



Kathmandu®

# FY17 Results Presentation

September 2017



## Financial highlights



Sales

**\$445.3m**

**↑ 4.6%**

Same Store Sales

**+5.5%**

**AU ↑ 6.9%**

**NZ ↑ 3.6%**

EBIT

**\$57.0m**

**↑ 12.0%**

Net Profit After Tax

**\$38.0m**

**↑ 13.5%**

Dividend

**13cps**

**↑ 18.2%**

Net Debt

**\$6.9m**

**↓ \$29.9m**



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# 1. Strategy update



# 1. Strategy update



“Design great, innovative, distinctive and sustainable quality products”

“Be customer-centric in everything we do”

## GROWTH STRATEGIES

### Continuous improvement

- » Brand and customer
- » Store optimisation
- » Pricing and promotion
- » Omni-channel
- » Cost efficiency

### Growth initiatives

- » International
- » Marketplaces
- » Store network expansion

# 1. Strategy update – continuous improvement



	Initiatives	Progress update
<b>Brand and customer</b>	<ul style="list-style-type: none"> <li>» Elevate brand distinctiveness through product design and innovation</li> <li>» Focus on our expertise in adventure travel</li> <li>» Inspire our customers and engage with our Summit Club members with a focus on social media and digital</li> <li>» Enhance the customer service experience and staff product knowledge</li> </ul>	<ul style="list-style-type: none"> <li>» Our innovative travel design focus is highlighted by products such as the Benmore 5-in-1 travel jacket and Transfer pack</li> <li>» Summit Club 1.7m active members (+8.2% year on year), 1.1m active Australian members</li> <li>» 30% increase in social media reach year on year</li> <li>» Net promoter score &gt;75%</li> </ul>
<b>Store optimisation</b>	<ul style="list-style-type: none"> <li>» Focus on same store sales growth</li> <li>» Optimise space allocation to maximise gross profit</li> <li>» Improve customer conversion rates in-store</li> <li>» Refine visual merchandising and product presentation</li> <li>» Invest in relocations / refurbishments that deliver return on capital</li> </ul>	<ul style="list-style-type: none"> <li>» Strong same store sales growth in both Australia +6.9% and New Zealand +3.6%</li> <li>» Store VM and product ranging trials conducted in FY16 and executed successfully in FY17</li> <li>» FY17: 4 relocations, 4 refurbishments, 2 expansions completed</li> <li>» FY18: 5 relocations, c.15 refurbishments scheduled</li> </ul>
<b>Pricing and promotion</b>	<ul style="list-style-type: none"> <li>» Continually refine the structure of promotions to:                             <ul style="list-style-type: none"> <li>» leverage foot traffic in key trading periods</li> <li>» increase basket size and maximise gross profit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>» Maintain key competitive price points on footfall driving products</li> <li>» Average basket size increase of 4.7% in FY17</li> </ul>

# 1. Strategy update – continuous improvement



	Initiatives	Progress update
Omni-channel	<ul style="list-style-type: none"><li>» Provide a channel agnostic offer: one range available to all customers wherever they choose to shop</li><li>» Invest in our online platform to further improve usability and functionality</li><li>» Offer complementary products and services through our online channels</li><li>» Drive site visitation through:<ul style="list-style-type: none"><li>» targeted Summit Club campaigns</li><li>» affiliate partnering</li><li>» social media</li></ul></li></ul>	<ul style="list-style-type: none"><li>» Responsive website launched in November 2016</li><li>» Online sales are 7.5% of total sales</li><li>» Digital marketing cloud tools deployed 1H FY17 providing targeted email capability</li><li>» 67% increase in website traffic originating from social media with corresponding increase in associated purchase conversion</li></ul>
Cost efficiency	<ul style="list-style-type: none"><li>» Drive supply chain efficiency through infrastructure investments and automation</li><li>» Increase productivity by leveraging rostering systems investment</li><li>» Leverage advertising content, particularly in social and digital media channels</li></ul>	<ul style="list-style-type: none"><li>» Australian distribution centre investment completed, efficiency benefits to be realised from FY18 onwards</li><li>» Continue to drive productivity through foot traffic and conversion KPI's</li><li>» Constant innovation with social media partners to maximise return on digital advertising spend</li></ul>

