

KATHMANDU HOLDINGS LIMITED

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KATHMANDU HOLDINGS RIP CURL ACQUISITION CONFERENCE CALL TRANSCRIPTION

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Operator: Ladies and gentlemen, thank you for standing by and welcome to the Kathmandu Holdings Rip Curl Acquisition conference call. At this time, all participants are in a listen only mode. After the speaker's presentation there will be a question and answer session. To ask a question during the session press star 1 on your telephone. I must advise you that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, CEO of Kathmandu, Xavier Simonet, thank you, please go ahead.

Xavier Simonet: Thank you Edwin, good morning everyone and thank you for joining us on today's call. My name is Xavier Simonet and I'm the CEO of Kathmandu. I'm here in Sydney with Reuben Casey our Chief Operating Officer as well as with Chris Kinraid our Chief Financial Officer. We are very excited to talk through Kathmandu's acquisition of Rip Curl, our strategic view is that Kathmandu is on a transformational journey from a leading Australasian retailer to a global brand led omni channel business. Clearly the acquisition of Rip Curl ticks off all those boxes and is a fantastic opportunity for Kathmandu to grow and diversify. During today's presentation we will be referring to the slide deck lodged this morning on the ASX and NZX. We will aim to move quickly through the presentation as it is quite long, and we want to allow time for questions and answers following the presentation.

As announced to the market this morning, Kathmandu entered into a binding agreement to acquire Rip Curl for AUD350 million. Rip Curl is the ultimate surfing company, an iconic global surfing sportswear company, that has been around since 1969, and its acquisition by Kathmandu creates a highly complementary seasonally balanced, brand led, global outdoor and action sports business. We will talk further about the strategic rationale of this acquisition as well as the extra share capital raising to fund the acquisition. I would now like to ask you to turn to slide 6 of the investor deck.

We've entered into a binding agreement for the acquisition of 100% of the shares in Rip Curl at an enterprise value of AUD350 million on a debt free, cash free basis. The acquisition price implies 7.3 times enterprise value to FY2019 pro forma EBITDA. Rip Curl is the ultimate surfing company, and is an authentic, unique, global action sports brand. The company had FY2019 pro forma normalised revenue of AUD455 million and EBITDA of AUD49 million. We expect the deal to complete by the end of this calendar year, subject to shareholder approval and standard closing requirements.

To summarise, Rip Curl, it is an iconic surfing company established in Australia offering a range of apparel, equipment and accessories with a global brand and presence. It operates through a multi-channel model which was initially focused on wholesale distribution and has evolved to include direct to consumer retail. This acquisition is supported by very compelling strategic rationale and creates a 1 billion NZD global outdoor and action sports company, anchored by two iconic Australasian brands, with global appeal and strong cultural overlap.

Turning to slide 7, the acquisition will be fully funded through a combination of debt and equity. The founders and CEO of Rip Curl will receive 31 million AUD placement in new shares as part of the purchase consideration. We believe the vendor placement provides support to the transaction and highlights their

commitment to the ongoing success of the combined company. Further details on transaction financing will be provided later on. In terms of the financial impact on Kathmandu, the transaction is expected to deliver material EPS accretion and we intend to maintain a conservative capital structure. Reuben's going to comment on slide 8.

Reuben Casey: Thank you Xavier, so just to go through the strategic rationale in a bit more detail. The combination of Kathmandu and Rip Curl creates a global outdoor and action sports company, as Xavier said anchored by two iconic Australasian brands. 1 billion NZD revenue combined footprint which covers hundreds of stores and thousands of wholesale doors globally. We have got highly complementary product categories, obviously Rip Curl's got much more of a summer focus, which provides a great seasonal balance to Kathmandu's more winter focus.

Additionally, there are considerable benefits from geographic diversifications, so Rip Curl has presence in North America and Europe, and provides capabilities and relationships for Kathmandu to accelerate expansion into those key markets, as we've done with Oboz which we acquired in April 2018. There is also the ability to leverage each other's expertise across the group, so Rip Curl really brings strong wholesale expertise and relationships, and Kathmandu has strong online capabilities and retail expertise. Brand affinity and cultural alignment is very important and we see Kathmandu and Rip Curl as being highly aligned. Both brands, like with Oboz, are focused on creating high quality, functional products which serve core consumers and resonates strongly with their consumer groups.

