Kathmandu - FY11 Results Presentation

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Results Overview

Results Overview: Highlights

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Financial Highlights

- Record sales ($306.1m) and earnings result (EBIT $64.0m)
- Strong growth in gross margins (230bps improvement)
- Improved EBIT margins (120bps improvement)
- Same store sales growth 15.7% (12.9% at constant exchange rates) underpinned by:
    - strong "active outdoor" category,
    - product range growth,
    - increased investment in inventory, and
    - favourable weather conditions

Key Milestones

- Opening of our 100th store (now 111 stores)
- Summit Club membership numbers exceed 500,000
- Brand refresh project completed and first new stores opened with new brand imagery
- Core systems upgrade completed, new distribution and inventory management systems now operative

Results Overview: Year-On-Year

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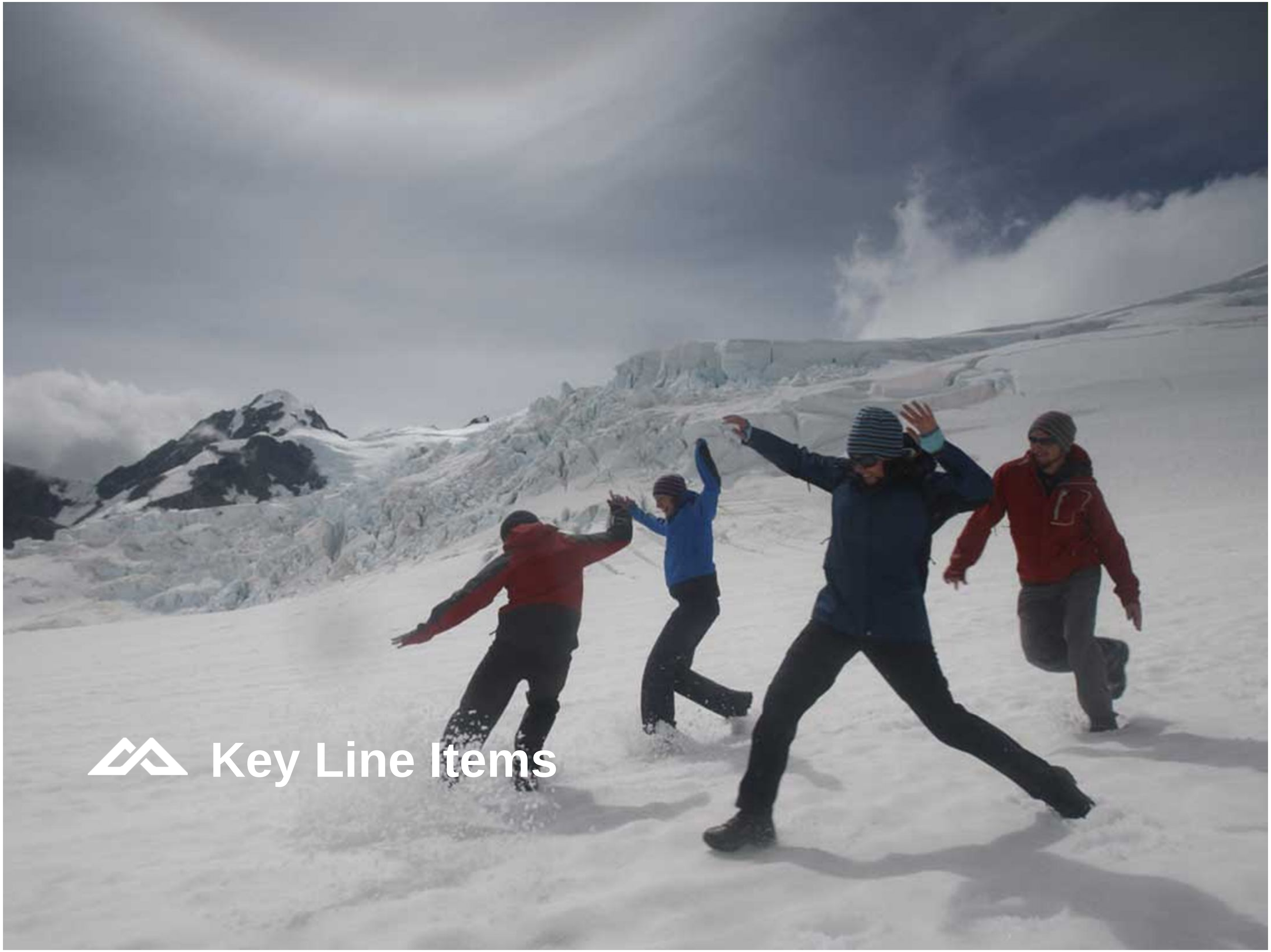
	Results Overview NZ $m			
	FY11	**FY10**	DIFF $	DIFF %
Sales	**306.1**	**245.8**	60.3	24.5%
Gross Profit	**200.6**	**155.3**	45.3	29.2%
Gross Profit Margin	*65.5%*	*63.2%*		
Operating expenses[*1]	**(129.2)**	**(100.9)**[*2]	(28.3)	28.0%
EBITDA	**71.4**	**54.4**	17.0	31.3%
EBITDA margin %	*23.3%*	*22.1%*		
EBIT[*3]	**64.0**	**48.5**	15.5	32.0%
EBIT margin %	*20.9%*	*19.7%*		
NPAT (excl. IPO costs)	**39.1**	**25.2**	13.9	55.2%
IPO costs (net of tax)		(15.8)		
Store numbers[*4]	111	97	14	