# 1. Strategy update – growth



	Initiatives	Progress update
<b>International</b>	<ul style="list-style-type: none"> <li>» Identify and promote brand and product distinctive attributes that make Kathmandu relevant internationally</li> <li>» Leverage our brand equity and online platform to expand internationally using a capital light model</li> <li>» Entry strategies for key growth markets include online, wholesale distribution, licensed or franchised retail stores</li> </ul>	<ul style="list-style-type: none"> <li>» Kathmandu products now selling through SportScheck and Go Outdoors. Opportunity to expand our range for future seasons</li> <li>» Direct to consumer international responsive website launched</li> <li>» Exhibited at European trade shows to showcase the Kathmandu brand and distinctive products</li> </ul>
<b>Marketplaces</b>	<ul style="list-style-type: none"> <li>» Sell through additional open marketplace sites where strategically relevant</li> </ul>	<ul style="list-style-type: none"> <li>» Marketplace sales grew by 50% year on year</li> <li>» Tmall Global targeted at Mainland China commencing 1H FY18</li> <li>» Increased collaboration with marketplaces on marketing programmes</li> </ul>
<b>Store network expansion</b>	<ul style="list-style-type: none"> <li>» Store footprint expansion where return on investment justifies</li> <li>» Store network target of 180 across Australasia</li> </ul>	<ul style="list-style-type: none"> <li>» Four new stores opened during FY17</li> </ul>



# 1. Sustainability



Our goal:  
**Australasian  
industry  
leadership in  
sustainability**



For more information:  
Kathmandu's 2017 Sustainability Report  
released mid-October

## 2. Result overview



## 2. Result overview: Year-on-Year



NZD \$m*1	FY17	FY16	Var \$	Var %
<b>SALES</b>	<b>445.3</b>	<b>425.6</b>	19.7	4.6%
<b>GROSS PROFIT</b> <i>Gross margin</i>	<b>276.2</b> 62.0%	<b>266.4</b> 62.6%	9.8	3.7%
<b>OPERATING EXPENSES</b> <i>% of Sales</i>	<b>(205.4)</b> 46.1%	<b>(201.6)</b> 47.4%	3.8	1.9%
<b>EBITDA</b> <i>EBITDA margin %</i>	<b>70.8</b> 15.9%	<b>64.8</b> 15.2%	6.0	9.3%
<b>EBIT*2</b> <i>EBIT margin %</i>	<b>57.0</b> 12.8%	<b>50.9</b> 12.0%	6.1	12.0%
<b>NPAT</b>	<b>38.0</b>	<b>33.5</b>	4.5	13.5%
<b>Store count*3</b>	<b>164</b>	<b>162</b>	2	



1. FY17 NZD/AUD conversion rate 0.947 (FY16: 0.934), FY17 NZD/GBP conversion rate 0.563 (FY16: 0.457)
2. EBIT YOY adverse exchange rate translation impact in FY17: -\$0.6m (FY16 -\$1.0m)
3. Four new stores opened during FY17, and three stores closed. One temporary store still open at balance date and closed in August. Excludes Online stores
4. Rounding differences may arise in totals, both \$ and %

### 3. Key line items

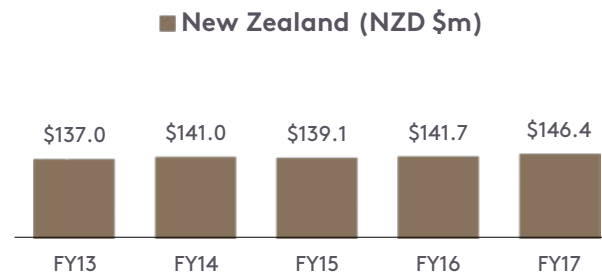
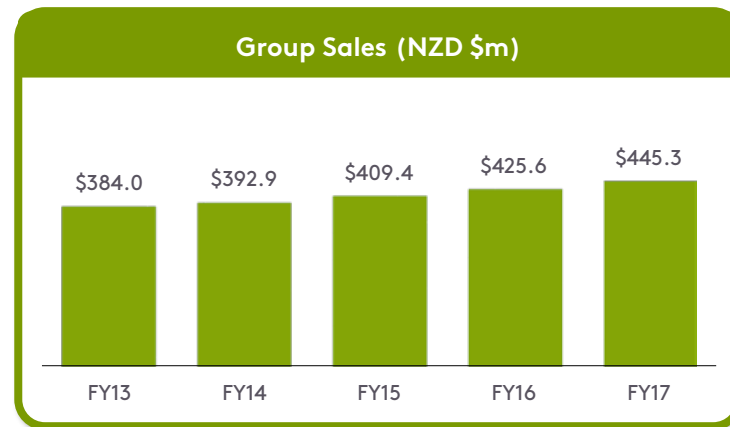
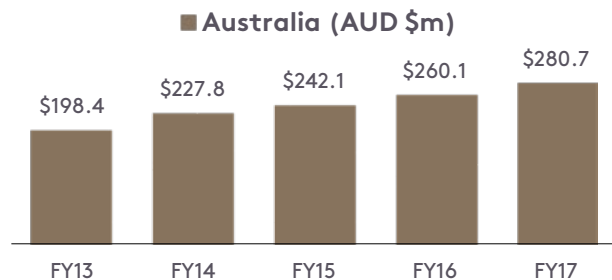


