

KATHMANDU HOLDINGS LIMITED (ASX/NZX: KMD)

**ASX/NZX/Media Announcement
23 September 2014**

Kathmandu Holdings announces FY2014 full year results:

- Sales NZ\$392.9m, up NZ\$8.9m, +2.3%,
- EBIT NZ\$64.3m, up 1.4%,
- NPAT NZ\$42.2m, down 4.5%,
- Earnings per share 21.0 cps (NZ\$), down 1.1c (NZ\$)

Final dividend 9.0 cents per share (NZ\$), full year payout 12.0 cents per share (NZ\$).

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ\$64.3 million, for the year ended 31 July 2014, an increase of NZ\$0.9 million compared with the prior corresponding period. Net profit after tax (NPAT) decreased from NZ\$44.2 million to NZ\$42.2 million for the same period.

RESULTS OVERVIEW

Year ending 31 July 2014	NZ \$m		Growth	
	FY2014	FY2013	NZ \$m	%
Sales	392.9	384.0	8.9	2.3%
Gross Profit	248.1	242.0	6.1	2.5%
EBITDA	74.5	74.0	0.5	0.7%
EBIT	64.3	63.4	0.9	1.4%
NPAT ¹	42.2	44.2	(2.0)	(4.5%)

1. FY2014 NPAT includes NZ\$0.8m (2013: NZ\$3.1m) taxation expense benefit from Australian intercompany loan revaluation.

Kathmandu Holdings Limited Chief Operating Officer, Mark Todd (soon to become acting Chief Executive following the recent resignation of long term CEO Peter Halkett) said it was a satisfactory overall result. "Given the reduced customer

demand experienced during our key selling period in June, and the NZ\$5.8m adverse impact of exchange rates, a small increase in EBIT was a good performance.”

For the full year, same store sales growth was 4.2% at comparable exchange rates (-2.7% at actual exchange rates). The company opened 15 new permanent stores; ten of these in the second half. Online sales grew by over 35% at comparable exchange rates and contributed 5.1% of total sales.

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Year ending 31 July 2014	NZ \$m FY2014	% of Total	Total sales growth %^{*1}	Same store growth %^{*1}	FY2014 # new stores
Sales – Australia	247.3	62.9%	14.8%	6.9%	14
Sales – New Zealand	141.0	35.9%	2.9%	(0.1%)	1
Sales – United Kingdom	4.6	1.2%	(22.6%)	12.7%	0
Total	392.9	100.0%	2.3%	4.2%	15

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

Australia performed strongly, delivering good same store sales growth throughout the year. New Zealand same store sales were generally ahead of FY2013 levels, apart from a substantial downturn during the key winter trading period in June.

The United Kingdom also delivered same store sales growth. The overall sales reduction in that market reflected the first period of trading after closure of loss making stores.

Permanent stores open 31 July 2014	FY2014	FY2013
Australia	100	87
New Zealand	45	44
United Kingdom	4	5
Total Group	149	136

In the second half year Kathmandu opened ten new stores (following five in the first half):

- Australia: Melbourne (Chadstone, Emporium), Regional VIC (Shepparton, Traralgon), Brisbane (Indooroopilly), Regional QLD (Rockhampton, Hervey Bay), Perth (Belmont), Regional WA (Bunbury), Regional NSW (Charlestown).

During the year Kathmandu closed one store in Australia (Chatswood Outlet, Sydney) and one store in the United Kingdom (White City, London) as part of the re-organisation of that business.

During the year four stores were relocated; Napier, Onehunga and Wellington Outlet in New Zealand, Pacific Fair in Australia. Major refurbishments were completed in Brisbane CBD, Petone (Wellington), Queen St (Auckland) and Spitalfields (London) stores.

In the first half of FY2015, eight new stores are already confirmed to open, all in Australia:

- Burwood, Miranda (Sydney)
- Byron Bay, (NSW)
- Mt Gravatt (Brisbane)
- Essendon DFO, Watergardens (Melbourne)
- Cockburn, Joondalup (Perth)

Sales growth in the online channel has continued strongly. “We expect more sales growth as we invest in internal capability and introduce more customers to the brand globally,” said Mr Todd. He further commented that “we will achieve this through our ongoing focus on increasing Kathmandu brand awareness and growing Summit Club membership in both existing and new global markets. This will support online sales growth via our own platform and web-based marketplaces such as NEXT and Amazon, the first marketplaces we traded on successfully in the United Kingdom during FY2014. We are expanding our product offering and entering more online marketplace sites to generate further international sales.”

