

Company: Kathmandu Holdings Limited
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Start of Transcript

James Strong: Good morning ladies and gentlemen. Is the sound system coming through okay? So, we'll begin. It is 11 o'clock. I have much pleasure in opening the third Kathmandu Holdings Limited Annual General Meeting and I'd like to extend a warm welcome to all present on the information conveyed to me. I declare the quorum of shareholders is present and the meeting has been duly convened.

Before we start the formal business, I'd like to introduce your other directors. On my left, or your right, starting for the end, are John Holland, Sandra McPhee, Peter Halkett of course, our CEO, John Harvey and Mark Todd, who is our CFO and Company Secretary.

In relation to proxy votes, I wish to advise that proxies have been received in respect of a total of 152,874,986 votes, more than 99.7% of the proxies directed are in favour of all resolutions. So as Chairman, I will exercise those as directed, obviously. Just a quick note on meeting procedures. Before moving to the formal business of the meeting, I'd like to outline some business procedures. An opportunity will be given to shareholders to ask questions about, or make comments on the items of business on the agenda for today's meeting. Where appropriate, I will refer detailed questions best answered by management to Peter Halkett. That means all the hard ones I'll ask Peter to answer.

Shareholders have been given the opportunity of submitting written questions via the AGM question form that accompanied the notice of meeting. We thank shareholders for their interest in submitting questions, to which we'll respond soon. Once we have considered the financial reports, shareholders will be given the opportunity to ask general questions. Shareholders with questions relating to specific resolutions are requested to ask those questions when we are covering the relevant resolution. When we do open up the floor to discussion, I ask for the convenience of all present that those shareholders who wish to speak use the available microphone. Please hold up your yellow or red cards and state your name if you wish to ask a question.

Before moving to the various motions, I will briefly run through the voting procedures. At registration you will have received an attendance voting card. If you have a yellow voting card, this indicates you are a shareholder and are entitled to vote and to address the meeting. If you have a red non-voting investor card, as such you are either a joint shareholder or have already returned a proxy vote prior to the commencement of the meeting. You are entitled to address the meeting. A blue card indicates you are a visitor to the meeting. You are welcome here today, but will not be able to address the meeting. If you do not have a voting card and believe you are entitled to vote, please see one of the registry staff from Link Market at the registration desk outside the meeting room, immediately.

So the meetings of the second annual general meeting held last year were available at the meeting room entrance on the way in. The first item on our agenda today is to receive and consider the financial statements and auditors report as contained in the Company's annual report for the year ended 31 July 2012. Before seeking shareholders' comments on that report, I'd like to give an overview of the 2011/2012 financial year and then I'll ask our Managing Director and Chief Executive Officer Peter Halkett, to provide a review of our activities in the year and an update on the trading to date and outlook for the current financial year.

Chairman's Address – James Strong

Good morning shareholders. I am pleased to report on another successful year for Kathmandu Holdings Limited. Although Kathmandu was unable to match its record earnings result of 2010/11, the solid increase in same store sales and uplift in second half year profits, was a good result for the Company in particularly difficult economic times. Economic conditions globally are likely to continue to inhibit discretionary consumer spending for some time. Coinciding with this time of economic uncertainty is the accelerating development of multi-channel retailing and this is providing Australasian consumers with enhanced and every increasing opportunities to buy international brands online.

The combination of these two factors has had a very significant impact on the buying behaviour across most discretionary retail categories. As Kathmandu is a fully vertical brand with total control over how we develop and distribute our products, we are well positioned to compete in these circumstances and to do so, we must continue to invest in our businesses with - whilst maintaining our costs, managing our cost to maintain profit growth.

Our primary growth opportunity remains to grow our businesses and market share in Australasia and particularly in Australia, through increased and sustained investment in our brand product and retail channels. By this investment, we will maintain our leadership in the outdoor travel and adventure sector and the profit growth available to us will enhance shareholder value. Turning to the actual financial results for 11/12, a 13.4% increase in sales to NZ\$347.1 million, offset by a reduction in gross profit margin, to 63.2% and an 18.4% increase in operating expenses, resulted in a decrease in EBIT, earnings before tax, in the year of 10.9% from NZ\$64 million to NZ\$57 million. Whilst first half earnings were down by 43% on the prior year, there was an increase in our earnings in the second half and over 80% of the full year profit was earned in this period.

We achieved satisfactory same store sales growth in both Australia, 6.5% and New Zealand, 9.2%. But the smaller UK business same store sales result was negative. Although operating costs increased at a higher rate than sales, this was primarily as a result of non-recurring first half expenditure and expenses associated with investment in infrastructure. Store numbers increased by 10%, slightly below our target for the year. Overall, our EBIT margin reduced from 20.9% to 16.4%.

Turning now to our growth strategies. Kathmandu continues to focus overall on the five key growth strategies outlined at the time of our IPO in 2009. First, continuing our new store rollout in Australia and New Zealand. Second, improving our existing store network, third, enhancing the Kathmandu product

offering, fourthly, growing our Summit Club and fifthly, developing and growing our online and digital channel capabilities. Peter Halkett will speak to you about our progress in these areas after my address.

