Kathmandu Holdings Limited
FY2016 full year results

- **Sales increased by 4.0% to NZ$425.6m**
- **Gross profit increased by 5.8% to NZ$266.4m**
- **Gross margin increased from 61.5% to 62.6%**
- **EBIT increased by 53.3% to NZ$50.9m**
- **NPAT increased by 64.2% to NZ$33.5m**
- **Final dividend increased to NZ 8.0 cps, 37.5% increase in full year payout**

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ$50.9 million for the year ended 31 July 2016, an increase of NZ$17.7 million compared with the prior corresponding period. Net profit after tax (NPAT) increased from NZ$20.4 million to NZ$33.5 million for the same period. A final dividend of NZ 8.0 cents per share will be paid, bringing the full year payout to NZ 11.0 cents per share.

Summary of Results

	NZD $m		Change	
	FY2016	**FY2015**	**NZD $m**	**%**
Sales	425.6	409.4	16.2	4.0%
Gross Profit	266.4	251.9	14.5	5.8%
EBITDA	64.8	47.1	17.7	37.6%
EBIT	50.9	33.2	17.7	53.3%
NPAT	**33.5**	**20.4**	**13.1**	**64.2%**

Chief Executive Xavier Simonet commented:

"The results for FY2016 exceeded expectations. Sales growth was achieved at higher gross margins as a result of product newness and careful management of promotional activity. Cost efficiency and improved working capital management have also contributed to a successful FY2016."

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth

Sales growth was recorded in Australia and New Zealand, assisted by the opening of five new stores, four in Australia and one in New Zealand. UK sales declined with the closure of three stores.

	Total Sales	**Total Sales Growth**		**Same Store Sales Growth**	
	NZD $m	Local currency	NZD	Local currency	NZD
Australia	278.4	7.4%	5.2%	2.6%	0.5%
New Zealand	141.7	1.9%	1.9%	(0.1%)	(0.1%)
United Kingdom	5.5	(10.5%)	(3.1%)	3.7%	12.4%
Total	**425.6**	**5.3%**	**4.0%**	**1.6%**	**0.4%**

Note: Same store sales are for the 52 weeks ending 31 July 2016

Online sales grew strongly in all countries, with overall growth of c.15% resulting in online sales making up 6.9% of total sales.

Gross Margin

Gross margin improved 1.1% points from 61.5% in FY2015 to 62.6% in FY2016. Improved full price sell through and product newness contributed to this increase. In the second half year, careful management of promotional activity also helped to offset higher input costs as a result of foreign currency.

Inventory levels

Total inventory levels decreased by -15.8% (NZ$17.9m) from FY2015 and by -14.1% on a per store basis at constant exchange rates.

	FY2016 NZD $m	**FY2015 NZD $m**	**Change NZD $m**	**Change %**	**Change per store % (constant rates)**
Inventory	95.4	113.3	(17.9)	(15.8%)	(14.1%)

The reduction in inventory levels can be attributed to the forecasting and planning system (Just Enough) implemented in FY2014. The system has enabled more accurate buying to reflect store range differences, and efficiencies in our supply chain.

Operating Expenses

Operating expenses have decreased by NZ$3.2m and by 2.6% as a percentage of sales compared to FY2015.

Rent increased by NZ$5.3m reflecting flagship stores opened in Melbourne and Adelaide, as well as relocations of the Australian distribution centre and New Zealand support office.

Other operating expenses decreased by NZ$8.5m or 3.4% as a percentage of sales with efficiencies achieved in advertising, retail labour, distribution, and support office.

Operating expenses (excluding depreciation)

	FY2016 NZD $m	FY2015 NZD $m
Rent	58.3	53.0
% of Sales	13.7%	12.9%
Other operating expenses	143.3	151.8
% of Sales	33.7%	37.1%
Total operating expenses	**201.6**	**204.8**
% of Sales	47.4%	50.0%

Non-recurring expenses of NZ$2.0m were incurred in FY2016 relating to relocations of the Australian distribution centre and Christchurch support office, and closure of UK stores.

Other Financial Information

Capital expenditure increased by NZ$3.2m compared to the prior period. Investment in a new distribution centre in Australia and the New Zealand support office was partially offset by a reduction in store refurbishments and core systems investment (project completed in FY2015).

Operating cash flow was NZ$39.5m higher than FY2015 with improved cash conversion. As a consequence, gearing decreased from FY2015.

	FY2016 NZD $m	FY2015 NZD $m
Capital Expenditure	23.2	20.0
Operating Cash Flow	69.1	29.6
Net Debt	36.8	69.3
Net Debt: Net Debt + Equity	10.6%	18.1%

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Final Dividend

A final dividend of NZ 8.0 cents per share will be paid to shareholders on the register as at 14 November 2016. The dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders.

Outlook

Chief Executive Xavier Simonet commented:

"Shareholders relied upon our published forecasts of expected growth in earnings in FY2016, and we are pleased to have exceeded those forecasts.

For FY2017 we have worked hard to minimise the impact of currency on our gross margins through sourcing negotiations, product newness, and continual refinement of our customer-centric promotional calendar.

We remain committed to offering great, innovative, distinctive and sustainable quality products to our customers and providing a seamless shopping experience whether instore or online.

We will be exploring opportunities for Kathmandu to further expand into international markets in FY2017 and our profitable Australasian business provides the foundation for this initiative.

Strengthening the distinctiveness of our brand will also open up opportunities to be relevant in international markets as well as on social, digital and online channels."

ENDS

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