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Moderator:

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Operator: Good day, ladies and gentlemen, and welcome to the KMD Brands half year, 2022 results release conference call. Today's conference is being recorded. Kindly be reminded that there will be no web questions taken today. Only OD questions shall be taken for today's call. For those who have questions, please dial into the audio to be able to ask your questions. At this time, I'd like to turn the conference over to Michael Daly, Group CEO. Please go ahead.

Michael Daly: Good morning, everyone. And thank you for joining us on today's presentation of the KMD Brand's results for the first half of the 2022 financial year. My name is Michael Daly and I'm the CEO of the Group. I'm joined on the call by Chris Kinraid, our Chief Financial Officer. We will be talking to the presentation lodged on the NZX and ASX this morning, unless otherwise specified all financial numbers are in New Zealand dollars. Today's presentation will begin with the introduction to our newly rebranded KMD Brands followed by the first half highlights, Group financials, brand results and we will conclude with our focus for the second half of FY22. Earlier this month, we rebranded to KMD Brands Limited with a refreshed corporate strategy and identity to drive the Group into the next phase of growth. The new parent company name and refreshed strategy brings our brands together under an overarching corporate identity and harnesses the company's evolution over the past 35 years.

Since the acquisition of Oboz and Rip Curl, we have been looking to distinguish the holding company from the Kathmandu brand. The change to Kathmandu brand is an outward sign of the transformation that has occurred within the Group in recent years and its future strategy while still acknowledging its history. With our rebranded name, we have also refreshed the purpose and vision of the company. Our purpose is to inspire people to explore and love the outdoors. I'd like to emphasize that all of our brands are focused on supporting, enhancing and encouraging activities for the outdoor consumer. Our vision is to be the leading family of global outdoor brands that are designed for purpose, driven by innovation and the best choice, not only for people, but also the planet. Moving to slide six, we consider our three brands, Kathmandu, Oboz and Rip Curl provide all the fundamentals for strong, long-term growth through their technical and innovative products, their global reach and diversification, capabilities across multiple geographies and channels and their strong base of loyal and active customers. KMD Brands as a parent company will bring vision and strategic guidance to enable Group synergies across brands through the sharing of technology, product research and development, and leveraging operational excellence to enable the best delivery of customer service.

We'll now cover the highlights for the first half of FY22. Moving to slide eight, I would like to first cover off our four strategic pillars. We are building a portfolio of global brands. We aim to continue to expand our global footprint as we invest in world class brands and customer experiences. We will elevate our digital capabilities by investing in Group digital platform to deliver a world class unified commerce experience. We are also leveraging and delivering operational excellence to all brands across shared Group support functions. Finally, we are demonstrating leadership across environmental, social and governance by transforming business culture and mindset. As we execute on our strategy, it is important for us to maintain balance sheet flexibility to support organic growth and potential M&A opportunities. On slide nine, you can see that during the first half of FY22, we successfully executed on all four pillars.

At a Group level we appointed the president of KMD Brands Europe to drive our international growth across multiple brands in that region. We implemented a new common loyalty management system across Rip Curl and Kathmandu in Australia and New Zealand. We also made key Group appointments in HR and commercial and determined the Group's ESG focus areas. In relation to Rip Curl, we continue to build our brand opening 10 new owned and licensed retail stores globally and sponsoring the first ever WSL finals held in the USA where the winner of the men's event was a Rip Curl surfer, Gabriel Medina. Reflecting our focus on elevating digital Rip Curl online sales grew by 14.5% with penetration increasing to 13.8% of direct-to-consumer sales. We demonstrated operational excellence by implementing the same point of sale system for Rip Curl and Kathmandu across Australasia. We also expanded a wetsuit recycling program to all Rip Curl stores in Australia and finalized the Rip Curl ESG strategy.

We made substantial progress at Kathmandu where we have completed the Europe forward winter 22 sell in with forward orders in line with expectations and we appointed a General Manager of international to drive growth. The execution of our digital strategy is evidenced by our 46.4% growth in online sales with penetration increasing to 21.2% of sales. Importantly, we are utilising Rip Curl's infrastructure to drive our international expansion into Europe and Canada and on the ESG front we've demonstrated success with Kathmandu winning the Deloitte New Zealand, Top 200 Sustainable Business Leadership award. In relation to Oboz, the demand for the brand and products has never been stronger and forward orders into FY23 support our medium-term growth targets. We have successfully launched online sales and implemented the Group's business intelligence tool. To promote employee engagement, Oboz established an employee volunteer program. Moving to slide 10. We will look at the impacts of COVID lockdowns on Rip Curl and Kathmandu store sales across Australia and New Zealand. Kathmandu lost nearly 7,000 trading days in Q1 due to COVID lockdowns compared to under 2,500 in Q1 one last year. And for a three-week period in August and September over 70% of the Kathmandu store network was closed. Pleasingly, Q2, same store sales rebounded 15.4% demonstrating the lost sales opportunity in Q1. Rip Curl lost over 4,200 trading days in Q1 due to lockdowns compared to 3,700 in Q1 last year. Q2, same store sales grew 3% following the lockdowns Q1. I'll now hand over to Chris to cover the financial slides.

