



# PUMPKIN PATCH LIMITED **INTERIM REPORT**

January 2009





## THEMES FROM THE RESULT

- Bank debt down 60% from July 2008 to \$32.4m. Bank debt facilities in place until December 2010
- Inventory management strategies drive a \$15.0m reduction in stock holdings
- Strong sales and EBIT performances from Australia and New Zealand despite the challenging retail environment
- Continued sales and earnings growth from Wholesale and Direct
- Operating revenue \$211.1m, up 3.0%
- Net profit after tax \$9.5m (1H08: \$10.2m)
- EBIT excluding the United States up 9.5%
- Total store numbers are now 235 (Australia 110, New Zealand 54, United Kingdom 36, United States 35).
- Interim dividend of 3.00 cents per share

# CHIEF EXECUTIVE OFFICER'S REPORT

On behalf of the Board of Directors I am pleased to present to our shareholders the Company's result for the six months ended 31 January 2009.

## Overview of the first half result

Total group operating revenue increased 3.0% to \$211.1m. The strength of the Pumpkin Patch brand lessened the impact of the very difficult retail environments in all markets. The Wholesale and Direct business continues to expand off a stable platform and performed strongly in the period.

A major highlight of the period has been the way in which we significantly strengthened the balance sheet by reducing debt and inventory. This has given us a level of comfort that we are well placed to meet the challenges of an increasingly volatile global market.

Group NPAT was \$9.5m, close to the first half last year of \$10.2m. While the weaker trading conditions across all markets led to increased promotional activity we held market share. The United States continues to be extremely volatile causing a disappointing drag on earnings. Excluding the United States group EBIT was up 9.5% on last year.

## AUSTRALIA RETAIL

	Unaudited 6 Months Ended			12 Months Ended
	31 January 2009	31 January 2008		31 July 2008
	\$000	\$000		\$000
Turnover AUD	80,986	82,310	(1.6%)	163,401
Turnover NZD	97,382	98,729	(1.4%)	198,452
EBIT NZD	19,479	20,599	(5.4%)	41,031
	20.0%	20.9%		20.7%

### Stores

Pumpkin Patch	98	92		95
Outlet	11	11		11
Urban Angel	1	1		1
	<b>110</b>	<b>104</b>		<b>107</b>

The strength of the Pumpkin Patch brand and the overall product offering reduced the impact of the softer retail conditions with sales only marginally down on last year.

A slightly lower segment EBIT of \$19.5m (1H08: \$20.6m) reflected increased promotional activity in a drive to build market share.

During the period 3 new stores opened (1H08: 2) taking total stores to 110.

## NEW ZEALAND RETAIL

	Unaudited 6 Months Ended		12 Months Ended	
	31 January 2009	31 January 2008		31 July 2008
	\$000	\$000		\$000
Turnover	31,865	33,345	(4.4%)	65,633
EBIT NZD	6,086	6,903	(11.8%)	12,586
	19.1%	20.7%		19.2%
<b>Stores</b>				
Pumpkin Patch	33	32		32
Outlets	12	8		11
Urban Angel	9	10		9
	<b>54</b>	<b>50</b>		<b>52</b>

The general retail environment in New Zealand was challenging during the period. However sales were down only 4.4% on last year which was a very credible performance.

Total segment EBIT margins were impacted by sales mix changes resulting from the opening since January 2008 of 4 Outlet stores which trade at lower EBIT margins than full priced Pumpkin Patch stores. As a result EBIT for the period was down on last year at \$6.1m (1H08: \$6.9m).

Two new stores have opened year to date (1H08: nil), taking store numbers to 54.

## WHOLESALE AND DIRECT

	Unaudited 6 Months Ended		12 Months Ended	
	31 January 2009	31 January 2008		31 July 2008
	\$000	\$000		\$000
Turnover	27,785	23,357	19.0%	59,380
EBIT NZD	7,781	6,054	28.5%	15,541
	28.0%	25.9%		26.2%

Wholesale and Direct turnover was up 19.0% to \$27.8m.

EBIT for the period was \$7.8m up 28.5% on last year (1H08: \$6.1m). Although some margin pressure was seen from overseas customers facing difficult trading conditions in their home markets the more favourable exchange rates helped offset the impact of this. As a result EBIT as a percentage of sales increased 2.1% to 28.0%.

We continued to develop our mail order and internet businesses which saw significant sales growth especially in Australia and New Zealand.

## UNITED KINGDOM RETAIL

	Unaudited 6 Months Ended		12 Months Ended
	31 January 2009	31 January 2008	31 July 2008
	\$000	\$000	\$000
Turnover GBP	12,131	12,849 (5.6%)	22,654
Turnover NZD	32,359	34,316 (5.7%)	59,369
EBIT NZD	(1,114) (3.4%)	149 0.43%	(2,621) (4.4%)
<b>Stores</b>			
Pumpkin Patch	33	31	33
Outlets	3	2	2
	<b>36</b>	<b>33</b>	<b>35</b>

United Kingdom retail sales conditions were very volatile throughout the period with most market leaders reporting significant deteriorations in trading results and in many cases undergoing major restructuring to survive the current downturn. Improved supply chain processes allowed for improved stock management and freer flow of stock into the market. Sales were down 5.6% which considering the state of the market place was a very solid result.

Overhead savings and supply chain efficiencies partially offset the deleveraging effect of the lower sales and the impact of the market wide increase in promotional activity. The EBIT loss for the period was \$1.1m (1H08: \$0.1m profit).

