TRANSCRIPTION

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Operator
Thank you for standing by and welcome to Kathmandu Holdings Limited investor conference call. All participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Xavier Simonet, Group CEO. Please go ahead.

Xavier Simonet
Thank you, Amanda. Good morning, everyone, and thank you for joining us on today's presentation of the Kathmandu Holdings results for the 2020 financial year. My name is Xavier Simonet and I am the CEO of the Company. I'm joined on the call by Chris Kinraid, our Chief Financial Officer. We'll be talking to the presentation slides on the NZX and ASX this morning. Unless otherwise specified, all financial numbers are in NZ dollars.

We will begin on slide 2, which briefly covers our response to COVID-19. It has certainly been a unique second half. Like all companies, we have had to navigate very challenging conditions. Our response to COVID was swift and strong in order to manage the impact of the pandemic on our business.

Following the release of the FY20 half-year results, we undertook a $207 million equity raising to pre-emptively fortify our balance sheet, reduce net debt and provide liquidity. In conjunction with this, we enacted structural cost reduction initiatives that accelerated synergies across the Group and underpinned around $15 million in annualised cost savings.

Following the initial lockdowns, the Group exhibited a strong recovery. Retail sales performed strongly, driven by changes in consumer trends towards outdoor and recreation activities. Online sales, in particular, have shown strong growth as customer preferences shifted. We have sufficient capacity to meet the extra demand we've experienced. Our prudent operational and capital management and the strong cash generating ability of our brands will support future returns.

Turning to slide 3, I now want to discuss in more detail the impacts we saw from the COVID-19 pandemic and how we have responded. The overall FY20 revenue impact from COVID-19 is estimated at around $135 million, with $80 million attributed to retail and $55 million attributed to wholesale. The largest contributor to this was the full global retail store closures during the initial lockdowns. Other factors, such as reduced demand for travel-related products, also weighed down sales during the lockdown period. Rip Curl wholesale sales were also affected.

The impacts of COVID-19 are still ongoing in some regions. Melbourne stores continued to trade during July but with impacted footfall due to a second wave of infections, and the current lockdown continues to impact store performance. Retail stores in Hawaii and wholesale sales in Bali also remain impacted by travel restrictions, as well as airport stores.

In response to COVID-19, wages were reduced for senior management and office support staff through the lockdown period. $207 million of capital was raised to strengthen the balance sheet, and covenant waivers were negotiated with our banking syndicate. Rental negotiations are ongoing, with around 70% of stores settled with landlords. Our relationships with our landlords remain strong.

In terms of working capital, inventory orders were deferred, non-essential capital projects delayed, and dividends have been suspended for FY20. The Group also benefitted from various government assistance programs, with wage subsidies passed directly through to team members.

Moving to slide 4, this provides a quick overview of the strengths of each of our brands. Each of our brands, Kathmandu, Rip Curl and Oboz, is distinctive and iconic and has strong financial fundamentals, with highly credible and technical products and a loyal customer base. We believe that now, more than ever, strong brand identity is critical. We certainly have these for our three brands, with category-leading products, and we believe that each brand is well positioned for continued growth in the future.

Slide 5 shows a breakdown of our global footprint. Following the Rip Curl acquisition, the Group has expanded its global presence. Rip Curl has a presence in all six key geographies, whilst Kathmandu and Oboz have a presence in Australasia, North America and Europe. The wider network allows for diversification of both geography and seasonality and provides greater opportunity for each brand to expand.

Moving onto slide 6, we have seen a rapid acceleration in online sales during the COVID-19 lockdown period in particular, as consumer preferences changed along with their circumstances. Our ongoing investments into omni-channel were invaluable during this period, providing us with the capacity and capability to rapidly scale up to meet the fast-growing demand.

Kathmandu online sales growth during COVID-19, from April to July, was 96% above last year, delivering a step-change in online penetration from 10% in FY19 to more than 18% of direct-to-consumer sales in FY20. Likewise, Rip Curl's online sales growth for the same period was 115% above last year, and its online penetration increased from 6% to more than 10% of direct-to-consumer sales.

I will now hand over to Chris to cover our financial results.

Chris Kinraid
Thank you, Xavier. I'll just move onto the Group results on slide 8. Our statutory results include the adoption of IFRS 16. For comparability, we've excluded the impact of IFRS 16 from our underlying results. Total sales increased to $801.5 million, reflecting the addition of a nine-month contribution from Rip Curl since being acquired. Other financial metrics were lower, with underlying EBITDA of $83.4 million, reflecting the impact of COVID-19 on trading.