So, moving on to slide 9, you can see what the combined Kathmandu and Rip Curl group looks like, in terms of products, geography and distribution. From a product perspective, as mentioned the combined group will have a much more diverse offer, as Rip Curl surfwear and womenswear, reduces Kathmandu's reliance on outdoor apparel from 64% to 38% as a proportion of revenue, and summer apparel provides 26% of the pro forma group revenue. In terms of geographies, Rip Curl has a significant presence in key markets such as North America and Europe, so the combined group has a much more balanced exposure across a number of markets. In terms of channels, the combined group is also much more diverse, with a significant increase in the proportion of revenue coming from wholesale.

So in summary, the acquisition will further reduce our reliance on pure retail trading out of Australia and New Zealand, which we believe firmly delivers on our strategy to continue to grow and diversify across all aspects of our business. I'll hand back to Xavier now to provide more colour on the Rip Curl business.

Xavier Simonet: Thank you Reuben, if we move to slide 11. So, in the next section of the presentation, we talk through in more detail about the Rip Curl business, its history, its culture, its geographic reach, its products and financial performance. Rip Curl is an iconic global brand and the ultimate surfing company. Since its creation in 1969 in Bells Beach, Victoria, Australia, it's been a brand on The Search according to Rip Curl's co-founder Claw Warbrick, The Search was the driving force that led to the creation of Rip Curl.

Turning to slide 12, Rip Curl has become part of the fabric of authentic global surf culture, represented by world class athletes, the sponsorship of some of the premier global surf competitions, and is now recognised for content creation and distribution. The brand has a phenomenal global reach across social media, having in excess of 2 million Facebook fans, 2 million Instagram followers and 120,000 YouTube subscribers.

Now on slide 13, Rip Curl is a leading global action sports brand with a longstanding history in marketing, designing, manufacturing, wholesaling and retailing surfing apparel and equipment. Rip Curl has remained focused on a single brand and core offering of technical surf related products, sought by targeted retail locations and global wholesale channels. The technical orientation and continued product innovations support the premium nature of Rip Curl's brand and drives sales across product categories. Rip Curl has broad revenue diversification geographically and operates a multi-channel distribution model, with wholesale providing 41% of its revenue. There's also diversification in product mix, with surfwear providing 41% of revenue, womenswear 22% and wetsuits 16%.

Slide 14 shows the evolution of the brand since its creation in 1969, when it was created by two surfing friends Doug Warbrick and Brian Singer. They began by making surfboards out of a garage in Torquay and shortly after manufactured wetsuits to complement the surfing offering, the surfboard offering. Over time, Rip Curl has expanded its global reach across the US, Europe, Asia and South America. The brand is now one of the largest and most iconic surf brands globally and is at the forefront of product innovation, marketing and brand development. I'll now hand over to Reuben for slide 15.

Reuben Casey: Thanks Xavier, so if we look at slide 15, just in terms of Rip Curl's product offer. The brand really has an offer focused on the core surf customer and like Kathmandu's approach to outdoor products with technical innovations, Rip Curl offers an extensive range of technical products, anchored by their wetsuits where they've got flagship products like Flashbomb which is the world's fastest drying wetsuit, and other surfwear products which include technical board shorts, highly durable fabrics and quick dry technology. And womenswear is designed with performance in mind, as they get continuous feedback from their pro surf team.

On slide 16, you can see their global footprint, where they've got really strong representation in the major surfing destinations, and across the group there's a direct presence in six key regions, North America, Australia, New Zealand, Europe, Asia and Brazil, both through stores and some design and manufacturing facilities. Overall there's about 6,000 wholesale doors, 173 retail stores and 250 stores which are licensed or operated through a joint venture.

Slide 17 in terms of Rip Curl's distribution you can see initially they were focused on the wholesale channel and over time this has evolved towards direct to consumer retail. In Australia, North America and Europe are areas with substantial wholesale distribution, which is the primary contributor to Rip Curl's overall revenue. Their broad retail footprint covers 173 owned physical locations worldwide, 90 flagship stores and 26 outlet stores, in addition to this there's 57 Ozmosis stores in Australia which operate independently to Rip Curl. E-com is quite a new channel for Rip Curl, they've got six websites in their 6 key regions. I'll hand back to Xavier now.

