reorganisation plan for its United States retail stores.

The Company's Chief Executive Officer Maurice Prendergast said "We started the year with some clear goals in mind, especially around the strengthening of our balance sheet to increase our ability deal with the challenges across all markets and position us well for when any upswing occurs".

Although the overall result was not what the Company wanted it to be Prendergast says the result was a relatively robust one. "Considering the unprecedented volatility we experienced this year the results from our more established markets reflects the underlying strength of the brand and the hard work the team has put in. Excluding the United States and the impairments sales were up 3.2% and more importantly NPAT was up a very strong 7.8%".

Prendergast added "One achievement that stands out has been the 77% or \$63m reduction in bank debt. While many companies raised additional capital we aggressively attacked our debt which highlights our ability to generate strong cash flows even in tough times. As a result we now have very low debt and available headroom to take advantage of any growth opportunities that arise".

The United States reorganisation plan announced earlier in the year has also been implemented. "The changes made in the United States provide shareholders with better financial outcomes in the near term and create a more sound foundation on which we can develop our United States strategy in the longer term".

Prendergast concluded by saying "The entire Pumpkin Patch Team across the world pulled out all the stops this year to deal with the challenges and to prepare the Company for the future".

Pumpkin Patch Limited  
23<sup>rd</sup> September 2009

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For further information please contact:  
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The full Chief Executive Officer's commentary that formed part of today's announcement to the NZX is attached.

# Pumpkin Patch Limited

## Audited results for the 12 months ended 31 July 2009

Notes:

- all references to dollars are NZ Dollars unless otherwise stated

### Major Achievements In 2009

- Net bank debt down 77% to \$18m. Debt facilities in place until December 2011.
- Inventory down \$42m to \$80m. Holdings now in line with current market requirements.
- Implementation of a reorganisation plan for the United States retail stores.
- Net profit before tax excluding all United States stores and non-recurring items up 7.8% to \$25.1m.
- Overheads realigned to match the current environment.
- The Company is well positioned for when trading conditions improve and to take advantage of market opportunities as they arise.

Pumpkin Patch Limited has today announced its audited result for the 12 months ended 31 July 2009.

### Overview

During 2009 the Company embarked on number of strategic initiatives to strengthen its Balance Sheet and increase market share in a difficult retail environment.

As a result of those initiatives the Company has successfully reduced net bank debt by 77% to \$18.4m, reduced inventory holdings by 34% or \$41.6m, developed and implemented a reorganisation plan for its United States retail operation, and realigned overheads across all business units.

Total group revenue grew 4.5% to \$428.6m despite the extremely difficult retail conditions experienced in all the Company's global markets.

The extreme retail volatility experienced in the United States continued to materially impact Group earnings across 2009. Net profit after tax excluding all United States stores and non-recurring items was \$25.1m up 7.8%. The implementation of the United States store reorganisation plan has lead to impairments and other non-recurring costs of \$39.9m being recognised this year.

Net profit after tax excluding the 15 closed United States stores and non-recurring items was \$18.5m down 4.2%. With these 15 United States stores included but excluding non-recurring items NPAT was \$14.7m down 13.9%.

### **Australia Retail**

Despite the soft retail environment encountered for much of the year the Australian stores continued to trade reasonably well with turnover up 2.5% on 2008.

Segment EBIT of \$38.5m (FY08: \$41.0m) reflected increased promotional activity across the year and the continued drive to build market share and consolidate the brand's positioning.

During the period 5 new stores opened (FY08: 5) taking total stores to 111.

### **New Zealand Retail**

The New Zealand retail environment was challenging during the year however the strength of the brand and increased promotional activity lessened the impact of those conditions with sales only marginally down 1.9%.

A change in sales mix resulting from the opening of 4 Outlet stores since the beginning of 2008 and increased promotional activity during 2009 impacted segment margins. As a result EBIT for the year was down to \$11.1m (FY08: \$12.6m).

Two new stores were opened during the year (FY08: 3), taking store numbers to 51.

### **Wholesale and Direct**

Wholesale and Direct turnover was \$62.5m, up 5.3% on 2008. Softer conditions being faced by wholesale partners in their home markets lead to lower wholesale orders especially in the latter part of the year. This however was offset by lower average export exchange rates and a strong performance from the mail order and internet business.

EBIT for the year was \$16.6m up 6.7% on last year.

### **United Kingdom Retail**

United Kingdom retail sales conditions continued to be very volatile throughout the year.

While sales were similar to last year high promotional activity was necessary leading to a generally lower margin. The EBIT loss for the year was \$5.0m (2008: \$2.6m) before non-recurring impairment charges.

As a result of the annual review of stores required under IAS36 (Impairment of Assets) the Company has made a non-cash impairment charge in 2009 of \$6.4m to adjust downwards the carrying value of 10 United Kingdom stores. The Company is implementing strategies that focus on improving the operating results of the lower performing stores.

During the year 1 new store was opened (2008: 5) taking the total number of stores to 36.

### **United States Retail**

In response to the extremely difficult economic environment in the United States and the high levels of uncertainty as to how long those conditions would continue the Company implemented a reorganisation plan for the United States retail stores. Under that plan 15 of the Company's

35 stores were closed. Leases on the remaining 20 stores are being renegotiated at levels that better reflect current market conditions.

The total costs of the reorganisation are approximately \$39.9m including the full impairment of all fixed assets in the United States, inventory revaluation costs, employee obligations, and legal and other professional fees. Approximately \$4.8m of those costs are cash in nature.

