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Operator: Good day ladies and gentlemen, welcome to the Kathmandu full year results analyst call.  
Today's programme is being recorded. At this time, I would like to turn the conference over to Mr. Xavier Simonet. Please go ahead sir.

Xavier Simonet: Thank you Lisa. Good morning everyone and welcome to the full year FY18 results presentation for Kathmandu Holdings. My name is Xavier Simonet and I'm the CEO of Kathmandu. I'm joined on the call by Reuben Casey, our Chief Financial and Operating Officer. 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 dollars, US dollars or British pounds.

So if we move to slide or page number two, the financial highlights. FY18 was the most successful year Kathmandu has ever had and I'm pleased to announce a record year for sales profit, operating cash flow, and full year dividend payout. We achieved record sales of nearly \$500 million up 11.7% on prior year. We also delivered record profits with our net profit after tax up 33% at \$15 million. EBIT was up 31% at \$74.6 million. Operating cash flow was also at a record high. Gross margin improved 140 basis points highlighting the quality of our products and promotions. Increased full price sell-through and higher average selling prices contributed to the improvement. We have also pay out a record full year dividend of 15 cents per share.

Moving on to slide five, strategy update. We defined key growth strategies for Kathmandu three years ago; those strategies have not changed and remain a constant focus for us. The first strategy, our core strategies around products, we are a product led and design led company and

our core strategy is to design original sustainable engineered and adaptive products. Customer centricity is also key aspect of our strategic approach. We bring to market products that offer solutions to our customers who go to the outdoors and on adventure travel. Our products are technical and answer the functional needs of our customers, but we also want them to be beautiful, full of colours and stylish.

We then have two buckets of key growth strategies, continued improvement initiatives and growth initiatives. Continuous improvement strategies are about optimising our existing assets, strengthening our brand equity, engaging with our customers, particularly online and through social media and digital marketing, improving the customer experience through all channels by having a channel agnostic approach and driving cost efficiencies with a relentless focus on cost control. New growth initiatives are about leveraging step by step the international opportunity for Kathmandu and by strengthening the Oboz business.

Moving on to slide six, brand elevation and customer engagement. Kathmandu is a design led, product led, and brand led business with a customer centric approach. I would like to highlight here a couple of key competitive advantages we have. The first one is our brand distinctiveness built on our expertise in adventure travel and our New Zealand roots. We believe we've got a strong brand story here. The second one is Summit Club loyalty program and the opportunity to inspire customers partly through social media and digital marketing.

In FY18, we got a global award at ISPO, the outdoor trade show in Germany for one of our new jackets. It's the second gold global award awarded to Kathmandu in two years for its product innovation and creativity. We also continued to increase the number of Summit Club members to 1.9 million and they contribute to 70% of our company sales, and we strengthen the intense focus we have put on social media and digital marketing with over 15 million video views and an impressive increase of 57% in social media reach, largely putting a lot of emphasis at the moment on data analytics, personalisation of emails, and predictive intelligence. Reuben.

Reuben Casey: Yeah moving on to slide seven enhancing store network and in-store experience. Same store sales growth is always a key focus for us and put simply we need to have our stores where our customers are with the right product assortment and provide our customers a great in-store experience. So with this in mind we're always innovating in the way we present product in store to support promotional campaigns or key brand focuses. We've carried out lighting upgrades and we've invested in refurbishments of stores as required. We're also reviewing our store locations to make sure we're in the place where we want to be. It's not something we can change in the short term, but our store network is constantly evolving and improving as opportunities arise.

Our store teams work really hard in store to provide a high level of service with a focus on engaging with customers to best meet their needs, and since listing, we've invested over \$100 million in our Australasian store network and will continue to invest where the return on investment justifies.