### 3. Sales



**SALES: +4.6% to \$445.3m**

- » Sales growth year on year:<sup>\*1</sup>  
AU 7.9%, NZ 3.3%
- » At constant exchange rates sales growth  
\$24.5m / 5.8%
- » Online sales are 7.5% of total sales

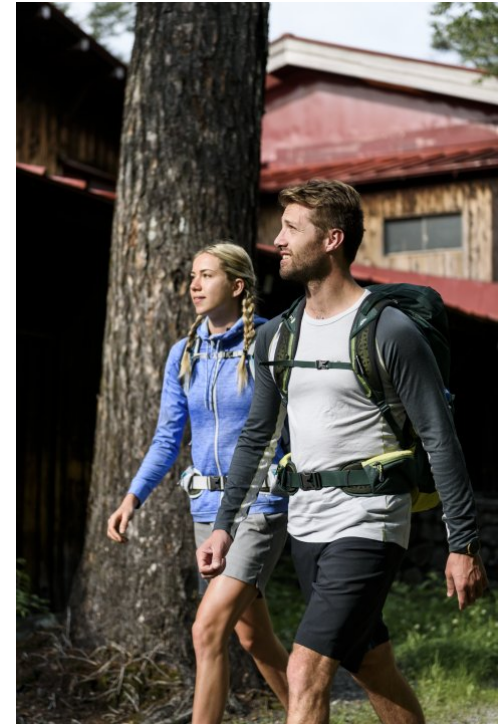
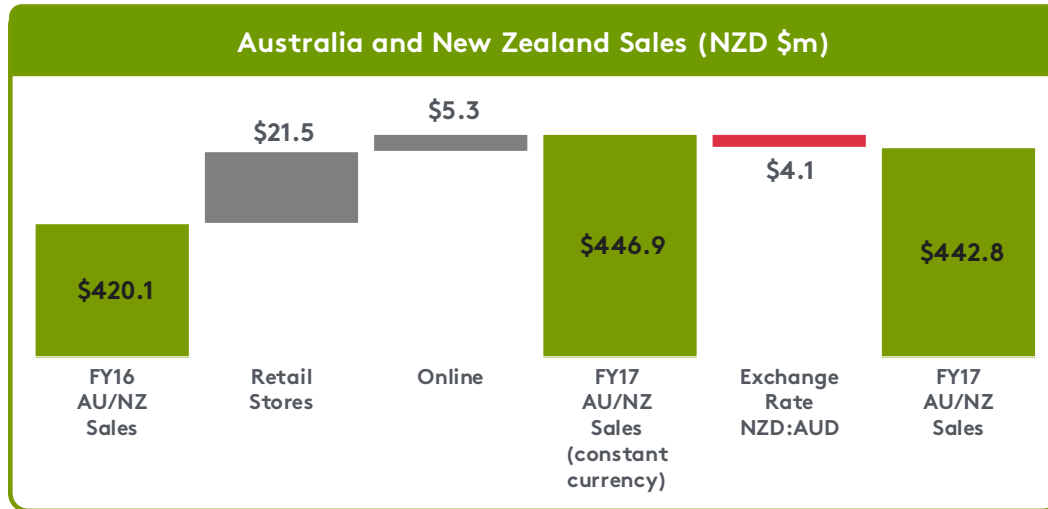


1. Calculated on local currency sales results (not affected by year-on-year exchange rate variation)  
2. Country sales totals exclude inter-company sales

