

Kathmandu Holdings Limited (ASX/NZX: KMD) FY15 First Half Results – Media Announcement

- Sales increased by 7.0% to NZD \$179.4m
- Gross profit \$ decreased by 0.7% to NZD \$106.3m
- Gross margin % decreased from 63.9% to 59.3%
- EBIT decreased to NZD \$0.6m from NZD \$17.6m in 1H FY14
- NPAT was a loss of NZD \$1.8m from a profit of NZD \$11.4m in 1H FY14

Summary of Results

	NZD \$m		Variance	
	1H FY15	1H FY14	NZD \$m	%
Sales	179.4	167.6	11.8	7.0%
Gross Profit	106.3	107.1	(0.8)	(0.7%)
EBIT	0.6	17.6	(17.0)	(96.6%)
Net Profit	(1.8)	11.4	(13.2)	(115.8%)

Acting Chief Executive Mark Todd commented:

“As signaled in our market update in February the first half of our 2015 financial year delivered a disappointing result.

There were a number of contributing factors. The aggressive quitting of excess stock in August and September drove top line sales but at significantly reduced gross margins. This brought forward some customer purchases that would otherwise have been made at higher margins later in the half.

Most importantly our Christmas sale and trading through January did not produce the sales we expected. Our analysis tells us that contributing factors included:

- promotional campaigns that did not drive the expected foot traffic;
- some apparel product ranges, notably active wear, wovens and midweight fleece, that did not hit the mark with buyers; and
- a generally weaker discretionary spend environment in Australia.”

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth 1H FY15

Same store sales growth was reduced from 2.7% in local currencies to 0.6% in the reporting currency due to the appreciation of the New Zealand dollar in the period.

Pleasing growth in the UK in both total and same stores sales was achieved in the period.

	Total Sales NZD \$m	Total Sales Growth Local currency	Total Sales Growth NZD	Same Store Sales Growth Local currency	Same Store Sales Growth NZD
Australia	111.1	11.7%	7.8%	0.9%	(2.6%)
New Zealand	65.2	4.7%	4.7%	4.8%	4.8%
United Kingdom	3.1	28.5%	32.7%	26.8%	30.9%
Total	179.4	9.3%	7.0%	2.7%	0.6%

Note: Same store sales are for the 26 weeks ending 25 January 2015

Online Sales Growth

Online sales growth continued to be strong in all countries, with overall growth of 33% led by an uplift of over 90% in the UK. Online sales are now 5.8% of total sales.

Permanent Store Openings

Kathmandu opened eight new permanent stores in the first half of 2015, all in Australia. The Company expects to open a total of 11 new permanent stores in the 2015 financial year.

Gross Margin

Gross margin declined 4.6% pts from 63.9% to 59.3% compared to 1H FY14. This was the result of a combination of factors including the sale of a large amount of clearance stock in the first quarter, below target sales of higher margin summer apparel product groups and price pressure in some key product categories.

Inventory levels

Total inventory levels decreased by 5.1% (\$5.2m) on the same period in 2014 and by 15.8% on a per store basis.

	1H FY15 NZD \$m	1H FY14 NZD \$m	Change NZD \$m	Change %	Change per store %
Inventory	97.3	102.5	(5.2)	(5.1%)	(15.8%)

Operating Expenses

Reduced operating leverage reflects the shortfall in 1H sales performance.

Operating expenses in the period increased by 5.1% as a percentage of sales compared to 1H FY14. The main areas of increase in expenses were:

- Rental expense (1.1%) reflecting most new stores opened in 2H FY14 and 1H FY15 being in malls.
- UK growth investment expenditure (0.9%);

Operating expenses (excluding depreciation)

	1H FY15	1H FY14
Rent, NZD \$m	25.3	21.8
% Sales	14.1%	13.0%
Other operating costs, NZD \$m	74.2	62.7
% Sales	41.4%	37.4%
Total	99.5	84.5
% Sales	55.5%	50.4%

Other Financial Information

The increase in capital expenditure in the period was a result of the completion of nine new or relocated store projects compared to six in the first half of 2014.

Operating cash flow improved from 1H FY14 and gearing is conservative and stable.

	1H FY15	1H FY14
Capital Expenditure, NZD \$m	9.8	8.1
Operating Cash Flow, NZD \$m	(5.8)	(16.0)
Net Debt, NZD \$m	85.5	80.9
Net Debt: Net Debt + Equity	22.6%	22.5%

Interim Dividend

An unchanged interim dividend of NZ3.0 cents per share will be paid to shareholders on the register as at 5 June 2015. The dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders. The final dividend is expected to remain fully franked and fully imputed.

Outlook

Acting Chief Executive Mark Todd commented:

“Group same store sales have been about 2% below last year on a constant currency basis in the seven weeks to 15 March, a period with very limited promotional activity and low sales volume generally.

As with every year, the full year result is highly dependent on the sales and gross profit margin performance we achieve in the Easter and Winter sales periods. We have prepared carefully for these sales, incorporating what we learned from the first half. Promotional activity has been modified and we are even more focused on delivering benefits to our 1.2 million Summit Club members. Trading in the first week of Easter sale was soft in Australia, but satisfactory in NZ.

We continue to lay the foundations for future growth at Kathmandu. Our investments in systems, continuing brand leadership in the outdoor and adventure travel categories, and our scale all support continued growth and leadership in Australasia. We remain confident that we can succeed in developing meaningful sales in international markets.

We look forward to our new Chief Executive, Xavier Simonet, starting with us on 1 July.”