



1H FY15 Results Presentation

March 2015

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Results Overview

Earnings

- EBITDA \$6.8m (LY \$22.6m)
- EBIT \$0.6m (LY \$17.6m)
- NPAT loss of \$1.8m (LY profit of \$11.4m)

Key Points

- December/January trading weaker compared to FY14
- 1H gross margin also adversely impacted by increased weighting of clearance sales
- Reduced inventory levels reflecting improved working capital management

Sales and Margin

- Sales growth +9.3% constant exchange rates (+7.0% actual exchange rates)
- Same store sales growth +2.7% constant exchange rates (+0.6% actual exchange rates)
- Gross margin 59.3% (LY 63.9%)

Operating Costs

- Operating expenses were in line with forecast, but as a % of sales increased to 55.5%, due to sales being below expectations

RESULTS NZD \$m ^{*1}	1H FY15	1H FY14	Var \$	Var %
SALES	179.4	167.6	11.8	7.0%
GROSS PROFIT	106.3	107.1	(0.8)	(0.7%)
<i>Gross margin</i>	<i>59.3%</i>	<i>63.9%</i>		
OPERATING EXPENSES^{*2}	(99.5)	(84.5)	(15.0)	17.8%
<i>% of Sales</i>	<i>55.5%</i>	<i>50.4%</i>		
EBITDA	6.8	22.6	(15.8)	(69.9%)
<i>EBITDA margin %</i>	<i>3.8%</i>	<i>13.5%</i>		
EBIT^{*3}	0.6	17.6	(17.0)	(96.6%)
<i>EBIT margin %</i>	<i>0.3%</i>	<i>10.5%</i>		
NPAT	(1.8)	11.4	(13.2)	(115.8%)
Permanent Open Stores^{*4}	157	139	18	

1. 1H FY15 NZD/AUD conversion rate 0.944 (1H FY14: 0.911), 1H FY15 NZD/GBP conversion rate 0.498 (1H FY14: 0.514).

2. Includes \$1.6m YOY incremental UK growth investment expenditure, primarily advertising.

3. EBIT negative YOY exchange rate impact in 1H FY15: \$0.2m, (1H FY14: \$2.2m).

4. Currently also trading from one temporary site: Cashel St Re-Start (Christchurch). Excludes Online sales channels.

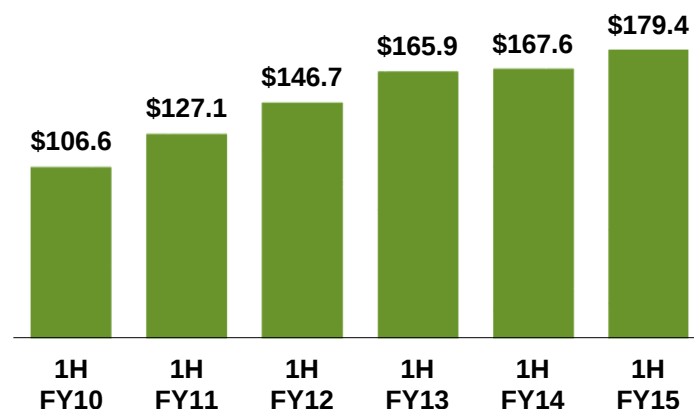
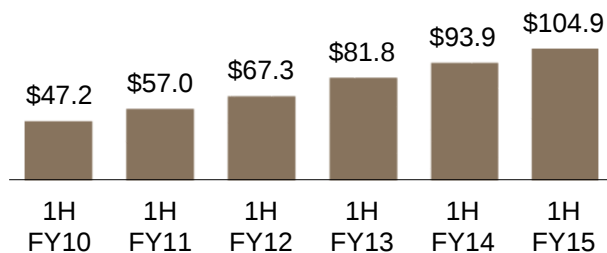
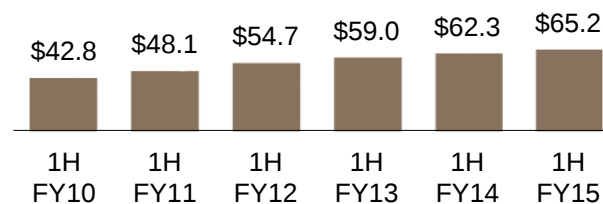
5. Rounding differences may arise in totals, both \$ and %.



