

KATHMANDU HOLDINGS LIMITED



ASX/NZX/Media Announcement

21 September 2011

Kathmandu Holdings Ltd announces record sales and earnings result for FY2011:

NZ\$ Denominated Result

- Sales up 24.5% to \$306.1m,
- EBIT up 32.0% to \$64.0m,
- NPAT up \$13.9m (55%) to \$39.1m.

Final Dividend 7.0 cents per share, full year payout of 10.0 cents per share.

Kathmandu Holdings Limited (ASX/NZX:KMD) today announced a 32.0% increase in Earnings before interest and tax (EBIT) to NZ\$64.0 million. Net profit after tax (NPAT), increased from NZ\$25.2 million last year (excluding the costs associated with the company's IPO in November 2009) to NZ\$39.1 million for the year ended 31 July 2011.

Kathmandu Holdings Limited provided a trading update to the market in early August that previewed this year's substantial lift in sales and profit. "We have achieved double digit same store sales growth in both Australia and New Zealand, and improved margins despite the well publicised difficult economic environment and the resulting impact on consumer demand in all our markets", said Kathmandu Chief Executive Officer Peter Halkett. "Our 14 new stores opened during the year have all performed very well and we see continued growth opportunities for Kathmandu as we expand our retail footprint and introduce new products and an updated brand identity to the market over the next year," Peter Halkett said.

RESULTS OVERVIEW

Full Year Ending 31 July 2011	NZ \$m		Growth	
	FY11	FY10 ¹	NZ \$m	%
Sales	306.1	245.8	60.3	24.5%
EBITDA	71.4	54.4	17.0	31.3%
EBIT	64.0	48.5	15.5	32.0%
NPAT (last year before IPO costs net of tax)	39.1	25.2	13.9	55.2%
NPAT	39.1	9.4	29.7	316.0%

¹Excluding IPO costs

Key highlights of the FY2011 results include:

- Record sales of \$306.1m, a 24.5% increase over FY10,
- Same store sales growth of 15.7% overall,
- 100th store opened, total stores now 111,
- 14 new stores opened, 11 in Australia and 3 in New Zealand.

Peter Halkett said “Trading performance in Australia and New Zealand was strong across most of the year and our key promotional activity delivered volume growth at better margins in both countries.”

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Full Year Ending 31 July 2011	NZ \$m FY11	% of Total	Total Sales Growth %	Same store¹ Growth %	Number of New Stores
Sales - Australia	187.6	61.3%	32.2%	14.4%	11
Sales - New Zealand	110.3	36.0%	17.0%	12.3%	3
Sales - United Kingdom	8.2	2.7%	-14.6%	-7.1%	0
Total	306.1	38.7%	24.5%	15.7%	14

¹ Same store sales growth 12.9% at constant exchange rates

Peter Halkett noted that “As we commented in the trading update last month, we made a substantial investment in inventory in FY11, which was a key factor in Kathmandu’s sales growth throughout the year. We were able to meet demand throughout our three key promotional periods, whereas in the previous year we were challenged by limited stock availability, particularly during our Winter sale. We also benefited from colder weather patterns through the second half year, especially in Australia for our Easter sale”.

“The over 30 per cent increase in Summit Club membership numbers, and the consistent revenue growth Kathmandu achieved not just in the key promotional periods, but across the whole year, highlighted the growing popularity of the

Kathmandu brand and the appeal of our ever expanding product range”, Peter Halkett said.

During most of 2011 the A\$ and NZ\$ have been at record highs against the US\$, with the A\$ in particular being above parity for nearly all of the calendar year to date. By comparison, in the U.K. there was the combination of a weak economy which suppressed sales and a weak currency. Peter Halkett noted the currency impact had been helpful to the trading performance in the second half year. “The strong currencies had a double benefit. Not only did they assist to minimise that unhedged portion of our cost of imports, more importantly they encouraged a large increase in Australian and New Zealand offshore travel, and of course many of those people are Kathmandu customers” Peter Halkett said. “So whilst it is clear that consumers have generally been reducing debt and are very cost conscious, we believe those who enjoy outdoor activity and travel have continued to spend money on these pursuits, and have seen the past year as an opportunity to get good value from that spend.”

Stores Open 31 July	FY11	FY10
Australia	66	55
New Zealand	39	36
United Kingdom	6	6
Total Group	111	97

Kathmandu opened eleven new stores in the second half year (following three in the first half year). The stores opened in the second half were:

- Australia: Whitford City (WA), Belconnen (Canberra), Southport, Toowoomba, Orange, Cairns, Wagga Wagga, and Southland (Melbourne).
- New Zealand: Papanui, Whakatane and Ashburton.