### 3. Australasian sales growth – constant currency



» Core business (AU/NZ) constant currency sales growth +6.4%



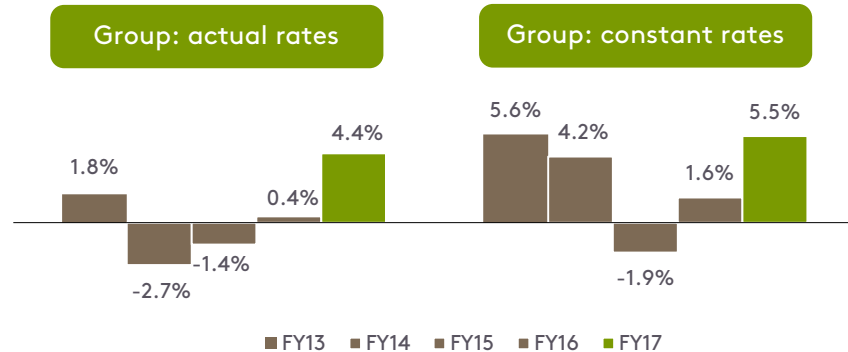
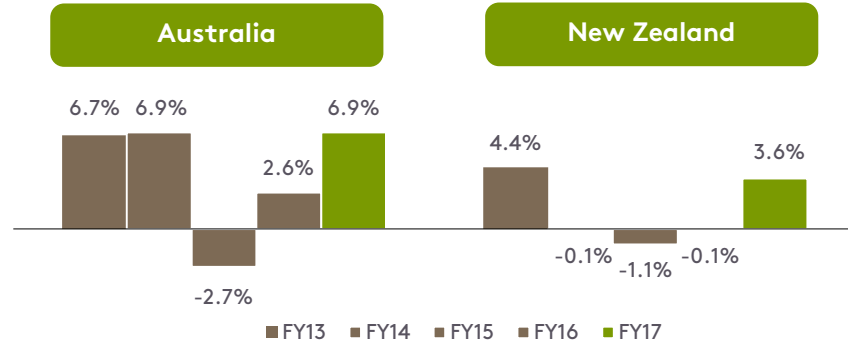
1. Rounding differences may arise in totals, both \$ and %

### 3. Same Store Sales result



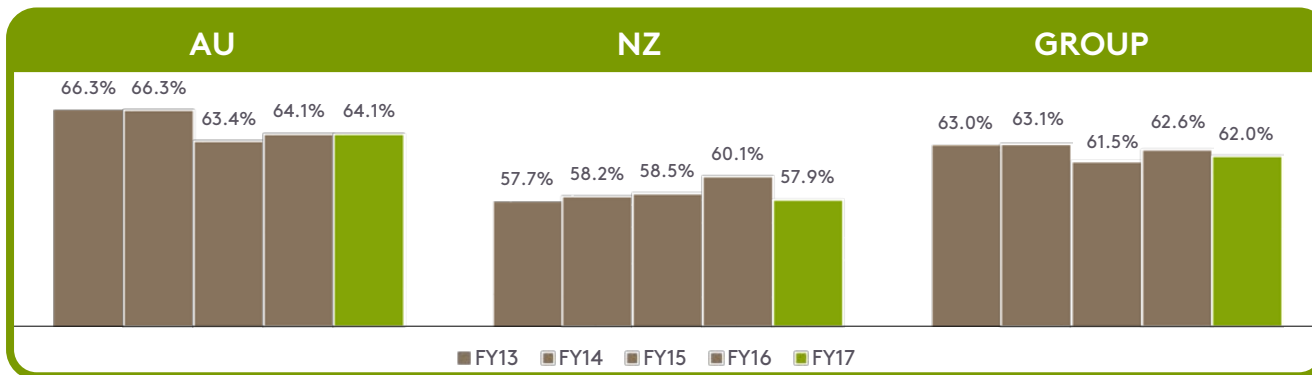
**SAME STORE SALES: +5.5% at constant rates**

- » Same store sales:
  - +4.4% actual exchange rates
  - +5.5% constant exchange rates:
    - » Stores +4.7%
    - » Online +15.9%



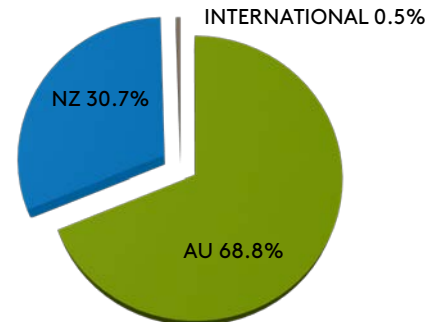
1. Measurement period FY17: 52 weeks ended 30 July 2017 compared to 52 weeks ended 31 July 2016
2. Same store sales measurement includes Online and all stores from their 53rd week of trading

