



MEDIA RELEASE

PUMPKIN PATCH ANNOUNCES FY15 RESULT

Children's clothing company, Pumpkin Patch has today reported a \$9.1 million after tax loss for the year to July 31 2015, compared to an \$11.5 million after tax loss for FY14 (including prior period adjustments).

The FY15 loss is significantly higher than previous guidance of a modest loss due to a number of factors, mainly additional impairment provisions against under-performing stores and working capital risks as signalled to the market on Friday.

Normalised EBITDA (before reorganisation costs and prior period adjustments) for the 2015 financial year is \$11.7 million, in line with latest guidance. This compares to normalised EBITDA for FY14 of \$17.0 million. Reduced year on year profitability reflects mainly a strong Kiwi dollar, impacting the translation of Australian dollar sales and profits. Also contributing was the loss of key wholesale customers in the northern hemisphere and lower online sales in the United Kingdom and the United States where Pumpkin Patch no longer has any bricks and mortar retail presence.

Total Group Revenue was \$238.5million, down 1.0% on the 53 week trading period last year. On a comparable 52 week basis, same-store sales were up 0.5% in New Zealand and up 6.4% in Australia (in Australian dollar terms). Online sales in Australia were also up, 7.5% on last year in Australian dollar terms, but flat in New Zealand.

Sales in both the wholesale and online channels outside of Australasia were significantly down on last year. Rest of world sales were down 7.5% compared to the previous year.

Pumpkin Patch chairman, Peter Schuyt said, "our core retail businesses in New Zealand and Australia have performed well in a highly competitive and promotionally driven market, but the strengthening of the New Zealand dollar had a significant negative effect on the translation of Australian dollar sales and profits. This had a material impact on overall profitability for the year, partially offset by improved buying terms associated with a higher US dollar cross rate."

Schuyt said that also contributing to lower performance compared to last year was the loss of key northern hemisphere wholesale accounts.

Mr Schuyt addressed recent speculation in media reports regarding the financial stability of the company saying that Pumpkin Patch had made real progress in the crucial areas of improving stock efficiency and reducing debt. Net bank debt reduced by approximately \$20 million in the past year in real terms with operating cash inflows of \$29.7 million being generated in the year compared to an operating cash outflow of \$8.0 million last year.

In Friday's market update the company also signalled that it was in advanced discussions with its bank about the scheduled extension of banking facilities. Peter Schuyt said discussions with the company's bank had been successfully concluded with facilities in place through to the end of 2017, on terms and conditions appropriate to the circumstances of the company.



Mr Schuyt confirmed that chief executive Di Humphries would step down next month and Luke Bunt, who joined the Pumpkin Patch board last October and was appointed managing director in August, has transitioned into the role.

Luke Bunt said that his priorities since joining the board had been on ensuring the company's debt reduction objectives were met and on refinancing the business.

Since taking on executive responsibilities, Mr Bunt had also focussed on building the executive capability necessary to address the operational issues faced by the company and on completing a detailed review of competitive positioning and performance. He said that while good progress has been made in these areas, there was still a lot of work to be done.

Bunt said that while the operational issues are challenging and complex, what the competitive review has confirmed so far, evidenced by market research, is the strong loyalty that the brand retains among its customers. "The review has underscored that Pumpkin Patch's focus must come back to its customers, the style of clothes they want to buy for their kids, the experience they want to enjoy in our stores and how they want to communicate and engage with us."

"To achieve this, investment will be required in product design, all our channels to market and on various customer communication mediums," he said.

Looking ahead to FY16, the company reiterated previous guidance that currency headwinds and the flow on from the loss of wholesale business and challenges in some on-line markets would result in normalised EBITDA for the year being considerably below FY15.

The company did not declare a dividend for the year ended 31 July 2015.