1. Operating expenses exclude depreciation and amortisation
2. $0.5m net exchange losses on foreign currency borrowings now classified as finance costs, whereas in FY10 were included in operating expenses
3. EBIT increase includes YOY exchange rate movement $1.6m
4. Store numbers include the currently closed Christchurch CBD store, but exclude online and mail order
5. FY11 NZ$/A$ conversion rate 0.764 (FY10 0.800), FY11 NZ$/UK£ conversion rate 0.478 (FY10 0.438)



Key Line Items

Sales

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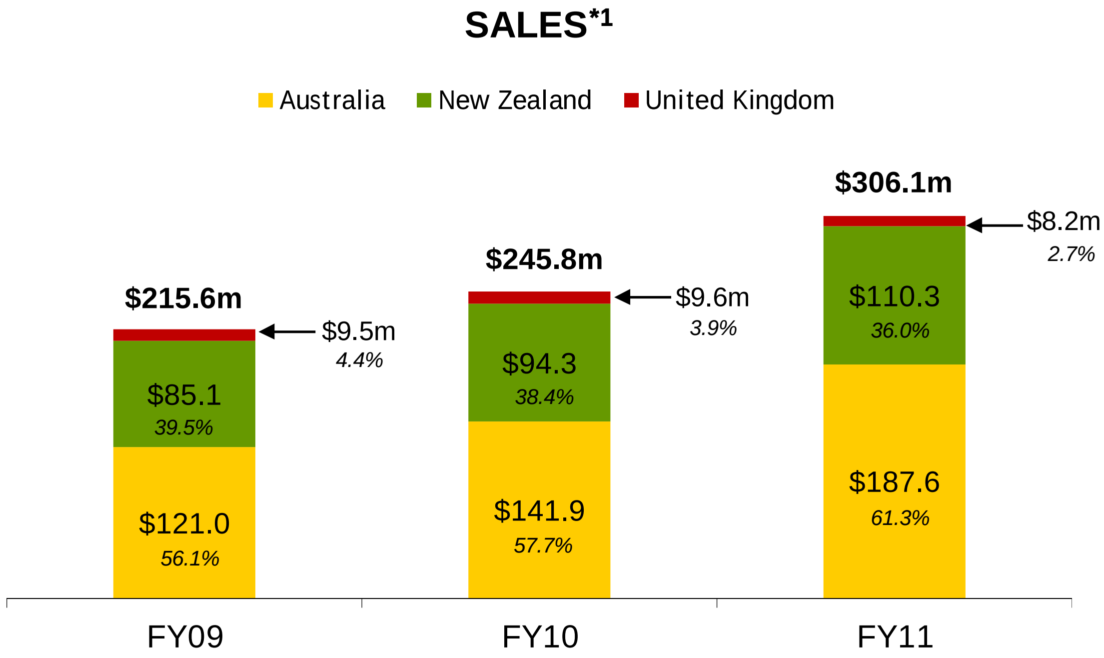
SALES: up 24.5% to $306.1m