Government wage assistance across geographies contributed a net benefit to operating expenses of circa $16 million. Operating expenses also include restructuring savings of $4.7 million in FY20. As support office synergies are realised, this will increase to an annual saving of $15 million for the full year of FY21. Statutory depreciation includes a $76 million depreciation charge for IFRS 16 right of use assets.

Moving onto slide 9, cash flow. We again delivered a strong operating cashflow of $93.1 million, despite the challenging trading conditions. Working capital management was a key contributor to this, with a $56 million turnaround as we managed our inventory orders throughout the COVID period. In addition, non-essential Capex projects were delayed, and dividends were suspended in order to further strengthen our balance sheet. Net interest paid on borrowings have increased due to the Rip Curl acquisition.

Moving onto slide 10 and our balance sheet. We are well positioned following the equity raise, which we will discuss on our next slide. We managed our inventory prudently in the second half. Our current inventory position is well placed in this uncertain demand environment, with low Kathmandu clearance stock levels. Current liabilities are elevated by rent accruals of circa $15 million at the end of July, which are pending final agreements with landlords on rent abatements.

On slide 11, we can see a breakdown of our net debt level over the past three years. This has been brought down to $9.4 million at the FY20 year end, supported by the capital raise, as well as cost savings and structural cost reductions implemented during the lockdown period, and a temporary suspension of the dividend. These cost savings allowed the business to generate $63.8 million cash in the second half, despite the COVID-19 lockdowns.

Currently, the Group complies with all debt facility covenants, as well as we have waivers remaining in place for FY21. There is an ongoing review of the appropriate facility structure going forward. Reinstatement of dividends is anticipated in FY21, dependent on trading conditions and covenant positioning.

We will now talk through the segment results and performance of each of our brands. Moving to slide 13, Rip Curl, we can see the P&L contribution for the nine months since acquisition. The impact of COVID-19 on revenue is estimated at circa $70 million, including continued impacts on wholesale accounts and retail trade globally. Sales were 17.1% below the comparable nine-month period last year.

Lockdown disrupted the wholesale sell-in period for the upcoming northern hemisphere Autumn/Winter season. Order books for subsequent seasons, I'm pleased to say, are improving. Operating expenses include restructuring savings of $2.8 million in FY20, delivering annualised savings of $8.8 million.

Additional COVID-19 related debtor and inventory provisions are circa $7 million and are included in operating expenses. During these nine months of ownership, Rip Curl generated $34 million of cash despite the impacts of COVID-19.

Turning to slide 14, we are pleased to say that we saw positive signs post-lockdown, with direct-to-consumer same-store sales growth at 14.4%, adjusted to not include stores that were unable to open this year for a comparable week. This compares to 2.6% pre-lockdown.

Strong sales performances in the post-lockdown period were assisted by government economic stimulus and by the increased opportunity for surfing while consumers worked from home. Demand for technical surf products has been particularly solid during and since lockdown.

Australia benefited from a successful winter season, with post-lockdown adjusted same-store sales growing at 17.7%. The European summer saw record wetsuit sales as interest in surfing increased, with adjusted same-store sales up 20.6% post-lockdown. Mainland USA retail same-store sales adjusted were up 12.3% post-lockdown. However, Hawaii continues to be impacted by the 14-day quarantine travel restrictions, with adjusted same-store sales down 73.3%. Other tourist locations and airport locations remain significantly impacted.

Rip Curl online sales, on slide 15, showed rapid acceleration for the Rip Curl brand. Pre-COVID-19, from August to March, online sales grew at 12.9% compared to last year. During COVID-19, online sales grew at 115% as consumers shifted to purchasing via our online platform in response to lockdowns and restrictions. This has delivered a step-change in online penetration, from 6.5% of direct-to-consumer sales in FY19 to 10.6% in FY20.

Over the past four years, the compound average growth rate in online sales has been 48.6%. We will continue to leverage our expertise on the Kathmandu business to help further improve Rip Curl's online platform.

I will now hand back to Xavier.

Xavier Simonet
Thank you, Chris. Moving onto slide 16, this showcases a few of our flagship Rip Curl products launched in FY20. A key tenet of Rip Curl, and actually all of our brands, is technical excellence and innovation, which allows us to provide the best possible products for our customers. The Mirage 3-2-ONE boardshorts and Playa Blanca Collection swimsuits have won awards at the Surf and Boardsports Industry Association Awards. The E-Bomb E7 wetsuit has also been developed in conjunction with World Champion surfers.