ENDS

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Pumpkin Patch FY15 Full Year Annual Result and commentary follows



Pumpkin Patch Limited Audited results for the 12 months ended 31 July 2015

Notes:

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

Headline Financial Numbers

	July 2015 (\$'000) 12 months	July 2014 (\$'000) 12 months Restated	
Operating revenue (continuing operations)	238,537	240,902	(1.0%)
EBITDA (before reorganisation costs and prior period adjustment) (1)	11,739	16,974	(30.8%)
Net profit before tax (before reorganisation costs and prior period adjustment) (1)	(2,090)	1,770	n/a
Prior period adjustment (1)	1,046	(1,329)	n/a
Reorganisation costs (before tax) (1)	(6,379)	(14,563)	56.2%
Reported net loss before tax	(7,423)	(14,191)	47.7%
Tax (expense) / credit	(1,656)	2,627	(164.2%)
Reported net loss after tax	(9,079)	(11,495)	21.0%
Cash flows from operating activities	29,658	(8,035)	469.1%
Net bank debt	39,130	64,923	39.7%
Inventory	41,230	64,318	36.3%
Shareholders' Funds	28,177	33,805	(16.6%)

Pumpkin Patch Limited has today announced its audited result for the 12 months ended 31 July 2015.

Total Group revenue was \$238.5 million, down 1% on the 53 week trading period last year. Trading conditions were challenging throughout the year across all channels with the sector experiencing high levels of promotional activity.

The difficult trading environment combined with a strengthening of the New Zealand dollar, particularly against the Australian dollar, challenges in northern hemisphere wholesale and online markets, together with the FY14 year being a 53 week trading period were the main contributing factors to sales being slightly below last year overall.

In New Zealand sales were up 0.5% on a same store basis whilst in the Australia the Company achieved same store sales growth of 6.4% in Australian dollar terms on a comparable 52 week period basis. Consistent with this, online sales into Australia were up 7.5% (in Australian dollar terms) with New Zealand online sales flat year on year.

Rest of world sales in both the wholesale and online channels were significantly down on last year due to a number of factors including loss of key wholesale accounts during the year and challenges in maintaining online sales in markets such as the United Kingdom and United States where the Company no longer has any physical retail presence.

Gross profit margin achieved in FY15 was 51.4%, compared to 50.1% last year and reflects improved average import exchange rates partially offset by the high levels of promotional activity and clearance of aged stock.

Normalised EBITDA (before reorganisation costs and prior period adjustments) was \$11.7m¹, 30.8% down on last year (FY14: \$17.0m) mainly due to negative currency impacts and provisioning against working capital risks partially offset by head office cost savings.

A net reported after tax loss of \$9.1 million was incurred for the year (FY14: \$11.5m loss after restatement for prior period adjustment). This reflects negative currency impacts, further reorganisation costs of \$6.4m and a net tax expense arising through reversal of previously recognised deferred tax benefits attributable to prior year losses. No tax benefit has been recognised for current period losses.

A prior period adjustment has been made by the Company. During preparation of the FY15 financial statements an error was highlighted relating to historic foreign exchange inventory adjustments, which became evident in light of the substantially reduced levels of inventory held at July 2015 when compared to levels held in prior years. As a result the balance sheets for the years ended 31 July 2013 and 31 July 2014 have been restated thereby decreasing the reported inventory values of \$7.0m and \$8.4m respectively, while the Income Statement for the year ending 31 July 2014 has also been restated to reflect increased before-tax costs of \$1.3m.

In spite of the challenges faced during the year the Group achieved significant positive operating cash flows of \$29.7m compared to a cash outflow of \$8.0m last year. This reflects the focus placed on working capital management and in particular reducing aged inventory levels. Net bank debt has reduced to \$39.1m at July 2015, down 39.7% last year (FY14: \$64.9m). It should be noted however that approximately \$5.0m of the debt reduction relates to timing of seasonal stock deliveries crossing balance date and reflected in trade creditors.

Overview of FY15 Financial Result

Australia

The competitive environment remained intense in Australia throughout the year, with high levels of promotional activity required to drive sales. The Company achieved solid same store sales growth of 6.4% in its retail channel and online sales growth of 7.5% in Australian dollar

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

terms. The increased sales performance in local currency terms was negatively impacted by the stronger New Zealand dollar when translated into New Zealand dollar terms.

Total Australian sales for the year were \$151.9m, up 1.3% on last year. Australia remains a crucial market for the Group with sales revenue generated in Australia accounting for 64% of total Group revenue.