Chris Kinraid: Thanks, Michael. Statutory results include the adoption of IFRS16 on slide 12. For comparability, the impact of IFRS16 has been excluded from our underlying results. Underlying sales decreased 0.8% to 407.3 million as a result of Q1 COVID lockdowns and the impact of

Vietnam factory closures on Oboz. However, sales rebounded in Q2 as Kathmandu and Rip Curl stores opened in Australasia. Gross margin was 130 basis points below last year due to elevated international freight costs and increased clearance mix for the Kathmandu brand. We continue to carefully manage our operating expenses during store closures while investing in the long-term value of our brands.

Moving to slide 13, you can see another demonstration of the COVID impact on Q1, followed by rebound and sales in Q2. As seen in the pie chart, we're building a global business, which is diversified by brand, sales, channel and by region. We expect to see further diversification going forward as we deliver on our international growth strategy. Online sales continue to steadily increase, rising to 17.4% of direct-to-consumer sales across the Group. Rip Curl online sales increased by 14.5%, while Kathmandu online sales were up 46.4% to now comprise of over 21% of DTC sales. Moving to slide 14, lockdowns in Australasia were more severe than last year and less government support and rent assistance were received impacting year on year EBITDA by approximately $35 million. Oboz was impacted by the Vietnam factory closures, with approximately half of first half orders unable to be fulfilled.

Our Q2 EBITDA was above last year, reflecting the rebounds in sales. Despite the transitory COVID disruption, the Group continued to invest in the long-term value of all three brands with an additional $14 million expenditure in the half to support brand marketing. Moving to our balance sheet on slide 15, we have a strong balance sheet, which is supportive of our organic growth initiative in any future M&A opportunities we have significant funding headroom and all debt facility covenants are comfortably complied with. Our long-term leverage target is approximately 0.5x net debt to EBITDA. Our inventory is $20 million above where it was in January 21 and has been managed to mitigate increased production lead times in international shipping delays. Our inventory balances in January traditionally include stock builds for the key Rip Curl Northern hemisphere summer and Kathmandu winter seasons. Moving to slide 16, the operating cash flow outflow was a result of the COVID lockdowns in Q1 and the inventory build to mitigate international supply chain challenges.

Q2 operating cash flow was strong reflecting the sales rebounds. Non-cash items include depreciation and amortisation of $15.7 million. The directors declared an interim dividend of $0.03 cents per share. A 50% increase from the NZ$0.02 cents per share from last year. Fully franked for Australian shareholders and not imputed for New Zealand shareholders. The record date is 15 June, 2022, and the payment date is 30 June, 2022. I'll now talk through the segment results and performance of each of our brands. Looking at Rip Curl on more detail in slide 18, sales were 2.7% above last year with strong sales growth delivered in the online and wholesale channels, Europe and Hawaii in particular achieved sales growth. While the rest of North America was impacted by wetsuit shortages and port congestion. Australia was impacted by store closures in Q1, however, rebounded in Q2. Direct to consumer same store sales decreased 1.5% overall, but increased 2.1% when adjusted for lockdowns. Q2 same store sales grew 3% and was 20.1% above pre COVID level pleasingly.

Sales through our online channel as I mentioned previously, grew 14.5% while wholesale sales grew at 16.1% with less COVID interruptions in the selling period compared to last year. Growth margins were impacted by a higher wholesale mix and elevated freight cost internationally. Moving to slide 19, we'll focus on the key Rip Curl brand initiatives. We sponsored the first ever World Surf League finals, which was the most watched day in the history of professional surfing with a record 6.8 million live views and Rip Curl team rider Gabriel Medina won his third world title driving both viewership and Rip Curl's claim on professional surfing in the USA. Rip Curl launched an interactive bikini fit guide, which promotes size inclusivity and offers a new shopping experience for bikinis, both in store and online. Saltwater culture is a move into the environmentally friendly production of quality surf products. We have a preferred fiber list driving sustainable solutions and collections featuring cotton through the better cotton initiative, recycled synthetics, FSC-accredited viscose and Bloom biobased EVA foam.

Moving on to slide 21 for Kathmandu showing the P&L for the first half. COVID lockdowns and travel restrictions impacted Kathmandu financials with total sales 0.8% below last year. In Australia sales of 4.3% above last year at constant exchange rates with over 5,000 lost trading days in the first half compared to 2,300 lost days last year in that first half. In New Zealand total sales were 4% below last year with nearly 2,000 lost trading days in the first half compared to only 266 lost days last half year. First half same store sales increased 15.9% when adjusted for lockdowns and 3% overall. There was a strong Q2 rebound with same store sales growth of over 15% following lockdowns. However, same store sales remained 21% below pre COVID levels due to continued restrictions in international travel, tourism and subdued CBD locations. Online sales grew 46.4% as mentioned earlier to 21% of DTC sales. Gross margin was impacted with an elevated mix of clearance, negative hedging impacts, as well as international freight costs. However, second half gross margins are expected to be above last year based on promotional plans, with higher international freight costs offset by the impacts of beneficial hedging we're currently experiencing. Our operating expenses were carefully controlled through lockdowns. Well, again, we continue to invest in the long-term brand growth. Our brand momentum is building due to our renewed focus on marketing and products.