The Christchurch earthquake event has resulted in the closure for an indefinite period, of Kathmandu's central city Cashel Street store, which is located close to major Christchurch office and hotel tower blocks currently being demolished. In FY12 four new stores are already confirmed to open, two each in New Zealand and Australia, and four existing stores in major cities are in the process of being re-located to new and larger premises. Peter Halkett confirmed that "most of this year's targeted fifteen new stores to be opened will again be in Australia." He also advised that "whilst the retail and general economic environment remains generally negative and uncertain, no further stores are planned for the U.K."

Full Year Ended 31 July 2011	ACTUAL FY11	ACTUAL FY10
Gross profit margin %	65.5%	63.2%

Gross profit margin was up 230bps on FY10, reflecting sales growth primarily coming from apparel categories with associated higher margins. An increasing share (now over 61%) of total sales is made in Australia where Kathmandu earns higher gross margins. Gross margins increased in both Australia and New Zealand in FY11.

OPERATING COSTS

Operating Expenses excluding depreciation and IPO costs	NZ \$m & % of Sales	
	FY11	FY10
Rent	31.9m	25.6m
<i>% of sales</i>	<i>10.4%</i>	<i>10.4%</i>
Other Operating costs	97.3m	75.3m
<i>% of sales</i>	<i>31.8%</i>	<i>30.6%</i>
Total	129.2m	100.9m
<i>% of sales</i>	<i>42.2%</i>	<i>41.0%</i>

Kathmandu's operating expenses increased by 120 bps as a % of sales, reflecting increased supply chain expenses due to stock volumes, the full year impact of listed company costs, and expenditure on the brand refresh project. This year's result also

included the cost of management bonuses linked to profit targets, whereas most profit-based incentives were not achieved last year.

The overall result of the strong sales and gross profit margin performance was an increase in EBITDA margin to 23.3% from 22.1% in FY10. EBIT margin similarly increased to 20.9% from 19.7% (FY10 result excludes IPO costs).

OTHER FINANCIAL INFORMATION

Full Year Ended 31 July 2011	FY11	FY10
Operating Cashflow	39.8	32.6
Capital Expenditure	(11.9)	(13.6)
	27.9	19.0
Inventories	54.0	37.4
Net Debt (including cash)	42.9	49.3
Net Debt: Net Debt + Equity	14.4%	17.1%
Interim Dividend paid (cents per share)	3 cents	Nil
Final Dividend proposed (cents per share)	7 cents	7 cents

Capital expenditure was lower than FY10 due to the timing of significant refurbishment / relocation projects pending the now planned rollout of the new brand identity. Peter Halkett commented that the effective delivery of the benefits from Kathmandu's brand refresh project has to be accompanied by an associated increased investment in the refurbishment of the Kathmandu retail network. "We are very positive about the benefits to come from the new Kathmandu brand identity, and in conjunction with the re-branding of our stores we are committed to a substantial upgrade programme. This involves also re-locating a number of our stores to larger and higher profile sites" Peter Halkett said.

Total inventories increased by NZ\$16.6 million, reflecting the planned increase in product range, an overall lift in stock investment and growth in store numbers. On a per store basis inventory investment increased by 26% on last year, but was up only 1% on the level in FY09. Peter Halkett commented that “The increased investment in stock ensured that we were able to take full advantage of the growth in demand that we were experiencing, particularly in the second half of FY11.”

Operating and Investing cash flow excluding financing costs increased by NZ\$8.9 million for the year, reflecting the growth in profit derived from the increased investment in inventories.

DIVIDEND

The Board advises the final dividend for FY11 will be 7 cents per share, bringing the total dividend payout for FY11 to 10 cents per share. The final dividend is 100% imputed for New Zealand shareholders and fully franked for Australian shareholders. Chairman James Strong said that “this payout, a ratio of 51% of NPAT, is supported by our strong operating cashflows and consistent with the range we are targeting over the medium term in conjunction with our capital investment programme.”

FUTURE YEAR OUTLOOK

Summing up Kathmandu's prospects for the year ahead, Peter Halkett said Kathmandu was confident in its business model, brand and proven growth strategies.

“The current retail environment, and cost pressures both domestically and internationally create a volatile and unpredictable environment. However, given our market position and brand strength we remain well placed for further growth in FY12.

This will be underpinned by:

- Our ongoing new store rollout programme, 15 new stores targeted in FY12, 4 new sites are already confirmed;
- Continued product range growth and development;
- Our new Brand identity and the associated advertising collateral now released to the market, and in association with this;
- The programme of re-furbishing and re-locating existing stores which in FY12 will involve a number of major city stores;
- Further enhancements and profile for our online business.”

Peter Halkett concluded his assessment of Kathmandu’s outlook stating “our key growth strategies are working and delivered solid sales and profit growth this year despite a tough environment, so FY12 is really about more of the same”.

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