Slide 17 covers how we have reinforced the Rip Curl brand through social media, advertising these products and engaging current and potential customers. Our campaign for the E-Bomb E7 was particularly successful, with 135 posts across Facebook, Instagram, Twitter and YouTube, generating a total of 6.4 million views and 112,000 comments, likes or shares.

The latest video on the Rip Curl YouTube channel has garnered 284,000 views and increased Instagram following for ripcurl_women to 257,000. High-profile professional surfers and other influencers have also been endorsing Rip Curl products through their social media. We expect social media to continue to play an ever-increasing role in promoting our brands.

I'll now hand back to Chris to take you through Kathmandu's financial performance.

Chris Kinraid
Thank you, Xavier. Onto slide 19, outdoor segment, and it shows Kathmandu's P&L for FY20 pre-IFRS 16. The COVID-19 revenue impact we estimate at circa $50 million, due to the full retail network store closures in April and Melbourne lockdown restrictions in July. Gross margin was impacted by higher input costs as a result of foreign currency, increased mix of clearance sales, and promotional activity through the winter season. Operating expenses include restructuring savings of $1.9 million in FY20, delivering annualised savings of circa $6.2 million for FY21.

Turning to slide 20, total sales for Kathmandu were down 11.6% for Australia, with all 117 stores closed during lockdown, and down 7.2% for New Zealand, with 48 stores closed during lockdown. Demand for core warmth and leisure products post-lockdown was strong, which contributed to strong same-store sales growth post-lockdown of 6.9% compared to pre-lockdown growth of 1.2%. However, I just want to point out demand for travel-related products was reduced, contributing to $17.5 million to the sales shortfall year-on-year.

Moving to slide 21, online sales accelerated for Kathmandu in FY20 as consumer preference moved to online during lockdown. Our omni-channel strategy leveraged the strength of the brand and infrastructure, and our platform investments allowed the team to scale up and meet record online demand. We also introduced same-day UBER delivery to selected areas.

Online sales growth pre-COVID, from August to March, was already trending strong, 30% above previous corresponding period. While online sales growth during COVID-19, from April to July, was 96% above the previous corresponding period. Online penetration increased significantly, from 10.1% of direct-to-consumer sales in FY19 to 18.5% in FY20. Conversion rates were also tracking above last year and spiked during COVID-19. Over the past four years, the compound average growth rate for online sales has been 29%.

I'll now hand back to Xavier.

Xavier Simonet
Thanks, Chris. Turning to slide 22, we have continued to actively engage our customers through the Summit Club loyalty program, driving personalisation of the customer relationship and building loyalty. We currently have 2.2 million active Summit Club members with membership having grown at a CAGR of 8.1% over the past four years. These members represent over 70% of total Kathmandu sales and spend an average of 27% more per transaction than non-members. Our personalised marketing automation program for Summit Club members has grown 39% over the past year. The success of our ongoing customer engagement program can be seen through our net promoter score which stands at 72 across all groups.

Slide 23 covers our digital marketing strategy. Due to travel restrictions imposed by COVID-19, we switched to a local adventure focus and launched Adventure Near, Not Far, encouraging the safe return to local travel. We have also launched a sustainability virtual Q&A series, educating customers on how to live more sustainably in their everyday lives. Our digital marketing campaigns are all about building brand relevance and engagement with our customers.

Slide 24 showcases some of our recent product innovations. We have created longline and synthetic versions of our most popular insulation styles to meet consumer demand. We've also developed products focused on sustainability, for example using Bionic DPX, a unique fabric containing polyester made from recovered plastic ocean waste which is used in our Moana pack range.

I will now hand back to Chris to take you through the Oboz financial performance.

Chris Kinraid
Thanks, Xavier. Yes, moving on to Oboz. The COVID-19 revenue impact we estimate at around $15 million sales. Pre-COVID for eight months to March were up 4.6% year-on-year. However, sales from April onwards have been down 52.8% year-on-year due to retail store closures amongst Oboz's wholesale customers. Penetration and market share have been strong in key customer online trading sites such as REI and Zappos. Sales to online wholesale customers grew in FY20 despite COVID-19. Oboz will launch its own direct-to-consumer online trading site in this financial year.