Turning to slide 22. We have strong brand awareness with Kathmandu leading its category in Australia and New Zealand. We are leading the market for top-of-mind awareness, consideration, brand desire and digital visitation. Our customer base is active and highly engaged with a net promoter score of 76 with 2 million active Summit Club members. We continue to invest in long-term brand equity through our summer campaign, which has built an 'all season' perception, with increased consideration for summer contributing to building brand desire. We're driving key brand differentiators, especially amongst millennial consumers with significant digital impressions across Australia and New Zealand, and strongly positive social sentiment across paid and organic channels. We are focusing on having a year-round relevance with successful new summer specific product franchises launched and building on continued momentum in the camp category. This autumn and winter, we have launched a new ANY-time sweats franchise and we will continue to extend our Heli anoraks, and COZY-fleece franchises.

We're continuing to lead the industry in groundbreaking sustainability innovations with Bio Down, launching in winter 22. Winning the prestigious Outdoor Retailer Innovation Awards in January, a fantastic achievement. Moving to slide 24 on Oboz's first half performance, wholesale and online sales were heavily impacted by the three-month closure of factories in Vietnam compounded by international freight delays. Approximately half of first half FY22 orders were unable to be fulfilled and gross margin were slightly eroded due to international freight costs, which average more than 300% higher over historical average. Operating expenses have been carefully managed in this period while we continue to make investments again to support brand momentum and that remains strong as demand outstrip supply due to the increased consumer focus on outdoor experiences. Pleasingly forward orders into FY23 support our medium-term revenue growth targets and initial online performances indicate there are strong growth opportunity available. I'll now hand back to Michael to cover our focus for the second half.

Michael Daly: Thanks, Chris. Moving to slide 26, we have a clear set of strategic priorities to focus on in the second half; we will remain focused on building global brands. We plan to open new Rip Curl stores in the key growth markets of North America and Europe. We will launch a new global autumn and winter range for Kathmandu and plan for our USA launch. Oboz Vietnam factories are ramping up production and supply is expected to gradually recover in the second half. And our key Sawtooth X product launch will be in market from April. We will elevate digital through the continued global rollout of our new Group wide loyalty management, customer data, and online trading platforms across all brands. Our club Rip Curl loyalty scheme will launch in Australia in the second half with preregistrations already underway. Kathmandu will be launching online sites in Europe and Canada.

And the relaunch of Kathmandu's Summit Club will offer an exciting new value proposition. We will build on the positive momentum of Oboz's recent online launch, which presents a strong growth opportunity. We will leverage operational excellence at the Group level through merging our Canada and UK fulfillment centers across all brands. For Rip Curl we will continue to roll out our Group POS and ERP systems enabling Rip Curl to leverage unified commerce opportunities. Kathmandu will leverage enhanced functionality of new merchandising allocations and replenishment software. Lastly, we will continue to lead in ESG in the second half as we finalize our Group ESG strategy for communication in October with science-based targets set. We are -- progressing towards B-Corp accreditation for both Rip Curl and Oboz and our new Kathmandu Bio Down product, which won the Outdoor Retailer Innovations Award will launch in the second half of FY22. Turning to slide 27 and updating on our brands.

The Rip Curl wholesale order book remains strongly above pre COVID levels and Kathmandu enters the traditionally strong upcoming winter season well prepared. Oboz factories in Vietnam are now ramping up production following the end of COVID related shutdowns. In terms of the outlook, second half gross margins are currently expected to be in line with last year based on our promotional plans and expectations of international freight costs and currency impacts. COVID continues to cause ongoing disruption to our consumers and employees, especially in the current New Zealand Omicron outbreak. Some of our supply challenges are beginning to ease while forward demand for our products remained at record levels. The second half is traditionally the strongest cash generating period, and we remain well capitalised as we invest in the long-term international expansion of our global house of brands. This now concludes the formal part of today's presentation. I want to thank you all for taking the time to join us on this call and I'd now like to open it up for questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, you may do so by pressing star one on your telephone keypad, star one for questions, please make sure the mute function on your phone is turned off so the signal can be read by our equipment. Star one for questions or comments. We'll pause a moment to assemble our phone queue. We'll take our first question from Andrew Steele with Jarden. Please go ahead.

Andrew Steele: Good morning, guys. The first one for me is on brand investment. You've highlighted in the outlook statement that you'll continue to invest in building brands in second half. Is that incremental brand investment beyond what you highlighted in the trading update of the $14 million and I guess how should we think about in aggregate, that sort of annualised incremental brand investment on an annualised basis?

Chris Kinraid: Yeah, Andrew.

Michael Daly: Yeah. Thanks, Andrew.

Chris Kinraid: I’m going to grab that one. Yeah, I’ll just touch on the – just in terms of the dollar investment, it was more weighted towards the first half, so the second half incremental will be significantly lower from, in terms of that investment. So, I wouldn't annualise that number if you're thinking of doing that, Michael, you want to go.

Michael Daly: I was just – I was going to say much the same. I think what you'll see the first half really, I guess, returned our marketing spend to, I guess, more traditional levels noting that the first half of last year was quite muted in terms of spend, just because of the uncertainties, but coming into this first half that we just closed, we felt it really important to return our marketing investment to more traditional levels. And indeed, probably a little bit higher than we normally would, knowing that we had sort of lockdowns, but we felt that we wanted to be well positioned for reopening. So, in terms of moving forward, I would see our overall marketing spend as the percentage of sales come down from what we're seeing in that first half of this financial year.

Andrew Steele: Thank you. And just to clarify, you highlight it coming down. What – how do you think internally about what a normalised level of marketing as a percentage of sales might look like?

