

KATHMANDU HOLDINGS LIMITED

ASX/NZX/Media Announcement 26 March 2013

Kathmandu Holdings announces FY13 first half year results:

- **Sales up 13.1% to NZ\$165.9m,**
- **EBIT up 24.4% to NZ\$15.8m,**
- **NPAT up NZ\$4.3m (72%) to NZ\$10.3m.**

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ\$15.8 million, for the half-year ended 31 January 2013, an increase of \$3.1 million compared with the prior corresponding period. Net profit after tax (NPAT) increased from NZ\$6.0 million to NZ\$10.3 million for the same period.

RESULTS OVERVIEW

Half Year ending 31 January 2013	NZ \$m		Growth	
	1H FY13	1H FY12	NZ \$m	%
Sales	165.9	146.7	19.2	13.1%
Gross Profit	104.1	92.0	12.1	13.2%
EBIT	15.8	12.7	3.1	24.4%
NPAT	10.3	6.0	4.3	71.7%

Kathmandu Holdings Limited Chief Executive Officer, Mr Peter Halkett said “there was strong sales growth over the period; underpinned by successful new store openings and a solid increase in same store sales, despite a challenging market overall. Operating expenses were reduced as a % of sales relative to 1H FY12, and this also contributed to 1H earnings growth.”

In the first half year of FY13 same store sales growth was 3.7% (6.1% at comparable exchange rates). Online sales growth (up over 50% on the same period last year) continued to be an important portion of this increase, but still represents less than 5% of total sales. The Company opened 9 new stores in the period, all in Australia, and relocated 3 stores. “Along with the continued growth in online sales, the new stores we opened in a variety of locations and formats have generally met or exceeded our sales expectations” said Peter Halkett.

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Sales for half year ending 31 January 2013	NZ \$m 1H FY13	% of Total	Total sales growth % ^{*1}	Same store growth % ^{*2}
Australia	103.5	62.4%	21.5%	9.6%
New Zealand	59.0	35.6%	7.9%	1.3%
United Kingdom	3.4	2.0%	(4.7%)	(4.7%)
Total	165.9	100.0%	13.1%	3.7%

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

² Same store sales are for the 26 weeks ending 27 January 2013.

Australia (9.6%) outperformed New Zealand (1.3%) in same store sales growth. Kathmandu's growing market penetration in Australia is a key factor in delivering improved same store sales growth, which compares to a 6.4% increase for the same period last year. In New Zealand, the reduced same store sales growth followed a 12.7% increase in 1H FY12.

Permanent stores open 31 January 2013	1H FY13	1H FY12
Australia	81	68
New Zealand	42	40
United Kingdom	6	6
Total Group	129	114

Kathmandu opened nine new permanent stores in the period, all in Australia:

- Stores opened were Carindale, Robina and Mackay in Queensland; Tuggerah, Coffs Harbour and Pitt St, Sydney in NSW; Fountain Gate in Melbourne; Morley Galleria in Perth; and Casuarina in Darwin.
- Perth CBD, Richmond (Melbourne) and Nelson (NZ) stores were relocated during the period.
- Knox and Highpoint (Melbourne) stores were refurbished.

Half year ending 31 January 2013	1H FY13	1H FY12
Gross profit margin %	62.7%	62.7%

Gross profit margin was consistent with 1H FY12 and remained within Kathmandu's target range of 62% - 64%. Margins were flat in Australia and slightly reduced in New Zealand. In the UK, the lower gross margin is due to the higher discounting and greater clearance activity associated with the planned closure of our Berners St and Brighton stores.

