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Operator: Good day and welcome everyone to the Kathmandu half-year results investor call. As a reminder, this call is being recorded. At this time, I would like to turn the call over to Mr Xavier Simonet. Please go ahead.

Xavier Simonet: Thank you, Stephanie. Good morning everyone. My name is Xavier Simonet and I am the CEO of Kathmandu. I am joined on the call in Sydney by Reuben Casey, our Chief Financial and Operating Officer. Welcome to the first half FY18 results presentation for Kathmandu Holdings. We also announced today the acquisition of Oboz an American outdoor footwear company. We will be talking to the presentation filed on the NZX and ASX this morning.

Most of the numbers are in our reporting currency the New Zealand dollar unless when it is specifically mentioned that they are in Australian or US dollars. We are going to focus today on the acquisition of Oboz. But I would like first to highlight a few key points on the first half FY18 results presentation. So, if you go to slide two of the FY18 first half presentation, financial highlights. We had a healthy first half FY18.

Our results are not materially different from what we announced to the stock market a couple of months ago with net profit after tax up 23% at 12.3 million dollars. Sales increased 4.3% and gross margin expanded by 170 basis points. Operating cash flow was up 6.9 million dollars. And we reduced our net debt by nearly 32 million dollars. Moving on to slide or to pages five, six, seven and eight and I'm going to be very brief there. Strategy update. Our strategy has not changed. It's all about designing innovative, distinctive and sustainable products that answer the functional needs of our customers going to the outdoors or on adventure travel. We keep putting a strong focus on continuous improvements while we are starting to execute on new growth initiatives. In terms of progress update, I want to emphasise the work we're doing on social media and digital marketing. Page seven, the objective being to make the Kathmandu brand more inspirational, to strengthen our brand authenticity and to engage even more with our customers particularly with our Summitclub members.

In regards to international on page eight, I also want to mention the strong performance we have been enjoying with GO Outdoors in the UK this European winter. GO Outdoors are going to expand our range to more products in the apparel and in the equipment category as well as to all stores. So, with both categories versus a limited number outdoors this winter and just apparel products. So, that's really great news that the performance is there and we're going to expand with GO Outdoors, a key outdoor retailer in the UK. Reuben is now going to talk about the results overview on page 11.

Reuben Casey: Thank you, Xavier. Starting on page 11 I'll just quickly run over some of these things. Obviously, the highlight is obviously strong net profit after tax growth of 23% of a 4% sales topline growth. And we'll look at sales on slide 13. You can see Australia with some solid growth. And we struggled in New Zealand really due to a lack of clearance particularly in Q1. But saw that really turnaround from Christmas onwards as evidenced by the trading that we've provided today.

And online sales is now at 8% of our total sales book. The highlight of the result is really the gross margin on slide 15. We had a good result on gross margin, which is a combination of selling more at full price. So, a much better clearance in current sales mix, and also achieving a high average selling price overall.

If we look at the cost of doing business in slide 16, probably one thing we're really pleased to see coming through was labour efficiencies and our distribution centre in Australia after investing in automation in that facility last year.

And segment results starting with Australia on slide 19, as I said, the labour efficiency helped us get a good result there along with the improvement in gross margin and operating level age that we were able to get.

Moving through to quickly through to the balance sheet on slide 24. Again, happy with how the balance sheet has turned out for the half. Net debt a long way down last year and actually not much different to what we will finished the full year at.

And a good management of inventory again as a further decrease in stock per store and the improvement in the stock terms still chasing down that two times stock term target.

Dividend this is the 14th dividend being declared which is the same as last year and that will be paid on 22nd June, 18. Back to Xavier.

Xavier Simonet: Yes, moving on to page 29 which is the trading update. So, we also got a trading update this morning for the six weeks ending the 11th March 2018. Same-store sales growth has accelerated at plus 7% for the group with a very strong performance in Australia at plus 7.5% and a much-improved performance in New Zealand at plus 5.1% after experiencing a negative same-store sales growth in the first half of this financial year. This growth was certainly not driven by discounts as we also seriously improved our gross margin.

