NEWS RELEASE
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Pumpkin Patch Limited
Un-audited results for the 6 months ended 31 January 2013

Headline Financial Numbers

	January 2013 ($'000) 6 months	January 2012 ($'000) 6 months	
Operating revenue (continuing operations)	153,086	161,144	(5.0%)
Net profit after tax (continuing operations before reorganisation costs)	6,506	7,152	(9.0%)
Loss from discontinued operations (after tax)	-	(2,989)	100.0%
Reorganisation costs (after tax)	(1,806)	(34,146)	94.7%
Net profit (loss) after tax	4,700	(29,983)	115.7%
Net bank debt	65,735	66,745	
Inventory	70,404	63,430	
Shareholders' Funds	44,372	26,615	

Pumpkin Patch Limited today reported its un-audited results for the 6 months ended 31 January 2013.

Neil Cowie, Chief Executive Officer, said "While the overall reported result is a major improvement on last year and supports the changes we made to the business in 2012, it also reflects the challenges we faced in the first half. However despite those challenges we delivered improved operating earnings and higher margins in our all important Australia and New Zealand markets which was a great achievement."

Cowie highlighted the continued strong performance from the Online business unit as a highlight for the first half period. "Global online sales year to date exceeded $19m, up around 28% on last year, and again global online earnings exceeded the EBIT generated by all of our New Zealand retail stores combined. Our online sales in Australia are the equivalent of around 15% of our Australian retail sales which is significantly ahead of the average retailer. This reflects the advanced nature of our online operation and the longer term earnings generating capability it offers us”.

Cowie continued “The development of our multi-channel and customer experience strategies has continued with considerable pace. The customer reaction to our new ‘click and collect’ (buy online and deliver to store) model continues to exceed our expectations and we are working on a number of other initiatives in this space. We are well on the way to becoming a true multi-channel business, and we need to be as it is the customer who will ultimately decide when, how, and where they want to interact with us. This makes the multi-channel initiatives a key part of our long term growth strategies.”

Cowie provided an update on the International business unit. “International sales were up 6% on last year. We are seeing increased orders from our more established franchise partners and the markets we entered in the last few years, albeit the high New Zealand dollar continues to impact the value of those sales. In the last six months we started selling product in Mexico and Brunei and completed the first deliveries of Charlie and Me product to 26 franchise stores across the Middle East. Since January we have delivered product to our latest market, Venezuela, and are currently in talks with potential partners in new markets in the Middle East, Asia, Central America, and South America. We remain very confident that the international strategies being implemented will deliver significant earnings growth in the future”.

Commenting on Australasian retail results Cowie said “Trading conditions across Australia and New Zealand have been pretty subdued. Adding to this, we experienced the late delivery of summer inventory at the start of the season. This meant the level and mix of inventory was not ideal and sales opportunities were lost. Even though trading conditions across the rest of the period more closely tracked last year and we had a reasonable Christmas, we couldn’t recoup the sales and earnings lost at the start of the season.”

Cowie added “The late delivery of inventory was very disappointing and made it hard for us to build momentum across the half. We have made a number of significant changes at Head Office and are currently implementing product design and procurement initiatives which will drive earnings and working capital benefits into FY14 and beyond.”

“2012 was a year of major change for us with the closure of the loss making United States and United Kingdom retail operations. The theme of change has carried across into 2013. We are now in the latter part of the change process and are on track to deliver positive growth and shareholder value into the future”.

Cowie continued “To ensure we had appropriate inventory levels for the start of the current winter season and to avoid the impact of the early Chinese New Year we brought forward the timing of inventory deliveries for the second half trading period. As a result inventory holdings at January were around $7m higher than the same time last year.”

Cowie added “Despite the higher inventory net bank debt was $1m less than last year. We are expecting the initiatives currently being rolled out to have a gradual but materially positive impact on bank debt in FY14 and beyond. We are conscious of the need to strike a balance between the long term reduction in bank debt and the distribution of gains to shareholders, and as such we will be reviewing the dividend policy at year end”.

Cowie concluded by saying “While the result should have been better than it was, we are pleased with our progress in making the changes necessary for us to successfully implement strategies that will generate long term value for our shareholders. We are committed to the change process and to the strategic direction in which we are taking the business".

Pumpkin Patch Limited
18 March 2013

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
Un-audited result for the 6 months ended 31 January 2013

Notes:

- All references to dollars are NZ Dollars unless otherwise stated
- During 2012 the Company adopted a new segment reporting methodology that more accurately reflects the multi-channel and geographic nature of its operations. Comparative 1H12 segment results referred to in this document have been restated to reflect this change.