OPERATING COSTS

Operating Expenses (excluding depreciation)	NZ \$m & % of Sales	
	1H FY13	1H FY12
Rent	22.1m	19.1m
<i>% of Sales</i>	<i>13.3%</i>	<i>13.0%</i>
Other operating costs	61.1m	55.9m
<i>% of sales</i>	<i>36.8%</i>	<i>38.1%</i>
Total	83.2m	75.0m
<i>% of sales</i>	<i>50.1%</i>	<i>51.1%</i>

Kathmandu's operating expenses decreased by 100 bps as a % of sales. Rental expense as a % of sales increased primarily due to new flagship stores (Newmarket in Auckland, and Perth). Other expenses reduced as a % of sales as one off costs in 1H FY12, associated with brand refresh and the impact on distribution costs following the implementation of our core system upgrade, were cycled out. For the full year, operating costs as a % of sales are expected to be slightly reduced on FY12.

"Active management of operating costs continues to be a key focus and Kathmandu expects to gain further efficiency improvements in the future" said Mr Halkett.

EBITDA margin for the first half year increased from 11.6% to 12.6% and EBIT margin increased from 8.7% to 9.5%.

OTHER FINANCIAL INFORMATION

Half year ending 31 January 2013	NZ \$m	
	1H FY13	1H FY12
Capital Expenditure	10.7	10.3
Operating Cashflow	(5.6)	(17.9)
Inventories	84.5	76.8
Net Debt	81.0	85.6
Net Debt : Net Debt + Equity	23.0%	25.1%

We continue to improve our efficient management of major store capital projects and completed 14 of these projects in the period, compared to 10 in 1H FY12.

Total inventories increased in line with store growth by 10.0%, or NZ\$7.7 million and decreased by 1.7% on a \$ per store basis. The effective management of working capital and improved operating cashflow meant that net debt as at 31 January decreased by 5.4% on the previous year. The ratio of net debt to net debt plus equity has decreased slightly at approximately 23.0%.

INTERIM DIVIDEND

Kathmandu confirms that an interim dividend of NZ 3 cents will be paid. The dividend will be fully franked and fully imputed.

Future years' interim dividends for New Zealand shareholders are unlikely to be imputed given full year dividend payout levels will increase in line with profit growth, which is derived primarily from Australian operations. Final dividends are expected to remain fully franked and fully imputed.

BOARD CHANGES

The death of our Chairman, Mr James Strong, on March 3rd was a tragic loss, not just for the Company, but also the wider Australasian business, arts and sports communities. As a result of James Strong's untimely passing, John Harvey has been appointed as interim chairman for the period up until our next Annual General Meeting. During this period the Board will undertake a review of the make-up of the Board and determine a permanent appointment of a Chairman. Following the appointment of Christine Cross in December last year there remain 4 independent Directors on the Board.

FULL YEAR RESULTS OUTLOOK

Kathmandu's overall earnings growth for the full year in FY13 is expected to be underpinned by the continuation of growth in the Australian market, attributable to improving brand penetration and the performance of new stores opened during the year. However the key external risks to delivering an improvement in second half year performance are:

- The success of the two major promotional events in the second half of the year, particularly if either or both are impacted by unseasonal weather;
- The general economic environment which appears to remain volatile and has been highlighted until recently by generally low levels of consumer confidence.

Kathmandu's annual trading pattern means the overall profit result for the year depends primarily upon the second half year performance and in particular the Winter sale. Peter Halkett stated "Sales through February and March have been impacted by the hot and generally dry weather in both Australia and New Zealand. However, as we have only just commenced our Easter sale, which is the second of our three largest promotional events each year, it is still too early to assess with reasonably certainty the overall result for the full year".

Kathmandu continues to target 15 new permanent stores in the full financial year. Five new permanent store locations are currently confirmed to be opened prior to 31 July 2013: The Glen (Melbourne), Eastgardens (Sydney), Hobart CBD, Pukekohe and Westgate (Auckland).

In the UK during 2H FY13, two stores are to be closed (Berners St, London and Brighton) and one new store (Kensington High St, London) is to be opened.

In concluding his assessment of the prospects for 2013 Peter Halkett said "I am confident in our ability to successfully execute Kathmandu's growth strategies. In particular the strength of our Australian performance in tandem with effective management of our operating costs should deliver a strong profit outcome for 2013."

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