### 3. Gross Margin



- » Gross margin long-term target range 61% to 63%
- » Sourcing negotiations, product newness, price action and improved stock control all helped to offset the gross margin challenges caused by:
  - » higher input costs as a result of foreign currency
  - » clearance sales mix slightly higher than last year

SHARE OF BUSINESS  
(GROSS PROFIT \$)





### 3. Cost of doing business



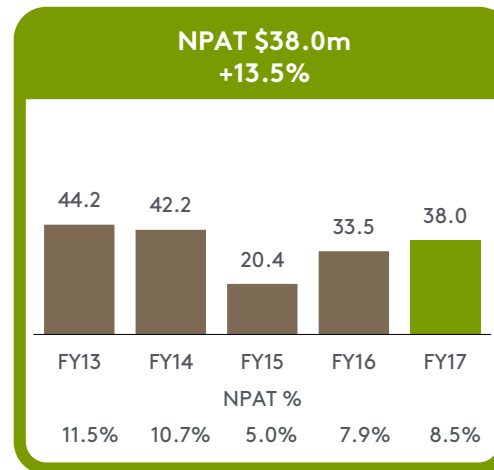
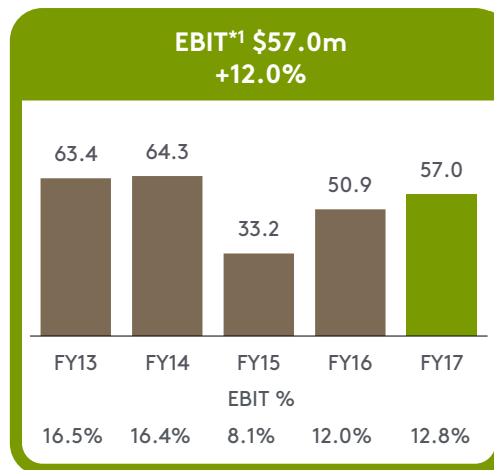
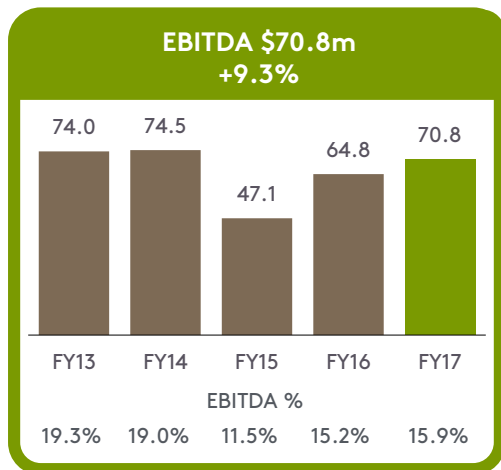
**OPERATING EXPENSES: +1.9% to \$205.4m**

- » Rent increase includes transition to new Australian distribution centre and full year impact of New Zealand support office
- » Efficiencies gained through:
  - » Targeted promotional spend
  - » Retail labour productivity
  - » Full year impact of FY16 structural review

NZD \$m	FY17	FY16	Var \$	Var %
<b>Rent</b>	<b>62.2</b>	<b>58.3</b>	<b>3.9</b>	<b>6.7%</b>
<i>% of Sales</i>	<i>14.0%</i>	<i>13.7%</i>		
<b>Other operating expenses</b>	<b>143.2</b>	<b>143.3</b>	<b>(0.1)</b>	<b>(0.1%)</b>
<i>% of Sales</i>	<i>32.1%</i>	<i>33.7%</i>		
<b>Total operating expenses<sup>*1,2</sup></b>	<b>205.4</b>	<b>201.6</b>	<b>3.8</b>	<b>1.9%</b>
<i>% of Sales</i>	<i>46.1%</i>	<i>47.4%</i>		
<b>Depreciation</b>	<b>13.8</b>	<b>13.9</b>	<b>(0.1)</b>	<b>(0.7%)</b>
<i>% of Sales</i>	<i>3.1%</i>	<i>3.3%</i>		
<b>Cost of doing business</b>	<b>219.2</b>	<b>215.5</b>	<b>3.7</b>	<b>1.7%</b>
<i>% of Sales</i>	<i>49.2%</i>	<i>50.6%</i>		

1. FY17 total operating expense decrease attributable to year-on-year exchange rate translation movement \$2.3m
2. FY16 total operating expenses included \$2.0m non-recurring items: Australian distribution centre and closure of UK stores
3. Rounding differences may arise in totals, both \$ and %