- Sales growth year on year:*2
  AU 26.3%, NZ 17.0%, UK (7.1)%
- At constant exchange rates sales growth $54.4m / 21.6%
- Split of sales between total of 3 main promotions and balance of year unchanged FY11 vs FY10



1. Country sales totals exclude inter-company sales
2. Calculated on local currency sales results (not affected by year-on-year exchange rate variation)

Same Store Sales Growth

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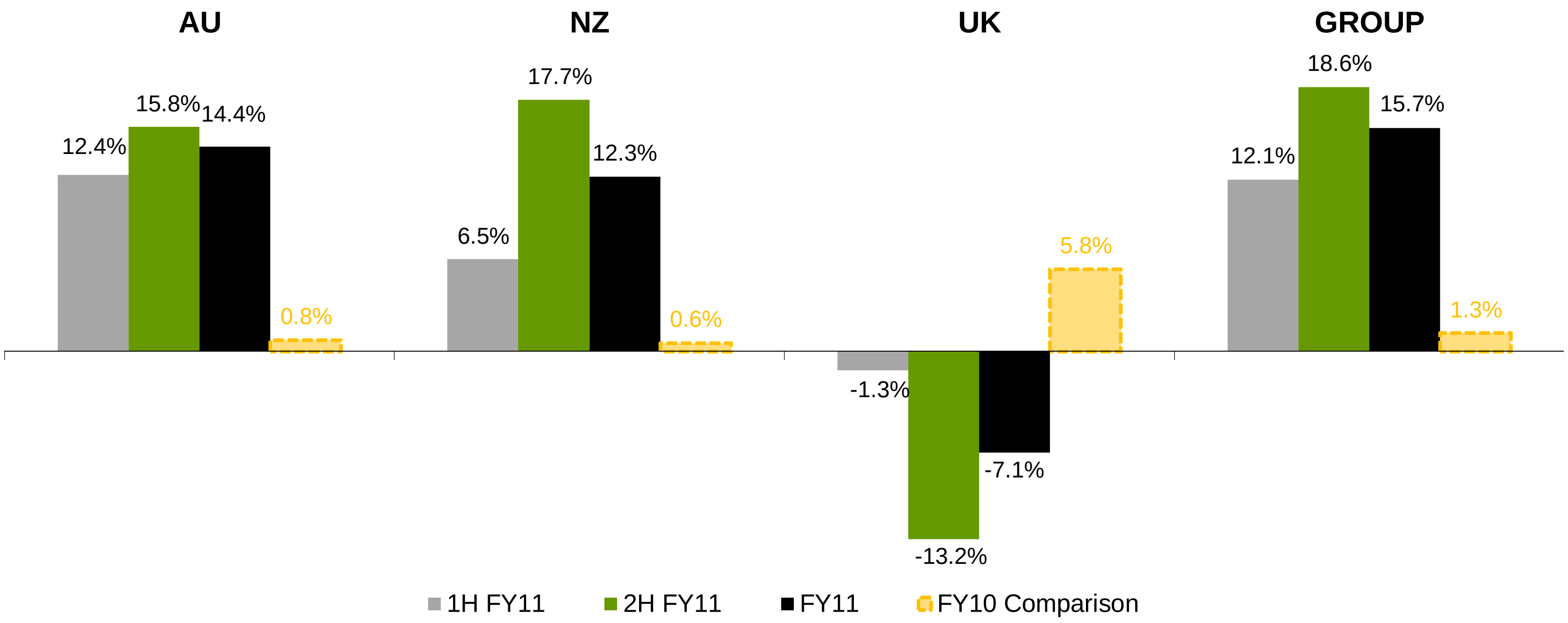