Overview

Pumpkin Patch Limited has today announced its un-audited result for the 6 months ended 31 January 2013.

Total Group earnings after tax were $4.7m, a significant improvement from the $30.0m loss reported in the same period last year. Excluding reorganisation costs and trading losses from discontinued operations underlying net earnings for the period were $6.5m (1H12: $7.2m).

Total revenue from the continuing business operations was $153.1m, down 5.0% on last year.

Online sales continued to grow strongly with sales reaching $19.3m for the period, up 28% on last year. Earnings from the global online operation again well exceeded the earnings from all New Zealand retail stores combined.

The International business unit generated strong underlying sales growth from existing and new markets in local currency terms. However the high exchange rates continued to impact the value of sales in New Zealand dollar terms.

While retail trading conditions across all markets were challenging for much of the period, additional challenges were created by the late delivery of inventory in the early part of the summer season which led to inventory volume and mix being less than ideal. As a result sales opportunities were lost.

Trading conditions across the rest of the period more closely tracked expectations, including the Christmas trading period, however the sales lost at the start of the season could not be recouped and first half earnings were impacted.

The Company has made a number of significant changes across functional areas and is currently implementing a series of initiatives focused on product design and procurement processes which will generate earnings, working capital, and bank debt benefits in FY14 and beyond.

Despite the lower group sales result total earnings from operating units (excluding Central Support costs) were in line with last year with the Australian and New Zealand operations generating both earnings and margin % growth. An improving average import exchange rate and a focus on store level overheads have helped improve overall segment margins.

As part of the ongoing change process being undertaken across the business, reorganisation costs of $2.6m were recognised in 1H13 (1H12: $36.1m).

Overview of 1H13 Financial Result

Australia

Subdued trading conditions in Australia combined with the inventory disruptions at the start of the summer season created a number of challenges across the period and sales were impacted. Total sales for the six month period were $102.8m, down 5.7%.

Despite the challenges faced segment EBIT increased 1.3% to $16.0m and EBIT margins increased to 15.6% (1H12: 14.5%). This was the result of improved underlying gross margins, improved average import exchange rates, and the continued focus on reducing store related overheads.

The Company continues to open new stores where strict investment criteria are met. During 1H13 five new stores were opened with a major portion of the capital expenditure being funded through landlord contributions. The Company has also taken steps to address stores not meeting performance benchmarks and where appropriate lease arrangements could not be made with landlords. During 1H13 two stores were closed. Store numbers now total 132.

New Zealand

New Zealand was also impacted by soft retail conditions and inventory disruptions in the early part of the summer season. Sales totalled $28.0m, down 9.7%.

Total segment EBIT for the period was up 0.5% to $4.8m, with EBIT margins increasing to 17.2% (1H12: 15.4%). Like Australia this was the result of improved underlying gross margins, improved average import exchange rates, and the continued focus on reducing store related overheads.

The Company continues to open stores where appropriate opportunities arise and close stores not meeting performance benchmarks. During 1H13 three new stores were opened and one store was closed. Store numbers now total 53.

International

Total sales for the period were $22.3m, up 5.8%. Increased orders from most existing markets and sales to new international markets resulted in higher sales in foreign currency terms. However the continued high New Zealand dollar exchange rate impacted the translation of international sales.

Segment EBIT was down 12.6% to $2.4m. The higher export exchange rates and the costs of establishing new wholesale markets impacted earnings in the period.

The International segment currently consists of 364 partner locations across 19 markets, 3 retail stores in Ireland and Company operated websites selling product in 6 international markets.

During 1H13 the Company commenced sales of Pumpkin Patch product to Mexico and Brunei, and shipped the first Charlie & Me product to 26 franchise stores in the Middle East.

Since January the Company has started shipping product to its latest market, Venezuela, and is currently in talks with potential partners in new markets across the Middle East, Asia, Central

America, and South America. Any new relationships formed in the current year will not lead to noticeable sales and earnings until FY15.

Central Support Functions

Total Central Support costs excluding head office reorganisation costs were $11.7m (1H12: $10.8m) driven by increased foreign exchange revaluation losses which offset the impact of general overheads savings.

Other Financial Information

Reorganisation Costs

Reorganisation costs of $2.6m were recognised in 1H13 (1H12: $36.1m), of which $1.9m were non-cash in nature.

An impairment and onerous lease charge of $1.9m was made in relation to four Australian stores which are underperforming and have upcoming lease renewals. Should appropriate arrangements not be negotiated with landlords the stores will be closed.