Operating expenses increased pre-COVID-19 with Oboz investing in a new third-party distribution facility with improved capability. Also, Oboz has invested in strengthening the brand and product team for future growth. From March onwards, these operating expenses were carefully controlled in response to COVID-19. I will now hand back to Xavier.

Xavier Simonet
Thank you, Chris. Moving on to slide 27, Oboz has been growing its range of products since acquisition. Our new product launches include the Arete collection, the Sypes collection, which has been exclusively launched with Kathmandu and REI, the winter-focused Bridger collection and Oboz's first ever cause-benefitting footwear line to benefit Yellowstone Forever. The Oboz brand is being developed through a new Truist influencer program that has been implemented in conjunction with the launch of the True to the Trail podcast. This has contributed to a 36% growth in Oboz's social media audience.

Other highlights of Oboz brand and the marketing campaigns of Oboz include the opening of an online training portal for retail education and the donation of insoles to COVID-19 frontline workers in Bozeman where Oboz is based.

I would now like to take you through the Group's growth strategy and outlook for FY21. Starting with slide 29, being a good corporate citizen with a strong focus on sustainability remains a key priority for our Group, partially on circular economy principles across all aspects of our business. An ongoing goal for our Group is to achieve net zero environmental impact by 2025. In addition to this, we are ensuring that all our direct suppliers meet our minimum expectations on their social and environmental impacts. Rip Curl has scored a B+ in the ethical fashion reports for the second year running and will continue to strive towards improvement along with Kathmandu and Oboz.

We have focused on using recycled materials across our brands. Kathmandu uses 100% sustainable cotton, recycles plastic bottles through its Repreve product ranges and has moved to solution by fabrics to save water. Rip Curl uses 30% recycled plastic in bottles and uses Forest Stewardship Council certified recycled paper-free tags, while Oboz launched the Sypes and Bozeman collections made with recycled materials and algae.

Diversity has also been a strong focus of our Group. Kathmandu has obtained the Rainbow Tick certification in New Zealand and the Oboz team's gender diversity has improved with 41% female representation among staff now.

Moving on to slide 30. Our strategy. Our long-term strategy has not changed throughout this challenging period and, in fact, it has been further reinforced. We are a global outdoor and action sports company underpinned by iconic brands and technical products with a focus on sustainability and customer satisfaction. We have been building a portfolio of brands that provides diversification across geography, channel, product and seasonality which will allow us to meet global year-round demands of customers in the outdoor sports and lifestyle categories.

We will then leverage this portfolio, delivering operational excellence in sourcing, supply chain, and systems; accelerating digital transformation and driving margin expansion through the synergies, complementary expertise and core capabilities of our brands.

By maintaining a relentless focus on core customers and delivering solutions to their needs such as through the development of technical, differentiated and sustainable products and by accelerating expansion of the direct-to-consumer business, we will be able to grow these brands to a global scale and enhance customer loyalty.

Throughout this whole journey, we will remain true to our values. Sustainability is part of our DNA and is ingrained in everything we do. We will also embrace diversity and inclusion in the workplace and build strong ties with local communities.

Moving on to slide 31. Slide 31 shows the six key pillars that anchor our operating model. We adopt the decentralised model, our structure and operating principles ensuring that our brands, Rip Curl, Kathmandu and Oboz have a high level of autonomy, accountability and agility within the Group requirements. This decentralisation doesn’t mean that our three brands operate exclusively from each other. Rather, the brands collaborate to leverage their respective strengths and build on each other's competitive advantages over time.

Organic growth is a priority for our Group, and we will commit significant resources to develop each of our brands. We aim to provide a seamless customer journey and experience through relevant commercial channels, and we will accelerate the implementation of digital technology into all areas of the business to fundamentally improve how we operate and deliver. This will all be done with a goal of engaging core customers and driving long-term loyalty to our brand.

Turning to slide 32. Our key strategic priorities for FY21, as previously discussed, remain unchanged. We will continue to develop our brand and product, implement our online and digital acceleration, and drive customer loyalty and personalisation, utilising data analytics.

In terms of outlook, COVID-19 has continued to impact key markets at the start of FY21. Melbourne, Auckland, Hawaii, Bali and international airport stores continue to be affected by closures. However, given past lockdown retail performance in FY20, we expect demand to return in these markets when stores reopen.

As a result of the COVID-19 disruption, same store sales performance over FY21 to date has been mixed. However, this is a short and non-indicative trading period.