Moving on to online, and it's important to point out we believe online support stores and stores support online. We definitely see where online sales are strong and a catchment of the store performance is also strong. And online sales grew by 36% throughout FY18 with online sales now accounting for 9.4% of Kathmandu sales and the online channel requires constant investment and following on from our fulfilment capability investment via the Australian DC, we've been also upgrading our platforms in the second half of FY18 with this project due to be completed in November. We've seen some really strong online growth during FY18 and actually have delivered improved customer service levels, but at lower cost and have improved our customer conversion. I hand back to Xavier.

Xavier Simonet: Moving on to slide nine, International. Let me summarise in a few words the key strategic pillars of our international expansion strategy. First, the commitment to a capital like model with limited risks for our shareholders trying to step-by-step build up a sustainable business that delivers profitable growth over time. We want to prioritise long-term partnerships with key retailers and

focus on authentic outdoor distribution through wholesale and online to build up the Kathmandu brand equity, and obviously we want to leverage our points of distinctiveness, particularly our New Zealand heritage, our expertise in adventure travel, and our focus on sustainability.

In terms of the actions we have initiated, the acquisition of Oboz gives us a possibility to leverage the infrastructure, wholesale expertise and relationships of Oboz. We have also appointed a North America Vice President of Sales and Marketing for Kathmandu and we are preparing for range presentations to major US customers over the next few months. We will also be exhibiting at Outdoor Retailer, the major outdoor trade show in Denver in November for the first time.

In Europe, our partnership with Go Outdoors in the UK continues to strengthen after good sell-throughs during the winter and summer seasons leading to expanded assortment and foot distribution for FY19. Direct-to-consumer sales partly through our European website have also enjoyed a healthy growth.

Moving on to slide 10, which is on Oboz. So we acquired Oboz back in April this year. Oboz is a very successful business and a great brand. We plan to continue growing Oboz sales in North America through controlled distribution and with a focus on long-term partnerships, especially with REI. Oboz is also step-by-step expanding into adjacent footwear categories like sandals, which should fuel growth for its business in the future. We also obviously see opportunities to drive the Oboz business further in our Kathmandu stores in Australasia and step by step to leverage our two brands when expanding internationally.

The acquisition of Oboz is a significant step forward for our group and advances our transformation from an Australasian retailer to a more global business. It provides us with the opportunity to accelerate our international growth and diversify our product mix, geography, and channels to market. Kathmandu and Oboz are well aligned in core principles of brand development, innovation,

quality customer service, and sustainability. We are really excited by the opportunity to develop complementary international wholesale channels for both the Oboz and Kathmandu brands.

Reuben Casey: Sustainability is something that both Oboz and Kathmandu share a passion for and it's a core part of how we operate the business and really is integral to our culture. We were honoured during the year to achieve Fair Labor Association accreditation and this is something we've been working hard on for the last few years. It provides an independent validation of our ethical sourcing and actually will help us get better in the future in that area of the business. Protection of human rights in our supply chain is something our team and customers are extremely passionate about and which we are absolutely committed to. Also increasing the use of sustainable materials in our products is a key focus for the team, and during FY18, 6.7 million plastic bottles were recycled into Kathmandu products, which is an increase of 3.9 million last year. We're constantly improving our efforts and sustainability to not only ensure we're being the best we can be, but also hopefully inspire our customers, suppliers, and team members to do likewise.

Xavier Simonet: Slide 13 results overview, let me give you a few numbers. Kathmandu group sales increased 11.7% in FY18, which includes Oboz. Kathmandu sales were up 8.1%. Our gross margin increased to 63.4%, which is above our indicative range of 61 to 63. Operating expenses reduced as a percentage on sales and include \$4 million of one-off items, which are \$2 million of transaction costs for the Oboz acquisition and \$2 million for a one-off bonus for our team members who are not on an incentive scheme. Indeed to acknowledge the performance of our team and the contribution that all Kathmandu team members have made to the continued success of our company over the last three years, we will pay this month a one-off \$1,000 cash bonus to permanent employees who are not already on an incentive scheme, and the profit numbers are what are mentioned earlier in the presentation, record numbers.

