

Kathmandu Holdings Limited

Acquisition of Rip Curl

VOTE IN FAVOUR



Letter from the Chair

1 October 2019

Today, Kathmandu has announced that it has entered into an agreement to acquire 100% of the shares in Rip Curl Group Pty Limited ("Rip Curl") for A\$350 million (NZ\$368 million¹).

On behalf of the Directors of Kathmandu, I am pleased to outline the opportunity before us and to recommend that all shareholders **vote in favour** of the proposed transaction.

The Proposed Transaction

Rip Curl is an iconic and authentic global action sports brand born at Bells Beach, Australia, in 1969. Founded by surfer friends Brian Singer and Douglas Warbrick, Rip Curl's vision is to be regarded as "the Ultimate Surfing Company" in all that it does.

Rip Curl designs, manufactures, wholesales and retails surfing equipment and apparel via a multi-channel model, and has a global presence across Australia, New Zealand, North America, Europe, South East Asia and Brazil.

Similar to Kathmandu's core outdoor products category, the surf products market has a stable, committed core consumer, with steady growth in participation and spending. Rip Curl's brand strength and focus on core technical surf products in key growth categories positions it well within this market.

The acquisition of Rip Curl is an opportunity for Kathmandu to considerably diversify its geographic footprint, channels to market and seasonality profile, and creates a NZ\$1.0 billion² outdoor and action sports company anchored by two iconic Australasian brands. There is strong cultural alignment between the two brands and a shared focus on technical and functional products. Kathmandu expects a number of benefits to be delivered by the acquisition, including:

- Increased geographic diversification and addressable market;
- Enhanced access to commercial channels, including the ability to leverage Rip Curl's wholesale expertise;

- Seasonal balance achieved through complementary winter / outdoor and summer / beach product focus;
- Scale benefits through a combined footprint of 341 owned retail stores, 254 licensed stores and over 7,300 wholesale doorways globally; and
- Significant opportunities to drive top line growth and profit across geographies and commercial channels.

The acquisition is expected to deliver meaningful EPS accretion for Kathmandu shareholders, with FY20 pro forma EPS accretion in excess of 10% (pre-synergies)³. There is potential for further upside over time as synergies are assessed and identified post-acquisition.

Shareholder Approval Required

Kathmandu will hold a shareholder meeting to approve the acquisition at 12.00pm (NZDT) (10.00am (AEDT)) on Friday, 18 October 2019 at Dexus Place, Auditorium, Level 5, 1 Margaret Street, Sydney, Australia.

Ahead of the meeting, the directors encourage you to carefully read the presentation detailing the proposed transaction accompanying this letter (the *Transaction Summary*). The Transaction Summary includes details of the rationale for the proposed acquisition of Rip Curl, the key risks involved and the terms of the proposed transaction.

The Transaction Summary provides more details on the benefits outlined above and the financial profile of the combined group. In addition to the Transaction Summary, a formal notice of meeting accompanies this letter. We are also seeking approval to make some procedural amendments to our constitution to reflect the new NZX Listing Rules (which are unrelated to the proposed acquisition), and you can find details about those changes in the notice of meeting.

On behalf of the board of directors, I encourage you to cast your vote in favour of the acquisition, and to change our constitution. If you wish to do so, you can attend the meeting in person, or cast a postal or proxy vote in advance of the meeting. If you wish to vote in advance of the meeting, it is important that your vote is received by 12.00pm (NZDT) (10.00am (AEDT)) on Wednesday, 16 October 2019 to ensure

1. Based on an AUD/NZD exchange rate of 1.05.

2. Based on Kathmandu's statutory revenue for the financial year ending 31 July 2019, and Rip Curl's pro forma normalised revenue for the financial year ending 30 June 2019 (where pro forma normalised revenue is based on Rip Curl's statutory revenue per its audited financial statements, adjusted for the impact of certain structural changes in the business as detailed further in the Transaction Summary accompanying this letter).

