THE AUSTRALIAN

SE Business

HD **CEO sees silver lining in gloom at PacBrands**

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WC 505 words
PD 11 June 2014
SN The Australian
SC AUSTLN
ED Australian
PG 19
LA English

LP

CLOTHING and homewares company Pacific Brands has blamed a collapse in consumer sentiment for its decision to cut full-year earnings guidance by more than 14 per cent, as sales to retail customers suffer from a warmer than expected winter.

The company behind brands such as Bonds underwear, Sheridan sheets, Hard Yakka workwear and Berlei bras has forecast annual earnings before interest and tax of between $90 million and $93m before one-off items, down from previous forecasts for EBIT of $105m and as much as 27 per cent below last financial year.

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The downgrade comes less than four months after the company announced a $242m writedown against the value of its workwear division as a slowdown in Australia's manufacturing and resources sector translated into reduced demand.

"The immediate issues for us have been the shift in consumer sentiment, which is the thing I've been most surprised by; the weather certainly hasn't helped, with at least two major retailers pushing back their June sale activity because they haven't got the start to winter that they needed, and the overall performance of the discount department store sector has been troublesome," said chief executive John Pollaers.

Shares in PacBrands fell 5c to 51c yesterday, the biggest one-day fall since the workwear writedown in February.

Mr Pollaers said he was making progress with his strategy to reduce the company's reliance on wholesale earnings — which have suffered as many of its traditional customers have moved to source private-label products directly from offshore suppliers — and increase earnings from higher-margin retail channels.

"The good news is that our own retail business is performing exceptionally well, our online is performing beyond anyone's expectations, new categories are doing well and even our international business is starting to show some interesting signs," he said.

"It's a story of two halves — the wholesale world is really challenging, but the new channels and new product areas are actually performing well — although the net picture is that consumer sentiment, weather and discount department stores are the challenge." Since the strategy was introduced 12 months ago Mr Pollaers said the company had opened nearly 30 Bonds stores and expanded them to include children's wear, rebadged 40 outlets as Bonds stores, and launched sleepwear, bras, activewear and babywear, expanded distribution in China and opened stores in Indonesia, where it was also selling via British retailer John Lewis.

Meanwhile PacBrands had accelerated cost reduction measures — which would lead to one-off restructuring costs of $25m-$30m in the second half — and in April appointed Macquarie to conduct a further strategic review, with the aim of reducing the company's tail of underperforming brands.

“We have a larger portfolio than we need for this business, and as we have worked on our relationships with retailers it has become clear where our star performers are, which obviously raises questions around some of the balance,” Mr Pollaers said.

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CO pacbra : Pacific Brands Ltd

IN iclt : Clothing/Textiles | icnp : Consumer Goods

NS c151 : Earnings | c15 : Performance | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter | cslmc : Senior Level Management | c41 : Management Issues

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB News Ltd.

AN Document AUSTLN0020140610ea6b00047