We are confident that the successful execution will differentiate Kathmandu from competitors, who either do not control their own brand or who are unable to adequately invest for growth in the current environment.

New store opportunities, particularly in Australia, remain our most significant and immediate growth opportunity. New stores and future growth in Summit Club membership will underpin, increasing our market penetration in Australia and similarly, ongoing product development and investment in inventory will remain focussed on what is appropriate to grow a share in this market.

Looking at our wider opportunities, the online channel and associated development of direct to customer communication and marketing opportunities through electronic and social media have already driven fundamental change in retailing strategy globally. Our new online platform is a significant step in the development of our capability to sell and service customers across the world and growing our online business in the UK is a first step in this strategy. We intend to invest further to support the international growth opportunity for Kathmandu through online and other related channels.

Capital investment. The uplift in capital investment, capital expenditure in 2011/12 included substantial investment in new physical infrastructure, with enlarged and improved distribution facilities in both Christchurch and Melbourne. The establishment of a new office in Melbourne for our Australian domicile support team and completion go the bulk of our rollout of the new brand identity to our stores. Whilst most of the planned physical infrastructure investment not directly related to our store network is now complete, Kathmandu will continue to be investing in store refurbishments and relocations, as well as our ongoing commitment to a target of 15 new store rollouts per annum.

Our investment in improved information systems is also continuing, with our prime focus now being on enhancing the customer experiences, both in store and online and ensuring that we have the foundations to be able to deliver to a global market.

The investment strategy for Kathmandu is not just in capital assets and product. We continue to grow the depth and competency of our team in all of the countries that we operate and we welcomed a number of them as shareholders for the first time this year under our long term incentive plan.

Recruitment over the past year has included specialist leadership roles and team establishment in areas as diverse as technical fabric development and quality control, retail training and development and online customer service. Our growth strategies can only be delivered by talented people with passion for the Kathmandu brand.

In terms of outlook, economic prospects, both globally and in Australasia have to be viewed with caution. Our approach to the UK exemplifies the care that we are taking in future expansion, but there is no change to our view that the Kathmandu brand has genuine potential to be a significant global presence in the outdoor, travel and adventure market.

We are very clear that in the short term our key strategy remains to invest and grow the business and build the Kathmandu brand in the Australasian market. As we grow profitably in this market, we will also be investing in the wider capabilities your company requires in order to pursue new growth opportunities for the Kathmandu brand further afield when the time is right to do so.

Thank you very much. I know invite Peter to make some remarks about the operations of the Company.

Peter Halkett: Thank you everybody and welcome today. I'm going to take you through a PowerPoint presentation. A lot of this information, I guess, is similar to what you would have seen in the annual report and our last presentation. But there are few additional items and some points I'd like to highlight.

I am going to cover off - where's my operator? Mark is in charge of operations today. I'm going to cover off the key financial results. Some milestones we have achieved during the last 12 months. It's not always about the numbers. It's other things we are doing. The infrastructure we are putting in place that allows us to grow, the growth strategies. These are the same things we've been talking about since we IPO'd over three years ago. They remain the same things. They are working well. We're continuing down that path.

Further discussion on the Australian opportunity we have. It's not clear. I talk to investors. I talk to different people in the market and I get the impression they just don't really understand yet how great an opportunity, even in Australia, remains for Kathmandu. Update on our UK. There are some changes that have been made there. Sustainability. You would have noticed when you came in, we have produced our first sustainability report. We are very proud of that and it's something very important to Kathmandu, our customers, our team members and many of our investors. Update on trading performance and then the outlook.

The table on the screen here highlights both sales EBIT, as well as our net profit after tax over the last few years. In fact, it goes back prior to our IPO and I think it produces a pretty consistent picture of growth, despite a bit of a hiccup last year and that's not terribly surprising, given how difficult the market got and as James has already outlined, it was a bit of a year of two halves, where the first half we did struggle. We were down. But the second half we grew over the prior period. But we did achieve record sales of \$347 million.

Same store growth over the last three years has averaged actually 7.6%, which I would imagine is one of the very best numbers of any public company retailer, certainly in this part of the world. Our gross margins are 63.2%. We are down on the previous year, but within the range that we've always targeted that are appropriate. In fact, the previous year was a bit of a purple year for us, getting above that 64% was not something we strove to achieve, but as you know, we traded very well. That was going to be difficult to match up in the year we've just completed. We are very happy with where that sits and it's a very sustainable number.