 **Key Line Items**

SALES: +7.0% to \$179.4m

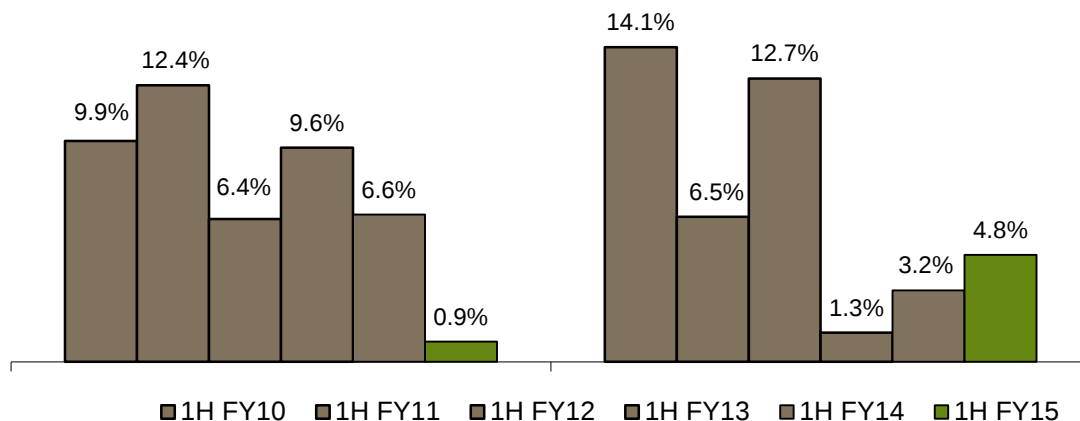
- Sales growth year on year:^{*2}
AU 11.7%, NZ 4.7%, UK 28.5%;
- At constant exchange rates sales growth \$15.6m / 9.3%;
- Online sales 5.8% of total sales;
- Sales growth weighted to Q1.

Group Sales (NZD \$m)^{*1}

■ Australia (AUD \$m)

■ New Zealand (NZD \$m)


1. UK Sales: 1H FY15 £1,523k, 1H FY14 £1,185k.

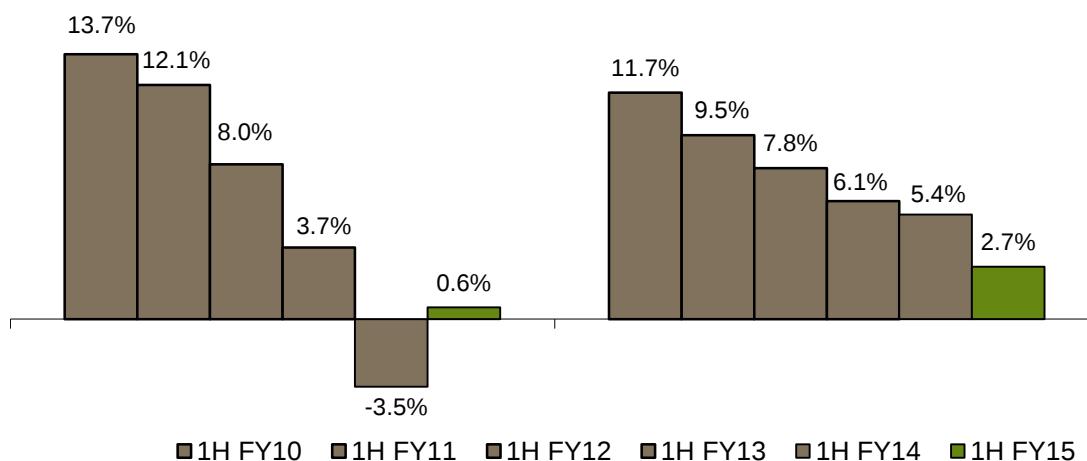
2. Calculated on local currency sales results (not affected by year-on-year exchange rate variation).