- Full year same store sales growth 15.7% (12.9% on constant currency basis)
- First half year 12.1%, second half year 18.6%
  - Second half year: Easter trading assisted by weather, Winter trading weather generally neutral

1. Same store sales measurement includes stores from their 53rd week of trading, but excludes all Christchurch stores from the Feb 2011 earthquake onwards

Gross Profit Margin %

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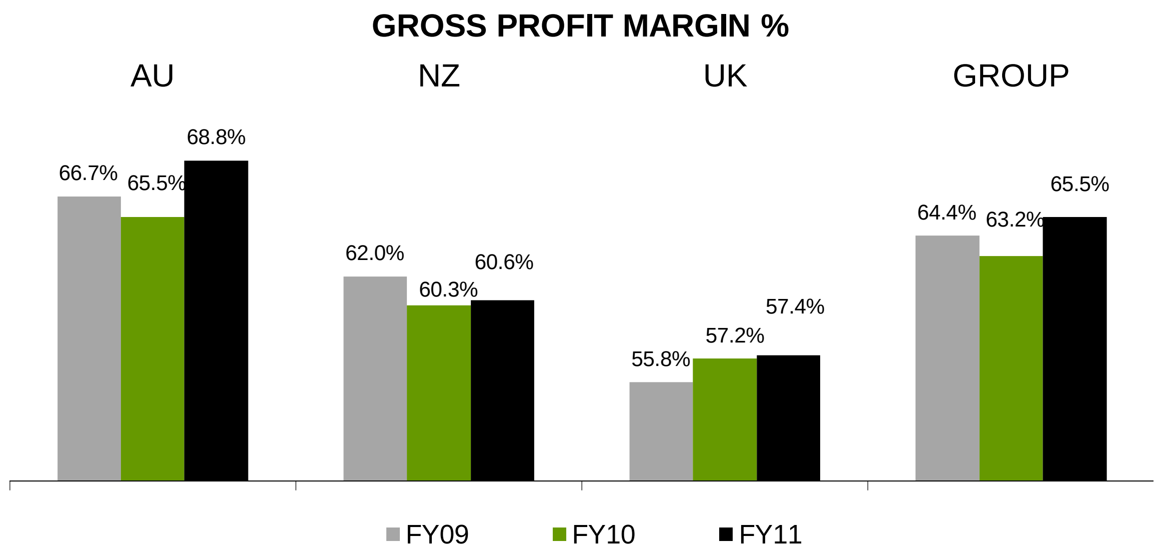
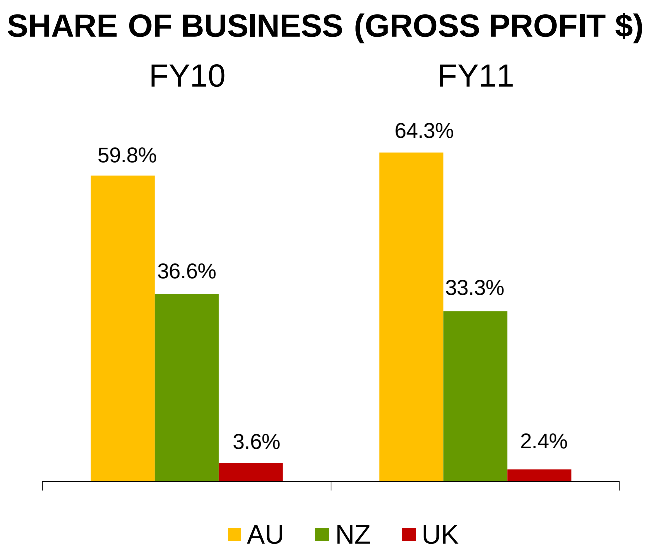
- Gross Profit margin 230 bps above FY10
- Gross Profit margin variations
  - Sales growth primarily in apparel product categories with higher associated margins
  - Australian promotional mix more favourable than New Zealand
- Above long-term target range by 150bps