### 3. Earnings summary



1. EBIT YOY adverse exchange rate translation impact in FY17: -\$0.6m (FY16: -\$1.0m)

## 4. Segment results



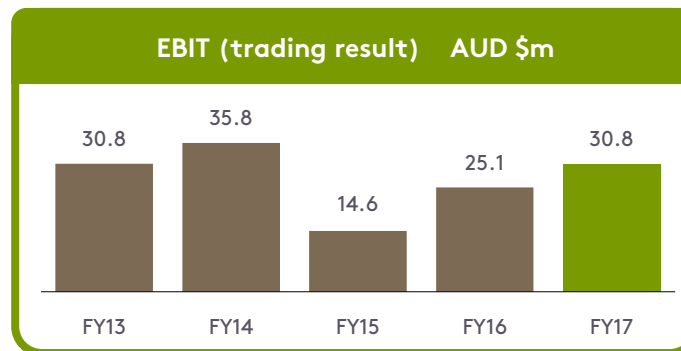
## 4. Australia



**SALES: +7.9% to \$280.7m**

- » Gross margin level year-on-year
- » Total operating expenses (incl. depreciation):
  - » FY17 53.1% of sales
  - » FY16 54.4% of sales
- » 4 new stores, plus one relocated store still open at balance date and closed in August
- » 3 stores closed as new stores opened in better locations
- » 4 relocated stores
- » 3 refurbished stores

AUD \$m	FY17	FY16	Var %
Sales	280.7	260.1	7.9%
Same store sales growth	6.9%	2.6%	
EBIT (trading result)*2	30.8	25.1	22.7%
EBIT margin %	11.0%	9.7%	
Store count	116	114	



1. Rounding differences may arise in totals, both \$ and %  
 2. A reconciliation of EBIT (trading result) to the financial statements is included in Appendix 2

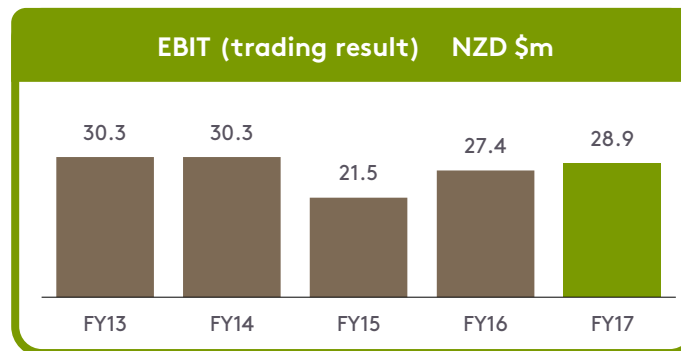
## 4. New Zealand



**SALES: +3.3% to \$146.4m**

- » Gross margin decreased 220bps / 2.2% of sales
- » Total operating expenses (incl. depreciation):
  - » FY17 38.2% of sales
  - » FY16 40.8% of sales
- » 3 refurbished stores

NZD \$m	FY17	FY16	Var %
Sales	146.4	141.7	3.3%
Same store sales growth	3.6%	(0.1%)	
EBIT (trading result)*2	28.9	27.4	5.5%
EBIT margin %	19.7%	19.3%	
Store count	47	47	



1. Rounding differences may arise in totals, both \$ and %
2. A reconciliation of EBIT (trading result) to the financial statements is included in Appendix 2

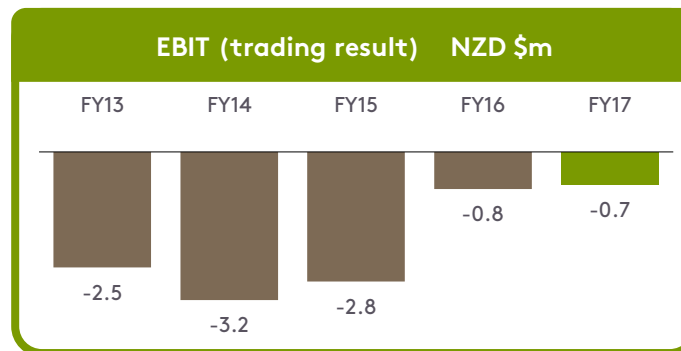
## 4. International



**SALES: -53.6% to NZD \$2.5m**

- » Cycling the closure of three UK stores during FY16, one UK store still to be closed
- » Gross margin improved 650bps / 6.5% of due to promotional changes and cycling prior year store closure clearance sales
- » Total operating expenses (incl. depreciation, excl. wholesale start-up):
  - » FY17 66.6% of sales
  - » FY16 64.7% of sales
- » International wholesale start-up and promotion costs NZD \$0.5m incurred in FY17 ahead of wholesale sales starting FY18