3. Country sales totals exclude intercompany sales.

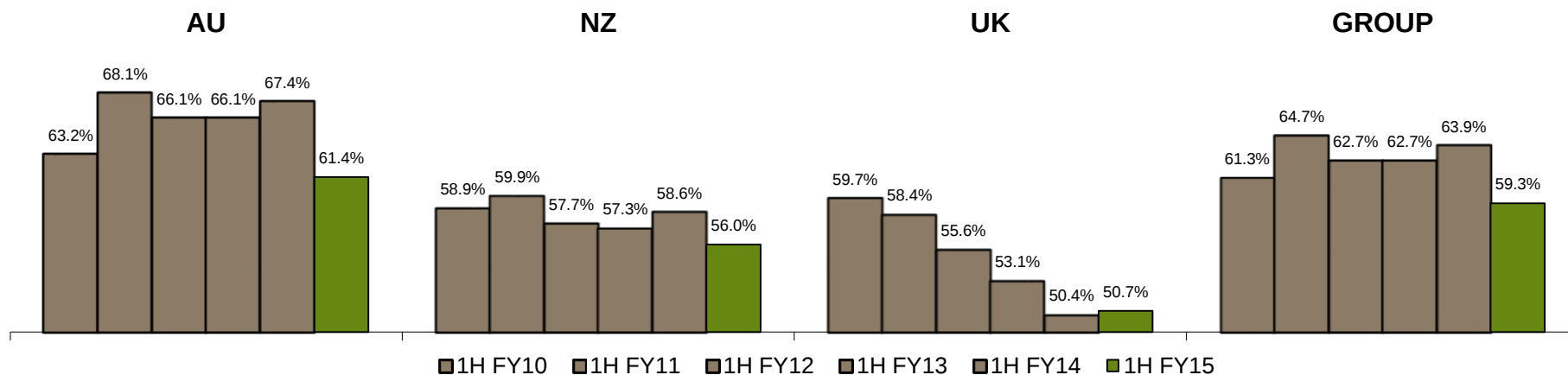
AU**NZ**

- Same store sales: ^{*1, 2}
 +0.6% actual
 +2.7% constant currency:
 - Stores only +1.2%
 - Online only +34.6%

- UK SSS +26.8%

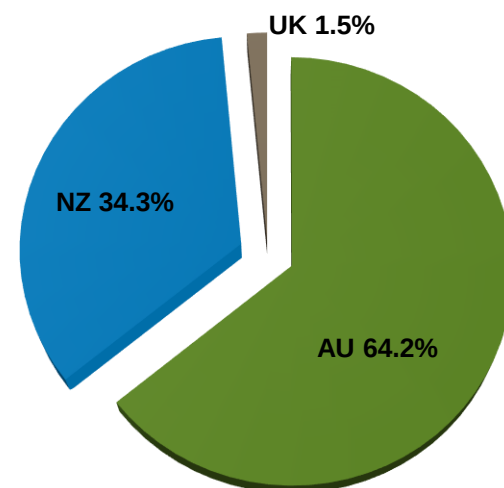
GROUP - Actual Rates**GROUP - Constant Rates**

- Same store sales for the 26 weeks ending 25 Jan 2015.
- Measurement includes Online and all stores from their 53rd week of trading.



- Reduced prices to clear excess stock, and associated overweighting of clearance sales;
- Below target sales in higher margin summer apparel product groups;
- Some price pressure in key product groups; and
- Limited increases in selling prices in response to weaker exchange rates vs USD.