Wholesale orders books for both Rip Curl and Oboz are improving following the initial COVID-19 lockdown impact. Pleasingly, the lockdown conditions appear to have increased participation in outdoor, beach and surfing activities. Our brands are well positioned to capitalise on this trend as well as changes in consumer preference towards online channels. However, we should caution that risk to consumer sentiment remains given the potential economic impact of the COVID-19 outbreak.

This now concludes the formal part of today's presentation. I want to thank all our teams around the world for their resilience, their flexibility and their motivation. I also want to thank all our shareholders for their support through this challenging year and for taking the time to join us today on this call.

I would now like to open up the call for questions. Amanda.

<u>Operator</u>

Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you're on a speakerphone, please pick up your handset to ask your question.

Your first question comes from Andrew Steele from Jarden. Please go ahead.

Xavier Simonet
Morning, Andrew.

Chris Kinraid
Hi, Andrew.

Andrew Steele
Good morning, guys. The first one for me is just on the forward order book for wholesale. Could you give a sense for the decline that is expected in 1H 21 and then what you're seeing to date in 2H 21 and how has that improved over 1H?

Chris Kinraid
Yes, I'll speak to that - without giving too much guidance out, but speaking more for the 2H, we're seeing it moderate back to pre-COVID levels or towards pre-COVID levels for 2H. With first half, it's hard to get a full view because you're getting infill orders as we go through the period so I can't really give too much more than that.

Andrew Steele
Just to clarify, you're not sacrificing price or margin, I guess, to achieve that outcome in 2H?

Chris Kinraid
No.

Andrew Steele
Great. Just on the cash flow for the year ahead, obviously this is a period which is - sorry, FY20 was a period that saw inventory deferrals and other working capital measures. You also deferred some Capex. Should we be thinking about a reasonable working capital outflow as that normalises into FY21? And just on the Capex, could you give us some sense as to what your current expectations for Capex are for the period?

Chris Kinraid
Yes. For working capital, I expect it to hold relatively flat across the Group, so it's the balance then between all our brands, so I'd say it's more relatively flat. As mentioned, there is some rent accruals on the balance sheet as we're going through negotiations with landlords which will cycle out, but overall, wouldn't be a significant shift in working capital from the reported position. Capex is between $25 million and $30 million.

Andrew Steele
Great. Thank you. You've made some comment on the rent negotiations. Could you just comment as to what outcomes you're seeing to date now that you're a large way through that? What sort of rental improvement are you seeing on average and how are you looking to shift lease structures from - without the steeper plus margin to more of a variable nature?

Chris Kinraid
With rent negotiations, we are about 70% through concluding those. Overall, I mean obviously it's mixed across a whole variety of landlords we're dealing with, which is a big tail with Rip Curl and then the big guys in Australia. I mean largely it's similar to code, we can call it, across the Group. In terms of store changes of the leases, we're not seeing a significant shift in percentage of sales across the whole portfolio. That's still largely at this stage standard contracts.

Andrew Steele
Okay great and just one last one from me, given your current hedging profile and inventory balance, could you give any comment as to your expectation for growth margins heading into this financial year?

Chris Kinraid
Yes, so first half expect to be relatively flat with the reported number for the full year and second half we'll see some recovery as we get some benefit from hedging, but yeah, that's maybe a percentage point, 100 basis points, second half.

Andrew Steele
That's great, thank you very much guys.

Operator
Thank you. Your next question comes from Guy Hooper from Forsyth Barr. Please go ahead.

Guy Hooper
Morning guys.

Xavier Simonet
Hi Guy.

Guy Hooper
[Inaudible].

Operator
Pardon me, this is the operator, Guy, your line is not clear.

Guy Hooper
Sorry, can you hear me now? Hello?

Operator
Pardon me, Guy, please try calling back in. Your next question comes from Marni Lysaght from Macquarie, please go ahead.

Xavier Simonet
Morning Marni.

Marni Lysaght
Good morning Xavier, good morning Chris. Thanks for answering my questions. My first question just relates to the current trading, you're speaking about it being quite mixed, can you just give us some more granularity, what are the points of strengths? Is it online, is it stores in locations where, I guess, the infection rate's quite low and you're not really seeing the strict restrictions?

Xavier Simonet
Yes, sure. It's mixed because of the diversification in geographies between brands and also, I mean as you know, lockdowns are not over and I think the existing lockdown in Melbourne is having an impact also on the rest of the economy in Australia. So it's a mixture of factors. We talked about Hawaii which is an important market for Rip Curl, Hawaii is still closed to tourism because of the mandatory 14-day quarantine, and in California and Europe have had a great summer, but it's kind of close to tourism and in Australia, borders are still closed and there's still a lockdown in Melbourne. So it's really mixed factors, explaining why the performance is mixed.