For the month of February, our gross margin was up 460 basis points on last year. So, let's move on now to what is probably the most interesting piece of news for our shareholders today which is the acquisition of Oboz. And we have prepared a special presentation. We're very excited about this acquisition. So, starting on page four-Transaction Summary. So we've signed a binding agreement to acquire Oboz Footwear LLC, an American outdoor footwear brand from Montana for the base consideration of $60 million USD and an earn out of about $15 million USD.

Reuben will talk later about founding and equity raising. But I would like first to highlight the strategic rationale on page five. I mean first and foremost, Oboz is a great business and a great company with annual sales of around $30 million USD and an average sales growth of 40% over the last few years, which is fantastic. The acquisition of Oboz is totally on strategy for Kathmandu, and there are two aspects there that I'd like to insist on.

First, it is aligned with our strategy to accelerate international growth. We know that Australia is still growing and we still have a lot of potential there. New Zealand is a mature market for us and we need to find new growth opportunities. Well, acquiring Oboz is consistent with our international growth strategy to pursue a lower risk wholesale model because Oboz is a pure wholesale player. It also advances Kathmandu's transformation from being currently an Australasian retailer to being a more global outdoor apparel and equipment brand.

So, it's totally on strategy because it helps us accelerate our international growth. It's also totally on strategy because it is consistent with the need we have to diversify our company as well as reduce risk and volatility for our business. And this is something we've highlighted in the past which is we're going to focus on core, but at the same time we exposed to one geography Australasia, a couple of product categories one season and retail which is a tough business at the moment particularly in Australia.

So, by acquiring Oboz, we are in many ways doing that. Oboz and Kathmandu are complementary businesses. First, we're talking about the complementary markets with Kathmandu's core market being in Australasia and Oboz's core market in North America. The opportunity exists to leverage the two brands as well to access new international markets. So, complementary in terms of market, complementarity as well in terms of product categories. Footwear is a category where Kathmandu is doing well.

But by acquiring Oboz we are acquiring also their expertise, their experience, their relationships in North America. And footwear is a less seasonal product category, particularly compared with insulation and wind wear, two of our core categories. Footwear also drives increased customer visitation frequency to stores. Basically, footwear drives footfalls to the stores. So, footwear is a complimentary product category for us.

And the last point is the acquisition of Oboz going to help us in terms of having complementary channels to markets. It would provide the opportunity to leverage the wholesale experience of Oboz and the retail expertise of Kathmandu. So, complementarity, ability to diversify our risk profile and to reduce our risk and volatility. As Oboz will continue to operate independently and separately from Kathmandu, there will be minimal integration costs.

Moving on to page six, pro forma combination analysis. This page illustrates the diversification created by the acquisition of Oboz on a number of key fronts. First, geographically by acquiring Oboz, our international sales become meaningful accounting for nearly 10% of total group sales. Our footwear business doubles as a percentage on total sales and accounts to 16% of total group sales. Our wholesale business becomes material, and with the reduction of our exposure to Australasian retail. So, this slide clearly highlights why this acquisition makes total sense and ticks a number of boxes.

Just going to give a very quick overview of Oboz. So, Oboz is an authentic outdoor brand. The company was started in 2007 by John Connelly in Bozeman Montana, the getaway to the Yellowstone National Park ecosystem. The name stems from the combination of the words outside and Bozeman. So, Oboz, a great authentic name. Oboz has grown rapidly to become one of the top outdoor footwear hike brands in North America with distribution through major outdoor retail chains.

It's motto is 'True to the Trail'. Oboz designs, sources and sells footwear for backpacking, hiking, travel, winter and general outdoor wear. Its core values are very similar to Kathmandu and we share a lot of common value, passion for the outdoors, strong brands. Kathmandu and Oboz are authentic, inspirational, distinctive and technical brands. We share also our focus on product innovation, customer centricity and last but not least, sustainability. We have had at Kathmandu a relationship with Oboz for ten years as we have been selling their footwear in our stores. More than just a normal business relationship, there is a high level of trust and confidence between our two teams.

Moving on to page nine, distribution channels and core product categories. In terms of distribution, authentic outdoor retail is the core commercial channel with Oboz. With REI, the iconic outdoor retailer in the US being its number one customer.