Operating expenses were high. Most of that was about investing in the future. If we want to continue to grow our company, we have to invest. We have to invest in infrastructure. We have to invest in people. We have to invest in capability. Very easy to get profit growth by cutting expenses. But actually, over the long term, if you want to grow you have to invest in things that create that growth opportunity. So part of the

expense increase that James outlined was in relation to setting up for the future. But some of those expenses were one off in nature. They were responding and reacting to the tough environment. They were in the order of about \$3 million. So if you factor that into the performance charts below, I think you still get a pretty positive picture. Net profit after tax was down 10.7% at 34.9. But we've had very, very good growth over the time since we've listed. In fact, the profit is almost up 50% from that time and I know we are going to get some questions on the share price being down since that time. It just shows you profit and share price don't necessarily align.

I'm just moving though to some of the non-financial milestones we've achieved. Summit Club membership, that's very important to us. They are our most loyal customers. They spend the most money with us. They come back to our store the most often. So they're the sort of customers we like to acquire on our database so we can communicate with them. They grew over 30% last year. They are the real assets of a business. It's not just about brands. It's not just about products. It's about our customer database and to see that growing at 30% is very, very valuable to us.

We've opened some new flagship stores. In fact, we're about to open our Pitt Street store here next week. That's in a very, very prime location. So we've opened upgraded stores in Sydney, Melbourne, Auckland and Wellington. They are some of our most important and most successful markets. We've implemented our new ERP. That's our enterprise resource planning tool. It was implemented. It did cause some hiccups and cause some of our pain in terms of expenses. But that's now in place and that's functioning well. We did increase our stores. We are up to 124. You should note that that includes four temporary stores. Some of those stores we will exit. But we are sitting at around about 120 stores and a really major project for us was the new distribution centre in Christchurch, as well as we've enlarged our Australian distribution centre here. That's to cope with the growth and if you went back to the table on the previous slide, you would see how significant that growth and as we grow, we clearly need to continue to invest in infrastructure. Some of that comes before the sales otherwise we couldn't get the sales in the first place. The point is that that physical infrastructure that we've got in place now should take us through the next three years.

I'm just moving on to our specific growth strategy. Store rollout is really what it's been about. That's the big story. That's the story that people remember. That's 15 stores a year. That's going well. The good thing is pretty well every single store we've opened is profitable and it gets to profitability very quickly. Once again, there are not too many retailers that have got that sort of rollout story available to them. We've opened nine so far - or we will have opened nine by Christmas. The equivalent period last year was five. So we are already in front of the game compared to last year and, as I said, they are trading well. You've got a list of them. This pack is going to be online, so if you want to find your local store or - you can go online. I won't go through them here now. But we also upgraded - it's not just about rolling out new stores. It's about making stores that we might have opened five years ago, 10 years ago that weren't necessarily big enough or in the right location or the market has changed. It's about reconfiguring those to ensure we are maximising the profit of the business, not just new stores, but the existing portfolio of stores.

Just moving on to online and digital. We are very proud of our new platform we launched just recently and that's now launched in New Zealand, Australia and the UK. I think many people in the market group all

retailers together when they talk about online. There are retailers that sell other people's products that need to put together an offer to make it more convenient for the customers. But there are other retailers like ourselves that control their brand, that have an opportunity to go beyond New Zealand and Australia to sell our brand into other markets. If you are selling other people's brands, that's very challenging. There's no real pointing you trying to sell Sony TVs, when you are based in Australia, in America. But funnily enough, you can sell Kathmandu product, because no-one else is selling it there.

So the market talks about retail online and treats - puts everyone in the same bracket. There is huge difference and over time, you will see those differences starting to come through in results and performance. We are also considering other partnerships with the Amazon's, probably more appropriate to our UK business, rather than to this part of the world. Trade Me as part of our clearance strategy, eBay. Once again, there is a lot of ways to distribute product if you control the brand. These opportunities wouldn't be the same if we were selling other people's brands and going to talk to Amazon in the UK about selling Sony TVs. It would not work. But Kathmandu can work.

This is going to be a continuous investment in terms of online, keeping up with what's happening in that space. But as I started part of this presentation talking about Summit Club members growing by 30%, they are also a key to how successful you can be online. There is a table there that shows how we've grown. We don't disclose our numbers at this point in time. I'm hoping there will be a point. There is an amount where you have to start disclosing the dollars. We're not there yet. But when we do get there, we look forward to that day, because that's a sizeable number.

Product. For me, Kathmandu is about brand and it's about product. Then it's about ensuring that's interpreted in our retail stores and that those stores are a good distribution network to get to customers, wherever they may be and the heart of that is our product. We need product that's desired by customers, that's fit for purpose, high quality and so we've invested in more people, more designers, more technical staff. There is actually a transformation taking place in the business and it has been going on for the last three or four years, going from, I guess, being a follower in the market, looking at what trends were globally and making that same product, to now having people and resources on board where we are going to lead the market globally in certain areas. Or at least be at the cutting edge.

There are other things we are doing. We are enhancing our forecasting and planning to ensure we get the right amount of stock at the right time and the right place. You should probably be aware, the term SKU relates to stock keeping unit. That's the amount of items. We were talking for some years about growing our product range. Our growth and product range is now at the point we are comfortable. Our stores can only fit so much stock in them. It's now about making sure the products we have are performing, optimising the performance and, as you can see hear, making sure that we're investing in the fastest selling, most profitable lines. So product really is the key to our business and this team has more than doubled in size since I joined the Company five years ago. It's put our expenses up. But it's also allowed same store sales growth and delivered the brand that we are today.