Moving on to slide 15 and 16, sales and same store sales. Sales in Australia grew 9.6% while they were down 2.3% in New Zealand. Online delivered another year of strong growth up 36% on prior

year boosted by investments made in capabilities and the emphasis we're putting on data analytics, personalisation of emails, and predictive intelligence. From a marketing point of view, engagement with our customers through social media and digital marketing is a strategic priority for our company. The online channel accounts for 9.4% of Kathmandu total sales close to the 10% target we actually set a couple of years ago.

In terms of same store sales growth, a key performance indicator for total group same store sales were up 4.4% at constant rates, which is a very healthy result. Australia had the best performance of the last five years with the same store sales up 7.5% on prior year. Same store sales declined by 2.4% in New Zealand in FY18. We experienced positive same store sales in the second half of the year in New Zealand, but in the first half, same store sales were negative resulting from less clearance stock available to our stores, but sales were achieved at a higher margin. Reuben.

Reuben Casey: Moving on to gross margin on slide 17. This is really a highlight and FY18 with an improved mix of full price sell-through versus clearance, which had a really positive impact, particularly in the first half, and we have a long-term target of 61 to 63 and we ended the year above this. We're always going to strive to better our target through design in product to achieve the required gross margin, improving our promotional effectiveness, and working on sourcing deficiencies, and we do see inflationary pressures from raw materials, labour rate, and currency in the medium term future.

Moving on to cost of business on slide 18, operating expenses were really well controlled. We made some really good progress in key areas, so one being sales productivity through our stores and an operating effectiveness meant as a percentage of sales, retail labour and retail rents were lower, and as mentioned earlier, the Australian DC investments and automation meant we're able to deliver improved customer fulfilment at a lower cost, and we continue to refine our promotional spend to make sure it was targeted at the right channels to deliver an improved RI.

Moving on to slide 19, the earnings summary, you can see the recovery that continued since FY18 to achieve - FY15 sorry to achieve our best year on record.

Moving on to slide 21, Australia, so as Xavier mentioned earlier, same store sales has been a focus for us and we had identified Australia as a growth opportunity for the business and we've really seen that come through strongly this year having our best year in five years in terms of sales performance. We opened four new stores during the year and relocated four stores successfully, one example being Chadstone, which was moved to a much better location and delivered a very significant sales uplift.

Gross margin improvement and strong sales growth really assisted the EBIT margin improvement in Australia. And in New Zealand as Xavier mentioned, we returned to same store sales growth from second half following the first half, which was impacted by clearance, but we did control our operating expenses pretty well and given the sales decline, we maintained our EBIT margin pretty close to what it was last year, and only just the one new store during the year as it is a mature market for us, but we continued to invest in refurbishment and relocations where the ROI justified it or opportunities arose.

Moving on to slide 23 on Oboz, just wanted to reiterate that the December 2018 calendar year EBITDA earn out target \$7.1 million is still on track and would recognise the full contingent purchase price value in our financial statements. The cultural alignment engagement between Kathmandu and Oboz has been excellent and as you can see the pro forma growth for Oboz has continued their success of the past few years and we look forward to more growth in the future.

Just briefly on slide 24, rest of the world, wholesale continued to grow during FY18 with a positive flow-on effect to our direct-to-consumer sales via our own website, and we look forward to more from that in the future.

Cash flow on slide 25. Operating cash flow was a record, another record achievement in FY18 with a healthy cash conversion and with that healthy cash that we generate, we took the opportunity to invest in our capex on slide 27. So we invested more into our store network, particularly via refurbishments in FY18 versus FY17 as leases came to renewal, and we will continue to invest in infrastructure as required. We've got some significant projects on the road map, which includes completing our online platform upgrade and upgrade of our merchandise planning system, a new warehouse management system, and ERP system upgrades, so there are some chunky investments to come.

Now if we look at our balance sheet on slide 28, we're pleased to end the year following the Oboz acquisition with a lower debt level than we had targeted where we are showing increased inventory levels year end, which includes Oboz obviously, and we rectified some stock shortages identified and core product and some structural increases related to international.

