

KATHMANDU HOLDINGS LIMITED (ASX/NZX: KMD)

**ASX/NZX/Media Announcement
20 September 2012**

Kathmandu Holdings announces FY12 full year results:

- Sales up \$41.0m (13.4%) to NZ\$347.1m,
- EBIT down 10.9% to NZ\$57.0m,
- NPAT down 10.7% to NZ\$34.9m.

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

RESULTS OVERVIEW

Year ending 31 July 2012	NZ \$m		Growth	
	FY12	FY11	NZ \$m	%
Sales	347.1	306.1	41.0	13.4%
Gross Profit	219.5	200.6	18.9	9.4%
EBITDA	66.5	71.4	(4.9)	(6.9%)
EBIT	57.0	64.0	(7.0)	(10.9%)
NPAT	34.9	39.1	(4.2)	(10.7%)

Kathmandu Holdings Limited Chief Executive Officer, Mr Peter Halkett said “this was a solid result given the difficult economic environment. It was pleasing to achieve positive same store sales growth throughout the year. The second half year EBIT of \$44.3m was an improvement on last year following a difficult first half. It was also a year in which we lifted our investment programme to deliver future growth.”

For the full year same store sales growth was 5.7% (7.0% at comparable exchange rates). Online sales are growing rapidly from a relatively small base. The company opened ten new permanent stores and sales to Summit Club members continued to rise at a faster rate than the overall rate of increase in sales.

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Year ending 31 July 2012	NZ \$m FY12	% of Total	Total sales growth % ^{*1}	Same store growth %	FY12 # of new stores
Sales – Australia	214.0	61.7%	15.8%	6.5%	6
Sales – New Zealand	126.1	36.3%	14.3%	9.2%	4
Sales – United Kingdom	7.0	2.0%	(7.7%)	(7.7%)	0
Total	347.1	100.0%	13.4%	5.7%	10

¹ Calculated on local currency sales results (not affected by year-on-year exchange rate variation)

New Zealand outperformed Australia in same store sales growth. As for the first half of the year, Kathmandu's relative sales performance in Australia has generally been weaker in those states not directly benefitting from activity in the resource sector.

Permanent stores open 31 July 2012	FY12	FY11
Australia	72	66
New Zealand	42	38
United Kingdom	6	6
Total Group	120	110

Kathmandu opened five new permanent stores in the second half (following five in the first half), four in Australia and one in New Zealand:

- Australia: Tamworth, Shellharbour, The Rocks (Sydney) and Moorabbin DFO (Melbourne).
- New Zealand: Masterton.

Additionally in New Zealand the Newmarket (Auckland) store was opened in a new location and the refurbished Victoria St (Auckland) store was reopened following a ten month closure.

In the first half of FY13, an accelerated store rollout programme will have nine new stores open, all in Australia, compared to five in the same period last year.

“To support our strong growth in online sales we are about to launch a new platform to deliver an improved customer experience in existing markets, and to enable us to pursue global sales opportunities through this channel” said Peter Halkett. He commented further that future sales growth in the UK market will be targeted via the online channel rather than building a larger store network.

Year ending 31 July 2012	FY12	FY11
Gross profit margin %	63.2%	65.5%

Gross profit margin reduced by c. 230bps, although it was still within Kathmandu's target range of 62% - 64%. Margin reduction was primarily due to the cost of a new loyalty incentive structure introduced in FY12 for our Summit Club members. Summit Club membership grew by over 30% in the year.

OPERATING COSTS

Operating Expenses (excluding depreciation)	NZ \$m & % of Sales	
	FY12	FY11
Rent	39.6m	31.9m
<i>% of Sales</i>	<i>11.4%</i>	<i>10.4%</i>
Other operating costs	113.4m	97.3m
<i>% of sales</i>	<i>32.7%</i>	<i>31.8%</i>
Total	153.0m	129.2m
<i>% of sales</i>	<i>44.1%</i>	<i>42.2%</i>

Kathmandu's operating expenses increased by 190 bps as a % of sales. Expenses in the second half year decreased as a % of sales by 30 bps. In the first half, one off expenditure arose primarily from dealing with issues encountered following the implementation of our new warehouse management systems, as well as higher costs associated with relocation of key new stores, including rent.

Peter Halkett said "we also took steps during FY12 to reduce our UK cost base by outsourcing warehousing and distribution to a third party service provider and restructuring our support functions. The expense incurred in FY12 as a result of these actions was approximately \$1m."

EBIT margin decreased from 20.9% to 16.4% of sales.

OTHER FINANCIAL INFORMATION

Year ending 31 July 2012	NZ \$m	
	FY12	FY11
Capital Expenditure	21.8	11.9
Operating Cashflow	32.5	39.8
Inventories	73.3	54.0
Net Debt	51.9	42.9
Net Debt : Net Debt + Equity	15.7%	14.4%
Interim Dividend (cents per share)	3 cents	3 cents
Final Dividend proposed (cents per share)	7 cents	7 cents

The increase in capital expenditure year on year has primarily been in store relocations and refurbishments, along with an increased level of expenditure on infrastructure and systems. Five stores have either been relocated or refurbished during the period and the Perth store was in progress at 31 July. Several other major infrastructure projects were completed during the year including the new distribution centre for New Zealand. Our key systems investment in FY12 was the new online platform (about to launch).

Total inventories increased by 35.7%, or NZ\$19.3 million and by 21.6% on a \$ per store basis. This was mainly as a result of the planned investment in product range growth and earlier deliveries of new season product.

Total net debt at 31 July increased by 21.0% on the previous year as a result of funding required for the earlier delivery of inventory. The ratio of net debt to net debt plus equity has increased slightly to 15.7%.

FINAL DIVIDEND

Kathmandu confirms that a final dividend of NZ 7 cents will be paid, bringing the total dividend payout for FY12 to 10 cents. The dividend will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders. This payout is consistent with the 50%-60% range we are targeting over the medium term in conjunction with our capital investment programme.

FUTURE OUTLOOK

Peter Halkett confirmed Kathmandu's overall key growth strategies remain consistent. "We will improve company performance by continuing to invest in our store network through opening new stores and relocating or refurbishing existing stores. Maximising the return on the investment made in inventory will be a key focus, and operating costs will continue to be effectively managed." Mr. Halkett noted that "Kathmandu's investment in systems to grow our online sales, both within Australasia and globally, will continue given the opportunity presented by this channel." He concluded by saying that "providing there is no further deterioration in economic conditions, Kathmandu expects an improvement in performance in FY13."

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