1H FY15 SHARE OF BUSINESS*¹
(GROSS PROFIT \$)



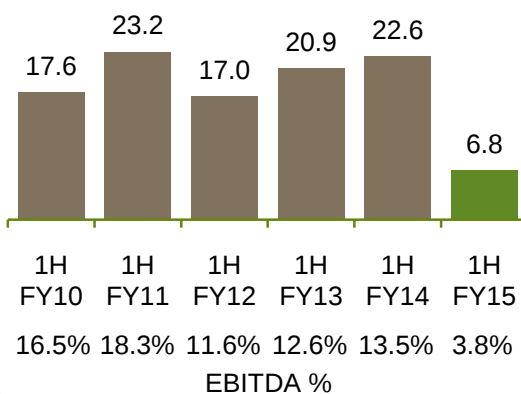
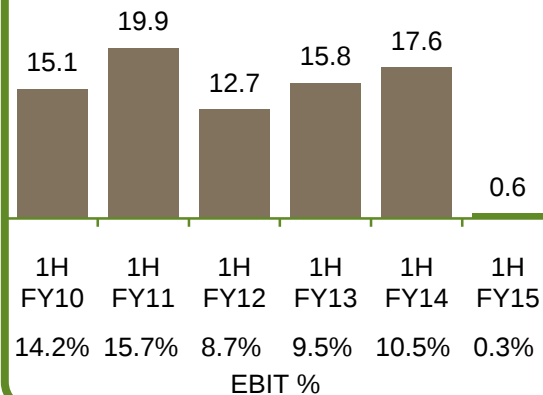
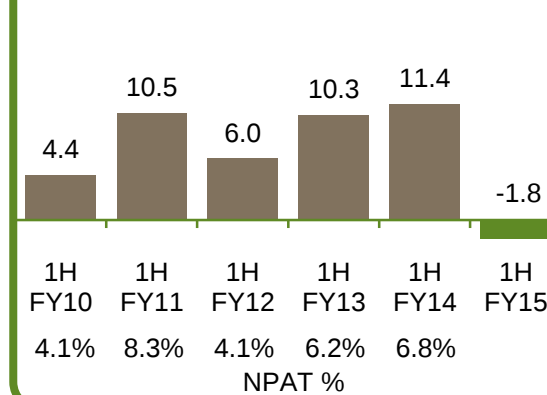
1. Rounding differences may arise in totals, both \$ and %.

OPERATING EXPENSES: +17.8% to \$99.5m

- Operating expenses were in line with our forecasts;
- Rent increase from additional stores and as a % of sales, due to higher cost locations opened in 2H FY14 / 1H FY15;
- Other operating expenses increase \$11.5m:
 - c. 50% is direct costs of operating FY14/FY15 new stores and online;
 - UK growth investment \$1.6m, primarily advertising; and
 - significant portion of balance is investment in systems, distribution and team capability.
- Sales shortfall key reason for higher operating expenses as a % of sales.

NZD \$m	1H FY15	1H FY14	Var \$	Var %
Rent	25.3	21.8	3.5	16.1%
% of Sales	14.1%	13.0%		
Other operating expenses	74.2	62.7	11.5	18.3%
% of Sales	41.4%	37.4%		
Total operating expenses	99.5	84.5	15.0	17.8%
% of Sales	55.5%	50.4%		
Depreciation & amortisation	6.2	5.0	1.2	24.0%
% of Sales	3.5%	3.0%		
Cost of doing business	105.7	89.5	16.2	18.1%
% of Sales	58.9%	53.4%		

- 1H FY15 total operating expense decrease attributable to year-on-year exchange rate movement \$2.1m.
- Rounding differences may arise in totals, both \$ and %.

EBITDA \$6.8m**-69.9%****EBIT*¹ \$0.6m****-96.6%****NPAT*² -\$1.8m****- 115.8%**

1. EBIT negative YOY exchange rate impact in 1H FY15: \$0.2m.
2. FY10 NPAT result excludes IPO costs net of associated tax deductions.

