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Pumpkin Patch Limited
Audited results for the 12 months ended 31 July 2013

Headline Financial Numbers

	July 2013 ($'000) 12 months	July 2012 ($'000) 12 months	
Operating revenue (continuing operations)	288,693	300,609	(4.0%)
Net profit after tax (before reorganisation costs) (1)	8,522	10,128	(15.9%)
Reorganisation costs (after tax) (1)	(3,461)	(37,655)	(90.8%)
Net profit (loss) after tax	5,061	(27,527)	118.4%
Net bank debt	48,321	54,657	(11.6%)
Inventory	58,997	61,448	(4.0%)
Shareholders' Funds	55,106	33,457	64.7%

(1) This is a non-GAAP measure. A reconciliation to NZX Appendix 1 is attached

Speciality childrenswear retailer, Pumpkin Patch, today reported underlying net earnings of $8.5 million for the 12 months ended 31 July 2013, at the upper end of guidance given in June, and that it had returned to profitability with a strengthened balance sheet.

Total revenue from the continuing business operations was $288.7m, down 4.0% on last year. Total Group reported earnings after tax were $5.1m, a turnaround from the $27.5m loss last year. Excluding reorganisation costs and trading losses from discontinued operations underlying net earnings for the year were $8.5m (FY12: $10.1m).

Commenting on the result, Chief Executive Di Humphries said while the reported result was “significantly” better than last year and the Company is in a stronger financial position, “there’s still a lot of hard work ahead of us especially while trading conditions remain challenging”.

Online sales were again the highlight for Pumpkin Patch up 18% to $38.7m. Humphries said online is a very profitable part of the business that now generates earnings almost twice that of all Pumpkin Patch New Zealand retail stores combined.

Pumpkin Patch’s online business is significantly more developed than most retailers with online sales in Australia now equivalent to around 16% of the company’s Australian retail sales.

“We see the online business continuing to grow strongly. With its higher than average operating margins it will be an even bigger earnings contributor going forward,” she said.

Humphries, who took over the CEO role on 27 August, said the company’s efforts to reduce debt levels and control working capital were starting to be seen in the numbers. With net bank debt at $48m and continuing to track much lower, and net assets up around 65% the balance sheet was “in the best position it has been for years”.

The Company has not declared a final dividend for FY13 as the reduction of bank debt continues to remain a key priority area. “Dividend payments will be reviewed in the first half of 2014 in light of the progress being made in achieving strategic milestones and the status of the debt reduction plans at that time.”

“We are pleased with the progress we are making in repositioning the business and remain committed to our long term growth strategies which we are confident will deliver much improved returns to our shareholders.”

The specialty childrenswear retailer, which is now represented in close to 300 franchise locations across 20 overseas markets, saw its International segment generate sales of $40.6m despite facing challenging conditions in many of its markets. “While our larger markets experienced subdued local retail conditions, the new markets coming on stream and the very strong uptake of the Charlie and Me brand in the Middle East drove a 20% increase in overall sales.”

“With over 80% of our revenue coming from offshore markets we are becoming a true international operator.” Humphries believes that while the international business can create volatility in earnings, as has been the case this year, the increasing international exposure provides Pumpkin Patch with much more significant growth opportunities than what it would have if the company’s plans were just focused on Australasia. “We are pushing ahead with our international growth strategies and are currently exploring franchise, wholesale, and online opportunities in a range of markets around the world.”

Pumpkin Patch is continuing to invest in improving the customer experience through initiatives such as its recently revamped websites and the popular ‘click and collect’ model that allows customers to buy online and pick up in store. Humphries said there are more innovations in-store and on-line planned for the coming year to give more flexibility to customers allowing them to shop when, where and how they want to.

Humphries said the last couple of years has been all about refocusing the company on its core business areas and making the changes necessary to be able to take advantage of significant growth opportunities that exist for Pumpkin Patch. The change process in 2013 was focused on implementing new product design strategies and this will continue in 2014 along with increased focus on procurement and supply chain strategies to support the company’s longer term growth plans. “The benefits of the change process will start to be seen later in FY14 with the full benefits expected to be seen later in FY15,” she said. ENDS.

Pumpkin Patch Limited
27 September 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
Audited result for the 12 months ended 31 July 2013

Notes:

- All references to dollars are NZ Dollars unless otherwise stated
- This document should be read in conjunction with the Appendix 1 document filed with the NZX

Overview

Pumpkin Patch Limited has today announced its audited result for the 12 months ended 31 July 2013.

Total Group earnings after tax were $5.1m, a significant improvement from the $27.5m loss reported last year. Excluding reorganisation costs and trading losses from discontinued operations underlying net earnings for the year were $8.5m[1] (FY12: $10.1m).

Total revenue from the continuing business operations was $288.7m, down 4.0% on last year.