I won't spend too much time on Summit Club, except to say our target is to get to 1 million Summit Club customers across New Zealand and Australia. We are tracking well. You saw the 30% increase. We are

going to be making investments and improve customer relationship management systems, which are about better targeted promotional activity, customer segmentation, better offers and more insights and tracking what our customers really want us to be designing and developing and making available to them.

Australian penetration. I guess this is for some of the analysts that are popping around the room, because my impression is this message really, we haven't done a good job of communicating this. So I'll go through it again. In New Zealand we sell \$31 to every man, woman and child. That's per head of population spend is \$31. So it's simply taking the turnover we do in New Zealand, dividing by the population. If we do that same calculation in Australia, it's \$10. Now, there are reasons why the penetration in New Zealand may be superior to Australia and it may be that because of the lifestyle, the climate, the competitor set, that we may never get to the same level of penetration as New Zealand. But within the Company we see there is no reason why we can't get to over half, at least, through continuing our store rollout, continuing to develop the products that Australians want, increasing our brand awareness that is much lower in Australia than it is in New Zealand and growing the Summit Club.

Some of the subtle differences we see, are that our store network strategy in Australia has to be different. In New Zealand we tend to have large big destination format stores. In Australia over 70% to 80% of retail is actually done in shopping centres. It's - there is zoning differences. There are transportation differences and as a result, adopting a large format strategy in Australia will not be as effective, because that's not where customers are shopping. In many cases you can't even get a store. So we are adapting to smaller formats, less expensive stores. Stores that are more apparel focussed, because within our category, all of the growth is coming from apparel, not so much from equipment, as the brand moves more into a lifestyle space, rather than just people going hiking and travelling.

So no doubt there will be further conversations on this. But when we start to - over the next few years, we want to increase our penetration in Australia to closer to New Zealand levels and the way that shows itself will be in same store sales. We know we can rollout more stores. But actually, there is an end coming to the number of stores. We can have this as much more about getting more sales out of the existing portfolio of stores we have and upgrading and relocating stores.

UK. There isn't too many road shows that Mark and I go on where we are not asked what are you doing with the UK, it's losing lots of money? We have said all along, we like the optionality. We want to be a global brand. We don't want to step away. We are braver. We are tougher. We are more determined than that. But at the moment we haven't got, I guess - we'd much rather be focussed on New Zealand and Australia. With online, we are now moving into that space. We've undertaken an exercise where - UK used to have its own team and its own infrastructure. That has been removed now. All - or virtually, all of the UK is supported out of the New Zealand and Australia office and resources. So incrementally, that's saved a lot of cost. We used to have a distribution centre. Now that's gone to a third party provider at a fraction of the cost and that's a variable cost now.

We've restructured our portfolio. We are going to be closing a couple of stores when the leases expire. But we are going to open a new store in a location that's much more likely to be successful and more consistent with the stores that actually do better in the UK than the ones that do terribly. We are committed to the UK,

but we are not committed - we are not intending and we are not planning at all a store rollout. We believe a small store network of three or four stores is all we want to do for the next few years and all the sales growth is going to come from online and that's the - that's happening all over the globe now for many retailers. Vertical retailers, I make the point, retailers that have their own brand. We can we can see a time in the next two or three years where those losses will be reduced significantly and we can even see a time we break even and start to get to profitability.

But we are not going to be undertaking a rollout. We are not going to be spending lots of money. There is not going to be lots of overhead. It's all about online. The online business over there will be in a position where it can support international sales into Europe. There is actually a method to our madness of wanting to stay there, take those costs, carry those losses. But at a time, restructure. We are getting there now. We are in the process of that and then that will be a base for our global plans of selling Kathmandu all over the planet.

I want to highlight sustainability because this is another area Kathmandu has invested quite a significant amount of time and money in terms of we have a sustainability, we have a dedicated sustainability person, plus a senior manager who spends some time on it and we have people within our product team now looking at fabrics, looking at standards, looking at all sorts of things to ensure our products can meet what I believe is going to be demanded of companies like Kathmandu in two to three years' time. We've got to do the groundwork now, so that when customers are really demanding to be able to see the whole supply chain and ensure that all aspects of sustainability are built into our product, that we have actually made huge steps down that path.

This is the first year we've published a sustainability report. We know it's early days. We know there is nothing magical and bold in there. But it's drawing a line in the sand to say this is where we are today and this is where we are moving over time. That sustainability plan covers five key areas. It covers our impact on the environment, human rights, which is particularly important because virtually all of our gear is made in China and Vietnam, where these issues can be a challenge. So we audit all our factories. We visit our suppliers. We set standards and we do the whole supply chain. We go to their subcontractors. We go to where they get the fabric. We go to where they get their dyes. We cover the whole lot. We want to strengthen our community ties and you'll see at the bottom of this page, the Australian Himalayan Foundation. We've got Red Cross. We've got a number of sponsorships and partners we support in this area.