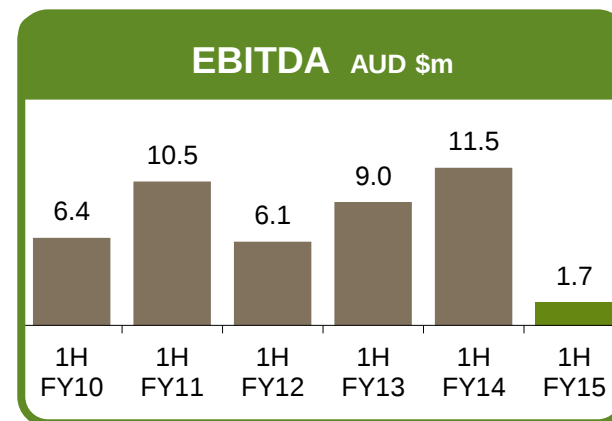


Country Results

SALES: +11.7% to \$104.9m

- 18 new stores:
 - 10 in 2H FY14:
 - Melbourne (Chadstone, Emporium);
 - Brisbane (Indooroopilly);
 - Perth (Belmont);
 - Regional VIC (Shepparton, Traralgon);
 - Regional NSW (Charlestown);
 - Regional QLD (Rockhampton, Hervey Bay);
 - Regional WA (Bunbury).
 - 8 in 1H FY15:
 - Melbourne (Essendon DFO, Watergardens);
 - Sydney (Burwood, Miranda);
 - Brisbane (Mt Gravatt);
 - Perth (Cockburn, Joondalup);
 - Regional NSW (Byron Bay).
- Refurbishments / Relocations:
 - Relocated: Hornsby;
 - Refurbished: Birkenhead Point.
- Gross margin reduction 6.0% points;
- Total operating expenses (excl. depreciation):
 - 1H FY15 59.8% of sales;
 - 1H FY14 55.2% of sales.

AUD \$m	1H FY15	1H FY14	Var %
Sales	104.9	93.9	11.7%
Same store sales growth	0.9%	6.6%	
EBITDA (trading result)* ¹	1.7	11.5	(85.2%)
EBITDA margin %	1.6%	12.2%	
Permanent Open Stores	108	90	

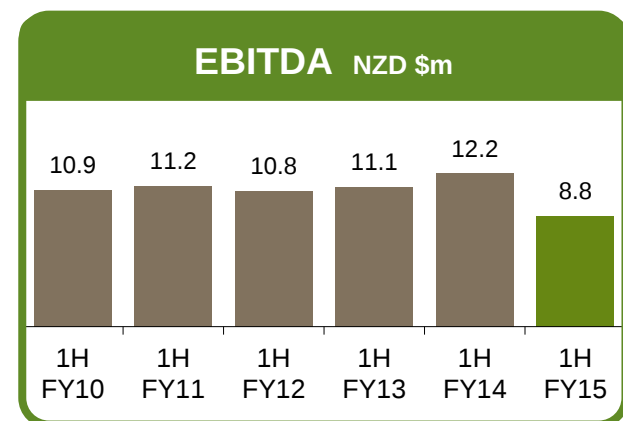


1. A reconciliation of EBITDA (trading result) to the financial statements is included in Appendix 2.

SALES: +4.7% to \$65.2m

- Same store sales growth 4.8%;
- Major refurbishments: Botany and Queen St (Auckland);
- Gross margin reduction 2.6% points;
- Total operating expenses (excl. depreciation):
 - 1H FY15 42.5% of sales;
 - 1H FY14 39.0% of sales.

NZD \$m	1H FY15	1H FY14	Var %
Sales	65.2	62.3	4.7%
Same store sales growth	4.8%	3.2%	
EBITDA (trading result)* ¹	8.8	12.2	(27.9%)
EBITDA margin %	13.5%	19.6%	
Permanent Open Stores	45	45	

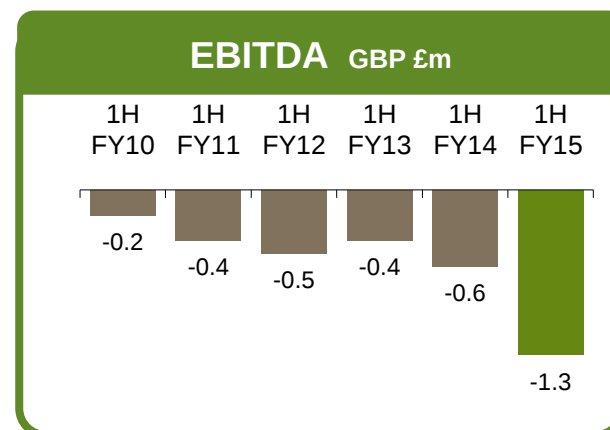


1. A reconciliation of EBITDA (trading result) to the financial statements is included in Appendix 2.

SALES: +28.5% to £1.5m

- Same store sales growth 26.8% (incl. Online);
- Gross margin met expectations;
- Increased promotional advertising £0.7m;
- Total operating expenses (excl. depreciation):
 - 1H FY15 137.4% of sales;
 - 1H FY14 100.4% of sales.