Of the 33 stores open longer than 12 months 20 stores generated positive EBIT contributions at store level.

During the period 1 new store was opened (1H08: 3) taking the total number of stores to 36.

## UNITED STATES RETAIL

	Unaudited 6 Months Ended		12 Months Ended
	31 January 2009	31 January 2008	31 July 2008
	\$000	\$000	\$000
Turnover USD	12,927	11,419 13.2%	20,898
Turnover NZD	21,700	15,083 43.9%	27,310
EBIT NZD	(6,169)	(2,472)	(9,180)
<b>Stores</b>	<b>35</b>	<b>28</b>	<b>34</b>

United States retail sales were up 43.9% to NZD21.7m driven mostly by new store growth since 1H08. The retail environment was extremely difficult as consumers struggled to cope with the economic chaos in the United States. The level of retail industry rationalisation increased dramatically with numerous retail chains either closing stores or ceasing operations fully. Many well established household brands have succumbed to the pressures caused by these extreme conditions.

As a result EBIT was significantly impacted with a loss of \$6.2m (1H08: \$2.5m loss) being generated. Overhead reduction measures were put in place but these were insufficient to counter the impact of lower sales. In addition the lower exchange rate negatively impacted the translation of the loss into NZD. We are disappointed with the earnings result and are implementing strategies to minimise the impact of the difficult trading conditions.

During the period 1 new store opened (1H08: 10) taking total stores to 35.

## CASH FLOWS AND BALANCE SHEET

We continue to maintain a very strong balance sheet with net assets of \$162.6m, up 68% from July 2008.

Bank debt has reduced significantly, by \$49.0m or 60% to \$32.4m. This has been achieved through reduced stock holdings, the restructuring of the foreign exchange portfolio in November 2008, and continued strong cash flows from operations.

The inventory reduction strategies have led to a lowering of stock levels since July. After adjusting for the impact of lower exchange rates on overseas inventory, underlying inventory levels have reduced by approximately \$15.0m since July 2008. Ongoing reductions in inventory are expected to be achieved over the next 18 months.

Capital expenditure cash flows totalled \$8.1m (1H08: \$19.7m).

## FOREIGN CURRENCY

As reported in November 2008 we realigned our 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 led 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. At exchange rates around the end of January 2009 there remained additional unrealised mark to market gains of around \$12m.

As outlined previously the realignment of cover will not materially impact earnings before interest and tax over the next 2 to 3 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.

After adjusting for the release of the realised mark to market gains to earnings as above, the overall effective exchange rates are expected to be similar to the rates immediately before the realignment.

## OUTLOOK FOR THE REMAINDER OF THE 2009 FINANCIAL YEAR

All markets remain extremely volatile. This volatility and long inventory lead times causes its own set of problems when forecasting for a global business. We have performed credibly in the first six months however there remains a great deal of uncertainty in all markets.

### **Australia**

Trading conditions are expected to remain difficult for the remainder of the year. However we are well positioned to deal with these challenges and will continue to be the leading speciality childrenswear offer in Australia.

Two stores are expected to open before year end.

### **New Zealand**

The retail environment is expected to remain difficult. However the strength of the Pumpkin Patch brand is expected to partially insulate us from the worst effects of any significant deterioration in retail activity.

### **Wholesale**

While wholesale customers are experiencing tougher trading conditions in their home markets we continue to invest in our already strong relationships with those wholesale customers.

## CHIEF EXECUTIVE OFFICER'S REPORT cont.

Research continues into other Asian and European markets however it is unlikely that any new markets will be entered this year.

The Direct operations will continue to grow across all markets in particular Australia and New Zealand.

### **United Kingdom**

The very poor economic environment is expected to continue for the remainder of the financial year. Improvements made to the supply chain and the lower overhead base now in place will allow the operations to be better managed while the market remains so volatile. While market share may grow the seasonal nature of sales and earnings will increase losses in the short term.

### **United States**

The current volatile nature of retail conditions in the United States creates high levels of unpredictability as to possible near term trading results.

Reductions in the cost of doing business in the market will continue however these savings will not be sufficient enough to offset the impact of lower sales. Due to the seasonality of trading in the market losses will increase in the second half. The operation is being closely monitored on a store by store basis and changes will be implemented where deemed necessary.

### **Bank debt**

Based on current trading conditions and expected working capital movements over the remainder of the financial year total bank debt is expected to be between \$30.0m and \$40.0m at July 2009.

The bulk of the bank debt facilities are in place until December 2010.

### **Interest**

Due to the significant reduction in bank debt and lower interest rates a drop in interest charges in 2H09 is expected. Interest costs are expected to be between \$5.5m and \$6.0m for the full year to July 2009 (2008: \$7.5m).

### **Summary**

During the first six months of the 2009 financial year we faced unprecedented volatility in all of our markets. There appears to be no sign of this improving in the near term and we continue to adjust strategies to meet the daily challenges faced.

We embarked on a major debt reduction program which has significantly strengthened our balance sheet and positions us well for the challenging times ahead.

Pumpkin Patch remains the leading specialty childrenswear offer in Australasia and we will strengthen this position. Even though trading conditions will remain very challenging in the United Kingdom and earnings will be impacted, the brand continues to get stronger. The United States will continue to be a drag on earnings in the medium term.

I would like to thank the entire team at Pumpkin Patch for their tremendous effort over the past six months.



Maurice Prendergast  
Chief Executive Officer