Xavier Simonet: Thanks Reuben. Slide 18, Rip Curl is a highly recognisable and global brand with demonstrable affinity with surf customers, who value product functionality and performance. Across key product categories Rip Curl has achieved impressive net promoter scores, demonstrating strong brand awareness. In surfwear there has been high brand awareness and purchase conversion across all categories of consumers in Australia. Rip Curl is a market leader for wetsuits in Australia with technical excellence, driving strong purchase penetration. This category resonates most strongly with core and casual surfers across all markets, supported by Rip Curl's technical product focus. The equipment category has high brand awareness among core casual and surf inspired customers, driven by product quality and functional performance.

Now on slide 19 you can see that Rip Curl has been growing strongly, focusing on its core strengths of developing and selling technical surfing products through wholesale channels. Pro forma and normalised revenue was up 6.5% to AUD455 million in FY2019, while EBITDA was up 19.2% to AUD49 million. EBITDA margins improved to 10.8% up from 9.7% in FY2018.

Turning now to slide 20, Rip Curl operates in the AUD11.3 billion global surf apparel and equipment industry. From FY2014 to FY2018 the technical product category, which is Rip Curl's focus, grew at 3.6% CAGR above the 2.9% CAGR of the overall industry. It is notable that in Rip Curl's largest surf apparel and equipment region Australia, the market expanded above the global average with a 4.3% CAGR. The global market is underpinned by many positive fundamentals, including increased participation rates in surfing, online interest for branded surfwear, positive consumer purchasing intentions and strong and consistent growth of key products across geographies. I will now hand over to Reuben to talk through the key investment highlights.

Reuben Casey: Thanks Xavier, on slide 22 we've summarised the key highlights of the investment. So as previously mentioned the acquisition creates a NZD1 billion outdoor and action sports company, anchored by Kathmandu and Rip Curl brands. Rip Curl's a leader in the global surf industry and their products complement Kathmandu's offer both from a technical and a seasonal perspective. The acquisition also provides us capabilities and relationships for Kathmandu's expansion of new core target markets, and we establish a deeper global presence and reduces our reliance on the Australian and New Zealand markets. There are significant opportunities to drive top line growth and profit, and we expect to achieve benefits from synergies over time by leveraging shared expertise and realising scale benefits. Finally, we expect FY2020 pro forma EPS accretion in excess of 10% which is pre synergies.

If you turn to slide 23, see the combined group meets the year-round needs of customers globally, by creating an outdoor and action sports brand-led company, offering complementary products that are diversified in terms of product channel, geography and seasonality. On slide 24, you can see (visually see) the more meaningful global presence, with Rip Curl present in 6 key geographies and Kathmandu and Obōz has presence obviously in Australasia, North America and Europe.

The combined group will benefit from expanded wholesale doors, the broader retail footprint and a growing online presence, and together with supplier relationships and local management capabilities, will have a significantly enhanced global presence. On slide 25 you can see the combined entity will help leverage each other's strength to create a business that excels across product development, sales and marketing, to ultimately benefit consumers. There's many shared strengths which include the focus on technical products and an outdoor adventure ethos. Kathmandu brings retail operations omni channel expertise, and Rip Curl brings international wholesale expertise, and an established US and European distribution network. I'll hand back to Xavier to talk through further.

Xavier Simonet: Okay, slide 26, there are a number of opportunities identified to drive the combined Group's growth and create value for shareholders, which are outlined on slide 26. We can leverage the group's combined expertise to enhance and expand our high-quality product ranges. We will continue to invest in our iconic brands, particularly through social media and digital marketing. We have the opportunity to leverage Kathmandu's online expertise and platform investments to accelerate online growth across the group, and we can leverage partnerships with key wholesale customers worldwide. We will also continue to strategically develop Rip Curl's global retail network through licensed store partners and selected flagship store locations.

Turning to slide 27, well we have a very clear vision for the combined group based on three core principles. Kathmandu and Rip Curl and Obōz will retain their strong brand identities and cultural values, that's the first principle. The second principle is that Rip Curl, Kathmandu and Obōz will retain operational ownership of their respective businesses. The last principle is that we will leverage the respective strength of our brands and build on each other's competitive advantages over time. I will now hand over to Chris, to talk through how we are funding the acquisition of Rip Curl. Chris.