GBP £m	1H FY15	1H FY14	Var %
Sales	1.5	1.2	28.5%
Same store sales growth* ¹	16.2%	(1.1%)	
Online sales growth* ²	92.9%	43.5%	
EBITDA (trading result)* ³	(1.3)	(0.6)	(116.7%)
EBITDA margin %	(86.7%)	(50.0%)	
Permanent Open Stores	4	4	



1. Excludes Online (below).
2. Kathmandu.co.uk website only. Excludes Amazon UK and NEXT UK.
3. A reconciliation of EBITDA (trading result) to the financial statements is included in Appendix 2.
4. Rounding differences may arise in totals, both \$ and %.



Cash Flow
Balance Sheet
Dividend

Capital expenditure \$9.8m (LY \$8.1m):

- New stores capex \$3.8m (LY \$1.9m):
 - 8 new stores;
 - 1 relocation.
- Existing stores capex \$2.1m (LY \$2.0m).
- IT capex \$2.7m (LY \$3.9m):
 - Microsoft Dynamics AX finance and warehousing implementation completed.
- Other capex \$1.2m (LY \$0.3m):
 - Includes expansion of New Zealand distribution centre, and Australian support office.

NZD \$m	1H FY15	1H FY14
NPAT	(1.8)	11.4
Change in working capital	(10.1)	(35.2)
Change in non-cash items	6.1	7.8
Operating cash flow	(5.8)	(16.0)

Key Line items:		
Net interest paid (including facility fees)	(2.7)	(2.0)
Income taxes paid	(9.3)	(12.0)
Capital expenditure	(9.8)	(8.1)
Dividends paid	(18.1)	(18.0)
Increase/(Decrease) in net debt	26.1	41.9

- Other Assets increase primarily foreign currency hedging (\$10.5m);
- Stock turns expected to improve further by year end;
- Increase in debt levels mitigated by reduced inventory levels;
- New debt facility negotiated

Key Ratios	1H FY15	1H FY14
Gearing ^{*1}	22.6%	22.5%
Stock Turns ^{*2}	1.6	1.5

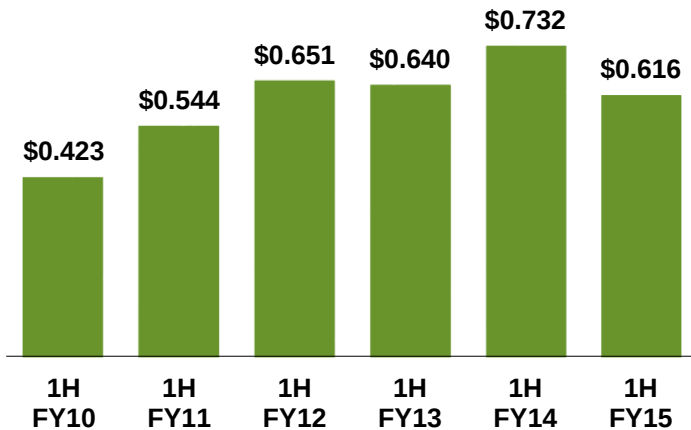
NZD \$m	1H FY15	1H FY14
Inventories	97.3	102.5
Property, plant and equipment	50.5	42.2
Intangible assets	236.3	231.8
Other assets	26.6	14.5
Total assets (excl. cash)	410.7	391.0

Net interest bearing liabilities and cash	85.5	80.9
Other non-current liabilities	0.5	0.4
Current liabilities	31.1	30.3
Total liabilities (net of cash)	117.1	111.6
Net assets	293.6	279.4

1. Net Debt / (Net Debt + Equity) at balance date.

2. COGS (rolling 12 months) / Average Inventories (start and end of period).

- Year on year decrease in stock per store 15.8%;
- Reduction due to effective Q1 clearance campaign and better buying policies;
- Summer ranging and length of season provides greater scope for inventory reduction than winter;
- Small format stores in Australia aligning with planning tighter, core to brand range choices.