3. EPS accretion has been calculated by comparing Kathmandu's budgeted standalone FY20 EPS (calculated assuming that the acquisition does not occur, and adjusted for the impact of the pro rata accelerated entitlement offer) against the Combined Group pro forma FY20 EPS excluding any synergies and one-off transaction costs (for further details, refer to the Transaction Summary accompanying this letter).

that your voice is heard. Shareholders who cannot attend in person will be able to participate online by going to www.virtualmeeting.co.nz/kmdsm19.

Further details on how to vote and where to return your proxy/postal voting form are included on the form itself, as well as in the notice of meeting.

Funding

The acquisition will be funded through a combination of equity and debt comprising:

- An underwritten 1 for 4 pro-rata accelerated entitlement offer to raise NZ\$145 million (A\$138 million¹) (the Offer);
- A placement of approximately A\$31 million (NZ\$32 million¹) of new Kathmandu shares to the founders and CEO of Rip Curl (which will be subject to escrow for 12 months following issue); and
- A\$220 million (NZ\$231 million¹) from new debt facilities, fully underwritten and arranged by Credit Suisse AG, Sydney Branch.

It was important for the Board that the Offer be structured to allow current shareholders the opportunity to participate on an equitable basis and in priority to other prospective investors. A pro-rata entitlement offer gives existing shareholders that right. If you are eligible to participate in the Offer, you will be separately sent a copy of the Offer Document and an Application Form which sets out further details in relation to the Offer.

Under the Offer, eligible shareholders may subscribe for 1 new ordinary share for every 4 existing shares held as at 8.00pm (NZDT) or 5.00pm (AEST) on the Record Date of Thursday, 3 October 2019, at an application price of NZ\$2.55 per new share (or A\$2.37 per new share for Australian retail shareholders).

The application price reflects a 14.4% discount to NZ\$2.98, being the volume weighted average price (ex-dividend) of Kathmandu's shares traded on the NZX for the last five trading days prior to 1 October 2019, and a 13.6% discount to the theoretical ex-entitlement price of NZ\$2.95.

Eligible retail shareholders have until 21 October 2019 to subscribe for new shares, while the institutional component of the Offer will be accelerated and complete on 3 October 2019. Online application is strongly encouraged given the potential for delay with the postal system. Furthermore, eligible retail shareholders will be given the opportunity to apply for additional shares not taken up by other shareholders.

Under the Offer, there will be no trading of entitlements.

Instead, new shares not taken up or attributable to ineligible shareholders will be offered through bookbuilds run by the Joint Lead Managers (Jarden Securities Limited and Credit Suisse (Australia) Limited). Any premium achieved above the application price for the new shares in the bookbuilds will be shared on a pro-rata basis (with no brokerage costs deducted) between those shareholders who do not exercise their entitlements or who are ineligible to do so. Those shareholders who do not exercise their entitlements, or who are ineligible to do so, will however have their shareholdings diluted.

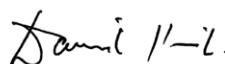
The Offer is fully underwritten by Jarden Partners Limited, Credit Suisse (Australia) Limited and Deutsche Craigs Limited⁴.

Reflecting their commitment to the company, I am also pleased to confirm that all Kathmandu directors who are current shareholders of Kathmandu intend to participate in the Offer. All Kathmandu directors intend to vote all shares held or controlled by them in favour of the resolution to approve the acquisition.

On behalf of the Board, I welcome your consideration of the acquisition and participation in this Offer.

Thank you for your continued support.

Yours Sincerely,



David Kirk
Chairman

4. Deutsche Craigs Limited is a wholly owned subsidiary of Craigs Investment Partners Limited (CIP). The role of the Underwriter may be performed by Deutsche Craigs Limited or CIP (as the NZX Participant firm) or any of their successors and assigns, as appropriate, and those entities shall have the rights and benefits of the Underwriters.