Chris Kinraid
Yes and for first, for this period, it's not a significant trading period, so that's an important point to note as well.

Marni Lysaght
Yes and just within wholesale, I guess I think that's so just to understand and it's a question I've had for some time, is like how much of it is skewed to independents versus large clients? Also within wholesale, can you talk maybe about geographically, is a lot of it in Maui or in Bali or is it quite spread?

Chris Kinraid
Yes, it's quite spread. REI is significant for Oboz, which we've always said before, but for Rip Curl it's quite a wide spread, so they don't have a significant customer concentration, which is quite helpful. Then it's spread, geographically diverse, so it's not concentrated just in Hawaii, obviously it's a key market for surf, but so is California and Florida, so it's geographically dispersed, as well as through France as well.

Marni Lysaght
That's clear. Just on the PPP disclosure in note 4, is there anything to add to it in terms of timing or how we should be thinking about it?

Chris Kinraid
No I can't, nothing more to add at this stage on that.

Marni Lysaght
Yes and a final one from me is just about I guess the surfing competitions and you've spoken about before to investors about the emergence of wave pools, is that being impacted by COVID moving forward and are surfing competitions resuming globally?

Xavier Simonet
Not yet, it's not fully clear when it's going to resume and what's going to happen, but for sure competitions have been impacted, yes. In terms of, ability to go to the beach and surfing, it's really dependent on the country and on the lockdowns as well. But overall, I think we can say that there's been an increase in participation in surfing on the coast of California, the coasts of Europe and the coasts of Australia over the last six months.

Marni Lysaght
That's great. Just a final one, just about the online sales moving forward, how do you plan to sustain, I guess, the strength that many retailers saw over the pandemic and how are you thinking about that? In your disclosure you've mentioned that you're quite confident on your omni-channel capabilities, how should we expect the performance?

Xavier Simonet
Yes, part of the online sales growth comes from the fact our stores were closed, so I think part of this demand will come back to the stores when they reopen or when they've reopened. But I think part of the change in terms of online growth is structural and will continue to accelerate. We've made serious investments in digital capabilities and also infrastructure over the last few years to be able to fulfil orders and we're going to continue investing beyond digital change, but also we want to make sure we continue interacting with our customers and engaging with them through digital and create a great experience through all our channels, so brick-and-mortar stores and online.

Operator
Thank you. We do ask that at this time you limit your questions to two per person to allow other participants to ask questions. Your next question comes from Mark Wade from CLSA. Please go ahead.

Xavier Simonet
Mark, good morning.

Mark Wade
Good morning, team.

Chris Kinraid
Hi, Mark.

Mark Wade
In your commentary, you're talking about that increased participation in outdoor activity post-COVID. How long might that last? How do you better position your business to try and capture that and then really extend that trend?

Xavier Simonet
Yes. I think there are a few aspects I want to mention. The first one is of course as soon as lockdowns are over, people just want to go to the outdoors, the beach, the surf, the mountains and the bush and on their way they will always find a Kathmandu or a Rip Curl store, whether it's a bricks-and-mortar store, a wholesale store or online. That's what we experienced after the first lockdown. We reckon that after the second lockdown it's going to be pretty similar. I think there's also a more structural change in terms of the focus people are going to have moving forward on their health, wellbeing and our activities. Whether its activities related to surfing, to beach sports, outdoor activities and mountains, our activities are going to continue growing based on the impact of COVID and the willingness of people to be healthy and fit.

Mark Wade
Following up, how do you feel each of the brands are resonating with your customer base at this point in time and what can be done to try and reinvigorate them more? I see your net promoter score is at 72%, which is great for Kathmandu. I looked on Google Trends, which is crude, but the figures there suggest Rip Curl has been pretty flat. I know you've only owned it a short time. Your Summit Club member numbers are flat; you haven't really held onto that interest spike you normally get over the winter sales. So, there's some mixed messages there. How do you feel the brands are going?

Xavier Simonet

No, I don't see there's a mixed message. I think there has been huge disruption, and we've been impacted by the disruption, but I think we've got really loyal core customers for each of our brands. Throughout the winter in Australia you could see that sales of Rip Curl wetsuits just skyrocket; it was a great winter for Rip Curl in Australia. It was a great summer in California and in Europe with core customers but also tourists coming to the stores and buying online. I think actually the COVID pandemic has shown that our brands are strongly relevant and offer the right products to their core customers and that there's going to be the opportunity in the future with a focus on health and fitness to drive more growth. Obviously, we've been seriously impacted by the store closures, absolutely.