Stock Per Store ^{*1} NZD \$m

Key Ratios

1H FY15

1H FY14

Stock Turns ^{*2}

1.6

1.5

1. Each year includes permanent and temporary stores.

2. COGS (rolling 12 months) / Average Inventories (start and end of period).

- NZ 3.0 cents per share interim dividend;
- Dividend will be fully franked and fully imputed;
- Non-NZ shareholders will receive a supplementary dividend of NZ 0.529 cents per share;
- Record date 5 June 2015;
- Payment date 19 June 2015;
- Final dividend is expected to be fully franked and fully imputed;
- Future Interim dividends will continue to be imputed where possible.

- Effective USD hedge rates 1H FY15:
 - AUD/USD 0.892 1H FY15 vs 0.984 1H FY14;
 - NZD/USD 0.799 1H FY15 vs 0.808 1H FY14.
- Weakening currencies against USD are likely to reduce target gross margin range to between 61% to 63%;
- Forward Hedging Position:
 - Longest dated hedges March 2016;
 - Rolling cover applied 12 months forward.
- No hedging NZD/AUD.

FORWARD HEDGING POSITION		2H FY15	1H FY16
AUD/USD	% covered	90%+	90%+
	Effective Rate	0.901	0.841

NZD/USD	% covered	90%+	90%+
	Effective Rate	0.829	0.768



Growth Strategy Update

GROWTH STRATEGY

UPDATE

New store rollout

- 180 stores targeted for Australia and New Zealand

- Will open 11 new stores in FY15. Originally targeted 15
- Anticipate slow start to new stores in FY16. Will continue store rollout as individual ROI justifies

Summit Club

- Focus on building an enhanced loyalty and individual engagement programme
- Foundation for global sales growth

- Enhanced value proposition for Summit Club members during our major promotions – best pricing, differentiated from non-members
- CRM platform will drive effective Summit Club member segmentation and personalised communication, rewards and recognition plan
- UK new member acquisition will continue to drive online and in-store sales growth

Enhance product offering

- Optimise category investment and range breadth within categories
- Expand innovation and technical product focus

- Range optimisation to maximise gross profit contribution facilitated by improved forecasting, planning and real time performance analysis capability
- Product lifecycle management system implementation underway to improve the product flow from source to market
- Sustainability remains a key focus for supplier, fabric, and packaging selection

GROWTH STRATEGY

UPDATE

Online and international

- Grow online sales in AU, NZ and international markets

- Growth momentum continues. YOY sales growth 33%
- Own website now has ratings and reviews, improved checkout and enhanced Summit Club join up functionally
- Marketplace trading sites launched in both Australia (eBay) and New Zealand (Trade Me)
- Additional International market place sites being explored. Otto (Germany) from 1H FY16

Optimise existing store network

- Maximise market share by fully optimising the existing store locations

- Store network now all categorised for priority and scope of capital investment to support:
 - Brand positioning for applicable market/demographic
 - Relocation/refurbishment decisions
 - Applicable merchandising and fixture standards
- New flagship stores planned in Adelaide and Melbourne
- Optimising inventory levels per store through implementation of assortment range planning tools across redefined store grades

- Initial results from 1H promotional campaign positive;
- Sales growth in the period provides confidence to continue marketing investment, especially online sales growth of over 90%;
- Second brand campaign to support the more challenging spring/summer season is about to commence;
- Potential for key wholesale partnerships being explored;
- First European marketplace listing will be Otto (Germany) in 1H FY16;
- Continued investment programme over the next 3 years, remains targeted at annual spend c. \$5m.