Chris Kinraid: Thank you Xavier, moving to acquisition funding on slide 29. The AUD350 million will be funded through a mix of debt, equity and vendor scrip. We've taken an underwritten entitlement offer to raise AUD138 million of which AUD31 million will be funded from vendor scrip and AUD220 million will be funded from new debt facilities. It's worth noting the over 10% EPS accretion is from a mix from earnings accretion and leverage. On to slide 30, the issue price of our underwritten entitlement offer is NZD2.55 representing a 13.6% discount to TERP, and approximately 56.7 million new shares will be issued for the group.

We are pleased to announce that Michael Daly and the founders of Rip Curl have subscribed to 31 million of scrip in Kathmandu. These shares will be escrowed for 12 months and we believe this is a major sign of commitment to the combined group going forward. In relation to debt, new senior secured debt facilities and

the refinancing has resulted in a total facility size of AUD375 million, maturing in October 2022, with no change in maintenance, fixed charge or leverage covenants.

We intend to maintain a conservative capital structure with pro forma net debt to EBITDA of approximately 1.5 times pro forma 31 July 2019, reducing to a target leverage of 0.9 to 1.1 by the end of FY2021. As we've seen with Oboz and Kathmandu, we have strong cash flow generation as well as what we believe with the Rip Curl Group, and it will allow us to quickly deleverage.

On to slide 31, this slide shows a summary of the entitlement offer details, there'll be both an institutional and retail component. Entitlements not taken up and entitlements from ineligible shareholders, will be sold in a shortfall bookbuild. Credit Suisse and Jarden are the joint lead managers in respect of the entitlement offer and the offer has been fully underwritten by Credit Suisse, Jarden and Deutsche Craigs.

On to slide 32 to the transaction timetable. The institutional offer opens today and a trading halt is expected to be lifted this Friday on the 4th of October. I'll now hand back to Xavier.

Xavier Simonet: Thank you Chris. Well, we are very excited by the acquisition of Rip Curl and the very compelling strategic rationale and brand and cultural alignment that exist between our businesses. Having successfully acquired and then integrated Oboz, which we acquired back in 2018, we own a strong position to do the same with Rip Curl, and grow shareholder value. I'd like now to open up the call for questions, back to you Edwin.

Operator: Thank you Xavier. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question comes from Guy Hooper from Forsyth Barr, please ask your question.

Xavier Simonet: Morning Guy, how are you?

Guy Hooper: (Forsyth Barr, Analyst) Yes, good morning Xavier, I suppose first question from me. Can you just provide a bit more detail on how you see this business fitting within the group, and where you see possible synergies coming from?

Xavier Simonet: Sure, first we see a lot of similarities between our brands and our teams, similarities in terms of both Kathmandu and Rip Curl and Oboz are iconic brands in their own segment. We all bring to market technical and functional products, which for us is really important to be technical, so lots of similarities in terms of culture as well. Our ethos of adventure travel is very similar to the ethos around The Search of Rip Curl. We've worked a lot with the Rip Curl management team over the last few months, to get to know each other, and we believe there's strong cultural alignment and that our two teams are going to work together.

But now at the same time, we see lots of complementarity between our businesses, particularly the acquisition of Rip Curl will help us diversify the profile of Kathmandu, in terms of geography, channel, product and seasonality. Geography because they're much more global than us and they're going to give us the opportunity to expand more rapidly in new countries. In terms of channel, well we are retail specialists, historically they're more focused on wholesale and we certainly can learn from each other. In terms of seasonality, we are more winter, outdoor focused business, while Rip Curl is more the beach and summer biased company. And last in products, well our products complement each other and for sure we can certainly help each other, in terms of synergies like sourcing. So complementary at the same time as similar.

Guy Hooper: (Forsyth Barr, Analyst) Thanks, I just suppose on that international expansion, back at the result you talked I suppose near term growth being Oboz, and Kathmandu international expansion being

more of a medium to long term story. How does the acquisition change your view on that international expansion, and does it accelerate it to any degree?

Xavier Simonet: I think it gives us the opportunity to accelerate indeed, and I'll just give you an example. We don't have any infrastructure in continental Europe and any capability there, while Rip Curl have a subsidiary in continental Europe. When doing the due diligence, we identified that out of their top 20 European wholesale accounts for Rip Curl, 17 could actually carry Obōz and Kathmandu, because they don't just distribute surf products, surfing products, they also distribute outdoor brands. So, there is an opportunity to accelerate growth in Europe, but leveraging the relationships and the capabilities of Rip Curl and their distribution, their customers in Europe.