Michael Daly: I – look it's a detailed conversation because obviously you need to look at each market and if you're launching into new markets, you're obviously spending marketing before you're actually even got new sales. So, it does vary depending on where the brand is at and what jurisdiction, but more generally, I would say, you know, I would think most brands, including our brands would be looking to spend anywhere between 5 to 7% of sales on marketing. And depending on where we sit on that scale, it depends on ultimately where each brand is at and where we're at in terms of geographical expansion, in markets where we're new, we're going to be spending a lot higher than that. And in more established markets we'll spend lower, but I would say on average, you know, in a range of 5 to 7%.

Andrew Steele: That's clear, thank you. In terms of growth margins, you've highlighted a flat growth margin or flat year on year margin outlook for the remainder of the year, I guess, given the lag effect that you see from input costs and rising manufacturing costs, you know, how should we think about the direction of growth margins into FY23, I guess, taking into account your forward hedging book as well?

Michael Daly: Yeah, I'll take that. Look, obviously, all companies are facing margin pressure at the moment and we are certainly not immune from some of those pressures, whether they be freight or input costs. I guess going against that and in our favor is more favorable, hedge positions that we have for this upcoming six months compared to previous periods, as well as a change in the mix of our business. Obviously the more that our business distorts towards direct to consumer, it is higher margins. So, look on balance, we feel relatively comfortable in terms of the second half, as far as margins as we've communicated. As we move into FY23, like everyone we're concerned about where inflation is at and where cost inputs may go. But at the same time, you know, we believe with our, you know, technical innovation base, we have got the potential to raise prices where we need to, and certainly we've already done that from a Rip Curl and Oboz perspective with our wholesale prices in the last season or two.

And so, we'll maintain that flexibility, increase prices if we need to and we'll just assess that. So look to summarize, you know, we're reasonably comfortable in the second half of this year, in terms of margins moving into FY23, we certainly have concerns depending on where input costs and freight goes, but that said, we are reasonably confident that with the technical nature of our brands, we've got the ability to move prices should we need to, and we certainly have done that in the past and, you know, we reserve the right, I guess, to do that in the future if we need to, to protect those margins.

Andrew Steele: Great. Thank you. In terms of working capital, its clearly been a reasonably large outflow in this half, vs BCP, you know, and you've explained that well in terms of the underlying drivers or that, you know, how should we think about those underlying working capital dynamics through the remainder of the year? Should we expect some unwind? And do you think you could get close to a net cash balance by the end of the year? Or is that more looking like, it'll be 1H 23.

Michael Daly: Yeah. I'll start and I'll let Chris finish, but in terms of our working capital cycle, I'd just flag nervousness, if anyone's trying to compare us to other sort of Australian, New Zealand retailers, I say that because of our weighting of our Northern Hemisphere business, as well as our weighting towards the winter in the Southern Hemisphere, we tend to run a little bit higher on our inventory levels as we enter this sort of January, February, period. Our peak and working capital for inventory in particular is quite high in March, just because we've got all those deliveries coming into the Northern Hemisphere for the Northern Hemisphere summer, which is a big part of the Rip Curl business, and certainly a huge part of the Oboz business. But also, on top of that, we've got the products coming in for the Kathmandu winter peak period for the Southern Hemisphere in Australia and New Zealand. So, we do run a little bit higher than other, I guess, retailers in Australia, New Zealand based businesses. So, I just flagged that from the outset, but that said, yeah, certainly we would normally see a rundown from what is somewhat of a high period for us around sort of January, February, and that will run down through to the end of financial year certainly. Chris, do you want to comment on terms of the cash position?

Chris Kinraid: Yeah. That, yeah, and that's correct. Michael, July's always traditionally low, a low point for the working capital cycle. So, we expect some unwind in that number, and in terms of the cash position, we expect it to, you know, significantly improve on the current position. And we expect to be a low, probably a low net debt number.

Andrew Steele: Great. Thank you. And just one last question from me, can you comment at all on your trading in the second half period today?

Michael Daly: Take – Andrew taking a line through our same first half of last year. You know, we haven't given any specific update. And we do that because February for us is not a particularly meaningful month or indicative of where we're at. Indeed, I think it's our lowest month of sales of the year. So, we didn't want to give any misreads in terms of our trends. But certainly, what I would say is that the overall trends that we've seen in February is pretty consistent with what we saw in part of that first half, Rip Curl sales continued to be on the positive, Kathmandu really on the back of sort of New Zealand Omicron just a little bit soft at this point in time. But as I said, they're very small numbers through February and early March. So, it's not nothing that we're worried about.

Andrew Steele: That’s great, that’s all from me. Thank you, guys.

Michael Daly: Thanks, Andrew.

Operator: Star one for questions. We'll take our next question from Marni Lysaght with Macquarie. Please go ahead.

Marni: Good morning, Michael and Chris, I just wanted to touch base, get a sense of, I guess, inventory. So, the inventory built up about $20 million from last January. I can also see the net change in networking capital is about 50 in the half. So how do we think about, I guess, how you are planning stock levels the next six to 12 months. Do you feel like there's a need to invest a little bit more heavily just given that the – there's ongoing challenges and yet you have been impacted, particularly in Oboz?