We want to develop or own team members. Kathmandu is actually - can only ever be as good as the sum total of the effort, the commitment and the passion of the people we employ. It can be no better than that. So investing and recruiting and developing those people and of course we know we have to add economic value as well, otherwise we will cease to exist as an organisation. So we have actually - part of the expenses, part of the things that I guess people have said Kathmandu's expenses are out of control. However, they've described it is putting in place the steps and the foundations that we believe are either necessary to allow us to grow in time or are going to be prerequisites to being a quality retailer in the future. This is one of those things and, as I said, we have invested money in this area and quite frankly, we don't get

a return from it today. But if we don't do it today, we won't be ready for it in two years' time. So I sort of laboured that point. It would be very easy as a cost cutting initiative to remove this. But we are absolutely determined that this is an essential ingredient in the Kathmandu formula.

I'm going to talk numbers again now. The trading pattern, we produced this chart last year and I think it's virtually identical. We could have photocopied it. But this was actually the trading pattern for this 12 month period we've just completed, as opposed to last year's AGM, it was the prior. As you can see, we are 16% of the way through roughly, 24%, add those together. It's about 42% is what we do in the first half we did last year and then we have the balance in the second half. Because our expenses are roughly the same between the first and the second half, apart from the additional stores, we might add - but you only do 40% and 60% of turnover. It means we make a lot less money in the first half than the second half.

But I'm also showing you this because the next slide has got our performance for basically up until this meeting, so that - I mean, they are some very good numbers. The sales are \$66.9 million for the period up to 11 November, which is just over our first quarter. Total sales growth was \$10.9 million or 19.2% and then same store growth in that period was 14.3, which is a pretty healthy number in this environment and that same - when I made this statement last year, our same store sales last year at this time was 7.6%. So it's obviously a very, very positive result. But we have to bear in mind that it's only 16% of the way though. The first half is going to be determined by how well we trade actually over the next 10 to 12 weeks. There is a lot of water to go under the bridge. But it's obviously a very, very positive sign for us and makes us feel very good about the investments we've made in the past. We believe some of this is about the things we are doing, the actions we've taken and the investments we've made, the strategies we've adopted, the products we've got in front of our customers, the brand. a lot of those things coming together. But we certainly don't want to create an impression this is the new world and it will be 14% same store sales for the rest of time.

So - which brings me to the trading outlook, which we believe the sort of current conditions are the new normal. I think waiting and holding your breath that things might get better, that there might be a bank rate cut or customers might all of a sudden become enthusiastic about life and open their wallets further. We don't think that's a good way to plan the business, that let's just button down the hatches now and let's hope it's fine in six months' time. We actually believe the business should be planned and structured on this is the new normal. In fact it could get worse. So although we are making those investments, on one hand it would be very easy to try and cut those. On the other hand, we recognise this is the tough market. So we've got to figure out ways to grow, which requires you to invest. But we don't think that things are going to get a heck of a lot better in any quick time.

But our category globally, our category - the outdoor category is absolutely on trend. This is a good space. People are moving. People are buying our sort of product. Not necessarily every country on the planet, but big companies in our space that we compare ourselves to globally. They are all doing pretty well at the moment. While it might go up and down a little bit because it's a cold winter or a hot winter, it's a wet summer, whatever, if you take out those sort of patterns, which obviously impact short term performance, but over the long term, this is a great category. It's growing. It's on trend and obviously we want - we participate in that area. So some of our performance is related and that makes it very resilient.

But whenever there is an attractive category, people start piling into it, don't they? We do see other competitors. We see competitors opening stores that are on the fringe of what we do. We see competitors trying to do exactly what we do. We see competitors trying to do exactly what we do. We see competitors altering their business and trying to do more of what we do, whether that's more outdoor apparel into what might traditionally be their camping business. But there is more competition. We watch that. We monitor it closely. We know what is going on, but we try and stay ahead of it through our investment program, our products and so forth.

So, from an earnings point of view, first of all, the Board and management. We are really confident and firstly, our business model, that gets a lot of talk about how we go about marketing our product and how we structure our business and the vertical model and all those sort of things, but also in the growth strategies. Our new stores when we open them, they are profitable. Our relocations are adding value and enhancing the brand. Our products are delivering. Our Summit Club members disproportionately spend more than the rest of the people. So getting them on board is really valuable to us. Our growth strategies are - and our online business obviously, offers us tremendous opportunity and we are making great strides in that area. So from a confidence about the model and the growth strategy, I think we are very happy.

The costs that we incurred last year, many of those won't repeat again. So I think for the analysts amongst the audience, you will see that much more stable and more predictable than last year, although, operating is really a function of the sales, not so much the expenses for us anymore. If the sales are way down, the leverage is terrible. If the sales are way up, the leverage looks fantastic. The expenses are much more predictable and consistent for us. We've been through our year of investment and a bit of year of surprises.