Guy Hooper: (Forsyth Barr, Analyst) I suppose can you provide any quantum on what that would be for Kathmandu?

Xavier Simonet: No, we can't. Sorry Guy.

Guy Hooper: (Forsyth Barr, Analyst) No worries, and I suppose just a last one from me. So, if I have a look at the historic earning's profile for Rip Curl, it's kind of flat over the last 3 years with a bit of a stepdown in FY2018. Can you just provide some colour around what that stepdown was and I suppose how you're thinking about the earning's outlook going forward?

Chris Kinraid: Yes, the decline in FY2018 was largely attributable to the wholesale channel, particularly in Europe. The wholesale channel experienced some structural challenges with the shift to athleisure etc. However, within that time period Rip Curl had taken strong steps to right size its wholesale business in that market. Yes, we were pretty comfortable, or very comfortable with the assumptions around the future performance in that market. Yes, we believe it's right, well placed now, and we're starting to see the impact of that through FY2019 as you can see on the revenue growth.

Guy Hooper: (Forsyth Barr, Analyst) Yes great, thank you that's all from me from me for now.

Xavier Simonet: Thanks Guy.

Operator: Your next question comes from Tim Lawson from Macquarie, please ask your question.

Xavier Simonet: Good morning Tim, how are you?

Tim Lawson: (Macquarie Group, Analyst) Morning, very well thank you. Thanks for taking my question. Just on slide 20, can you just try and help us understand the difference between that sort of 3.6% on the technical category versus the countries you've called out? Is it a like for like comparison, or are there slightly different buckets we're comparing?

Xavier Simonet: You're talking about the growth of the surf category is that right?

Tim Lawson: (Macquarie Group, Analyst) Yes, so you're talking about the, you called 3.6% out, being where Rip Curl's concentrated, but then you called out Australia, US and France at materially higher numbers. Just trying to understand, I mean I'm imagining the US in particular would be a very large component of that global number that would be 3.6%. I'm just trying to understand why that's so materially different?

Reuben Casey: Yes, the chart on the bottom is wetsuit and equipment growth and it's actually indicative from participants who were surveyed, versus the other one is more of a global market view.

Tim Lawson: (Macquarie Group, Analyst) Okay, alright, understood.

Xavier Simonet: Tim what's interesting for us, is that the growth of the surf category is pretty much similar to the growth we enjoy with the outdoor category. So, 3% - 4%.

Tim Lawson: (Macquarie Group, Analyst) Yes, yes, got it.

Xavier Simonet: Big difference.

Tim Lawson: (Macquarie Group, Analyst) Got it. Just maybe you could help with the size of Rip Curl compared to some of its key competitors? I mean where does it sort of rank as a brand overall?

Xavier Simonet: So, the ranking of Rip Curl in Australia is number 1 / number 2, and Europe same probably number 1 / number 2. Very strong I think number 1 in South America and Indonesia. In the US we believe it's number 5, ranked number 5.

Tim Lawson: (Macquarie Group, Analyst) Alright, okay that's helpful.

Xavier Simonet: And it's one of the 3 iconic brands with Quiksilver and Billabong. Quiksilver and Billabong being much bigger, but they have had a very strong top line focus at the detriment of the bottom line.

Reuben Casey: Tim, it's a little bit hard to exactly pin down the Quiksilver or Billabong revenue, because it is consolidated under the Boardriders entity which has multiple brands under that company, so it's difficult to actually really know what those brands on their own are doing.

Tim Lawson: (Macquarie Group, Analyst) Yes, you've obviously sort of not really talked a great deal about synergies, you're talking about protecting the brand and the culture, obviously which is important. I'm just trying to understand what sort of cost base are we looking at, on a combined basis that could be subject to synergies, and I guess part of that question, are the manufacturing base of Rip Curl and Kathmandu in the same geography? Is it all in China or is Rip Curl in Fiji and Kathmandu in China?

Xavier Simonet: Yes, we talked about as our third principle of operating the group about our willingness to look at how we can leverage each other's strengths and leverage the synergies. For sure there are lots of opportunities you were talking about sourcing, but for the manufacturing base. Well on some specific products there are some opportunities to work together and help each other for sure.