On slide 29, the year-end dividend has been declared at 11 cents bringing the full-year dividend to a record high NZ15 cents. This is fully imputed for New Zealand shareholders and fully franked for Australian shareholders, an eligible record date of 19 November 2018.

Xavier Simonet: Thank you. As a summary, I would say that like any industry, the outdoor industry will remain immensely competitive. We believe that sustainability is a key point of differentiation and a strategic competitive advantage for both Kathmandu and Oboz. At Kathmandu, we believe with passion that more than just the retailer, Kathmandu is a great brand. Our own in-house design and product team in Christchurch, New Zealand designs original sustainable engineered and adaptive products. We're excited about strengthening the partnership with Oboz, in Kathmandu and Oboz. We have two great authentic brands with significant growth potential in North America, Europe and Australasia. Thank you very much for joining the conference this morning and I now invite questions, Lisa.



Operator: Thank you. Ladies and gentlemen, if you have a question, please press star one on your telephone keypad. Once again, it is star one if you have a question. We'll take our first question today from Wassim Kisirwani of Deutsche Bank.

Speaker: Good morning Xavier, Reuben and well...

Xavier Simonet: Good morning Wassim.

Wassim Kisirwani: Can I just ask a question on trading. Obviously a very strong second half, but at the June sort of update, it looked like you were trending stronger than you've perhaps finished the half, just sort of with lower comps in the gross margin looks like it's dipped. Can you just give us some flavour for how that sort of period played out through that winter sale and then what sort of what you saw over August and September?

Reuben Casey: Yeah sure, so we, one of the things we've been trying to do over the last few years is avoid the kind of end of sale rush if you like, so try and encourage people to buy earlier in the sale versus later, and we really saw that strongly in our June period, so we did expect July to soften a little bit and that's what we saw in Australia, so we actually achieved more sales in the front of the sale, which actually assisted our gross margin achievement, so that's really what we expected. In terms of September and August, we haven't put any numbers out. We've got a kind of different promotional calendar, which is not unusual for this time of the year, so, but there's nothing to say either way.

Wassim Kisirwani: Okay great and then just on the capex road map there, are you able to just sort of put some numbers around what you're expecting some of those initiatives to cost?

Reuben Casey: Yeah, we are still bit to spend around that \$20 million mark for capex overall, but just for the mix of capex may change, we do expect on IT projects probably \$5 to \$4 million a year for the next two or three years.

Wassim Kisirwani: Okay, great, thank you very much.

Xavier Simonet: Thank you Wassim.

Operator: Our next question will come from Andrew Steele, FNZC.

Xavier Simonet: Good morning Andrew.

Andrew Steele: Good morning guys. Just first one from me on gross margin. Reuben, you noted the increasing cost pressures that you're expecting. I was just wondering within the context of you reiterating your 61 to 63 longer term gross margin range and what was a pretty strong FY18 margin, how should we think about I guess that core gross margin going into FY19?

Reuben Casey: Yeah, so FY19, I mean the first half currency is pretty neutral, second half, but I think it's flatter to down slightly, but we do see cost pressures coming through. As I've said in the past, we are always trying to hit more than 63 if we can, but I'm just not quite sure how it's going to play out in the FY19, so but we do expect to be at the top of the range.

Andrew Steele: Okay, great, thank you. And just on inventory obviously first half '18 was impacted by I guess a mixed effect from reduced clearance activities. Looking year-on-year, how does I guess that sort of clearance inventory stock look like going into FY19 versus the pcg?

Reuben Casey: Yeah, it's about 5% above last year in New Zealand and Australia was pretty flat.

Andrew Steele: Okay. And just finally on wholesale and noting the inventory build related to Oboz and international, is there I guess any expectation for greater momentum or I guess of burgeoning momentum in that side of the business going into FY19 or is it expected to be still pretty slow burn?