Online sales again grew strongly with sales reaching $38.7m, up 18% on last year. Earnings from the global online operation are approximately twice the earnings from all New Zealand retail stores combined. The ongoing development of online capability locally and offshore will remain a key focus area and a major driver of future earnings growth.

New markets coming on stream and a strong uptake of the Charlie & Me brand in offshore markets drove a 20% increase in International sales to $40.6m. However the higher average exchange rates faced during the year, a sales mix move towards the lower margin Charlie & Me product, and market development costs impacted International earnings.

Retail conditions in Australia and New Zealand were very challenging across the entire year. Both markets were characterised by high levels of promotional activity and subdued consumer sentiment, particularly in Australia.

The Company continued with its long term strategic change process that it started in FY12. The main area of focus in FY13 was the product design area to improve the overall offer and to better match customer needs. The first product designed under the new process was launched across Australasia in July for the current summer season.

This change process is set to continue in FY14. While the main area of focus will remain the development and execution of the new design strategies, these will be supported by procurement and supply chain strategies that will better support local and international growth plans.

While Australasian trading conditions remain subdued and promotional activity remains higher than normal the full impact of the strategic change process will not be seen until late in FY14 and into FY15. However the Company is expecting lower inventory levels and a continued disciplined approach to capital expenditure and other major spend items to be reflected in lower bank debt in the latter part of FY14.

As a result of the ongoing strategic change process reorganisation costs of $4.2m were recognised during the year (FY12: $39.8m).

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[1] This is a non-GAAP measure. A reconciliation to NZX Appendix 1 is attached

Overview of FY13 Financial Result

Australia

The soft retail environment and high levels of promotional activity created very challenging trading conditions in Australia. Total sales for the year were $193.0m, down 7.1%. Revenue generated in Australia accounts for 67% of total group revenue.

Although there was an overall sales mix move towards the higher margin online sales the increased level of promotional activity, a higher average NZD/ AUD exchange rate, and the highly fixed nature of store overheads led to a 2.0% reduction in overall segment EBIT margins to 14.8%. Total segment EBIT was $28.5m (FY12: $35.0m).

The Company continues to open new stores where strict investment criteria are met. During the year three new Pumpkin Patch stores were opened and two underperforming stores were closed. As part of the ongoing review of the Charlie and Me retail trial stores one underperforming store was closed and one was rebranded Pumpkin Patch. Store numbers now total 129.

New Zealand

New Zealand was also impacted by soft retail conditions and higher levels of promotional activity across the year. Sales totalled $55.1m, down 6.9%.

The higher levels of promotional activity were offset by improved average import exchange rates and the sales mix move towards the higher net margin online sales leading to total segment EBIT margins increasing to 16.7% (FY12: 16.2%). Total segment EBIT was $9.2m.

During the year one Pumpkin Patch store and one Charlie and Me store were opened and one Outlet store was rebranded Pumpkin Patch. Store numbers now total 53.

International

Total sales for the period were $40.6m, up 20.3%. The growth came mostly from increased shipments of Charlie and Me product to franchise partners. Sales growth from the more established markets was impacted by subdued local retail conditions and political and civil unrest in some regions. The higher average export exchange rates faced during the year also impacted the translation of international sales.

Segment EBIT of $4.5m (FY12: $6.2m) was impacted by the sales mix move towards the lower margin Charlie and Me product, higher average export exchange rates, and the costs of establishing new wholesale markets.

The International segment currently consists of 288 partner locations across 20 markets, 3 retail stores in Ireland and Company operated websites selling product in 6 international markets.

During the year the Company commenced shipments of Pumpkin Patch product to Mexico and Venezuela, and of Charlie & Me product to the Middle East.

Talks are underway with a number of potential partners in the Middle East, Europe, Asia, Central America, and South America for both Pumpkin Patch and Charlie and Me brands. Opportunities being explored include franchise, wholesale, and online models. Any new relationships formed in FY14 year are unlikely to trade to any meaningful level until FY15.

Central Support Functions

Total Central Support costs excluding head office reorganisation costs were lower at $25.5m (FY12: $27.3m) driven by savings from the ongoing review of central support functions.

Other Financial Information

Reorganisation Costs

Reorganisation costs of $4.2m were recognised in the year (FY12: $39.8m).

Impairment and onerous lease charges of $2.8m were made for underperforming Australian stores. Should appropriate arrangements not be negotiated with landlords these stores will be closed at the earliest opportunity.

Employee related reorganisation costs of $1.3m were recognised. These mostly relate to the ongoing review of Head Office functions.

In addition $0.1m of other miscellaneous reorganisation costs were incurred during the year.

Cash Flows and Balance Sheet

Net bank debt at July was down 11.6% to $48.3m (FY12: $54.7m) and inventory was $59.0m (FY12: $61.4m). The strategic initiatives being implemented will lead to lower levels of working capital and bank debt later in FY14 and into FY15.