Chris Kinraid
Kathmandu also had a very strong winter season as a whole across both Australia and New Zealand comparative to previous years, so I think we're very happy with its positioning.

Operator
Thank you. Your next question comes from Julian Mulcahy from Evans and Partners. Please go ahead.

Xavier Simonet
Julian, good morning. How are you?

Julian Mulcahy
Hello. Good, how are you going? First, with my two questions, I need to be very careful I don't get cut off. Firstly, with the cost synergies, I assume that most of it just was heads and where you had duplicated functions. Is any of that assuming any revenue synergies yet or that's yet to come?

Chris Kinraid
Yes, that's a cost synergy, right, Julian. Obviously, there is opportunity through revenue synergies which take longer to drive, but it is a cost synergy in costs restructuring.

Julian Mulcahy
Right, okay. With the acquisition of the Rip Curl brand, a key part of it was getting access to the huge wholesale network. What's the timing on actually seeing Kathmandu product into the Rip Curl network?

Xavier Simonet
There's no guidance on that, Julian. As you understand, the whole business has been disrupted by COVID like many geographies and many other businesses and for sure we are going to revisit that.

Operator
Thank you. Your next question comes from Rodney van Royden, private investor. Please go ahead.

Rodney van Royden
Hi, everyone. Thank you very much.

Xavier Simonet
Good morning, Rodney.

Rodney van Royden
Thanks for taking a question and acknowledging the Kathmandu team and shareholders, well done. My two questions I'll just keep broad because of the two. First is the net profits after tax. So, bottom line, can you talk about how much you're doing and focusing on improving the margin or at least being cognisant of the fact that your expenses are increasing faster than your sales at this time and particularly also around hedging and how that's affecting the bottom line too, please?

Chris Kinraid
I wouldn't say expenses are increasing faster than sales. It was more of the COVID impact on sales had the impact and we've restructured costs for expenses. A bigger thing we often look at for margin is to manage the average selling price and then design to price or design products for a margin. Obviously, our product teams work towards those tasks, so that's what we’ve actively done.

Rodney van Royden
Great. Then the second question on the growth aspect. Obviously, you've had the Oboz and the Rip Curl acquisitions but now what are you doing to focus on just building what you've currently got?

Xavier Simonet

Yes. We've got three great brands, Oboz, Kathmandu and Rip Curl that have got the same ethos around adventure. We're going to continue focusing on what we've done, which is focus on brand differentiation and product innovation for the three brands on online and digital acceleration and we're going to accelerate on investment in that area and also on loyalty, personalisation and data analytics.

Operator
Thank you. Your next question comes from Craig Byrne from Craigs IP. Please go ahead.

Xavier Simonet
Good morning.

Craig Byrne
Good morning. Just wondering whether you could take me through - good day, good day. Just wondering whether you could take me through the net debt number in terms of what happened around inventory. I was expecting quite a bit higher number in terms of the inventory. Did you manage to cancel quite a bit more than you were expecting earlier in the year or was it just sell-through was better? Could you just give us a bit more colour around that?

Chris Kinraid
Yes, a mix of both. We didn’t cancel significant orders it was more deferred. So, we pushed them out. The teams on both - all three brands, did a great job in managing that inventory number. So, credit to them.

Also, sell-through was stronger than we expected through the winter trading period for Kathmandu was particularly strong. So, we got through our clearance stock very well, as well. So, it was more of the working capital thing for that. As well as there’s a bit of, as I said earlier, to do with the finalisation of our rent. So, we’re carrying a bit more rent accruals on the balance sheet, as well.

Craig Byrne
Okay. Secondly, in terms of Oboz. I know there have been the double-digit revenue growth story. I know it’s been impacted by COVID like everyone else. But pre-COVID it was growing at 4% this year. Is this something that’s short-term. It’s very much an early stage growth story. Is this something we should expect to go back to double-digit top line growth?

Chris Kinraid
Yeah, I think part of that was we always signalled that first half wasn’t impacted because we didn’t have a big slew of products introductions. With the second-half, there was introduction of Bozeman and the Sypes collection, unfortunately timing with COVID. So, we’d seen some very strong selling before COVID hit, in terms of that double-digit growth. So, expect as things normalise, we can return to a reasonable growth level.