New store rollout. They're actually way ahead of where we were this time last year. We are going to get 15 stores. They are going to be great stores. They are opened earlier and the early signs are they are delivering. So I guess the trading to date gives us a lot of confidence, but we've been here before over the last four years. We've been in this position. So we are very conservative in our outlook. We think there are a range of things that can happen in the wider market and there are a range of things that can happen in our space, so I guess we are feeling good. But it's a long way to go yet. So providing there is not further deteriorating in the sort of economic conditions, we expect overall that we will improve our performance over the previous year.

Thank you. That's - I hope you found that useful and I will pass back to the Chairman now. Thank you.

James Strong: Thank you very much Peter and on behalf of the Board, I'd like to express my thanks to you and the team for the excellent contribution you've made during the year and I'll ask you to pass that on to the executive team.

So, we'll go to the formal agenda now. I'm hoping that that gives you some good background. Returning to item 1 on the agenda, this is the opportunity for shareholders to ask any questions or to comment on the annual report itself, the presentation made by Peter and myself or any other matters relating to the Company. I'll also note that we have Mr Eddie Wilks, a representative of our auditors PWC, present at the meeting. Where is Eddie? There. Thanks Eddie. Should there be any queries of a technical nature relating to the audit of our financial statements.

Now just by way of leading into this general discussion, if I could indicate, we received two questions in writing from shareholders and what I'll do is read them to you and then make some comment on them.

The first question was will the Company's share price recover to its listing price? That's very good question isn't it?

Peter Halkett: I think I asked that.

James Strong: Now I think people appreciate that we can't, as they say in the vernacular, punt our shares at our meeting here, but just a very quick review. When this Company was floated, the real economic downturn obviously hadn't occurred and the pricing was based on the growth in the earnings of the Company up to that stage. After the float, the price was okay for a while. But then we ran into what I call - and I'm not trying to be derogatory about this - but what I call the Myer affect. You recall that Myer had done a public float and then had difficulties with the performance because of the downturn in retail and their share price has been well below its float price for quite a while. I acknowledge that actually Myer revealed some improving results in the last week, so I don't want to concentrate on them. It was a general retail downturn.

So in our first performance period we actually fell a little short of our prospectus forecast and the market didn't like that very much and that affected the share price. Then we had a period where today's meeting reminds me and the graph that Peter had up there of the period, where there is the first quarter sales at the next annual general meeting we - people expect us to make some comment. We were doing very well and then things dropped away before the half year and we actually had to downgrade our outlook and that again, impacted. As Peter and I have just been through, in fact last year we invested quite a bit of capital in the business and we had quite a good improvement in trading in the second half of the year. The start of this period, again with all the caution that Peter mentioned, is showing some benefit from that.

I can assure you that the Board certainly feels the price of the shares are undervalued and it certainly is our aim to go back to the listing price and over time to go past that. But it takes time and one of the things is that there's not great liquidity in our shares. We are not a big share base, so the amount of transactions is fairly limited and - but I hope you can see that what we are trying to do over a period of time is build a reputation for being cautious and careful, but improving the quality of the business in terms of its fundamentals, it is all the things that Peter spoke about, the quality of our product, the quality of our people and the quality of our distribution and so on. So that's my comment on that. We understand that it is a matter of frustration. I certainly can assure it is from my point of view, as a shareholder.

The second question was will dividends be increased to shareholders and our comment here as a board is that we believe that the payout ratio of 50% to 60%, that band of distributable profits, is appropriate, whilst our level of capital expenditure remains at a similar proportion of earnings. Over time, an increase in profit should result in a higher level of dividend paid in absolute terms, in other words, in monetary terms. So we have been consistent about that payout ratio and as things - our profit improves, we hope that that will mean better dividend for you and that's certainly our intention.

So there is two questions. Is there anybody present who would like to ask a question? If you do have one, just hold up your card and we will get a microphone for you to speak to the group.

Barney Revell: My name is Barney [Revell] Mr Chairman. I have got two questions. The first one relates to the brand in Kathmandu. Peter made a lot of reference to that and how important it is to us. Do we have the assurance that no-one can pinch that brand anywhere else in the world? I mean, it seems to me that if the Chinese or the Yanks or the South Americans or someone grabbed the brand and tried to market in other areas, we might be in some strife. I think - I understand what you are getting at, so that's my first question. Do you want me to ask the second question as well?

James Strong: No, we'll come back on that one.

Peter Halkett: Mark is as close to it as I am. But we've registered and protected our brand in most of the major markets, where we feel we are going to compete. You can't get global registration as such. It's market by market. It doesn't prevent someone trying to knock us off and that's very common in some of the countries you referred to.

But we have protected in the major markets, where we believe our long term future is, but not every single market. But we don't see those as opportunities in the foreseeable future.