But also, other key North American outdoor retailers like MEC in Canada, LLB, EMS and authentic outdoor retailers like online outdoor retailers like backcountry.com and Moosejaw. When I look at the distribution of Oboz, wholesale distribution of Oboz in North America, I think that's a dream distribution for Kathmandu if we expand into North America. So there is certainly the opportunity to look at -- to expanding in to North America leveraging the expertise, the experience, the success story and the relationships of Oboz.

In terms of product categories, the Oboz business currently is primarily in hiking shoes. But there are other categories Oboz is expanding into or can potentially expand into such as sandals, trail running shoes and used footwear. So that is a bit of a view on the Oboz business. And once again we're really excited about this acquisition because it ticks a lot of boxes and it makes sense strategically for Kathmandu. So I am now going to hand over to Reuben to talk about the financial aspects.

Reuben Casey: Yeah. So, from slide ten, financial profile of Oboz. You can see the strong revenue growth, company growth rate 40% from 2013 through to 2017. And crucially it's been profitable growth. Oboz turned to profit in the year three of their existence. And they've been very careful as a business as they're growing to grow profitably. And you can see '16 to '17 and improvement in the EBITDA margin. Gross margins are at about 40%. And when we look at our '18 earn-out target of 7.1 million EBITDA, we're very comfortable with that. The sales year-to-date plus forward order book exceed 80% of the required revenue target to hit that.

If we move through to look to the transaction summary on slide 13., we could fund this acquisition purely by debt, but we decided on the balance of just keeping our capital structure more flexible to raise some equity, and we are doing that by a placement of around 40 million dollars with a share purchase plan to follow capped at eight million with the ability to take two million dollars in oversubscriptions.

The placement is underwritten and a fixed price of $2.16 per share and these need to placed today to Goldman Sachs for coordinating. In terms of funding, as I said, we could have funded it by debt, but we decided to raise some equity so that the balance is funded by debt which we have committed funding in place for the acquisition.

Xavier Simonet: Good, okay. So, I just wanted to again say how excited we are to acquire Oboz. It makes sense strategically. It makes sense for Kathmandu. It's the right time for us to acquire a company. It's also the right size of company. And it's going to help us accelerate our growth internationally as well as reduce our risk profile and volatility. So, happy to take questions now, Stephanie.

Operator: Absolutely. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. And we'll take our first question from Chelsea Leadbetter with Forsyth Barr. Please go ahead.

Xavier Simonet: Good morning, Chelsea.

Chelsea Leadbetter: Good morning, guys. So, just if I can start with a couple of quick questions on the actual existing business. Firstly, when we're looking at the trading update and, obviously, it's been a particularly strong start. But you know, it's very early days into the season still. I mean what do you think has really accelerated the same-store sales growth and what's really driving the strong performance so fat and how do we think about this going forward?

Reuben Casey: Yeah, I think just to be clear as well we put the trading update out in the interest of full disclosure given we're doing an equity raise. You know, typically we wouldn't do that. We saw a momentum shift from the week leading into Christmas onwards. So we had a reasonably strong finish to the first half and it's carried through to now. And it wasn't through extra discounting or additional promotions or anything like that. We just think it's kind of by-product of the work we've done on our brand and innovative products and it's coming to fruition.

Chelsea Leadbetter: Okay and I guess just on the international segment, your existing sort of markets you've talked a bit about GO Outdoors and, obviously, that's going pretty well. How is the Germany sort of relationship going there and how do we think about that channel as well?

Xavier Simonet: Yeah, so, we are starting right now the tests with SportChek in five key stores. So, we're going to see how it goes. And I can't comment on that because we are just starting with spring summer with them. The difficulty I suppose with SportChek is what's been in the press in Germany over the last few weeks which is SportChek as a company is not doing great. So it might be a challenge for us. So it's just something we want to keep in mind at this point in time. But we're just going to run the test as scheduled.

Chelsea Leadbetter: Okay and just a last couple of questions and then I'll have someone else have a turn. With respect to the acquisition, can you give us a bit more colour on -- you talked about the fact that it's sort of a strong brand and I assume that's in the North American market. Can you talk a bit about brand metric in the sense of how you quantify that and what is the key competitor, the landscape looks like over there?