Cost of Doing Business

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OPERATING EXPENSES: up 28.0% to $129.2m

- Operating expense increase impacted by:
  - Supply chain expenses due to stock volumes (up c. 0.3% of sales)
  - On-going increased proportion of stores located in Australia
    - Australian opex as % of group sales FY11 27.7%, FY10 25.9%
    - Australian retail opex up c. 330bps as % of total retail opex
- Opex FY11 expenses not in FY10 (c. 0.8% of sales):
  - Profit target incentives +$1.1m
  - Brand refresh project +$1.1m
  - Listed company costs full period in FY11 vs part-period in FY10 +$0.4m

NZ $m	FY11	FY10	DIFF $	DIFF %
Rent	31.9	25.6	6.3	24.6%
% of Sales	*10.4%*	*10.4%*		
Other operating expenses	97.3	75.3	22.0	29.2%
% of Sales	*31.8%*	*30.6%*		
Total operating expenses*1	**129.2**	**100.9*2**	**28.3**	**28.0%**
% of Sales	***42.2%***	***41.0%***		
Depreciation	7.4	5.9	1.5	25.4%
% of Sales	*2.4%*	*2.4%*		
Cost of doing business	**136.6**	**106.8**	**29.8**	**27.9%**
% of Sales	***44.6%***	***43.4%***		

1. FY11 total operating expense increase attributable to year-on-year exchange rate movement $2.2m
2. $0.5m net exchange losses on foreign currency borrowings now classified as finance costs, whereas in FY10 were included in operating expenses

Earnings

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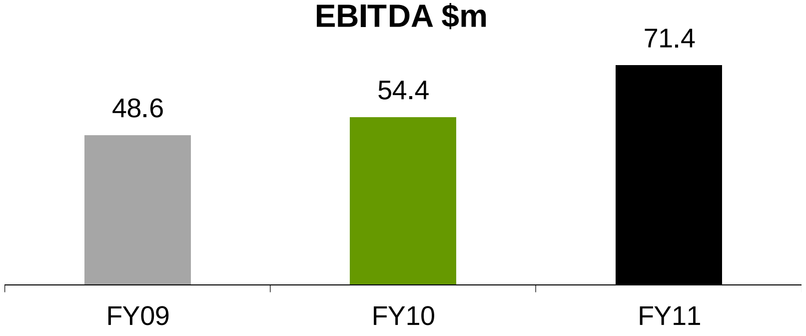
EBITDA up 31.3% to $71.4m
EBIT up 32.0% to $64.0m
NPAT up 55.2% to $39.1m