Tim Lawson: (Macquarie Group, Analyst) Okay, so there is some complementary opportunities where you do manufacture in the same place with similar providers? Or not?

Reuben Casey: Yes, there are some Tim but we haven't had the time really to quantify what those opportunities are. I mean this deal was not a deal that hinges on the synergies opportunities, not a synergy play. As Xavier said, there's more value to be derived through leveraging each other's expertise, versus combined sourcing opportunities for example. I mean there's a small amount of product crossover, but not huge.

Tim Lawson: (Macquarie Group, Analyst) Okay, and it's too early to call out a combined cost base?

Reuben Casey: Yes, that's right. Obviously we will be doing that work over the coming months.

Tim Lawson: (Macquarie Group, Analyst) Yes, just in terms of the summer winter seasonality and you've indicated that you think the transaction closes towards the end of this calendar year. You've given us full year EBIT and full year EBITDA and full year revenue numbers so we can work with that. But just trying to understand a first half, second half sort of contribution. I mean obviously the opposite to what you do, but

given the timing of the closure, and I'm assuming you're giving us Rip Curl numbers on a financial year basis?

Chris Kinraid: Yes, just sticking with the financial year, just due to that certainty of the closure timings, which we'll be able to communicate in due course. Obviously, the November, December period is a large period for both retailers regardless, the Christmas season, but heavily with the summer weighting for Rip Curl it's very important. Yes, it's hard to give that just at this stage, till we confirm that.

Tim Lawson: (Macquarie Group, Analyst) But do you think you'll get ownership in that important December month? I imagine that's particularly in the retail side a relatively significant contributor?

Reuben Casey: Yes, we will, yes.

Tim Lawson: (Macquarie Group, Analyst) Okay, alright. Then maybe you could comment on, you've given us sort of headline numbers on Rip Curl revenue and EBITDA, but in terms of the retail performance, rather than wholesale or online, just to sort of maybe recent same store sales growth, or something you could call out in terms of retail performance?

Reuben Casey: Yes, same store sales growth across July, August, September has been tracking positively, it's not too dissimilar to our own performance.

Tim Lawson: (Macquarie Group, Analyst) Okay, thank you.

Xavier Simonet: Thank you Tim.

Operator: Your next question comes from James Bales from Morgan Stanley, please ask your question.

Xavier Simonet: Good morning James, how are you?

James Bales: (Morgan Stanley, Analyst) Yes very well, thanks guys for taking my questions. Sorry I've got to ask the synergy question a different way, just to try to help us understand the relative importance of some of these different buckets like sourcing, supply chain, the retail upside from Rip Curl and Rip Curl's expertise in wholesale. Can you sort of give us some idea of how to think of the pecking order of some of those buckets or anything that I've sort of missed in that list?

Xavier Simonet: Yes, I mean we see a big opportunity for us in leveraging our strength, or each other's strength. So, in terms of I mean retail, we are a retailer, and retail operations and retail management are our skillset and expertise. We certainly can work with Rip Curl on how we can improve the management of retail. They're certainly going to help us and challenge us on wholesale and how we can go further and accelerate, and in terms of processes how we can improve.

On online, online is very new to Rip Curl, for Kathmandu for the first-time last year we achieved 10% of our sales with online business, it's an AUD50 million-dollar business, so certainly we can leverage our online expertise to support Rip Curl's growth. Social media, digital marketing, content, well both brands are I think doing great, but certainly there are tips we can give each other to improve there, so these are ideas of synergies.

Another one, certainly where we can help is loyalty club. Rip Curl is about surfers, it's a core community with a strong identity, but they don't have any loyalty club. If the Rip Curl team is ready to launch a loyalty club, for sure based on our Summit Club expertise and our 2.2 million Summit Club members, this is certainly an area where we can help them.

So, we've not - to answer your question James, we've not quantified those buckets, but certainly these are discussions we've already had with the management of Rip Curl and we've discussed how we can work together, where we can help each other, where they see their weaknesses and strengths. We are pretty much aligned between the two companies and the two management teams, on what we want to focus on and what we can achieve. But it's not been quantified at this stage.