During 1H13 the Company incurred an additional $0.3m in landlord, employee, and professional services costs associated with the closure of the United Kingdom and United States retail business units. Any costs incurred in future periods will be immaterial.

Costs of $0.4m relating to changes made to Head Office functions were also recognised in the period.

Cash Flows and Balance Sheet

Net bank debt at January was $65.7m (1H12: $66.7m). Based on current trading conditions, continued control over overheads and capital expenditure, and the working capital improvements expected to come from initiatives currently being implemented, the Company expects net bank debt to significantly reduce from current levels in FY14 and into FY15.

To avoid a repeat of the inventory delivery disruptions that occurred at the start of 1H13 and to adjust for the early Chinese New Year, the timing of new season inventory deliveries from suppliers was brought forward into January. As a result inventory levels at January were higher at $70.4m (1H12: $63.4m). The product design, procurement and supply chain initiatives currently underway will lead to lower average inventory holdings across FY14 and FY15.

Gross capital expenditure, before landlord contributions, was $5.2m (1H12: $3.6m) reflecting the increase in new stores opened this year. The international and online growth strategies are not expected to lead to any material capital expenditure requirements in the foreseeable future.

Shareholders’ funds were $44.4m, 67% higher than the same time last year.

Dividend

While an interim FY13 dividend will not be paid, the initiatives currently being implemented across the business are expected to deliver a gradual but material improvement in net bank debt in coming periods. The Company is conscious of the need to strike a balance between the long term reduction in bank debt and the distribution of gains to shareholders, and as such will be reviewing the dividend policy at year end.

Key focus areas/ outlook for the reminder of FY13

Current trading conditions and costs of doing business

- Trading conditions across Australia and New Zealand are expected to remain at current levels in the near term.
- Higher average FX import rates will assist margins but the full impact will not be seen while market conditions remain challenging and promotional activity remains historically high.
- Higher export FX rates will continue to impact International earnings.
- Will continue to focus on working with landlords to generate lower rental costs at lease renewal time. Stores will be closed if appropriate lease terms cannot be negotiated.
- Focus to remain on reducing overheads and ensuring cost structures are contained as the business grows into the future.

Multi-channel and customer experience strategies

- Multi-channel and customer experience strategies remain a very important long term strategic focus area.
- The customer decides when, how, and where they buy so these initiatives are crucial to the future success of the business.
- Technology is being used to create a true multi-channel customer shopping experience.
    - 'Click & Collect' (order online, pickup in store) is still in the early stages but continues to exceed expectations.
    - 'E-counter' (online orders in store, delivery to home) is currently being trialed.
    - A number of other initiatives are in the pipeline.
- Patch General Store is still in the development phase. Product range continues to be expanded.
- Social networking initiatives being increasingly used to interact with our customer community.

Enhancing product design, procurement, and supply chain processes

- Implementing a number of initiatives relating to product design, procurement, and supply chain processes.
- Focus on ensuring product designs and core brand values are aligned with both current and future customer needs and market growth strategies.
- Earnings and working capital benefits will flow from these changes in FY14 and beyond.

Online

- Online sales continue to grow rapidly (approx 28% YTD).
- Developing online business concepts for international franchise partners.
- Online will remain a low cost and flexible way to enter new markets.
- No significant capital investment is required in the medium term.

International partners

- Local currency sales are expected to grow in existing and new markets but the high New Zealand dollar will continue to impact earnings.

- Bed in the new relationships (Mexico, Venezuela, Brunei) and assist in the development of the 26 Charlie & Me stores across the Middle East.
- Exploring a number of opportunities for both Pumpkin Patch and Charlie & Me brands across the Middle East, Asia, Central America, and South America.

Charlie & Me

- Online uptake continues to exceed expectations, confirming it will be a strong online brand.
- Continue to assess retail store operating performances vs. the strategic plan. Store trials to date have confirmed the long term store location requirements.
- Product now available in 26 franchise locations in the Middle East.
- Currently exploring international franchise opportunities with new and existing partners.
- The brand will be a major part of the long term international growth strategies.

Balance Sheet

- Current initiatives will lead to improved earnings and lower working capital and net bank debt in FY14 and beyond.
- Will continue with a disciplined approach to capital expenditure.

Summary

Although the first half period was challenging and the result reflects that, the Company continues to make good progress in reorganising the business to ensure it is well positioned to successfully execute its long term growth strategies in both Australasian and international markets and deliver benefits for shareholders in years to come.

Neil Cowie
Chief Executive Officer

Jane Freeman
Chairperson

Pumpkin Patch Limited
18 March 2013