Xavier Simonet: We're picking a slow burn and a gradual process. We're getting ready in the US to present the range to wholesale customers. Obviously, it's new territory for us. We're going to leverage the Oboz relationships, expertise and capabilities, but we don't know yet how it's going to perform.

Reuben Casey: Yeah, I mean and there's some element we do actually take a bit of a punt sometimes on some of the stock levels because otherwise you end up having to take them out of the New Zealand and Australian allocation, which can cause issues on the other side.

Andrew Steele: Excellent and that's all from me. Thank you, guys.

Xavier Simonet: Thanks Andrew.

Operator: Once again, ladies and gentlemen, it is star one if you have a question. Up next is Jeremy Simpson, Forsyth Barr.

Xavier Simonet: Morning Jeremy. How are you?

Jeremy Simpson: Good morning. Hi guys. Yeah, good thanks. Yeah, well done on for a good year. Just a couple of three sort of questions from me. You sort of in the commentary alluded to sort of nearing your maximum number of stores in Australia and you're mature in New Zealand, so you dialling back a little bit on the 180 store target? Is that fair or was that still kind of a top-level number?

Reuben Casey: It's still a top-level number, but I guess the point is that we want to make sure we balance that out with online growth. If online growth continues to accelerate then obviously that may change in the future, and it's becoming harder to find sites where the return on investment justifies the new store capital outlay, so we're just making the point that we will take opportunities as they come out, not chasing the goal to get to 180 as soon as possible, which is no different to what was did in the past really.

Jeremy Simpson: Yes, sure. In terms of Oboz at the last result you mentioned that you, there weren't formal contracts in place with wholesalers and manufacturers and wholesale partners and manufacturers. Have you started working through those or made progress there?

Reuben Casey: There is no formal contract in place with customers, but that's the way the business is conducted in the US, so that's not something we can actually really change. The seasonal terms of trade are agreed each season, but not formal contracts as such.

Jeremy Simpson: Okay and just lastly in terms of the online business, can you just elaborate a little bit more about the comments you made around analytics and personalisation strategies and then also what sort of enhancements you expect to the offer, overall offer with the new system coming in in November?

Xavier Simonet: Yeah so, I mean we've got 1.9 million summit club members, which is a great asset and we pretty much know who these customers are and what they do and what they're like and we've got a history of transactions with them. They come to our stores a bit more than 2.5 times a year, and we want to use analytics and personalisation of emails to talk to them directly and personally on what they like in terms of sports activities and outdoor activities and engage with them, excite them about the brand and the right products party when we launch new products and we've got activities and drive them to our stores whether it's our online shop or bricks and mortar stores. From that point of view, we take a very channel agnostic approach. We actually don't mind where

the customer shops. We just want to give them options, and we're open 24 hours a day, seven days a week for business. It's up to them to choose. We just want to engage with them, inspire them and get them excited about our products and our brand and also talk a bit more about sustainability, which is a big focus for us, but we, I think we've been a bit shy and we've not talked too much about it. Sustainability is certainly a key focus we want to communicate to our customers about.

Jeremy Simpson: Great, and then - and then you, what sort of enhancements are you expecting with the new system? Was it just more detail on what you're doing now?

Reuben Casey: It's, partly it's a necessary upgrade, but the one thing it will provide us is more optionality around being able to offer customers varying levels of fulfilment, so enables through click and collect we can offer, we can offer urgent fulfilment urgent deliveries for both from store versus the warehouse, so it just gives us more flexibility going forward.

Jeremy Simpson: Great. Thanks a lot guys. That's all for me.

Xavier Simonet: Thank you very much.

Operator: A final reminder everyone it is star one if you have a question. We'll pause for just a moment. At this time, there are no further questions.

Xavier Simonet: Thank you very much Lisa and have a great day.

Operator: Thank you. Once again, ladies and gentlemen, this does conclude today's conference. We would like to thank you all for your participation. You may now disconnect.