NZD \$m	FY17	FY16	Var %
Sales	2.5	5.5	(53.6%)
Same store sales growth	(32.7%)	3.7%	
EBIT (trading result)*2	(0.7)	(0.8)	5.2%
EBIT margin %	(28.1%)	(13.8%)	
Store count	1	1	



1. Rounding differences may arise in totals, both \$ and %  
 2. A reconciliation of EBIT (trading result) to the financial statements is included in Appendix 2

## 5. Cash Flow, Balance Sheet, Dividend



## 5. Cash Flow



### Operating cash flow:

- » Strong operating cash flow generated through improved profitability and continued inventory reduction

### Capital expenditure \$13.3m (LY \$23.2m):

- » Stores \$9.5m (LY \$8.0m)
  - » 4 new stores
  - » 4 relocations
  - » 6 refurbishments
- » Infrastructure \$2.2m (LY \$13.1m)
  - » Australian distribution centre completed
- » Systems \$1.6m (LY \$2.1m)
  - » Online enhancements including responsive website design and launch of international trading site
  - » Product lifecycle management

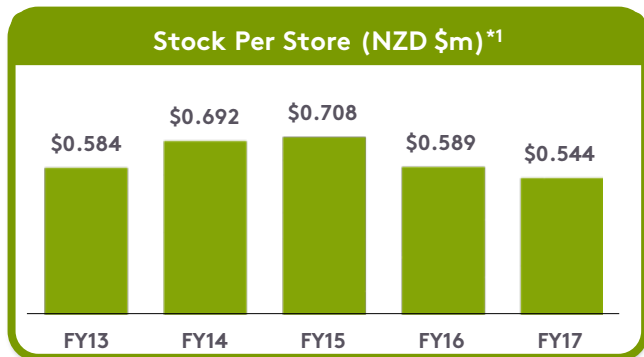
Cash Flow (NZD \$m)	FY17	FY16
<b>NPAT</b>	<b>38.0</b>	<b>33.5</b>
Change in working capital	12.9	20.5
Change in non-cash items	16.4	15.1
<b>Operating cash flow</b>	<b>67.3</b>	<b>69.1</b>

Key Line items:		
Net interest paid (including facility fees)	(2.1)	(2.8)
Income taxes paid	(14.6)	(15.3)
Capital expenditure	(13.3)	(23.2)
Dividends paid	(24.2)	(16.1)
Increase/(Decrease) in borrowings	(33.2)	(24.6)

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



## 5. Balance Sheet



- » Year on year decrease in stock per store -7.6%
- » Ongoing working capital efficiency contributing to record low net debt and lower financing costs

1. FY17 includes one temporary store open at balance date
2. COGS (rolling 12 months) / Average Inventories YOY
3. (EBITDA + Rent) / (Rent + Net Finance Costs excl. FX)
4. EBIT / (Net Debt + Equity)
5. Rounding differences may arise in totals, both \$ and %

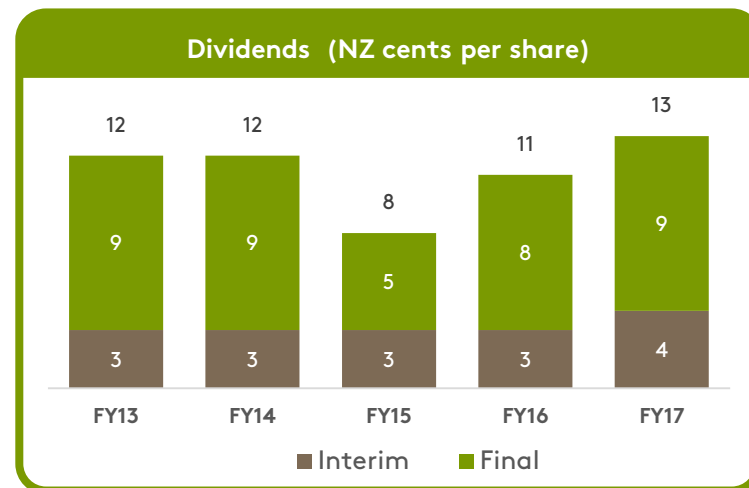
Balance Sheet (NZD \$m)	FY17	FY16
Inventories	89.2	95.4
Property, plant and equipment	61.0	61.6
Intangible assets	279.0	280.1
Other assets	6.3	5.1
<b>Total assets (excl. cash)</b>	<b>435.5</b>	<b>442.2</b>
Net interest bearing liabilities and cash	6.9	36.8
Other non-current liabilities	34.3	33.9
Current liabilities	67.2	59.8
<b>Total liabilities (net of cash)</b>	<b>108.4</b>	<b>130.5</b>
<b>Net assets</b>	<b>327.1</b>	<b>311.7</b>

