

KATHMANDU HOLDINGS LIMITED

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Kathmandu Holdings announces FY14 first half year results:

- **NPAT up 10.7% to NZ\$11.4m,**
- **EBIT up 11.4% to NZ\$17.6m,**
- **Sales up 1.0% to NZ\$167.6m.**

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ\$17.6 million, for the half-year ended 31 January 2014, an increase of \$1.8 million compared with the prior corresponding period. Net profit after tax (NPAT) increased from NZ\$10.3 million to NZ\$11.4 million for the same period.

RESULTS OVERVIEW

Half Year ending 31 January 2014	NZ \$m		Growth	
	1H FY14	1H FY13	NZ \$m	%
Sales	167.6	165.9	1.7	1.0%
Gross Profit	107.1	104.1	3.0	2.9%
EBIT	17.6	15.8	1.8	11.4%
NPAT	11.4	10.3	1.1	10.7%

Kathmandu Holdings Limited Chief Executive Officer, Mr Peter Halkett said “the first half result was achieved through continuing strong same store sales growth, particularly in Australia, combined with improved gross margins and effective management of costs.”

In the first half of FY14 same store sales growth was +5.4% at comparable exchange rates (-3.5% at actual exchange rates). Online sales grew by 49% at comparable exchange rates, and this channel continues to provide promising future growth opportunities. The Company opened five new stores in the period, four in Australia and one in New Zealand, and closed two stores.

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Sales for half year ending 31 January 2014	NZ \$m 1H FY14	% of Total	Total sales growth % ^{*1}	Same store growth % ^{*2}
Australia	103.0	61.4%	14.8%	6.6%
New Zealand	62.3	37.2%	5.6%	3.2%
United Kingdom	2.3	1.4%	(33.0%)	4.5%
Total	167.6	100.0%	10.5%	5.4%

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 26 January 2014.

In Australia, Kathmandu's growing market penetration helped to deliver 6.6% same store sales growth, following a 9.6% increase for the same period last year. New Zealand's 3.2% same store sales growth compares to a 1.3% increase in 1H FY13.

Permanent stores open 31 January 2014	1H FY14	1H FY13
Australia	90	81
New Zealand	45	42
United Kingdom	4	6
Total Group	139	129

Kathmandu opened five new permanent stores in the period, four in Australia and one in New Zealand:

- Stores opened in Australia were Northland and Uni Hill Outlet in Melbourne, West Lakes in Adelaide, and Jindalee Outlet in Brisbane.
- In New Zealand, a new store was opened at St Lukes in Auckland.

Kathmandu continues to target 15 new permanent stores in the full financial year. Eight new permanent store locations are currently confirmed to be opened before 31 July 2014: two in Melbourne (Emporium and Chadstone), one in Brisbane (Indooroopilly), one in Perth (Belmont Forum), and four in Regional Australia (Bunbury, Rockhampton, Traralgon and Charlestown Square - Newcastle).

In the UK during 1H FY14, Westfield White City (London) closed. An outlet store in Chatswood (Sydney) was also closed during the period.

Half year ending 31 January 2014	1H FY14	1H FY13
Gross profit margin %	63.9%	62.7%

Gross profit margin was 120bps above 1H FY13 and improved strongly on last year in both Australia and New Zealand.

OPERATING COSTS

Operating Expenses (excluding depreciation)	NZ \$m & % of Sales	
	1H FY14	1H FY13
Rent	21.8m	22.1m
% of Sales	13.0%	13.3%
Other operating costs	62.7m	61.1m
% of sales	37.4%	36.8%
Total	84.5m	83.2m
% of sales	50.4%	50.1%

Kathmandu's operating expenses increased by 30 bps as a percentage of sales. Rental expense as a percentage of sales decreased, assisted by the closure of UK stores. Our investment in upgrading our core systems to a new Microsoft Dynamics AX platform was the primary reason for other expenses increasing as a percentage of sales.

For the full year, operating costs as a percentage of sales are expected to be slightly higher than FY13.

EBITDA margin for the first half year increased from 12.6% to 13.5% and EBIT margin increased from 9.5% to 10.5%.

OTHER FINANCIAL INFORMATION

Half year ending 31 January 2014	NZ \$m	
	1H FY14	1H FY13
Capital Expenditure	8.1	10.7
Operating Cashflow	(16.0)	(5.6)
Inventories	102.5	84.5
Net Debt	80.9	81.0
Net Debt : Net Debt + Equity	22.5%	23.0%

Overall capital expenditure declined because of a reduction in the number of store openings in the period compared to 1H FY13. Core systems costs were a significant portion of total Capital Expenditure in the period. We are continuing to improve our efficiency in management of major store capital projects and there will be increased activity in this area in the second half of the year.

Total inventories increased by 21.3% (\$18.0m) as a result of planned investment in key product categories to support online growth and new store rollout. This investment was in line with expectations and generally in products with a higher than average unit cost.

Net debt was slightly below the previous year. The ratio of net debt to net debt plus equity has also decreased from 23.0% to 22.5%.

INTERIM DIVIDEND

Kathmandu confirms that an interim dividend of NZ 3 cents per share will be paid. The dividend will be fully franked for Australian shareholders, but not imputed for New Zealand shareholders.

Final dividends are expected to remain fully franked and fully imputed.

FULL YEAR RESULTS OUTLOOK

The full year result in FY14 will continue to be underpinned by sales growth in the Australian market. The Australian stores opening in FY14 are generally lower turnover stores compared to those opened in FY13. As a result, the profit contribution from new stores will reduce in FY14. Our focus in the second half of the year will continue to be growing same store and online sales.

Kathmandu CEO Peter Halkett commented that “the New Zealand economic environment and consumer sentiment is currently generally positive, but there is more uncertainty in Australia’s prospects, and I anticipate it will continue to be the more challenging retail market during 2014. Nevertheless our increasing brand awareness and profile in Australia makes me confident that we will see on-going sales growth this year”.

Kathmandu’s earnings growth (EBIT) for the first half year in FY14 would have been \$NZ 2.2m higher than reported if a constant exchange rate had applied between FY13 and FY14. The current relative weakness in the \$A against the \$NZ is expected to continue and the full year result for FY14, as reported in \$NZ, is likely to be further impacted when compared to FY13.

Peter Halkett stated “Trading has continued to be in line with our expectations since the end of January, supported by our uplifted investment in inventory. However as we have only just commenced our Easter sale, the second of our three largest promotional events each year, it is still too early to assess what the overall result for the full year may be”. Unseasonal weather through the Easter and Winter sale periods is always a significant variable influencing the full year’s result.

In concluding his assessment of the prospects for FY14 Peter Halkett said “Our trading performance continues to give Kathmandu confidence in the underlying strength of our business. We are targeting an improved profit outcome in FY14, after adjusting for the effect of exchange rates. Looking further ahead our strong financial performance enables us to continue to invest in growing our store network, enhancing our online



offering and developing true omni-channel capability to serve our customers. We are increasing our focus on global sales potential for the Kathmandu brand. ”

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