James Bales: (Morgan Stanley, Analyst) Then I wanted to ask about Rip Curl's investment in the technology behind their products and how that compares maybe to your own investment in outdoor and Oboz as an investment in footwear?

Chris Kinraid: Yes, Rip Curl spend a good amount on their product department. They have the competitive advantage where in terms of their technical product being wetsuits and boardshorts, but wetsuits in particular, they own their own manufacturing facility. They have the opportunity to test products and test manufacturing as they go into part of that process. So, they're very much focused on that technical side of their business and that's one of their core strengths, which has driven them over the last few years.

James Bales: (Morgan Stanley, Analyst) In terms of the actual dollars that go into making better wetsuits and how many people or heads or some sort of understanding of how much reinvestment these guys are making into their products?

Chris Kinraid: I mean their current run rate of investment is appropriate, so that's built into already the EBIT performance, EBITDA performance.

Xavier Simonet: To also answer your question James, one thing that's attracted us very much to Rip Curl is they're focused on technical functional products, which is very connected to what we are as well. Versus just fashion products, and we think it's a big strength to have technical edge and to invest in technical products, so both brands do that and this is a clear view we have that we're going to continue focusing on innovation and technical products.

Chris Kinraid: The current investment we view as appropriate.

James Bales: (Morgan Stanley, Analyst) Okay, thanks guys, appreciate the help.

Xavier Simonet: Thank you.

Operator: Your next question comes from Julian Mulcahy from Evans and Partners, please ask the question.

Xavier Simonet: Julian, good morning, how are you?

Julian Mulcahy: (Evans and Partners) Hi Xavier I'm good thank you. Just first maybe start with a comment on the retail network that you're buying, what's its condition? Are they expanding stores? Closing stores? What's your sort of take on that?

Xavier Simonet: Yes, they go through the same process as us. They review the profitability of their stores and of their channels and they close stores when they're not profitable and open stores when there are opportunities. I think an opportunity they have is licensed stores, particularly internationally, where licensed partners make the investment in the store, cover the fixed costs and the leases, but is still a fully branded Rip Curl store, so that's a model we don't have at Kathmandu, and that's a model they have which is quite interesting actually. Because the level of risk is lower than when you operate the stores yourself, but from a customer point of view, the execution's good, it's actually as good as if you were operating the store yourself.

Julian Mulcahy: (Evans and Partners) Right, you mention that there were 17 wholesales doors in Europe that could take your products out of Kathmandu and Oboz. Is the same sort of thing could occur in some of the retail network as well?

Xavier Simonet: So not doors, it was key customers, key wholesale customers, it's not doors. So, I'm talking here about key European wholesale customers. In regards to the footprint, to the retail footprint, what are you envisaging?

Reuben Casey: Can Rip Curl take Kathmandu products?

Xavier Simonet: In their stores?

Reuben Casey: Yes. I think Julian that's something we'll work through, I mean they have some stores in mountain locations who do a small amount of mountain wear. Obviously we want to ensure we don't dilute brand equity by doing that, we'll still be very careful how we think about that one.

Julian Mulcahy: (Evans and Partners) Alright, and just on the earning's growth profile, I know you said that your business right sized its doors in wholesale in FY2018, and hence the sort of dip, and then it's back to where it was in FY2017. Is the business sort of poised for a growth phase, or just grows at a few per cent a year? And it's more what you can get out of Rip Curl rather than you driving Rip Curl?

Chris Kinraid: No, we still believe there is a good growth path trajectory for this business, through a mix of what they're organically doing anyway and also from what we believe we can drive further as part of the business. No, we still believe there's a good growth profile.

Julian Mulcahy: (Evans and Partners) Right, and just finally, on the wholesale potential, so how would you envisage it, is this like the same Rip Curl person selling Rip Curl products plus Kathmandu plus Oboz products? Or would Kathmandu just be given the entrée and then they go through and do the sell through?

Xavier Simonet: Yes, it would be different people for sure in terms of sales, because they have different sales people to focus on specific brands, but it would certainly leverage the capability, the relationships and work as a group.

Julian Mulcahy: (Evans and Partners) Okay, cool, good deal, thanks guys.

Xavier Simonet: Thanks Julian.

Operator: Your next question comes from Xavier Waterstone from QuayStreet, please ask your question?

Xavier Simonet: Morning Xavier.

Xavier Waterstone: (QuayStreet, Analyst) Hi guys, how's it going?