Due to the corporate structures employed in the United States the reorganisation plan does not impact any other trading segment including the United States wholesale company. The plan utilises legal protections afforded to United States corporate bodies that reorganise their business operations and therefore does not impact the New Zealand parent company.

Excluding the non-recurring reorganisation costs the segment generated an operating EBIT loss of \$14.8m for the year (2008: \$9.2m). Adverse trading conditions and the relatively young age of the majority of the stores made it impossible for stores to make any headway in 2009.

### **Unallocated Overheads**

Unallocated overheads were \$19.7m down 10.3% (2008: \$22.0m). This reflected reductions in overheads across Head Office functions and lower unrealised mark to market losses on foreign exchange contracts. The result includes approximately \$1.0m of one off restructuring costs.

### **Cash Flows and Balance Sheet**

The Company has significantly strengthened its Balance Sheet to be well positioned to deal with any ongoing trading uncertainty and to take advantage of any market opportunities that arise.

Net bank debt has reduced significantly by \$62.9m or 77% to \$18.4m.

Continued focus on the management of inventory levels across all markets has resulted in a \$41.6m or 34% reduction in inventory holdings. Inventory at July 2009 was \$80.2m.

Capital expenditure cash flows totalled \$11.8m (2008: \$35.9m).

### **Dividend**

The Directors have approved the payment of a final dividend for 2009 of 4.50 cents per share (2008: 3.50cps) taking the total dividend for the 2009 year to 7.50 cents per share (2008: 7.50cps). The dividend will be paid on 22<sup>nd</sup> October 2009, have a record date of 8<sup>th</sup> October 2009, and will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders. Non-resident shareholders will receive a supplementary dividend.

### **Foreign Currency**

As reported in November 2008 Pumpkin Patch realigned its foreign exchange cover portfolio to recognise both the changing retail market conditions and the volatility in foreign exchange markets. Movements in the NZD around that time lead to significant mark to market gains on foreign exchange cover.

Approximately \$36m of mark to market gains were realised resulting in an immediate reduction in bank debt.

As outlined previously the realignment of cover would not materially impact earnings before interest and tax in 2009 and later years. Under International Financial Reporting Standards (IFRS) the mark to market gains that have been realised are required to be held in reserves and taken to earnings in the period in which the original foreign currency contract was due to mature.

### **Outlook for 2010**

Trading conditions are expected to remain difficult in the near term. Despite this uncertainty the initiatives undertaken in 2009 have positioned the Company well to take advantage of improved trading conditions when they eventuate.

#### **Australia**

Trading conditions are expected to remain subdued. The Company will continue to promote strongly to grow market share and strengthen the brand's market position.

The Company is currently assessing a number of new store locations across Australia to consolidate its store network and to take advantage of opportunities that arise in softer retail environments.

#### **New Zealand**

The current retail environment is expected to continue in the near term. The Company will continue to focus on growing market share and reinforcing the strength of the Pumpkin Patch brand in the market.

#### **Wholesale**

Wholesale customers are expected to lower their orders in 2010 as they deal with challenging conditions in their home markets. However the Company continues to work closely with its partners to develop brand growth opportunities.

The Direct operations will continue to identify and develop growth opportunities across all of its markets.

#### **United Kingdom**

The poor economic environment is expected to continue and trading will remain volatile. Despite this the Company expects to have some improvement on the 2009 result in the coming year. Recent supply chain initiatives are improving the flow of product into the market.

The leasing market has softened significantly which will lead to lower rental costs however the full impact of this will not be seen for a number of years while leases go through scheduled reviews.

This environment is also creating possible new store opportunities which are currently being assessed.

#### **United States**

While the reorganised store network is expected to have a significant positive impact on total Group earnings and cash flows in 2010 trading in the United States remains very unpredictable

with no immediate signs of recovery being seen. The Company continues to closely monitor all stores on a store by store basis and implement strategies to improve performance.

The changes made in the United States will provide shareholders with better financial outcomes in the near term and create a more sound foundation on which the Company can develop its United States strategy in the longer term

#### Bank debt

Based on current trading conditions and expected working capital and capital expenditure requirements bank debt is expected to remain around current levels.

The bulk of the bank debt facilities are in place until December 2011.

#### Inventory

Focus will continue to be directed at inventory management strategies to ensure inventory levels remain around current levels based on an average store holding basis.

#### Foreign Exchange

While the Company maintains good levels of foreign exchange cover the ongoing volatility of the New Zealand Dollar makes it increasingly difficult to predict how foreign exchange rates will influence the 2010 result and plan for longer term growth initiatives.

### Summary

During the last eighteen months Pumpkin Patch faced unprecedented volatility in all of its markets. While Australasia now appears to be more stable other markets remain volatile. The Company continues to adjust its strategies to meet market demands and is confident that it will continue to make progress in 2010 despite some challenges in the near term.

The Company embarked on a major debt reduction program in 2009 which has significantly strengthened its balance sheet and positions it well for the future.

Pumpkin Patch remains the leading specialty childrenswear offer in Australasia and plans to further expand in these markets. Even though trading conditions will remain very challenging in the United Kingdom and earnings will be impacted the brand continues to get stronger. The changes made in the United States will deliver much improved financial outcomes for our shareholders in years to come.

We thank the entire team at Pumpkin Patch for a tremendous effort over the last year.

On behalf of the Board of Directors



Maurice Prendergast  
Chief Executive Officer



Greg Muir  
Chairman

Pumpkin Patch Limited  
23<sup>rd</sup> September 2009