Operator
Thank you, your next question…

Chris Kinraid
Depending on how - that depends on how COVID goes.

Operator
Your next question comes from Tony Mitchell from Ord Minnett. Please go ahead.

Tony Mitchell
Thank you for the presentation. Hi, how are you?

Xavier Simonet
Not too bad, very well, thank you.

Tony Mitchell
Good. I was just going to ask you, in light of the forthcoming budget, they’re bringing forward tax cuts by two years and there’s going to be a lot of stimulation. What impact will that have on you?

Chris Kinraid
I think it’s more anything that supports consumer sentiment is obviously going to be positive for us. But to what degree, it’s hard to tell. But for us, obviously, it’s important that the consumers are feeling confident. So, if that aids that, then that will be supportive.

Tony Mitchell
Also, the second question is, in light of the fact that in Victoria it's likely that the restrictions are going to be eased in Melbourne from Sunday. That should be very positive for you down there because you've got a lot of stores that have been closed, correct?

Xavier Simonet
Yes, that's right.

Chris Kinraid
Melbourne is a key market for Kathmandu, specifically. Xavier you're right.

Xavier Simonet
Yes, that's right. I think when stores re-open in Melbourne it's going to be great for the business, but also in terms of consumer sentiment. The fact that the number of COVID cases goes down day after day in Victoria is giving hope to everybody in Australia and should drive optimism.

Operator
Thank you. Your next question comes from Nelson de Mestre from - NAOS Asset Management. Please go ahead.

Xavier Simonet
Good morning.

Nelson de Mestre
Hi guys, good morning.

Chris Kinraid
Good morning.

Nelson de Mestre
My question is just the view to - I know you're in a bit of a consolidation stage, at the moment, coming out of COVID. But the view to Kathmandu store build-ups in America and the alpine outdoor skiing regions and the airports and the like. Because we know how well the brand works in New Zealand and Australia. I was just thinking there'd be a lot of those middle states with an outdoor lifestyle. I think there's a real growth patch there for you.

Xavier Simonet
Yes, that's right. But, as you said before, we're in a period of consolidation and we are currently re-optimising what we have and hoping that things are going to come back to a more normal level in terms of stores reopening. So, we're more in a period of consolidation at the moment.

Nelson de Mestre
So, moving forward, are you looking at FY22 or is it in your growth plans at all? Are you just happy to stick to the regions and may be just do online in America?

Xavier Simonet
At the moment, we're trying to optimise the assets we have, in terms of the channels and the brands. As the pandemic evolves throughout the world, we review our position.

Operator
Thank you. Your next question comes from Ray David from Schroders. Please go ahead.

Ray David
Thank you. Good morning. Just a question on your future store footprint. How are you thinking about allocating resources to new stores or the current store, given online is going at a much faster rate? As you said, it's probably a structural step-up in online sales relative to bricks and mortar?

Xavier Simonet
Two points on that. The first one is our brands are trying to give customers a consistent experience across all channels. So, we're trying to drive that experience through the online channel, but also our bricks and mortar stores. So, in that sense, we need to continue investing behind customer experience in our brick and mortar stores and not just online.

That's something we've always done. We've always invested in online capabilities and visual capabilities, but at the same time we've continued investing in our store portfolio. We continue to do that. Obviously, COVID is having an impact on everything. As always, we've been very disciplined and we're going to review the profitability of our channels and our stores and adjust our store portfolio to the profitability of the stores.

Ray David
Okay. You talked about brands being in line with the national code. Is there any indication that the balance of power is shifting somewhat to retailers or do you think, post-COVID, there'll be a return to standard negotiations with landlords where rent was escalating at CPI plus a fixed percent?

Xavier Simonet
We have strong relationships and long-term relationships with landlords and we're trying to build up long-term relationships with them. At the end of the day, both landlords and tenants need to make money in the good times, but also in challenging times like now.

So, yes, I think some things are changing. What it means in the long-term is difficult to define at this point in time. But, for sure, no one can ignore the impact of the current pandemic on businesses, absolutely. But we really trust that we have good relationships with our landlords and will be able to work together in the longer term to make sure it's a win-win situation.

Operator
Thank you. There are no further questions at this time. I will now hand back to Xavier for closing remarks.

Xavier Simonet
Thank you very much to everybody and thank you, Amanda. Have a great day.

Operator
Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

ENDS

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