Xavier Simonet: Well, I think what speaks for itself is the performance of Oboz in key outdoor retailers in the US. Oboz is the number one hike brand in REI, which is a key outdoor retailer, authentic outdoor retailer in the US and has been the vendor of the year for the last two years as well. So, I think it speaks for itself. It's a small company, they are very competitive and can actually perform very well in the context of the big brands that are distributed through these channels in North America.

Chelsea Leadbetter: Okay and just thinking about the growth profile outside of what you have disclosed in the presentation. I mean from here, how do we think about your priorities to both Kathmandu as a brand in the international market and also, Oboz, and there's clearly a lot of optionality in plans there. I mean whether your starting to see growth?

Xavier Simonet: Sure. So, the core focus for us is to continue focusing on our core businesses. We want the Kathmandu team and the Oboz team to continue focusing on our core businesses because that's vital for us. At the same time, we will leverage each other's strengths to work on a few initiatives. So, basically, three initiatives which are how can we launch Kathmandu in North America using the expertise, the experience, the capabilities and the relationships of Oboz.

And as I said before, the distribution of Oboz in North America is the type of distribution we'd love to have for Kathmandu, real outdoor distribution. So that's one initiative. The second initiative is to optimise the Oboz business in Australasia. We've got a pretty good business with Oboz in our stores. But we've never really pushed the brand to its limits because it was not our own brand and we were not getting the vertical margin. Now that it's one of our brands, we're going to look at other opportunities to grow the brand in Australasia in our stores and potentially outside of our stores as well.

And the third initiative is I think we can leverage the two brands to find more growth or accelerated growth internationally in key markets. And I am still very focused on the UK where we're starting to make a breakthrough, but also in Germany which is our core outdoor market. And I think in terms of leveraging costs and sharing costs but also in terms of leveraging the two brands, there is the opportunity to have serious discussions with retailers in other parts of the world.

Chelsea Leadbetter: Okay and just a last question then. So, you think from -- you sort of needed this piece of the puzzle to get greater access to relationships. Is that kind of one of the factors as to what sort of dictated – well, it looks like a fairly hefty price would you say?

Xavier Simonet: Well, we know that building up the wholesale network of customers takes time. And we've always said it's taking time. It's going to take time to build up the international business based on a low risk, capital light wholesale model. Well, what we expect Oboz to do for us is actually accelerate that growth because they have got relationships already that we can leverage in North America. So, it's a factor of acceleration for us.

Chelsea Leadbetter: Okay great, thank you very much.

Xavier Simonet: Chelsea, there's no change to the strategy. It's just that Oboz is giving us an opportunity to accelerate.

Chelsea Leadbetter: Yeah, sure.

Xavier Simonet: Thank you.

Operator: Our next question is from Andrew Steele from First NZ Capital. Please go ahead.

Xavier Simonet: Good morning, Andrew.

Andrew Steele: Yeah, good morning. Good morning guys. I guess as to start on the transaction, I mean you highlight the opportunity within the existing Kathmandu network for I guess leveraging Oboz to a greater degree. I mean given you already stock the product, then how much more opportunity is there? And I guess that's putting aside, you know, entering the product into new retailers?

Reuben Casey: Yeah, we haven't put numbers to that yet, Andrew. Oboz currently is about 10% of our footwear sales. So, similar level to the Keens or Tevas in our stores. And that's off quite a small number of options. I think about five options in men's and women's. And so, we do see an opportunity to expand there, especially with the vertical margin that should deliver some benefit. But we haven't factored that into any of the kind of modelling or the deal.

Xavier Simonet: And also, there's the opportunity to fast promote the brand much more than what we've done in the past.

Andrew Steele: Okay and just in terms of the I guess looking the other way the opportunity that presents Kathmandu to leveraged Oboz through its existing wholesale relationships and what -- I mean you've talked about the -- you know, a meaningful increasing the opportunity. Again, I guess can you provide some sort of I guess colour as to I guess timeframes as to how that sort of accelerates your development to that wholesale opportunity, and just put a few more numbers around it?

Xavier Simonet: It's probably the early days to talk about timeframe and commit at this point in time. We know that the discussions we're going to have with US retailers are going to be probably easier now that we've got others on board and we've got the capabilities and the relationships and the expertise and experience. But I would certainly not commit to any timeframe at this point in time.