Mark Todd: If I just add one other thing to that. In some markets, it is not actually able to be protected, because it's a geographic name and that doesn't give you the same right and entitlement of protection and there are some key markets you might think of where unfortunately that [unclear] opportunity doesn't exist, for that reason.

James Strong: It's also the name of a rock song. I don't know who is aware of that, but Bob Seger had a song called *Kathmandu*. He was the fella who wrote *Old Time Rock and Roll*. In fact, the two songs sound very familiar to me. So he got in there early and I think it starts off *Got to get out of this place*. But he is not referring to Kathmandu. He is referring to where he is in the USA. So - but we think it's a nice name and it conjures up nice images and we are doing everything we can to protect it.

Barney Revell: My second question relates more to the finances. I just noticed, looking at this quickly, that stock seems to have gone up from one year to another, which I suppose it is something to do with the rollout. The cash situation seems to have deteriorated over the last three years and the borrowings seemed to have gone up a bit. Does that mean that we are running out of money?

James Strong: I'll ask Mark to comment on that.

Mark Todd: So the rollout of stores and the growth in the product range drive the increase in inventory. That's the primary reason for the increase in stock. The rate of increase in stock is actually very consistent with the rate of increase that we planned over the period of time. The current bank facilities that we have in place are basically, in absolute terms, the same as the level that we negotiated at the time of the IPO. So we don't have a total bank facility that is any great different, in terms of total sites.

The amount that's used at any point in time at any balance date, like the one you are looking at now, is dependent upon how much inventory sits in the business. That's the main driver of how much with we are borrowing for at that point in time and we had slightly more than we'd planned for in the year end at 31 July, because we didn't open as many stores as we planned for the year. We had planned to open 15. We

looked for a target rate of sales, same store sales growth, of about 8%. We are about there on the same store sales growth. But we didn't open quite as many stores.

James Strong: I think just to - it's a good question and I think I can reassure you that at every Board meeting we look at our whole cash, our financial position, including cash flow and make sure that we - as we invest more in terms of inventory and stores, that it is still going to get us the right sort of financial outcome at the end.

Barney Revell: So, does that mean you expect you may have to increase the borrowings?

James Strong: Only if we increase the size of the business. It's basically been parallel. If you have a look at it, it's basically a parallel growth in the whole turnover and the borrowings that we use in structuring the business.

Mark Todd: Yeah, so we negotiate being a facility on a three year forecast. We renegotiated the bank facilities in the financial year that we are reporting upon. The absolute of borrowings we took up in the total facility was about \$10 million higher than it was for the previous facility. We utilised 80% to 90% of that in total at peak and that 10% is - effectively, most of that was actually to facilitate an increase in bond guarantees for stores, for new stores. It had nothing to do with the total amount of debt we actually need to borrow time on time. So we are actually - and that comes back to the fact that each year's distributable profits - basically we repay in dividends what's available to us after we have invested capital expenditure. The only floater really in that is the inventory build year-on-year.

James Strong: So, if there are no other questions, we do have the formal business. The first item is the election of directors. Sorry, the second item, after that review of our performance and our operations. This is the election of directors. Article 44 of the Company's constitution requires at least one-third of the directors to retire by rotation at the annual shareholders meeting and, of course, people will understand that applies to all corporations.

To comply with the Listing Rules, it is necessary for each director to be appointed by separate resolution. The first resolution relates to my own reappointment as a director of the Company, so I'll ask John Harvey on my right to Chair the meeting while this motion is put to the meeting.

John Harvey: It will probably be appropriate that I stand up for this part. Thank you James. Before I put the motion, I would ask James to speak to you regarding his re-election as a director.

James Strong: Okay. Thanks John, Chairman. I'll try and be quite straightforward and brief about it. I must say that I enjoy being involved in Kathmandu. I think it's a good company. I think it's being quite well run. It has good management. So, in my own - by my own tests, the first one is, that a good operation to be involved in. It certainly passes that.

The second is do you enjoy the people that you are working with and I must say that I think we've got a small, good quality board and a very good management team. So I feel positive from that perspective. I like the equipment, the things that we are selling. I've long been an outdoor person myself and done mountain climbing and so on, so it passes that test. Do I have a belief and faith in the potential of the business and

our ability to go on improving it? It certainly passes that test. So I'm very pleased to offer myself to you, as the shareholders, for re-election. Thank you.

John Harvey: I think on behalf of the other Board members, I would say we are very fortunate to have somebody of James' calibre and experience, to be our Chairman. So we certainly fully endorse him.

I therefore have pleasure in moving that James Strong, who retires in accordance with Article 4.4 of the Company's constitution and being eligible, offers himself for re-election, to be re-elected as a director of the Company.

Is there any discussion on the motion? There being no further discussion, I will now put the motion. Those in favour please raise your voting cards. Those against. I declare the motion carried. Thank you and congratulations James on your re-election to the Board.

James Strong: Thanks very much John.

The second motion relates to the reappointment of John Harvey - we are just going a musical tango here - as a director of the Company. Before putting this motion, we thought we would ask John to speak to you regarding his re-election as a director.