FY15 Outlook and Actions

2H Trading

- Current sales promotional challenge:
 - Over time the total number of days on promotion has increased, driving:
 - A continued decline in sales early in sale periods, resulting in an over reliance on end of sale further discounting and clearance activity.
- In response we are:
 - Planning to better align promotional activity to strongest periods of consumer spending across the whole year;
 - Prioritising and rewarding our 1.2m active Summit Club members:
 - Investment in CRM which will further improve personalisation and targeting of communications, deals and rewards;
 - Price promise guaranteeing best prices relative to non-members.
- These changes will be carefully and progressively implemented. Our objectives are to:
 - Create more flexibility and responsiveness in our pricing and promotions strategy;
 - Strengthen customer loyalty; and
 - Improve our capability to manage and maximise gross profit.
- Tight control of inventory levels and operating costs that don't impact future investment for growth will continue.



Questions



Appendix 1 – Reconciliation of EBITDA to Interim Report Kathmandu®

Consolidated Statement of Comprehensive Income	1H FY15 NZD \$m	1H FY14 NZD \$m
(Loss)/Profit after income tax	(1.8)	11.4
<i>add back Income tax expense</i>	<i>0.1</i>	<i>3.7</i>
(Loss)/Profit before income tax	(1.8)	15.0
<i>add back Finance costs - net</i>	<i>2.4</i>	<i>2.5</i>
EBIT	0.6	17.6
<i>add back Depreciation (note 4)</i>	<i>4.6</i>	<i>4.3</i>
<i>add back Amortisation (note 4)</i>	<i>1.6</i>	<i>0.7</i>
EBITDA	6.8	22.6

1. Rounding differences may arise in totals, both \$ and %.



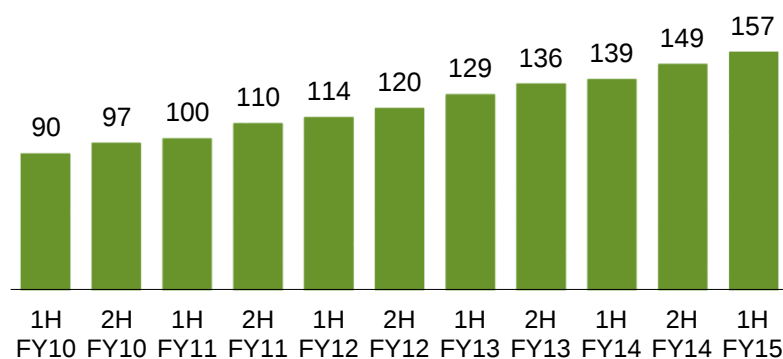
Appendix 2 – Reconciliation of Country Trading Results Kathmandu®

Australia (NZ \$m)	1H FY15	1H FY14
Segment profit/(loss) before income tax	(6.9)	2.8
Net interest	1.4	1.0
Facility fees	0.2	0.1
Depreciation	3.2	2.9
Inter-Co. financing	1.4	1.4
Foreign currency borrowings (gain)/loss	2.5	4.4
EBITDA (trading result)	1.8	12.6

New Zealand (NZ \$m)	1H FY15	1H FY14
Segment profit/(loss) before income tax	6.3	9.9
Net interest	0.4	0.6
Facility fees	0.0	0.1
Depreciation	2.9	1.9
Inter-Co. financing	(1.4)	(1.4)
Holding Co. costs	1.1	1.0
Foreign currency borrowings (gain)/loss	(0.5)	0.1
EBITDA (trading result)	8.8	12.2

United Kingdom (NZ \$m)	1H FY15	1H FY14
Segment profit/(loss) before income tax	(2.6)	(1.2)
Depreciation	0.2	0.2
Foreign currency borrowings (gain)/loss	(0.2)	(0.2)
EBITDA (trading result)	(2.6)	(1.2)

Permanent Open Stores*¹



1. Currently also trading from one temporary site: Cashel St Re-Start (Christchurch). Excludes Online store.
2. Rounding differences may arise in totals, both \$ and %.