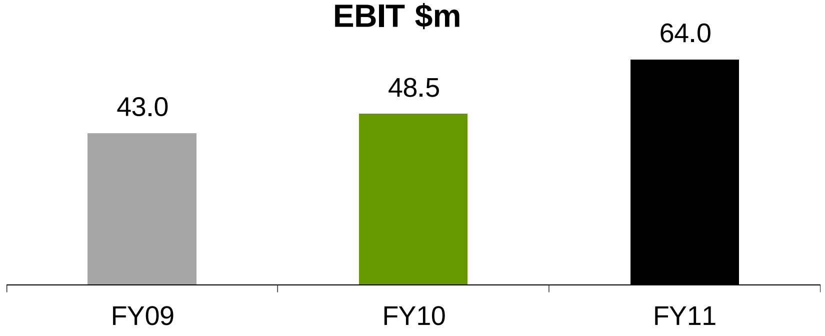
EBITDA $m



FY09	FY10	FY11
22.5%	22.1%	23.3%

EBITDA margin %

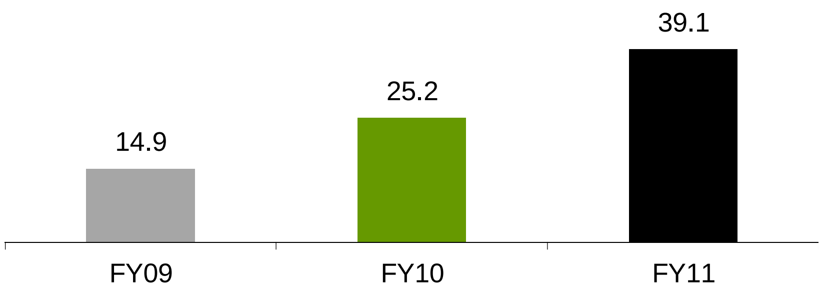
EBIT $m



FY09	FY10	FY11
19.9%	19.7%	20.9%

EBIT margin %

NPAT $m*[2,3,4]



1. EBIT increase includes YOY exchange rate movement $1.6m
2. FY10 NPAT result excludes IPO costs net of associated tax deductions
3. No normalisation adjustments in the NPAT graph above. If FY10 NPAT had been normalised, it was estimated to increase by $3.6m to $28.8m primarily as a result of reduced financing costs for the period prior to the IPO
4. FY09 NPAT includes financing costs associated with the previous private equity funding structure

Country Results

Australia

SALES: up 26.3% to A$143.3m
Same store sales growth: 14.4%
EBITDA (trading result): up 43.8% to A$33.8m

- 11 New Stores opened:
  - 3 in 1H FY11: Logan, Wollongong, and Perth Harbour Town (Outlet)
  - 8 in 2H FY11: Whitford City (WA), Belconnen (Canberra), Southport, Toowoomba, Orange, Cairns, Wagga Wagga, Southland (Melbourne)
- Refurbishments / Relocations (in 1H FY11):
  - Innaloo (WA) expansion
- Total operating expenses (excl. depreciation):
  - FY11 45.2% of sales
  - FY10 44.8% of sales

A $m	FY11	FY10	DIFF
Sales	143.3	113.5	26.3%
Same store sales growth	14.4%	0.8%	
EBITDA (trading result)*[1]	33.8	23.5	43.8%
EBITDA margin %	23.6%	20.7%	
Store numbers	66	55	

1. A reconciliation of EBITDA (trading result) to the interim report is included as an Appendix (page 28)

New Zealand

SALES: up 17.0% to NZ$110.3m
Same store sales growth: 12.3%
EBITDA (trading result): up 10.8% to NZ$30.7m

- 3 New Stores opened (all in 2H FY11):
  - Papanui, Whakatane, and Ashburton
- Refurbishments / Relocations (all in 1H FY11):
  - Palmerston North and New Plymouth relocations
  - Queen St and Sylvia Park extensions
- Total operating expenses (excl. depreciation):
  - FY11 32.8% of sales
  - FY10 30.9% of sales

NZ $m	FY11	FY10	DIFF
Sales	110.3	94.3	17.0%
Same store sales growth	12.3%	0.6%	
EBITDA (trading result)*[1]	30.7	27.7	10.8%
EBITDA margin %	27.8%	29.4%	
Store numbers	39	36	

1. A reconciliation of EBITDA (trading result) to the interim report is included as an Appendix (page 28)

United Kingdom

SALES: down 7.1% to UK£3.9m
Same store sales growth: (7.1)%
EBITDA (trading result): down 80.0% to UK£(0.9)m

- Total operating expenses (excl. depreciation):
  - FY11 80.5% of sales
  - FY10 69.1% of sales
- 2.4% of Group Gross Profit in FY11
- No plans to open additional stores, will continue to monitor

UK £m	FY11	FY10	DIFF
Sales	3.9	4.2	(7.1)%
Same store sales growth	(7.1)%	5.8%	
EBITDA (trading result)*[1]	(0.9)	(0.5)	(80.0)%
EBITDA margin %	(23.1)%	(11.9)%	
Store numbers	6	6	