John Harvey: It certainly is musical chairs, isn't it? I was delighted to take up the opportunity to become a director of Kathmandu, prior to the IPO three years ago. I had and still have a love of the outdoors. I knew the brand well and had quite a bit in my wardrobe and had significant retail and governance experience as a professional advisor in my previous career as a partner of PWC.

As a professional director now, my director appointments cover a range of businesses in Australia and New Zealand, which gives me a good understanding of what is happening in this part of the world. Over the last three years, as you have already seen and heard today, we are focussed on implementing our Kathmandu growth strategy. This has meant the Board has had to have the courage and belief in the brand to invest in new stores, particularly in Australia and improve systems and distribution centres and most importantly in our people. At the same time, we set aggressive same store sales growth targets and have achieved higher growth in the sales area than most of our competitors - or most retailers, all this, while we've been in the midst of a global financial crisis.

I've enjoyed the challenges and believe that we have delivered pretty well on the difficult environment. I say pretty well, because, as we've talked about, the share price isn't quite there yet. But we are still striving on that one. I've also enjoyed being part of the small and effective and focussed board, which maintains a very good relationship with the management of Kathmandu. I have a real passion for Kathmandu and I believe we have yet to achieve to for the brand and look forward to your continued support. Thank you.

James Strong: Thanks very much John. So the motion before you is that John Harvey, who retires in accordance with Article 44 of the Company's constitution and being eligible, offers himself for re-election, to be re-elected as a director of the Company.

Does anybody wish to speak to the motion before the meeting? There being no further discussion, I will now put the motion. Those in favour please raise your voting cards. Against. I declare the resolution carried. Thank you and congratulations John on your re-election to the Board.

So, I'd just like to, as a comment, to say thank you very much, because the Board doesn't take it for granted that it be re-elected and so thank you for your support in that.

Turning now to the matter of auditors. The third item on the agenda is to authorise the directors to fix the fees and expenses of Price Waterhouse Coopers, as the Company's auditor. So I move before this meeting to record that Price Waterhouse Coopers continue in office as the Company's auditors and to authorise the directors to fix the remuneration of Price Waterhouse Coopers for the ensuing year.

Is there any discussion on the motion? Okay, thank you very much. I think most people know it's a reasonably formal motion. But it is required by the Corporations Law.

I will now put the motion to the meeting. Those in favour please raise your voting cards. Those against. I declare the resolution carried.

Before moving to item four, shareholders should note that the Kathmandu Holdings Limited long term incentive plan, which is relevant to items four and five, was approved by shareholders at the 2010 annual general meeting. The detail in relation to the conduct of the plan, as it relates to the performance rights grants, is contained in the notice of meeting.

So the next item is the approval of the grant of performance rights to our CEO, Peter Halkett, under the Kathmandu Holdings Limited long term incentive plan. Shareholder approval is required under ASX Listing Rule 1014 for the granting of performance rights to any executive director. The explanatory statement accompanying your notice of meeting provides details of the value of rights to be granted to Peter and the basis of that grant, which of course, is based on our performance.

I will put the motion for the approval of the grant of performance rights to Peter, as detailed in the notice of meeting, as follows. That for the purposes of ASX Listing Rule 1014 and for all other purposes, approval is hereby given for the grant to Peter Halkett, Managing Director and Chief Executive Officer, of a number of performance rights including both the short term incentive portion and the long term incentive portion, up to a value of NZ\$404,250 - that's the maximum value potential - calculated in accordance with the formula and terms described in the explanatory statement, which forms part of this notice of meeting.

Is there any discussion on the motion?

I might just mention to you as shareholders, that there are differing laws in New Zealand and Australia about directors voting in relation to a potential benefit for other directors. In New Zealand there is not a prescription. But in Australia there is; that directors should not vote in relation to a benefit for a director. We are a New Zealand registered company, so technically, it doesn't apply. But just to show good faith, the directors will not vote in favour - or will not vote on this motion. Just so that you know we are being independent on in it.

Okay, so if there are no matters for discussion, I will now put the motion. Those in favour please raise your voting cards and I'm voting here proxies, not my own. Anyone against? Thank you very much.

So we will now deal with the same item in relation to our CFO, Mark Todd. I don't think I'll read through those same - it's exactly the same wording for the ASX Listing Rule 1014. But in Mark's case, the - it's a number of performance rights including both the short term incentive portion and the long term incentive portion up to a value of maximum potential of NZ\$238,875.

So I'll put that motion before the meeting. Is there any discussion on that? Could I ask you then to vote on the motion? Those in favour. Again, I'm voting proxies. Those against? I declare the resolution carried.

That's the formal business. Would anyone like to raise anything else, just by way of discussion?

No. Okay. Ladies and gentlemen, that completes the formalities of our meeting. I would just like to particularly thank people for attending and for your continued support and I'll declare the meeting closed and invite you to join us for a sandwich and a cup of tea.

Thank you very much.

End of Transcript