Michael Daly: Yeah, there – there's a few elements there. Just quickly on the broader working capital. I think you recall, 12 months ago, Marni, we flagged that with the return of more normal wholesale shipments in that back half of the calendar year, we would see our trade debtors come up a little bit and that certainly has happened. So that's helping to fuel some of that growth in working capital. And we'd expect that with the increased wholesale business that we've seen, particularly on the Rip Curl side Outside of that, in terms of inventory, yeah, there's a bit of a mix there with the inventory. There's no doubt that, on the back of those unexpected lockdowns that we had in Australia and New Zealand, we along with many other companies are holding more inventory than we would normally like at this time of year in terms of clearance inventory, not anything too substantial, but certainly, there's more inventory in that respect, than we would normally like.

So that's certainly helping to fuel that inventory growth a little bit, but at the same time and probably a bigger impact, like everyone, we're just making sure that we have the inventory we need to hit our numbers. And so, we have strategically brought forward some of our deliveries, particularly for the Southern Hemisphere, just to make sure that we are ready for that peak winter season. So, I would say our growth in inventory is a little bit of a mix of a little bit more inventory than we would like just on the back of those lockdowns, because we obviously bought for our stores that were ultimately closed for a long period of time. So, we're holding a little bit more at the same time we have brought strategically forward some of our buys to make sure we have the inventory just to make sure we don't have huge gaps. And so that's certainly something that we've done. And also, there's also an element of there on the back of, wholesale growth orders, particularly for Rip Curl that obviously, the higher of wholesale orders you got, the more inventory you have to bring in. So, just to help fuel that growth. So, there's a few different parts in there, but certainly it is all adding to that inventory balance at the end of the first half.

Marni: Okay. That's clear.

Chris Kinraid: I wouldn't expect that to, sorry, Marni. And it's not expected to grow beyond, beyond the current point as well. So, it's, you know, we're saying it's kind of at that peak. And as supply chain challenges ease, I expect, as I said earlier, to normalize there.

Marni: Okay. Because I can see there's a $33 million built in this half from – so if I wanted to partition that, like, or if the market wants to partition that, could you say like immaterial part would be this clearance inventory, then bulk would be Rip Curl with wetsuits, et cetera. And then the balance would be Kathmandu winter stock.

Chris Kinraid: I mean, it's relatively – oh, sorry, Michael, you go ahead.

Michael Daly: Oh, I was going to say, I was going to actually hand it to you, Chris.

Chris Kinraid: Okay. That's right. I mean, it's relatively evenly split between brands, and as Michael said clearances are a significant portion of that. So, that's all we would probably say on that.

Marni: So, clearing –

Michael Daly: I think – yeah. And if you fast track another 12 months, Marni, certainly I would expect that our inventory levels at this point in time next year will come down a little bit because hopefully with supply chain challenges easing, we want to be bringing forward as many of our buys that said offsetting that we'll have a lot more Oboz inventory this time next year I imagine. So, but to Chris's point, I think we're pretty much at a peak here. I wouldn't see any growth from here and indeed, if anything, there might be a net decline.

Marni: – okay. That's clear. And just to make it clear, the line was a bit muted. This, the clearance is not a significant part of the balance or the buildup?

Chris Kinraid: No, not in total, no.

Marni: Yep. Awesome. Awesome. Moving on just another question. I know that I can hear – I can see that you've got obviously Oboz is resuming production, but I recall maybe it was at the time of the AGM, you may have flagged some plans to increase capacity in Indonesia for Rip Curl. Is that still going ahead?

Michael Daly: For – if you're talking Oboz, we have added a third factory. Yes. So historically we've had two key suppliers, we've added a third. And so that is certainly helping to open more capacity for the Oboz brand. Not only to overcome our short-term inventory challenges, but certainly to help fuel longer term capacity and that new supplier has capabilities to produce in a number of countries. So that gives us some flexibility because up until now for Oboz, we've been restricted to Vietnam as a country of origin. So that certainly gives us some flexibility. Yeah. So that's with respect to Oboz. I'm not – what was the question with respect to Rip Curl?

Marni: Rip Curl, I just remember, obviously, wetsuits is like just you've experienced unprecedented demand for wetsuits and I recall you advising you have plans to increase capacity at the wetsuit factory in Indonesia. Is that still going ahead or is it being like delayed by because of COVID?

Michael Daly: No, the, yeah, the wetsuit factory is in Thailand. So, yeah, Thailand, is where the Rip Curl, facility is. Yes, we are in advanced, I guess internal discussions and external discussions to adding extra capacity, whether we do that with external partners or with our own facility, we're still working through those different options. But that said, even if we added the capacity at the moment, Marni, unfortunately the challenge is more around the raw materials. So, it's the more short-term issue is getting access to the raw materials as opposed to the actual physical capacity of the manufacturing line. So, we've got a little bit of time on the manufacturing line, so we're making sure we go through the various options and we consider all our options before we commit. And really at this point in time, the main focus is scrambling with our broader suppliers to secure as much raw materials as we can to make as many wetsuits as we can. But the raw material imports is the big issue for wetsuit supply at the moment.

Marni: Okay. Okay. Just as I guess, the availability, of those raw materials.

Michael Daly: Yeah. That's the challenge. Ultimately, our factory, our own factory at the moment in Thailand is not operating at full capacity purely just because it can't get enough materials to maintain efficiencies unfortunately.

Marni: Excellent. Those are all the questions I have. I'll jump back to the queue.