1. A reconciliation of EBITDA (trading result) to the interim report is included as an Appendix (page 28)


Cash Flow
Balance Sheet
Dividend

Cash Flow

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- Working capital change primarily due to investment in inventory
- Capital expenditure reduced vs FY10
  - New stores capex: $9.0m for 14 new stores and 2 relocations (FY10 $9.1m for 15 new stores and 2 relocations)
  - Existing stores capex: $1.2m for 3 expansions (FY10 $2.6m for 3 large CBD refurbishments). Deferred other significant refurb / relocation work pending the brand refresh project
  - IT / Other capex: $1.7m for core systems upgrade and other projects (FY10 $1.9m)

NZ $m	FY11	FY10
EBITDA	**71.4**	**54.4**
Change in working capital	(8.5)	(1.8)
Change in other non-cash items	(2.3)	2.1
Capital expenditure	(11.9)	(13.6)
Operating cash flow after capital expenditure	**48.7**	**41.1**
Net interest paid (including facility fees)	(6.6)	(10.2)
Income taxes paid	(14.2)	(11.9)
Net cashflow excluding financing activities	**27.9**	**19.0**

1. FY11 new and existing store capital expenditure includes $0.5m relating to the brand refresh project

Balance Sheet

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- Year-end inventories per store +25.9%:
  - FY11 $0.486m
  - FY10 $0.386m
  - FY09 $0.483m
- Intra-year debt levels:
  - Peak debt levels YOY increased $16m
  - High-low variation greater than $50m
- 80%+ of term debt balance hedged by interest rate swaps (NZ$15m; AU$20m)

Key Ratios	FY11	FY10
Gearing [*1]	14.4%	17.1%
Stock turns [*2]	2.3	2.4

1. Net Debt / (Net Debt + Equity) at balance date
2. COGS / Average Inventories (start and end of period)

NZ $m	FY11	FY10
Inventories	54.0	37.4
Property, plant and equipment	32.8	28.0
Intangible assets	243.7	241.8
Other assets	5.8	7.5
Total assets (excl. cash)	**336.3**	**314.7**
Net interest bearing liabilities and cash	42.9	49.3
Other non-current liabilities	0.3	0.3
Current liabilities	38.2	26.0
Total liabilities (net of cash)	**81.4**	**75.6**
Net assets	**254.9**	**239.1**

Dividend

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- NZ 7.0 cents per share final dividend, full year payout NZ 10.0 cents per share.
- Payout ratio remains within expected 50 to 60% of NPAT
- AU final dividend will be fully franked and all AU dividends are expected to be fully franked going forward
- NZ dividend fully imputed
- Record date 14 November 2011, Payment date 24 November 2011

Foreign Currency

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- Effective US$ hedge rates FY11:
  - A$/US$ 0.852 FY11 vs 0.812 FY10
  - NZ$/US$ 0.683 FY11 vs 0.680 FY10
- Forward Hedging Position:
  - Longest dated hedges September 2013
  - FY12 over 90% cover for full year
  - Rolling cover applied 12 months forward
- No hedging NZ$:A$

FORWARD HEDGING POSITION		FY12	FY13
A$ / US$	% covered	90%+	15%+
	Effective Rate	0.960	1.013
NZ$ / US$	% covered	90%+	15%+
	Effective Rate	0.739	0.815


Growth Strategy Update

Growth Strategy Update

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Kathmandu core growth paths continue to provide varied strategic choices

	GROWTH STRATEGY	UPDATE
New store rollout	• 15 new stores planned in FY12	• 150 remains the initial store rollout target for Australia and New Zealand • Secured 4 so far • Moving to more prime and large sites • Success of regional Australian stores
Improve existing store network	• Maximise market potential/share by fully optimising the existing store network	• Underperforming stores are being identified • Specialist market/catchment analysis partner appointed • New site opportunities being pursued • Already committed to 4 major store relocations (Chatswood, Camberwell, Newmarket, and Wellington)
Grow Product offering	• Increase sales through product range growth • Launch new products and enter new categories • Growth in range options/choice	• Aiming to increase SKU count approx. 10% per year until FY13 • Investment in Product team including designers and technical skills • Reinforcing technical credentials through the introduction and promotion of an elite range • Maintain increased inventory investment