Andrew Steele: Okay, that’s good. And just two more just on the risks that are highlighted in the presentation. You know that they're going through a process of formalising existing contracts, and the key man risk, how have you taken the actions of lockdown key employees or looking to do that? And I guess related to the key contracts that you're looking to put in place, what sort of timeframe should we sort of expect for that to be completed if it does happen?

Xavier Simonet: So, yes, we’ve formulated contracts with key employees in terms of retention. I must say as well that key employees at Oboz are really excited to work with Kathmandu and they are really happy to be part of the journey. As far as the business relationships Oboz has with key retailers, of course, our terms and conditions are in place with those retailers. But the US doesn't work on a contractual basis, it's a wholesale basis.

So, every season customers place orders, commit to orders. The stock is delivered and then there's replenishment. There's no long-term commitment from US retailers to taking specific volumes of stock. And this is actually the same in Europe as well.

Reuben Casey: And in terms of the factory, the manufacturers, the suppliers that we would certainly look to put contracts in place relatively quickly with those facilities, particularly around corporate social responsibility. So, we just roll them into our established Kathmandu process for that, because I think that’s really important.

Andrew Steele: Okay, that’s great. And just one query on the results. I mean given the strong growth margin performance, I would expect thinking about the same-store sales trend through the half that there would be I guess a price improvement built into that which implies I guess a volume deterioration in probably both Australia and New Zealand. Can you give some colour around that sort of price volume split for the Australia and New Zealand markets and how that has evolved going into the most results of trading update that you've provided today?

Reuben Casey: Sure. I mean we have the average basket size increase of 2.5% in the first half. That's Australasia. In terms of volumes, we sold less clearance volumes but more current volumes in both New Zealand and Australia. And it was just that we -- and just that in Australia, the transfer from current to clearance was a lot more significant which we still managed to drive a good sales growth outcome. So, I guess there was volume decline but only in sales of clearance products.

Andrew Steele: And I guess how has that evolved that I guess relationship between volume and price in the trading update?

Reuben Casey: I haven't got that on hand, sorry, Andrew.

Andrew Steele: Okay. Thanks guys. That's all from me.

Xavier Simonet: Thanks very much, Andrew.

Operator: And our next question is from Julian Mulcahy with Evans & Partners. Please go ahead.

Xavier Simonet: Julian, good morning. How are you?

Julian Mulcahy: Hi, guys. Good, thank you. Just a question on the management of the Oboz business. So, does the, I have assumed the founder leaves after a year now? And how does the brand going forward, is it a standalone unit? Do Kathmandu guys go there or how do you sort of see it playing out?

Xavier Simonet: Yeah, so John Connelly the founder and one of the shareholders of Oboz is going to stay for 18 months at least. Might want to stay for more because Oboz is his baby and he is totally passionate for his business. So that's one answer. The second answer in terms of the way we're going to manage the business is going to be run independently because it’s in North America, it's a different channel, it's a different geography, it’s a different category, so with a lot of autonomy.

But at the same time, we will work together today to leverage each other's strengths and we will work together on specific projects of growth that I've mentioned before.

Julian Mulcahy: Right and so will you get the US tax rate, the new lower rate?

Reuben Casey: We will get that. Say again, sorry.

Julian Mulcahy: Right. Will you get the 20% tax rate in the US because it will remain a US entity?

Reuben Casey: Yeah, we will but that’s actually a federal -- there’s a state tax on top of that. So, it works out -- the effective tax rate works out to be almost identical to New Zealand. So, around net 28%, US 27.5.

Julian Mulcahy: Okay and in terms of rolling out Kathmandu product into the US, would you use the Oboz sales force or would you bring Kathmandu people over there? What’s the plan there?

Xavier Simonet: So, we would certainly use the capabilities of Oboz. But I can’t say more at this point in time. We just made the announcement today. I mean we've got an idea of what we want to do, but certainly I can’t share now.

Julian Mulcahy: Right, okay. And was it a competitive bid process?