Chris Kinraid: Thanks, Marni.

Michael Daly: Thanks, Marni.

Operator: We'll take our next question from Mark Wade with CLSA, please go ahead.

Mark Wade: Good morning, Chris, Michael, just a question on the wholesale orders and how that whole channel is going. I look at the, there's a really helpful chart in the pack, which sets out the number of doors that you're in. And overall, there's a big increase which has come out of Rip Curl from roughly, 5,950 up to about 6,650 doors. That's great. The other two brands are going backwards slightly in Kathmandu and Oboz so can you talk us through how those, yeah, what's really driving that big increase in Rip Curl and yet Oboz and Kathmandu have been a little bit sluggish on the wholesale channel to date?

Michael Daly: Yeah, I look in terms of, I'm sure you can appreciate keeping a track of exactly how many doors and customers we are in around the world is not the easiest thing to do. It sounds easy, but it's actually quite challenging because obviously you've got to keep a track of what all your customers are doing, what doors have got open. And obviously in these times, it's quite challenging to keep a track of. Look at what I would say overall is, in terms of the Kathmandu numbers, the wholesale component is so small, so it's not worth talking about obviously the – at the moment the Kathmandu business is predominantly a direct-to-consumer business. So, from that point of view, I'd put that to the side. In terms of Oboz, I would think that any decline is purely just short term, the fundamentals of that brand and the fundamentals of demand for that brand are as strong as ever.

So, there might be just some timing issues or maybe there's some temporary store closures on the back of COVID or something that I'm not aware of. But I would say overall in terms of Oboz and Rip Curl, if we look at our customer base, if we look at our wholesale orders, all our trends are quite positive in that respect. In terms of Kathmandu, it's just too early, because the wholesale business is such a small component. That'll become increasingly relevant as we just start to ship those for winter orders in sort of August of this year. But until then, I wouldn't use wholesale doors for Kathmandu as an indicator.

Mark Wade: And in the Rip Curl, you – looks like you've had good –

Michael Daly: Yeah. Rip Curl. Yeah, look. Yeah. I think across the board and across most of our regions, we've certainly seen a new business drive. I know internally the team has been working on a new business drive for the last 12 to 18 months and that has been quite successful. In terms of adding new distribution for wholesale in most of our markets, indeed. I think all of our markets are showing net growth in doorways. We're quite picky still on distribution. We don't typically open up to anyone. Of course, if we decided to do that, we could probably blow those numbers out significantly, but we choose quality distribution and that's where the focus is, but certainly very pleased to report that we have added new distribution and that's coming out of the demand for the products. So, which is great news.

Mark Wade: – yeah, no, that's a really pleasing and you obviously you've got a new chief in charge of this, so it's seems like it's going in the right direction, which is good,

Michael Daly: Absolutely

Mark wade: Last thing on the, yeah. And on the Kathmandu brand the Summit Club rebranding that's ahead. What do you hope to achieve there? I mean, outwardly we – you know, it looks like numbers of the member numbers have kind of been stagnant for a number of years and then fallen off there slightly with the store closure hasn't – which has been hard to get new members I take it. But yeah, in this time in year, in years' time from now, I mean, what might that the potential be with that Summit Club is traditionally has been a really strong correlation with any those numbers in future sales. So yeah. What do you hope to achieve?

Michael Daly: Yeah, I think what we hope to achieve is some excitement to be honest, what we're keen to – you know, I think that scheme has been in place, the loyalty scheme has been in place for a long time. It has been largely driven around discounts and we feel that, you know, the broader experience for consumers with loyalty has gone over and above just discounts now, whether it's exclusive access to products, whether it's exclusive events, whether it's points and loyalty rewards or other mechanisms that we are seeing across the board, not only in apparel, but certainly across broader, consumer engagement from insurance companies to airlines and so forth. So, I think certainly the way we look at it is that that scheme needs to evolve and create some new excitement to take it to the next layer, I guess, of, or next layer of consumers to have them interested in not only signing up to it, but engaging with Kathmandu brand on an ongoing basis and really the net aim being to drive the frequency of those shoppers up.

I'm probably more interested in the frequency of our shoppers and our engagement of our shoppers than our overall numbers, because obviously you can have great overall numbers, but if they're only coming back to you once a year, once every two years, it's not particularly great. So, yeah. So, to answer your question, Mark, I'd definitely say what we're aiming for is excitement. You know, we need to relaunch that plan to do a better job to engage with our consumers and get them back more frequently and rely not only on discounts, but rely on our broader suite of measures to engage with that consumer.

Mark Wade: Yeah, I think I hope, you know, sounds all – sounds good. And I think coupled with the we're out there kind of campaign you've already got underway and the new range and colors are up, you know, it's got the makings of a really good turnaround.

Michael Daly: Yeah. And both the brands both Rip Curl and Kathmandu have been working together on that. And, you know, we're sort of at the pilot stage for Rip Curl. So, we've got the benefit of seeing how it works for Rip Curl, learn, you know, Rip Curl's been able to learn from what's worked well for Kathmandu in the past. And the benefit we'll have now is Rip Curl will go live with its new plan. And then, Kathmandu will be able to see how that goes and then adapt their own plan for their relaunch later this year as well. So, good example of the brands working together to learn from each other.

Mark Wade: All right. Thanks for the insights.