Gross capital expenditure, before landlord contributions, was $7.8m (FY12: $7.8m). The future online and international growth strategies are not expected to lead to any material capital expenditure requirements.

Shareholders' funds were $55.1m, 65% higher than last year driven by the improved earnings result and a $24.8m increase in the mark to market value of the Company's foreign exchange cover portfolio (FY13: $3.4m mark to market gain; FY12: $21.4m mark to market loss).

Dividend

The Company has not declared a final dividend for FY13 as the reduction of bank debt continues to remain a key priority area. However dividend payments will be reviewed at the end of 1H14 in light of the progress being made in achieving strategic milestones and the status of the debt reduction plans at that time.

Key focus areas/ outlook for FY14

Continue the change process

- The development and execution of the new design strategies will remain the main area of focus in the coming year.

- Changes are to be made to procurement and supply chain processes to better support local and offshore growth plans.
- Will continue to adjust Head Office functions to best support the strategic initiatives.
- The changes being made will lead to earnings, working capital, and bank debt benefits later in FY14 and beyond.

Reconnecting with our customers
- Developing marketing strategies to clearly define the core brand values and communicate these to customers.
- Will increase the use of social media and market research to interact with customers.

Online
- Local and international online sales will continue to grow strongly in FY14.
- The online business will continue to deliver EBIT margins significantly higher than the retail business units.
- Currently assessing online business opportunities with international partners.

International partners
- Sales growth in FY14 will come mostly from Charlie & Me and the more recently commissioned markets.
- Subdued local retail conditions and civil and political instability will continue to suppress growth rates in some markets.
- Will continue to work closely with partners in new markets to develop both brands.
- Exploring a number of franchise, wholesale, and online opportunities for both Pumpkin Patch and Charlie & Me brands.

Charlie & Me
- The brand is going to be a major part of long term local and international growth strategies.
- Online uptake of the brand continues to exceed expectations.
- The largest international market for the brand (Middle East) is trading strongly. Will work with partners to develop what is expected to be significant long term growth opportunities in the region.
- Currently exploring international franchise opportunities for the brand with new and existing partners.
- The retail stores are meeting expectations. A disciplined store roll out strategy is to be followed with new stores having to meet strict financial criteria.

Multi-channel and customer experience strategies
- Multi-channel strategies will remain an important part of the long term growth plans.
- ‘Click & Collect’ (order online, pickup in store) continues to exceed expectations. The uptake is expected to grow as customers adopt this option.
- ‘E-counter’ (online orders in store, delivery to home) is currently being trialed and is expected to be rolled out in 2H14.
- New transactional websites were launched in August to offer enhanced functionality to improve the customer buying experience.
- The development of Patch General Store is to continue with range expansion being the current focus area.

Current trading conditions and cost of doing business
- Trading conditions across Australia, New Zealand, and major International markets are expected to remain challenging in the near term.

- EBIT margins will be suppressed while market conditions remain challenging and promotionally driven.
- The fluctuating FX rates will continue to impact earnings and create volatility.
- Store and central support costs will continue to be reviewed to ensure cost structures reflect future business requirements.
- Focus to remain on working with landlords to generate better lease outcomes.

Balance Sheet

- The current initiatives being implemented will lead to lower working capital and lower net bank debt in late FY14 and beyond.
- Will continue with the disciplined approach to capital expenditure with total spend expected to remain around FY13 levels
- While the short term focus is to remain on reducing bank debt dividend payments will be reviewed at half year in light of progress in achieving strategic milestones and the status of the debt reduction plans at that time.

Summary

Although the Company faced challenging trading conditions across its major markets during the year it continued to make significant progress in repositioning itself so it can successfully execute its long term growth strategies in local and international markets. While the change process is still ongoing and the full benefits will not be seen in FY14 the Company is confident that the strategies being implemented will deliver materially better returns for shareholders in years to come.

Di Humphries	Jane Freeman
Chief Executive Officer	Chairperson

Pumpkin Patch Limited
27 September 2013

Reconciliation to NZX Appendix 1

	2013 $000	2012 $000
Net profit after tax (before reorganisation costs)	$8,522	$10,128
Reorganisation costs included within results from continuing operations	($3,884)	($4,568)
Reorganisation costs included within results from discontinuing operations	($345)	($35,266)
	($4,229)	($39,834)
Tax effect of reorganisation costs	$768	$2,179
Reorganisation costs (after tax)	($3,461)	($37,655)
Net profit (loss) after tax	$5,061	($27,527)

	2013 $000	2012 $000
Net bank debt	$48,321	$54,657
Interest bearing liabilities:		
Current liabilities	$25,000	$45,000
Non-current liabilities	$27,000	$15,000
	$52,000	$60,000
Less Cash and cash equivalents	$3,679	$5,343
Net bank debt	$48,321	$54,657