Xavier Simonet: Good, thank you.

Xavier Waterstone: (QuayStreet, Analyst) I just had a quick one, just looking at the revenue line in the stat accounts for FY2018, and notice there's about an AUD50 million difference from what you guys have got on slide 19, the AUD427 million. I'm wondering if you can just run through what's driving that in terms of rebates royalties or any carve outs, and also the terms underlying that royalty, given it's obviously a decent chunk of profit, about AUD7 million it looks like?

Chris Kinraid: Yes, just in terms of the difference, the key part of that was that they exited from an Indonesian business and turned that into a licensed or a wholesale relationship, so the revenue would be normalised for that basis in terms of the difference in revenue there.

Xavier Waterstone: (QuayStreet, Analyst) And the royalty side of things?

Chris Kinraid: That will continue as is, so the royalty stream would continue, yes.

Xavier Waterstone: (QuayStreet, Analyst) Alright, thanks for that.

Xavier Simonet: Thank you.

Operator: Your next question comes from Shane Bannan from Bligh Capital, please ask your question.

Xavier Simonet: Good morning Shane, how are you?

Shane Bannan: (Bligh Capital, Analyst) Good morning guys, I'm fine thank you very much Xavier. My question was partly answered in one of the earlier responses, but if I could just broaden it a little bit, it was to do with the slide 19 there. I'm also minded of the experience of Billabong when it was a listed company here, it had a bit of a bumpy ride. I'm just trying to understand the risk profile going back maybe beyond the three years, just trying to understand how it bounces around both on the revenue and the profit line? And where the concentration of risk might be? Are there major relationships in there which underpin either the wholesale or operations or elsewhere?

Xavier Simonet: Yes, I think in terms of risks, Rip Curl have shown their resilience over time, particularly during the Global Financial Crisis. They were quite conservative in terms of making sure there was a strong focus on cash, they didn't acquire too many companies at the same time, they didn't invest a lot in fashion products, they remained critically aligned with technical and functional products. So yes, these are key aspects of their resilience. Another one is that they didn't invest heavily in shopping centre owned stores, owned retail stores particularly in the US, and with highly seasoned and long-term commitments. So, from all these perspectives they were quite protected and they've been quite resilient.

Reuben Casey: In terms of key customer risk Shane, they don't have a concentrated risk in any one major wholesale customer.

Shane Bannan: (Bligh Capital, Analyst) Great thanks Reuben. Just looking at that profile you had in terms of their plotted history, they seem to own a manufacturing facility in Thailand, so I understand they're predominantly like yourselves a design and source business. But the extent of manufacture within that makeup, like their own manufacturing rather than sourcing?

Reuben Casey: Yes, it's just wetsuits, their manufacturing plant just makes their wetsuit business, nothing else.

Shane Bannan: (Bligh Capital, Analyst) Right, great thanks very much.

Xavier Simonet: Thanks Shane.

Operator: Once again if you wish to ask a question please press star 1 on your telephone and wait for your name to be announced. Your next question comes from Raveen Kuhadas from ICE Investors, please ask your question?

Xavier Simonet: Good morning Raveen.

Raveen Kuhadas: (ICE Investors) Hi guys, congratulations on the deal of such an iconic brand. I just had a question on the wholesale channel, just if you look at that channel as a whole, how has that grown or evolved over the last few years?

Reuben Casey: The wholesale channel's been pretty static over the last few years, I mean they've had more growth through online and direct to consumer retail, either through their own stores or through licensed or JV stores. So, wholesale's been pretty static.

Raveen Kuhadas: (ICE Investors) Right and I guess that's where the benefits of a deal does come in. Are we able to address that going forward? Or is the strategy more to push towards that online and retail?

Xavier Simonet: No, the strategies are clearly a multi-channel approach, very similar to Kathmandu, a channel agnostic approach to give customers the options of different channels, through wholesale, retail presence and online, and to continue growing with the customers.

Raveen Kuhadas: (ICE Investors) Great okay, thanks, thanks guys.

Operator: There are no further questions at this time, I'd like to hand the conference back to Xavier, please continue.

Xavier Simonet: Thank you very much Edwin and thanks for joining the call today, have a great day.

Operator: Ladies and gentlemen, this concludes today's conference call, thank you for participating, you may all disconnect.

ENDS

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