Operator: We'll take our next question from Bianca Fledderus with UBS. Please go ahead.

Bianca: Good morning, Chris and Michael. So, first question from me is on the Kathmandu brand and the ANZ border reopening. And so, I guess you mentioned same store sales for that brand still 21% below pre COVID levels. And so, with borders reopening, do you expect any sort of positive impact from that in the second half? Or is it more of an FY23 story? And I guess when are you expecting for same store sales for the Kathmandu brand to recover to pre COVID levels again?

Michael Daly: Yeah. Thanks Bianca. Look, I – I'll start. And then Chris can add anything that he thinks I've missed. Look, I think we are very confident and looking forward to having an uninterrupted winter in the Southern Hemisphere across Australia and New Zealand, you know, obviously the ongoing outbreaks of Omicron in New Zealand and WA are having a short-term impact on footfall. But we certainly would expect that with the flip to cold weather in the coming weeks, and us having the ability to trade unrestricted for really the first time through winter since 2019, it gives the Kathmandu brand great potential to be able to return to those (pre)-COVID levels. And I guess we're excited by that because, you know, not only should we get unrestricted trade, we hope through this winter, which is great, because it's the first time in a couple of years, but secondly, you know, we have really repositioned the brand with some of the marketing to really appeal to that younger consumer.

And if you've been into some of our stores more recently and you'll notice that even more so as you get to the depths of winter, really bringing some new products, some new colorways, into the range and certainly with the Bio Down jacket, we're really, you know, comfortable that we're well positioned to get that growth. So, we are quite upbeat that we'll see a good winter period for the Kathmandu brand on the back of those things. In terms of the opening of borders and the opening freedom of movement between, you know, Australia and New Zealand, will certainly help that because as you know, we haven't seen that for some time, so hopefully we'll see Australians and Kiwis going between the two countries. I think as far as the overall uplift from international borders, I think that's probably more FY23, you know, as we move into the European and North American winters.

And then we, hopefully we start to see New Zealanders and Australians starting to head overseas later this year, you know, sort of Christmas period and with that return in our volume of business appealing to that traveling Southern hemisphere consumer, who's traveling to the Northern hemisphere for the winter. So, I would say, I'd say, we'll see a good second half. We're confident where we are placed. That said, I think the full impact of opening borders we'll see right through until the later in the year when we see the international borders and the more freedom of movement on the international side as well. Anything to add to that, Chris,

Chris Kinraid: I think you largely covered it, Michael, yeah, the second half of Kathmandu has always traditionally been more of a need-based approach with winter and the natural affinity of the products for those categories. So, and we definitely saw that last year in Australasia as I recall, I think we saw more insulation in Australia than pre COVID last year. So, but definitely that, as Michael said, that travel component is more of a first half FY23 story.

Bianca: Okay, great. Thank you. And then on the Rip Curl brand, so, with the supply shortages, what regions has that mainly had an impact on, or is that sort of, overall, for the Rip Curl brand, and I guess on Rip Curl as well with North America being the key growth opportunity, could you just give a bit of an update on how that's going?

Michael Daly: Yeah, so, yeah, the Rip Curl supply issues, principally will be really around wetsuit products, and that has affected all markets. It probably – we see it more clearly in the North American market just because it's such a big market and that's probably the market that if you were to go into our stores, looking at our wetsuit collection, it's probably even, you know, more empty shelves on our North American stores than maybe Australian and Europe, but it is affecting all markets, but we're seeing it probably most in North America just because the size of that market, the growth that we're seeing in that market, because it's the market where we haven't traditionally been a top three brand, but we're slowly, you know, approaching getting to that sort of top three or top five, status. So, we're seeing probably a little bit more growth in that market than we are in other markets. So that does extend the issue, I guess.

And then on top of that, certainly the challenges of getting products through North American ports on a timely basis are still a major issue. So again, those delays through ports are even making the wetsuit supply shortage even worse again, because even if we can get wetsuits on the water, it's quite challenging to get it through the LA port at the moment. I think a couple of months ago there was 120 ships waiting to be unloaded and I think they're down to 70 or something, but they've still got a massive backlog, which is just delaying our ability to get those products into the market, even if we did have those products. So, but to answer your question, all markets generally, but we're seeing probably most clearly in the North America market.

And as far as our progress in terms of Rip Curl in North America, yeah, we're really happy with how that's progressing, our wholesale orders, as we've mentioned, are going really well, sort of record levels. We'd love to have more wetsuits of course, and that would certainly help. And we're certainly looking to open, you know, select stores. We're largely focusing on our online business and our wholesale in the more immediate terms, but we will open up the odd store here or there where it makes sense in the North American market just to help contribute toward that growth in that market. But we, yeah, we're really well positioned there and our plans to burst into the top three surf brands in North America are well on track.

Bianca: Okay. Thank you. And then last question on the Oboz brand. So, in the second half, with supply normalising, what can we sort of expect for that brand? Like, are you expecting that to be in line with second half 21 or still lower because of the supply chain issues?

Michael Daly: Yeah, look if it will really come down to how easily we can get footwear through those ports, to be honest, Bianca. So, to give an exact number is going to be hard. Based on our forward order book we will have a very good second half, but the forward order book is only as good as the deliveries you can get into the market. And, what we're seeing at the moment is, yeah, look, you know, transit dates that normally might be 35 days are still, you know, upwards of 75 days plus. So, it just may mean that some shipments that would normally be in this half and should be in this half may flip into the next half. So, I wouldn't want to give specific guidance on that second half for Oboz, just because we may see a little bit of a drift depending on how quickly we can get those products into market.