During the year nine Australian stores were closed.

High levels of promotional discounting and a higher average NZD/AUD exchange rate, partially offset by improved gross profit margin, led to a net 2.0% reduction in overall segment EBIT margin to 10.7% (FY14: 12.7%). Total segment EBIT was \$16.2m (FY14: \$18.9m)

New Zealand

Retail conditions in New Zealand remained subdued throughout the 2015 financial year. As in Australia, the market remained highly promotionally driven. Same store sales growth of 0.5% was achieved in New Zealand, however overall sales in New Zealand totalled \$46.8m, down 2.4% on last year.

Improved gross margin performance offset the high levels of promotional discounting resulting in EBIT margin remaining in line with last year at 17.6% (FY14: 17.6%). Total segment EBIT was \$8.2m (FY14: \$8.4m).

International

International sales for the period were \$39.8m, down 7.5% on last year, mainly due to the loss of key wholesale accounts. Segment EBIT of \$1.9m (FY14: \$4.2m) was also impacted by provisioning against working capital risks identified in overseas markets.

Central support functions

Total central support costs excluding head office reorganisation costs were \$22.4m (FY14 restated: \$26.9m) and reflects the impact of the restructure of the Head Office functions undertaken last year, and one off benefits unlikely to be repeated going forward relating mainly to foreign currency hedge positions.

Other Financial Information

Reorganisation costs

Reorganisation costs of \$6.4m¹ were recognised in the year (FY14: \$14.6m). This comprises provisions made in relation to underperforming stores (\$3.8m), costs incurred in relation to transformation projects (\$1.1m), the cost of corporate activity undertaken during the year (\$0.5m), and staff related reorganisation costs associated with stores closures and changes at head office level (\$0.9m).

Cash Flows and Balance Sheet

Net bank debt at July was down 39.7% to \$39.1m (FY14: \$64.9m) and inventory was \$41.2m (FY14 restated: \$64.3m) which is a reflection of aged stock clearance activity throughout the year and the timing of new season stock shipments estimated to be approximately \$5.0 million.

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

Gross capital expenditure, before landlord contributions, was \$3.8m (FY14: \$8.6m) and reflects the reduced rollout and refurbishment of retail stores and lower level of investment in IT systems during the year.

Shareholders' funds were \$28.2m, 17% lower than last year driven by losses incurred partially offset by the impact of foreign exchange rates on the translation of overseas subsidiaries and the increase in the mark to market value of the Company's foreign exchange cover portfolio.

Dividend

The Company has not declared a dividend in respect of the 2015 financial year.

Outlook

As indicated previously the normalised EBITDA for the 2016 financial year is expected to be significantly lower than 2015 levels. The main contributing factors in the expected decrease are foreign currency headwinds and the flow on impact of the tough trading conditions in the wholesale and online channels.



Luke Bunt
Managing Director



Peter Schuyt
Chairman of the Board

Reconciliation to NZX Appendix 1

	2015 \$000	2014 \$000 Restated
EBITDA (before reorganisation costs & prior period adjustment)	11,739	16,974
Depreciation	(5,720)	(7,169)
Amortisation of intangible assets	(3,207)	(3,841)
Interest expense	(4,902)	(4,194)
Net (loss)/profit before tax (before reorganisation costs & prior period adjustment)	(2,090)	1,770
Profit from discontinued operations		69
Impact of prior period adjustment	1,046	(1,329)
Reorganisation costs included within results from continuing operations	(6,379)	(14,632)
Tax (expense) / credit	(1,656)	2,627
Reported net (loss) after tax	(9,079)	(11,495)
	2015 \$000	2014 \$000
Net bank debt	39,130	64,923
Interest bearing liabilities:		
Current Liabilities	41,000	
Non-current liabilities		66,000
	41,000	66,000
Cash and cash equivalents	1,870	1,077
Net bank debt	39,130	64,923

Earnings before interest, taxation, depreciation and amortization (EBITDA) excluding reorganization costs and prior period adjustment is a more appropriate measure than the actual reported net profit after tax as it better reflects the underlying performance of the Company.