Kathmandu Holdings Limited
FY2017 first half results

- **Sales increased by 0.2% to NZ$196.3m**
- **NPAT increased by 6.4% to NZ$10.0m**
- **Interim Dividend increased to NZ 4.0 cps from NZ 3.0 cps**

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced Net Profit After Tax (NPAT) of NZ$10.0 million for the six months ended 31 January 2017, an increase of NZ$0.6 million compared with the prior corresponding period.

Summary of Results

	1H FY17 NZD $m	1H FY16 NZD $m	Change NZD $m	Change %
Sales	196.3	196.0	0.3	0.2%
Gross Profit	121.0	123.1	(2.1)	(1.7%)
EBITDA	21.5	21.9	(0.4)	(1.8%)
EBIT	14.8	15.1	(0.3)	(2.0%)
NPAT	**10.0**	**9.4**	**0.6**	**6.4%**

Chief Executive Officer Xavier Simonet commented:

"The results for the first half of FY2017 were overall in line with our expectations. It is pleasing to exceed last year's first-half net profit while absorbing c. $4m of adverse foreign currency impacts in gross margin. We achieved strong same store sales growth in Australia which is our largest market, as we maintained rigorous cost control and continued to drive working capital efficiency."

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth

Sales grew in Australia and New Zealand, with strong same store sales growth in Australia, our largest market. UK sales declined with the closure of three stores last year.

	Total Sales Growth Local currency	**Same Store Sales Growth** Local currency
Australia	6.0%	5.0%
New Zealand	0.9%	1.2%
United Kingdom	(57.8%)	(26.5%)
Group (constant currency)	3.0%	3.4%
Group (NZD reporting currency)	0.2%	0.6%

Note: Same store sales are for the 26 weeks ended 29 January 2017

Online sales grew strongly, assisted by the launch of a responsive website in November, which delivers a better customer experience as it integrates product and content. Overall, we achieved over 18% online sales growth, resulting in online sales reaching 7.4% of total sales.

Store Openings

Kathmandu opened two new Australian stores in the last twelve months, and closed one store. Three UK stores were closed during last year reflecting our decision to grow international presence through online retail and wholesale partnerships. We will continue to expand our store footprint particularly in Australia as return on investment justifies.

Gross Margin

Gross margin was 61.6% in 1H FY17, a decrease of 1.2% points from 1H FY16. Sourcing negotiations, product newness, price action, and improved stock control all helped to offset higher input costs as a result of foreign currency. A higher proportion of clearance sales year on year also had a negative impact on gross margin.

Inventory

Total inventory levels decreased by -6.7% (NZ$6.9m) from 1H FY16, and by 3.8% on a stock per store basis at constant exchange rates.

	1H FY17 NZD $m	**1H FY16 NZD $m**	**Change NZD $m**	**Change %**	**Change per store %**
Inventory	96.4	103.3	(6.9)	(6.7%)	(3.8%)

The reduction in inventory is the result of our continuing investment in forecasting and planning technology since FY2014. More accurate buying, to reflect store range differences, provides efficiencies in our working capital requirements.

Operating Expenses

Operating expenses decreased by NZ$1.8m and by 1.0% as a percentage of sales compared to 1H FY16.

Rent increased by NZ$1.5m, and included relocations of the new Australian distribution centre and the New Zealand support office.

Other operating expenses decreased by NZ$3.3m or 1.7% as a percentage of sales, with efficiencies achieved in advertising, support office costs, and retail labour.

Operating expenses (excluding depreciation)

	1H FY17 NZD $m	**1H FY16 NZD $m**
Rent	30.5	29.0
% of Sales	*15.5%*	*14.8%*
Other operating expenses	69.0	72.3
% of Sales	*35.2%*	*36.9%*
Total	**99.5**	**101.3**
% of Sales	*50.7%*	*51.7%*

Other Financial Information

We invested NZ$6.8m in capital projects during the first half, primarily in the expansion of our store network. We also completed the new Melbourne distribution centre, which was designed to support Kathmandu's future growth plans.

Lower net debt and subsequent lower financing costs were a direct benefit from improved working capital efficiency. Our gearing decreased year on year and remains conservative at 13.9%.

	1H FY17 NZD $m	1H FY16 NZD $m
Capital Expenditure	6.8	12.9
Operating Cash Flow	10.0	24.2
Net Debt	48.9	66.8
Net Debt: Net Debt + Equity	13.9%	17.9%

Interim Dividend

An interim dividend of NZ 4.0 cents per share will be paid to shareholders on the register as at 2 June 2017. The dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders.

Outlook

Chief Executive Xavier Simonet commented:

"We have had a solid start to FY17, but as always the success of our full year result will hinge on key sale periods that fall in the second half.

We have worked hard to minimise the impact of currency on our gross margin through sourcing negotiations, product newness, price action, improved stock management and cost control. Maintaining gross margin and operating efficiency will continue to be a key focus.

We will continue to deliver great value to our customers through the benefits of our refreshed Summit Club loyalty programme, and by designing innovative, distinctive and sustainable quality products.

The Australasian business provides the foundation for our brand to expand internationally. As we look forward past FY17, I am excited about the progress we are making towards securing new international wholesale relationships."