Growth Strategy Update (continued)

Kathmandu core growth paths continue to provide varied strategic choices

	GROWTH STRATEGY	UPDATE
Summit Club	• Targeting one million members NZ/Aust	• Greater membership benefits/incentives introduced • Enhanced CRM/data mining capabilities/better targeting of offers • Fit with online and digital plans • Providing insights and capturing customer feedback
Online and digital	• Develop our online site to maximise NZ, Aust and UK sales • Provide the capability and functionality to target global sales opportunities (outside our current markets)	• As brand owners we have control and a great opportunity • Existing sites successful but constrained to support growth • Project to add scale and functionality underway • Dedicated team being established
United Kingdom	• Eliminate losses and create a successful business model	• No more new stores • Drive growth through online • Reduce costs through greater integration with NZ/Aust • Restructure process commenced

Sustainability

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Launched **Sustain the Dream Plan** aimed at inspiring adventure and enabling sustainable outdoor lifestyles

4 priorities (with actions underway):

- **Minimise environmental footprint** - removal of plastic shopping bags, product packaging initiatives
- **Respect human rights** - new terms of trade, factory audits
- **Strengthen communities** - new partnerships with Red Cross and Australian Himalayan Foundation, continue Kathmandu Adventure Series & Outward Bound NZ sponsorship
- **Develop our Team** - investment in training and development, embedding core values

Kathmandu® adventure SERIES

Outward Bound®

THE AUSTRALIAN HIMALAYAN FOUNDATION

NEW ZEALAND RED CROSS

Australian Red Cross THE POWER OF HUMANITY


FY12 Outlook

FY12 Outlook

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- Continue strategies that are working (refer growth strategy update slides)
- Complete rollout of the refreshed brand identity (recognises Kathmandu is a brand - that operates it's own retail stores)
- Increase advertising spend $ and thus share of voice at approx. same % of sales as the business grows
- Greater emphasis upon getting the Australian penetration closer to NZ levels
- Major capital expenditure programme for FY12 to accelerate profitable projects

The Market

- Unlikely to see any significant change to the current retail conditions in the short term
- Operating costs such as rent and payroll outpacing retail sales growth
- "Active outdoor" is an attractive sector, more competition entering – regionally/globally
- Volatility and unpredictability becoming the norm

Summary

- Despite the difficult retail conditions, as experienced during FY11, we are confident in the Kathmandu business model, brand and proven growth strategies
- While not providing specific guidance due to the market uncertainty, the business is planning for continued growth and remains positive about the FY12 outlook


Questions

Appendix – Reconciliation of Country Trading Results

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Reconciliation to annual report (NZ $m)

Australia (NZ $m)	FY11	FY10
Segment profit	33.1	13.0
Net interest	2.4	6.0
Facility fees	1.2	0.9
Depreciation	4.6	3.6
Inter-Co. Cost recoveries (Royalties only)	-	2.9
Inter-Co. financing	3.6	3.0
FX on long term Inter-Co. funding	(0.6)	-
EBITDA (trading result)	**44.3**	**29.4**

New Zealand (NZ $m)	FY11	FY10
Segment profit	27.3	36.2
Net interest	1.9	1.4
Facility fees	1.0	1.0
Depreciation	2.4	1.8
Inter-Co. Cost recoveries (Royalties only)	-	(2.9)
Inter-Co. financing	(3.6)	(3.0)
Holding Co. costs	1.7	1.5
UK Loan provision write back (conv to equity)	-	(8.3)
EBITDA (trading result)	**30.7**	**27.7**

United Kingdom (NZ $m)	FY11	FY10
Segment profit	(2.6)	(3.8)
Net interest	-	-
Loss on foreign currency borrowings	0.3	2.1
Depreciation	0.4	0.6
EBITDA (trading result)	**(1.9)**	**(1.1)**

1. Appendix to pages 13, 14, and 15 of this presentation