Reuben Casey: Oboz had been approached by another buyer. But we've been talking to them for a couple of years about this possibility and so they approached us or gave us the heads up that now is the time to talk and have more serious discussions, so.

Xavier Simonet: Yeah, I mean on both sides, on Oboz side and on our side, we've always talked about potentially doing more and strengthening the relationship. So there was a strong willingness on both sides to make something happen. At the end of the day, it's a full acquisition, which is great. But we've had discussions with them on that for a couple of years.

Julian Mulcahy: Right and just finally, did Oboz have much in the way of sales into Europe?

Reuben Casey: No, not a lot there sales in Europe are about the same level as the sales into Kathmandu sales. It's very small compared to their US business. But the European outdoor footwear market is actually bigger in Europe and the US. I think its 4.8, not much, think its for $4.8 billion. So, we see that potentially in the medium term down the track, an opportunity for growth for Oboz as well especially if we are working together.

Speaker: Okay. Thank you, guys.

Xavier Simonet: Thank you, Julian.

Operator: As a reminder, it is a star one if you would like to ask a question. We'll take our next question from Wassim Kisirwani from Deutsche Bank.

Xavier Simonet: Good morning, Wassim.

Wassim Kisirwani: Guys just a question back on a sort of risk profile of the Oboz business. Can you sort of talk to customer concentration at all and you know also maybe just tying it in with you know the growth rate that this business has achieved? It seems to have had acceleration sort of from 2015 onwards in terms of sales. Just interested in what would underpinned that that change in the growth trajectory for the business?

Xavier Simonet: I can answer the first part of the question on customer concentration. So, REI is their number one customer accounting for --

Reuben Casey: Around 45%.

Xavier Simonet: – around 45% of their sales which is a lot. But at the same time REI owns 35% of the outdoor market in the US. So, it's kind of okay.

Reuben Casey: And in terms of the growth. I mean they have gone through a process with REI where they have established more doors. So, REI is their very first customer. And so, they had a limited number of doors for a while because they have managed to expand a number of doors, also expand the product range. And along with finding new channels, so shoes stores is one that's growing for them. And the Moosejaw and the backcountry.com type channels where it was online which is actually the fastest growing channel for outdoor footwear as well in the US. So, that's really helping them accelerate their growth in the last couple of years.

Wassim Kisirwani: Great and then just a question on the sort of the ANZ business and always interested in your thoughts on the sort of competitive environment. Clearly you are performing very well and you know growing your share of the market but just generally we're interested in whether you're seeing anything that stands out in that competitive environment, any particular sort of changes?

Reuben Casey: Well, probably obvious one is Mountain Designs closed all their stores. So, they went through a process that looked like they started the target process in November. So, in November, December, January they have very aggressive discounts up to 70%, up to 80% sometimes in their windows. So, we kind of struggled with that a little bit over the Christmas period in Australia. And obviously, the other changes you have noticed Macpac has been brought by Super Retail. So, it looks like they close the Rays stores and convert into Macpac.

Xavier Simonet: So, there's certainly an element of consolidation happening in the outdoor sector in Australasia.

Wassim Kisirwani: Right. And just finally on that sort of margin outlook at the gross margin level. Obviously, a good sort of recovery now over several periods, just interested in where you see that, you know, the potential for that sort of gross margin, whether you see sort of ongoing room for it to continue driving that incrementally higher across the ANZ business?

Reuben Casey: Yeah, we'll certainly look to keep improving that if we can. We've had a few -- a bit of tailwind with the hedging rate improvements over the last couple of years, and also a very significant impact of having less clearance, obviously, an improved gross margin that time in the first half. But it will -- I mean we are still sticking to our 61 to 63 range at this stage. But obviously, we'll always be trying to get on top of that range rather than the bottom.

Wassim Kisirwani: Yeah, great. Thank you very much, guys.

Xavier Simonet: Thanks, Wassim. Have a good day.

Operator: And there are no further questions. However, as a reminder it is star one on your telephone keypad if you would like to ask a question. We'll pause for just a few more moments.

Xavier Simonet: Thank you very much, Stephanie, for helping us.

Operator: There are no questions in the queue at this time.

Xavier Simonet: Okay. Thank you very much. Have a great day.

Operator: And this ends the call today. Thank you very much.