HD (SWPBG) Ferret's Stock Watch: PACIFIC BRANDS LIMITED

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COLLECTIVE BUSINESS IS GOING BUT ALL THE REST INTACT

Sydney - Tuesday - Nov 18: (RWE Australian Business News) - PACIFIC BRANDS (ASX:PBG) has confirmed it is in discussions regarding a potential **sale** of its Brand Collective business.

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The **company** yesterday confirmed that Brand Collective is talking to buyers, though no transaction has yet been agreed upon.

An announcement will be made by the **company** if and when agreement is reached.

Market observers suggest a deal might be put together with a number of buyers this week, although some in the market are questioning the length of time it will take.

The brand Collective division includes Volley, Hush Puppies, Julius Marlow, Clarks and Grosby Shoes, and licensing for clothing brands including Superdry and Mossimo.

According to the Australian Financial Review, Brand Collecive earns more than 15 per cent of group sales in 2013-14 worth $204.5m.

But the unit incurred a $22.3m earnings before interest and tax loss due to heavy restructuring and impairment costs.

Last week chairman Peter Bush told shareholders at the annual meeting he wished he was standing up saying there had been a miraculous bounceback in consumer confidence and that retail was roaring again:

It simply isn't.

And while we have been taking all practical steps to engineer better performance from your business, we still have some way to go.

At our full-year results in August we reported mixed results.

There were some bright spots - and some areas flagged for serious improvement.

We achieved strong growth in **Bonds** and Sheridan, underpinned by increased direct-to-consumer sales.

Those results were pleasing and are a credit to our teams leading these parts of our business.

Our earnings were impacted by wholesale gross margin performance, investment in capability and significant items.

Reduced earnings, higher working capital and capital expenditure, acquisitions and additional restructuring costs led to an increase in net debt at 30 June 2014.

As you would expect, the board believed it was prudent that no final dividend be declared to assist with funding restructuring costs and restoring balance sheet strength.

Working capital management, cash conversion and net debt reduction area key focus for us in the year ahead.

The year ahead - strategic priorities I mentioned a few moments ago that we were taking all practical steps to drive better **company** performance.

As shareholders - many of you longstanding - you will know that a great deal has been achieved in the last few years in terms of restructuring and repositioning our businesses, taking costs out and getting the right people into the right places.

We are now focused on adopting a more balanced growth and disciplined cost agenda.

We will continue to invest in key brands and drive cost reduction initiatives to mitigate earnings pressure.

We are moving to a more decentralised organisation model which provides business units with more end-to-end accountability for performance and helping restore balance sheet strength.

In June this year we announced a strategic review across the business.

One early result of this review was the decision and now agreement to divest the Workwear business to Wesfarmers.

There will be more outcomes from the review and we will keep you informed.

Suffice to say for now - we will continue to review portfolio rationalisation options as appropriate to further simplify the business and maximise shareholder value.

SHARE PRICE MOVEMENTS

Shares of Pacific Brands yesterday edged up 1c to 49.5c. Rolling high for the year is 74.5c and low 42c. Dividend has been passed after a previous paypout of 2c. Earnings per shares and price earnings ratio finished negative. The **company** has 917.2 **million** shares on issue with a market cap of $454 **million**.

Mr Bush referred to the new CEO David Bertolussi taking over from John Pollaers, having stepped down from the role on July 7:

John led a revitalisation of the **company**'s culture and brought a real focus on investing in growth strategies for each business, against which substantial strategic progress has been made in an increasingly challenged environment.

As we informed the market at the time, John's departure was driven by divergence between his views and those of the board regarding the best path forward for the **company** and its businesses.

Our different views about the future for the **company** became clearer as the **company**'s strategic review progressed.

You will note that the termination payment of one year's fixed annual remuneration ($1.4m) paid to John on the cessation of his employment was in accordance with his employment contract, as previously approved by shareholders.

The board appointed David Bortolussi, who has been with the business for over five years and has a deep understanding of the **company**, its financial complexity and the challenges and opportunities we face.

David is well-placed to **lead** the organisation.

Looking ahead, the chairman stated F15 would remain challenging, with variable market conditions likely to be unchanged:

We will continue to work to reduce costs and improve performance, and David will provide more details on our 1H15 trading outlook, which remains in line with our August guidance.

Mr Bush then invited Mr Bertolussi to take the meeting through the F14 results in more detail, provide an update on the strategic review, and provide some additional comments on the outlook for F15:

Results summary and key messages

* So firstly, moving to the results summary¡

* As the chairman mentioned, we reported a substantial loss in F14 due to significant non-recurring items, most notably the non-cash impairment of the Workwear business recognised at the half.

* Reported sales were up 3.8%. This was due to growth in our Underwear and Sheridan Tontine businesses - with **Bonds** up 20% and the Sheridan brand up 16%, which were both highlights for the year.

* Consistent with our strategy, we made meaningful progress in shifting the shape of our business, with retail increasing from 14% to 19% of sales, and online growing rapidly from 2% to now 4% of group sales and a much higher proportion of sales for some of our key brands.

* Growth in retail and online more than offset lower wholesale sales, which were down due to a significant decline in the industrial market, reduced distribution and sales of portfolio brands, and key account underperformance in the discount department store and department store channels.

However, Earnings Before Interest and Tax and Net Profit After Tax before significant items declined, with Underwear and Sheridan Tontine down materially, and Workwear again affected by reduced demand from the manufacturing, construction and resource sectors.

Brand Collective was up in the second half due to the benefits of its restructuring program, to end the year flat overall, but still at near breakeven levels

* As a result, we have accelerated and expanded performance improvement and cost reduction initiatives across the group.

Working capital levels increased materially, driven by wholesale sales underperformance versus plan, investment and growth initiatives, and the inflationary impact of a lower Australian dollar. This along with restructuring costs and lower earnings led to an increase in net debt to $249m.

* Reducing net debt is one of our key priorities for F15. To that end, and as the chairman mentioned earlier, we have therefore taken the difficult but appropriate decision not to pay a final dividend this year.

BACKGROUND

Pacific Brands has come a long way from manufacturing Dunlop bicycle tyres in 1893.

Today, Pacific Brands is famous for marketing iconic brands including **Bonds**, Sheridan, Hard Yakka, Berlei, Clarks, Hush Puppies, KingGee, Superdry, Tontine and Volley.

Headquartered in Melbourne, Pacific Brands operates throughout Australia, New Zealand, **China**, Indonesia, United Kingdom, Dubai and the United States.

It says the passion of its 5,000 employees is the driving force behind its success:

"At Pacific Brands, we are more than just products and sales - we are a collective of people who are united by our desire to create unique, highly connective and valued brands."

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