Year ending 31 July 2014	FY2014	FY2013
Gross margin %	63.1%	63.0%

Gross margin remained within Kathmandu's target range of 62% to 64%. Margins remained unchanged in Australia and improved in New Zealand (up 50bps). In the United Kingdom, margins were lower than FY2013 by 230 bps due to the impact of clearance activity associated with store closures.

OPERATING COSTS

Operating Expenses (excluding depreciation)	NZ \$m & % of Sales	
	FY2014	FY2013
Rent	44.5m	43.8m
<i>% of sales</i>	<i>11.3%</i>	<i>11.4%</i>
Other operating costs	130.5m	124.5m
<i>% of sales</i>	<i>33.2%</i>	<i>32.4%</i>
Total	175.0m	168.3m
<i>% of sales</i>	<i>44.5%</i>	<i>43.8%</i>

Kathmandu's operating expenses increased by 70 bps as a % of sales. Expenses as a % of sales were adversely impacted by sales being below expectations. Following increased promotional activity in the second half, advertising increased as a % of sales. Continued investment in internal capability to support increased online business and systems development also drove operating cost increases.

"Operating cost leverage remains a key priority for Kathmandu, in tandem with investment for growth. We are confident Kathmandu will achieve further efficiency improvements in the future as we transition onto the Microsoft Dynamics AX platform, improve core systems and realign supply chain facilities and technology, both in New Zealand and Australia," said Mr. Todd.

EBIT margin decreased from 16.5% to 16.4% of sales. Earnings per share decreased by 5.0% to 21.0 cents per share (FY2013: 22.1 cents per share).

OTHER FINANCIAL INFORMATION

	NZ \$m	
Year ending 31 July 2014	FY2014	FY2013
Capital Expenditure	24.2	17.4
Operating Cashflow	31.2	45.7
Inventories	103.8	80.0
Net Debt	55.3	40.2
Net Debt : Net Debt + Equity	15.5%	12.0%
Interim Dividend (cents per share)	3 cents	3 cents
Final Dividend proposed (cents per share)	9 cents	9 cents

The increase in capital expenditure year on year was primarily investment in new core systems built upon the Microsoft Dynamics AX platform. Also more store relocation and refurbishment projects were completed in FY2014 than in the prior year.

Total inventories have increased by \$23.8m (29.8%). The growth in operating inventory required to support an increased number of stores and investment in higher price point categories for sale throughout winter contributed to this increase. One month after balance date, the year on year percentage increase in inventory on a stock per store basis has reduced from 18.5% to 11.8%, as the implementation of new forecasting and planning software takes effect.

Total net debt at 31 July increased by NZ\$15.1m (37.6%) on the previous year as a result of reduced operating cash flow and increased capital expenditure. The ratio of net debt to net debt plus equity at 31 July increased to 15.5%.

FINAL DIVIDEND

Kathmandu confirms that a final dividend of NZ 9.0 cents will be paid, bringing the total dividend payout for FY2014 to 12.0 cents (FY2013: 12.0 cents). The dividend will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders. A supplementary dividend of 0.15882 cents will be paid to non-resident shareholders.

FUTURE OUTLOOK AND INVESTMENT IN GROWTH

Chairman David Kirk confirmed that Kathmandu's key growth strategies remain robust and sustainable. "Kathmandu has done well in 2014. In particular our performance in Australia of 6.9% same stores sale growth and 14.8% total sales growth in Australian dollars is very pleasing. We expect similar sales growth in the year ahead."

Mr. Kirk highlighted the commitment now made by the Kathmandu Board to invest in the brand's international growth aspirations. "Given this strong position and the scale of our business, now is the right time to begin taking Kathmandu to the world. In FY2015 we will invest an incremental NZ\$5m in the United Kingdom and Europe to build our brand, acquire Summit Club members and grow online sales. We are excited to be beginning a new stage in Kathmandu's development," said Mr. Kirk.

He concluded by saying that "providing there is no deterioration in economic conditions we expect improved earnings from the Australasian business in FY2015, however the overall outcome will be impacted by the UK investment."

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