But certainly, we've got a lot of work to do to restock shelves in that market because we are at a historically low inventory levels for Oboz on the back of those lockdowns. And, we've got containers and containers of shoes that are making their way into that market. And, it's a good problem to have from a point of view. We're not sure how much demand there is because we just don't have the shoes, but certainly, we think that the Oboz brand is well placed in the medium term. As far as the immediate next four to six months, just a little bit hard to know just because of the uncertainty on getting products freely through those ports.

Bianca: Yep. Okay, great. Thank you very much. That's all for me.

Michael Daly: Thanks, Bianca.

Operator: We'll take our next question for Matt Noland with Forsyth Barr, please go ahead.

Matt Noland: Morning, Chris. And Michael, just confirming you can hear me.

Michael Daly: Yeah. Matt.

Chris Kinraid: All good.

Michael Daly: Loud and clear.

Matt Noland: Great. Maybe just following on Oboz historically you used or previously you used air freight to get some of the products out there. Is that an option you'd consider as well to meet demand albeit at the cost of margins?

Michael Daly: Look, yeah, in my feedback that I've asked those questions before as well, but the air market is just as complicated as the sea market. And certainly, when you start talking air market at the moment in the very inflated rates, I don't know the exact dollars, but certainly the amount of products we would have to shift. And it's quite heavy products to get – to make any difference would be quite margin destructive, to be honest. And while it's always good to have some sales than no sales, our customers are being patient with us. They understand the situation and they also understand the situation that yeah, bringing air freight will bring in some small lines and small runs, but it's not necessarily going to deal with their overall issues. So, look well we'll – we are using air freight as we need to, and that's the same for wetsuits where we need to, but unfortunately the air markets for freight are just as complicated and indeed more complicated than the sea freight markets at the moment and quite, you know, punitive in terms of the cost for sure.

Chris Kinraid: Yeah, you wouldn't do it when you're shipping hundreds of thousands of shoes over a period. But as Michael said, it's more for hitting those demand gaps or gaps for our certain key customers that you do that.

Matt Noland: Cool. Thanks for that. Maybe shifting onto Kathmandu and the new color range, are you happy with how those are being perceived by customers and just in terms of the elevated clearance volumes there, were the new colors overrepresented in that or not?

Michael Daly: No, not really. I think in terms of, I would say in terms of clearance, what is overrepresenting clearance is heavier weight products just on the back of those closures in our network, you know, know particularly in that sort of, July and August period. So, and to be fair, most of our new products really have only started landing with spring summer and then into this autumn. So as far as any overhang on clearance, that's largely related to heavier weight products from I guess, previous ranges. So, no, no buildup of any of the new product in that clearance in any way. And sorry, what was the other part of that question?

Matt Noland: No, that's ticked it off actually. So, thank you. Maybe just one more from me. Sorry. Yeah.

Michael Daly: Yep. No, that's fine. Yeah, go for it.

Matt Noland: Just noticing a lot more advertisements, particularly on Instagram surrounding your efforts on sustainability. Can you give us an update on how you're progressing with Rip Curl and Oboz in terms of the B Corp and then also the level of the marketing expenditure that might be coming through with your sustainability efforts and how to think about that going forward as well as a percentage your marketing spend?

Michael Daly: Yeah, so, the numbers I mentioned earlier in terms of marketing spend are inclusive of anything that we are putting out there with respect to ESG. You’re obviously referring to the Instagram posts for Kathmandu. Certainly, I think in terms of Kathmandu perspective, we feel that we maybe haven't given Kathmandu as much profile in the market as what we could have with respect to its environmental credentials, particularly around its B Corp accreditation and any work that we've done, sort of suggests that, you know, it's not necessarily well known by the consumer. So, we have probably elevated that messaging a little bit on the Kathmandu side more recently just to help educate the consumer where the Kathmandu brand is placed. And we very much see the Kathmandu brand very high relative to its peers, as far as where it's at in – on its environmental journey.

And certainly, the B Corp accreditation supports that. So that's a, I guess, a short-term push on the Kathmandu brand. In terms of, Oboz and Rip Curl accreditation. Yeah. A lot of work happening. The Oboz business is a lot smaller and a lot simpler, you know, we're operating in really one market across a couple of styles of footwear. So, in terms of its ability to – on the accreditation, it's a lot easier than the Rip Curl business, which is multichannel or multi geography. So, but they're both progressing well, we're working with B Corp on that sort of reaccreditation process for Kathmandu, as well as the application process for Oboz and Rip Curl. A lot of work's been done progressing quite well. We're not exactly sure of the timing, but we're certainly aiming to get those accreditations as soon as possible. And hopefully that occurs in this calendar year.

Matt Noland: Thanks for the update and that's all from me.

Operator: Ladies and gentlemen, this does conclude today's question and answer session. At this time, I'd like to turn it back to your presenters for any additional or closing remarks.

Michael Daly: No specific comments. Just thanks everyone for participating. And, yeah, that's all, that's all from us.

Operator: Ladies and gentlemen, this concludes today's conference. We appreciate your participation. You may now disconnect.