Key Ratios	FY17	FY16
Stock Turns*2	1.83x	1.53x
Net Debt to Equity	2.1%	10.6%
Fixed Charge Cover*3	2.07x	2.01x
ROIC*4	17.1%	14.6%

## 5. Dividend



- » NZ 9.0 cents per share final dividend;
- » Record high full year payout NZ 13.0 cps (FY16 NZ 11.0 cps)
- » Dividend will be fully imputed for New Zealand shareholders
- » Dividend will be fully franked for Australian shareholders
- » Supplementary dividend of NZ 1.588 cents is payable to non-NZ shareholders
- » Record date 13 November 2017
- » Payment date 24 November 2017



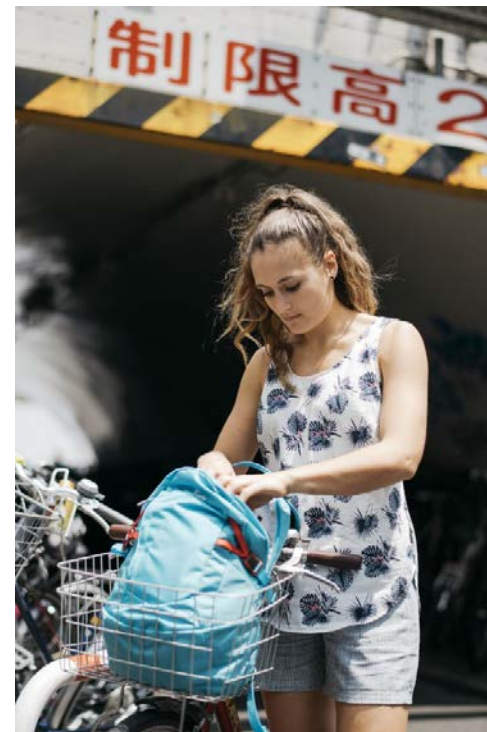
## 5. Foreign currency



FORWARD HEDGING POSITION		FY16	FY17	FY18
AUD/USD	Effective Rate	0.796	0.728	0.756

NZD/USD	Effective Rate	0.732	0.659	0.707
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- » FY17 USD hedging rates c.9% below FY16
- » FY18 USD hedging rates c.5% above FY17
- » Forward hedging position:
  - » Longest dated hedges September 2018
  - » Rolling cover applied 12 months forward
- » No hedging NZD/AUD



## 6. Summary



## 6. Summary

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- » Outdoor category competitor mix constantly changing and remains competitive
- » Sustainability and commitment to ethical business an emerging competitive advantage
- » Kathmandu is a strong brand that designs great, innovative, distinctive and sustainable quality products
- » We remain committed to continuous improvement with key focuses on:
  - » same store sales growth, particularly in Australia
  - » strengthening the Kathmandu brand and customer engagement
  - » connecting with customers through social media and digital channels
  - » cost control and efficiencies
- » International (northern hemisphere) wholesale business will continue to be developed with a focus on profitability. Autumn/Winter orders shipped to European customers, initial Spring/Summer 18 orders received

## 7. Questions





1. Four new stores opened during FY17, and three stores closed. One temporary store still open at balance date and closed in August. Excludes Online stores

## Appendix 2 – Reconciliation of segment EBIT trading results



FY17 (\$'000)	Australia	New Zealand	International	Other	Total
EBIT per financial statements (NZD)	31,534	29,962	(716)	(3,776)	57,004
Internal charges not trading related*1 (NZD)	1,040	(1,040)	-	-	-
EBIT (trading result) (NZD)	32,574	28,922	(716)	(3,776)	57,004
EBIT (trading result) (local currency)	30,848				

FY16 (\$'000)	Australia	New Zealand	International	Other	Total
EBIT per financial statements (NZD)	25,747	28,553	(755)	(2,664)	50,881
Internal charges not trading related*1 (NZD)	1,123	(1,123)	-	-	-
EBIT (trading result) (NZD)	26,870	27,430	(755)	(2,664)	50,881
EBIT (trading result) (local currency)	25,097				

1. Internal charges not trading related include arm's length margins charged for internal services