Pumpkin Patch Limited (PPL)
Operational Update

Pumpkin Patch Limited has today announced a number of changes it is implementing across its global business including the closure of the United States retail operation, strategies for underperforming stores in the United Kingdom, and a realignment of New Zealand based support functions.

Pumpkin Patch's Chief Executive Officer, Maurice Prendergast, commented "The decisions we are announcing today are necessary to ensure we are operating in a way that better matches the current retail environments we face across our markets. In the medium term financial results will be considerably enhanced and in the long term we will be better positioned to execute our longer term growth strategies".

United States retail

The Company has made the decision to shut the remaining 20 retail stores in the United States and in the medium term focus on wholesale and web based growth opportunities in that market.

In 2009 the Company renegotiated all of its United States leases down to levels that reflected market rents at that time. These leases expire over the next two to three months.

Discussions have been held with landlords to extend leases. However while lease extensions were available the proposed lease terms would make the United States retail operation unsustainable especially given the poor state of the retail environment in that market.

As a result the Company is implementing a managed store closure program that will see the 20 stores cease trading on a staggered basis over the coming six months utilising short term lease roll-overs where required. This will allow sales opportunities and inventory sell through to be maximised across the store network during the closure process.

The EBIT losses from the United States retail segment in the 2011 financial year, before reorganisation costs, are forecasted to be between NZD2.4m and NZD2.9m. The full positive financial impact of the changes on total group earnings will be seen in the second half of the 2012 financial year by which time all United States stores will be closed.

United Kingdom

While many of the 41 United Kingdom stores are trading at levels considered acceptable given the tough retail environment, the Company is developing strategies to enhance the overall trading result focusing on 17 underperforming stores which generate the majority of the EBIT loss from that market.

Twelve of these stores have leases expiring within the next 15 months and the Company will be taking the opportunity to negotiate with landlords appropriate rent reductions or other reorganisation options that would significantly improve earnings results from those stores. Similar discussions will be held with the landlords of the other 5 underperforming stores whose leases expire after the 2012 financial year. Should acceptable solutions not be found stores will be closed.

As a result the Company is recognising a non-cash impairment charge of around NZD2m in the 2011 financial year to take the carrying value of 8 of the 17 stores to nil. The carrying value of the other 9 stores was fully impaired as part of the reorganisation plan implemented in 2009 and therefore no additional impairment charge is required for those stores.

The United Kingdom and the recently opened Ireland stores remain an important part of the Company's long term growth strategies. The plans being developed for the United Kingdom will enhance overall short term earnings performances and provide a stronger and more sustainable platform on which to implement future growth strategies.

Head Office functions

As a result of the changes in the United States and the United Kingdom the Company is reviewing its Head Office operation to ensure it better matches the reorganised store network and is more appropriate given the challenging retail conditions being experienced globally.

Although the review and consultation processes have only recently commenced it is likely that there will be a reduction in the number of employees at the Auckland based Head Office. Any changes that result from the review will be implemented in the current financial year.

Trading Update

Trading conditions across all markets remain challenging and volatile with no indication that this situation will materially improve in the near term.

Along with other apparel retailers the Company has experienced abnormally high price increases from suppliers, in particular the cost of cotton. While raw material prices have stabilised of late, ongoing increases in labour and other manufacturing costs will mean the Company will continue to investigate new suppliers and countries from which to source product.

In addition the Company has encountered a warmer than normal start to the winter season and a continuation of the high New Zealand dollar which has impacted the value of international sales.

Continued challenging retail conditions coupled with the above factors have impacted trading results in the second half of the year. The Company expects 2011 net profit after tax, before reorganisation costs, to be between $12m and $14m. This includes the trading results of all stores, whether continuing and discontinuing in the coming financial year.

The Company estimates the overall EBIT impact of implementing the above changes to be between $9m and $11m including employee, lease, and inventory related costs, other miscellaneous administrative and advisory costs, and the non-cash impairment charge on 8 United Kingdom stores outlined above. An EBIT charge of between $9m and $11m will be recognised in the current financial year.

Between $4m and $5m of the above costs will be cash in nature, with the bulk of the cash costs falling in the 2012 financial year as the changes are implemented.

Based on current trading and the scheduled timing of inventory shipments bank debt at July, after cash reorganisation costs, is expected to be between $66m and $72m. The Company currently meets all banking facility obligations and is expecting to do so at July and throughout the reorganisation process.

Impact of the changes on 2012 and 2013 earnings

As the changes will be implemented across the 2012 financial year the full earnings benefit will not be seen until the 2013 financial year.

The changes announced today are expected to have a positive group EBIT impact in 2012 of between $7m and $9m, and between $10m and $12m in 2013. The Company confirms that all its Australasian stores are trading profitably and that it anticipates further expansion for both the Pumpkin Patch and Charlie & Me brands in those markets in 2012 and 2013.

In addition the Company expects lower working capital requirements, primarily inventory, and as a result lower bank debt.

Prendergast added "The changes being announced today will enhance future earnings and cash flow results for the Company. The removal of the losses from the United States and the United Kingdom, and the lower overhead structure will drive much improved financial results going forward"

Prendergast concluded by saying "We have always prided ourselves of the closeness of our teams that operate across the business. While the decisions we have made today are necessary we cannot overlook the fact that a large number of our team members will be impacted, with many being long serving employees who have contributed to the success of Pumpkin Patch over the years. We will of course be doing everything we can to help them and the rest of the team during this time. We would like to thank all of the team for their continued support and enthusiasm for the brand"

On behalf of the Board of Directors

Maurice Prendergast
Chief Executive Officer
Pumpkin Patch Limited
15 June 2011

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