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Kathmandu Holdings Limited
FY2018 first half results

- **Sales increased by 4.3% to NZ$204.8m**
- **Gross profit increased by 7.2% to NZ$129.7m**
- **EBIT increased by 21.6% to NZ$18.0m**
- **NPAT increased by 23.0% to NZ$12.3m**
- **Interim dividend NZ 4.0 cents per share**
- **KMD announces acquisition of Oboz**

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced net profit after tax (NPAT) of NZ$12.3 million for the six months ended 31 January 2018, an increase of NZ$2.3 million compared with the prior corresponding period. Earnings before interest and tax (EBIT) increased from NZ$14.8 million to NZ$18.0 million for the same period.

Summary of Results

	NZD $m		**Change**	
	1H FY2018	**1H FY2017**	**NZD $m**	**%**
Sales	204.8	196.3	8.5	4.3%
Gross Profit	129.7	121.0	8.7	7.2%
EBITDA	25.1	21.5	3.6	16.7%
EBIT	18.0	14.8	3.2	21.6%
NPAT	**12.3**	**10.0**	**2.3**	**23.0%**

Chief Executive Xavier Simonet commented:

“Striking the right balance between generating sales growth and improving our gross margin has fuelled healthy earnings growth in the first half. Sales momentum improved through the end of the Christmas trading period and into February and March.”

“Our financial position continued to strengthen during the first half year and we ended the period with healthy inventory and record low half year net debt.”

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Sales, Store Numbers, Gross Margin and Inventory

Sales Growth

Sales grew by 3.7% in Australia, our largest market. New Zealand first quarter sales were impacted by lower levels of clearance stock. In the last six weeks of the first half-year, New Zealand same store sales growth was +1.9%. Online sales now comprise 8.0% of group sales.

	Total Sales Growth	Same Store Sales Growth
Australia	3.7%	1.9%
New Zealand	(6.4%)	(6.3%)
Group (constant currency)	0.8%	(0.8%)
Group (NZD reporting currency)	4.3%	2.7%

Note: Same store sales are for the 26 weeks ending 28 January 2018

Gross Margin

Gross margin increased 1.7% points from 61.6% in 1H FY17 to 63.3% in 1H FY18. Increased full price sell through and higher average selling prices contributed to the improvement.

Inventory

Total inventory levels decreased by 12.7% (NZ$12.2m) from 1H FY2017 and by 13.8% on a per store basis.

	1H FY2018 NZD $m	1H FY2017 NZD $m	Change NZD $m	Change %	Change per store %
Inventory	84.2	96.4	(12.2)	(12.7%)	(13.8%)

At the start of the financial year, clearance inventory levels were c. 40% below last year. While this impacted clearance sales performance, particularly in the first quarter in New Zealand, there were benefits to both gross margin and inventory handling costs. By the end of the first half, the reset clearance stock levels were more in line with last year.

The reduction in total inventory continues to demonstrate the benefits of investments made in forecasting and planning technology.

Operating Expenses

On a constant currency basis, operating expenses increased by $1.5m (1.5%) in 1H FY2018. Operating expenses (excluding Rent) decreased by 0.3% as a percentage of sales, with supply chain efficiencies from lower inventory handling costs achieved following automation of the Australian distribution centre last year.

Rent increased on a constant currency basis by NZ$1.4m, primarily from key store relocations and new stores opened.

Operating expenses (excluding depreciation)

	1H FY2018 NZD $m	1H FY2017 NZD $m
Rent	33.2	30.5
% of Sales	*16.2%*	*15.5%*
Other operating expenses	71.4	69.0
% of Sales	*34.9%*	*35.2%*
Total operating expenses	**104.6**	**99.5**
% of Sales	*51.1%*	*50.7%*

Other Financial Information

NZ$8.7m was invested in capital projects, primarily in re-positioning and updating our store network.

Continued working capital efficiency led to record low half year net debt and subsequent lower financing costs. Gearing remains very conservative.

	1H FY2018 NZD $m	1H FY2017 NZD $m
Capital Expenditure	8.7	6.8
Operating Cash Flow	16.9	10.0
Net Debt	17.0	48.9
Net Debt to Equity	4.9%	13.8%

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Interim Dividend

An interim dividend of NZ$ 4.0 cents per share will be paid to shareholders on the register as at 8 June 2018. The dividend will be fully franked for Australian shareholders. The interim dividend will not be imputed for New Zealand shareholders. The final dividend is expected to be fully franked and fully imputed.

Trading Update

For the six weeks ending 11 March 2018, Group Sales were 7.9% above last year at constant exchange rates. Same store sales growth was 7.5% for Australia and 5.1% for New Zealand. February gross margins were also above last year in both countries.

Oboz acquisition

Kathmandu has agreed to acquire US-based Oboz Footwear LLC for a base cash consideration of US$60 million, and earn-out of up to US$15 million. Oboz designs, sources, and sells footwear for backpacking, hiking, travel, winter and general outdoor wear. Oboz distributes its products directly to North American outdoor chains, specialty outdoor retailers, limited online sellers, shoe stores and sporting goods retailers. For more information, please refer to the Oboz acquisition announcement released on the ASX and NZX.

Outlook

Chief Executive Xavier Simonet commented:

"We are focused on delivering profit growth in our core markets for the second half of FY18. The Australasian business provides the foundation for our brand to expand internationally. As always the success of our full year result is still very dependent on the key promotion periods to come.

We will continue to inspire our customers by creating distinctive, sustainable, quality products and by promoting our brand authenticity.

As our wholesale business in Europe is expanding, we are now very pleased to announce the acquisition of Oboz, an innovative outdoor footwear brand based in North America. This is a significant event for the company, accelerating our international growth, and diversifying our product mix, geography and channels to market."

ENDS

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