

Kathmandu Holdings Limited FY2018 full year results

- Record year for sales, profit, operating cash flow and full-year dividend payout
- Sales increased by 11.7% to NZ\$497.4m
- Gross profit increased by 14.2% to NZ\$315.5m
- EBIT increased by 30.9% to NZ\$74.6m
- NPAT increased by 32.9% to NZ\$50.5m
- Obōz acquisition successful
- \$1,000 one-off bonus to all Kathmandu permanent team members

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced net profit after tax (NPAT) of NZ\$50.5 million for the year ended 31 July 2018, an increase of NZ\$12.5 million compared with the prior year. Earnings before interest and tax (EBIT) increased by 30.9% to NZ\$74.6 million for the same period. A final dividend of NZ 11.0 cents per share will be paid, bringing the full year payout to a record NZ 15.0 cents per share.

Summary of Results

	NZD \$m		Change	
	FY2018	FY2017	NZD \$m	%
Sales	497.4	445.3	52.1	11.7%
Gross Profit	315.5	276.2	39.3	14.2%
EBITDA	89.8	70.8	19.0	26.8%
EBIT	74.6	57.0	17.6	30.9%
NPAT	50.5	38.0	12.5	32.9%

Chief Executive Xavier Simonet commented:

“We were delighted to achieve record profits this year as we balanced sales growth with gross margin improvement. Sales growth was supported by the success of our key product groups, improved promotional execution, inspiring digital content, and an enhanced in-store customer experience. Top line growth combined with a focus on cost control, resulted in excellent profit growth.”

Obōz acquisition

During the year we acquired Obōz, a premium US based outdoor footwear brand.

Chief Executive Xavier Simonet commented:

“The Obōz acquisition provides us with the opportunity to accelerate our international growth, and diversify our product mix, geography, and channels to market. Kathmandu and Obōz are well aligned in core principles of brand development, innovation, quality, customer service, and sustainability.

As we grow our Kathmandu wholesale business, we welcome Obōz, an outdoor footwear wholesaler with a customer base primarily in North America. We are excited by the opportunity to develop complementary international wholesale channels for both the Obōz and Kathmandu brands.”

Sales, Gross Margin and Inventory

Sales

Sales grew by 9.6% in Australia, our largest market. First half New Zealand sales were impacted by lower levels of clearance stock, however this was more than offset by gross margin improvement, with New Zealand gross profit 2% above FY2017. Online sales now comprise 9.4% of Kathmandu sales.

Sales Growth	1H FY2018 Same stores	2H FY2018 Same stores	FY2018 Same stores	FY2018 Total sales
Australia (AUD)	1.9%	11.6%	7.5%	9.6%
New Zealand (NZD)	-6.3%	1.2%	-2.4%	-2.3%
Kathmandu Group (excl. Obōz) (constant exchange rates)	-0.8%	8.5%	4.4%	6.1%

Note: Same store sales are for the 52 weeks ending 29 July 2018

Gross Margin

Gross margin increased 1.4% points from 62.0% in FY2017 to 63.4% in FY2018, which sits above the long-term target range 61% to 63%. Increased full price sell through and higher average selling prices contributed to the improvement.

Inventory

Total inventory levels increased by NZ\$22.7m this year to NZ\$111.9m. Included in this balance is NZ\$17.9m to support Kathmandu international and Obōz.

	FY2018 NZD \$m	FY2017 NZD \$m	Change NZD \$m	Change %
Inventory	111.9	89.2	22.7	25.4%

Operating Expenses

Operating expenses decreased by 0.7% as a percentage of sales compared to FY2017. They include NZ\$2.0m transaction costs for the Obōz acquisition, plus NZ\$2.0m for an exceptional bonus to Kathmandu employees who are not already on a bonus scheme.

Xavier Simonet commented: “We are delighted to pay out an exceptional \$1,000 one-off bonus to all Kathmandu permanent team members who are not part of an incentive program. This is an acknowledgement of the contribution of all Kathmandu team members to the continued performance and success of our company over the last three years. FY18 is a record year in terms of sales, profit, and operating cash flow and we believe it is important to recognise the role our team has played.”

Efficiencies were achieved in distribution labour following last year’s automation investment in Australia, targeted promotional spend, and improved retail labour productivity.

Rent increased by NZ\$5.2m. Excluding NZ\$1.4m year-on-year exchange rate translation movement, the constant currency rent increase was 6.1%.

Operating expenses (excluding depreciation)

	FY2018 NZD \$m	FY2017 NZD \$m
Rent	67.4	62.2
% of Sales	13.6%	14.0%
Other operating expenses	158.3	143.2
% of Sales	31.8%	32.1%
Total operating expenses	225.7	205.4
% of Sales	45.4%	46.1%

Other Financial Information

We generated record operating cash flow of NZ\$75.6m this year, and invested NZ\$16.7m in capital projects, primarily in expanding and updating our store network.

Net debt was NZ\$31.4m at year end, following NZ\$60m additional bank funding for the Obōz acquisition in April 2018.

	FY2018 NZD \$m	FY2017 NZD \$m
Capital Expenditure	16.7	13.3
Operating Cash Flow	75.6	67.3
Net Debt	31.4	6.9
Net Debt to Equity	6.9%	2.1%

Final Dividend

A final dividend of NZ 11.0 cents per share will be paid to shareholders on the register as at 19 November 2018. This brings the full year dividend to NZ 15.0 cents per share, a 15.4% increase on the prior year. The dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders.

Outlook

Chief Executive Xavier Simonet commented:

“It is highly motivating for our team to have achieved three years of strong profit growth in our core Australasian business. Our customers have reacted positively to innovative products and engaging brand content. Being an inspiring brand and bringing to market original, sustainable, engineered and adaptive products represent Kathmandu’s company ethos. Continuing to drive sales growth in our core market remains a key management focus.

It’s an exciting time for the business as we welcome Obōz to the Group and accelerate our international growth. In Kathmandu and Obōz, we have two great brands with significant growth potential in North America and Europe.”

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