



Kathmandu®

1H FY18 Results Presentation

March 2018



Financial highlights



Sales

\$204.8m

↑ 4.3%

Gross margin

+170 bps

AU **↑ 180 bps**

NZ **↑ 150 bps**

EBIT

\$18.0m

↑ 21.6%

Net Profit After Tax

\$12.3m

↑ 23.0%

Operating Cashflow

\$16.9m

↑ \$6.9m

Net Debt

\$17.0m

↓ \$31.9m



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1. Strategy update



1. Strategy update



“Design great, innovative, distinctive and sustainable quality products”

“Be customer-centric in everything we do”

GROWTH STRATEGIES

Continuous improvement

- » Brand and customer
- » Store optimisation
- » Pricing and promotion
- » Omni-channel
- » Cost efficiency

Growth initiatives

- » International
- » Marketplaces
- » Store network expansion

1. Strategy update – continuous improvement



	Initiatives	Progress update
Brand and customer	<ul style="list-style-type: none"> » Elevate brand distinctiveness through product design and innovation » Focus on our expertise in adventure travel » Inspire our customers and engage with our Summit Club members with a focus on social media and digital » Enhance the customer service experience and staff product knowledge 	<ul style="list-style-type: none"> » ISPO 2018 Gold award for the second year in a row. This year for the Lawrence jacket » Almost 1.8m active Summit Club members » 14% increase in social media video views » 40% increase in Summit Club member participation in run clubs, volunteering, and international treks
Store optimisation	<ul style="list-style-type: none"> » Focus on same store sales growth and customer conversion » Optimise space allocation to maximise gross profit » Refine visual merchandising and product presentation » Invest in relocations / refurbishments that deliver return on capital 	<ul style="list-style-type: none"> » Same store sales growth +1.9% at improved gross margins in Australia (our largest market) » New Zealand first quarter sales were impacted by lower levels of clearance stock. Last six weeks of 1H same store sales growth +1.9% » 1H FY18: 5 relocations, 3 major refurbishments » 2H FY18: 1 relocation, 6 major refurbishments planned
Pricing and promotion	<ul style="list-style-type: none"> » Continually refine the structure of promotions to: <ul style="list-style-type: none"> » leverage foot traffic in key trading periods » increase basket size and maximise gross profit 	<ul style="list-style-type: none"> » Average basket size increased 2.5% in 1H FY18 » Gross margin year on year improved 180 bps / 1.8% of sales (Australasia only)

1. Strategy update – continuous improvement



Initiatives		Progress update
Omni-channel	<ul style="list-style-type: none">» Provide a channel and device agnostic offer» Invest in our online platform to further improve usability and functionality» Drive site visitation through:<ul style="list-style-type: none">» targeted Summit Club campaigns» affiliate partnering» social media	<ul style="list-style-type: none">» Online sales are 8.0% of total sales» Improved social media traffic and conversion:<ul style="list-style-type: none">» 63% increase in website traffic originating from social media» 176% increase in online sales attributed to social media traffic
Cost efficiency	<ul style="list-style-type: none">» Drive supply chain efficiency through infrastructure investments and automation» Increase productivity by leveraging rostering systems investment» Leverage advertising content, particularly in social and digital media channels	<ul style="list-style-type: none">» Australian distribution centre automation now delivering improved customer service levels, increased capacity in peak periods, and supply chain labour efficiencies

1. Strategy update – growth



	Initiatives	Progress update
International	<ul style="list-style-type: none"> » Identify and promote brand and product distinctive attributes that make Kathmandu relevant internationally » Leverage our brand equity and online platform to expand internationally using a capital light model » Entry strategies for key growth markets include online, wholesale distribution, licensed or franchised retail stores 	<ul style="list-style-type: none"> » Kathmandu products now selling through GO Outdoors (UK) and SportScheck (Germany). GO Outdoors are expanding our range for 1H FY19 and will be available in all stores » Wholesale focus increased through Oboz acquisition
Marketplaces	<ul style="list-style-type: none"> » Sell through additional open marketplace sites where strategically relevant 	<ul style="list-style-type: none"> » Recently listed on two additional marketplaces: <ul style="list-style-type: none"> » Tmall Global targeting Mainland China (November 2017) » Amazon AU (December 2017)
Store network expansion	<ul style="list-style-type: none"> » Store footprint expansion where return on investment justifies » Store network target of 180 across Australasia 	<ul style="list-style-type: none"> » 1 new store opened in 1H FY18 » 3 new stores secured for 2H FY18

1. Sustainability



Our goal:

Australasian industry leadership in sustainability*1



Recognition:

- » Ranked in the top ten New Zealand brands as a leader in sustainability*2

Workers' rights:

- » Progress towards Fair Labor Association accreditation: targeting July 2018

Sustainable products:

- » Recycled 6.7 million plastic bottles into our gear, beating our target
- » Ranked #2 two years in a row in the global Textile Exchange sustainable materials report
- » Released our 'Earth Hoodie', an industry first using natural waste based dyes

Minimising our operational footprint

- » Offset all staff air travel at a localised conservation site and verified our carbon footprint
- » Increased recycling rate towards our zero waste goal by July 2018

Community engagement:

- » Engaged Summit Club members in nation-wide beach clean up and tree planting events
- » Supported communities in the wake of Cyclone Gita with Red Cross

1. For more information: Kathmandu's 2017 Sustainability Report released mid-October

2. Colmar Brunton Better Futures Report 2017: this report is a comprehensive monitor of consumer attitudes to sustainability in New Zealand

2. Result overview



2. Result overview



NZD \$m*1	1H FY18	1H FY17	Var \$	Var %
SALES	204.8	196.3	8.5	4.3%
GROSS PROFIT <i>Gross margin</i>	129.7 63.3%	121.0 61.6%	8.7	7.2%
OPERATING EXPENSES <i>% of Sales</i>	(104.6) 51.1%	(99.5) 50.7%	5.1	5.1%
EBITDA <i>EBITDA margin %</i>	25.1 12.3%	21.5 11.0%	3.6	16.7%
EBIT*2 <i>EBIT margin %</i>	18.0 8.8%	14.8 7.5%	3.2	21.6%
NPAT	12.3	10.0	2.3	23.0%
Store count*3	164	162		



1. 1H FY18 NZD/AUD conversion rate 0.911 (1H FY17: 0.958), 1H FY18 NZD/GBP conversion rate 0.532 (1H FY17: 0.568)
2. EBIT YOY favourable exchange rate translation impact in 1H FY18 \$0.7m
3. Excludes Online stores
4. Rounding differences may arise in totals, both \$ and %

3. Key line items



3. Sales



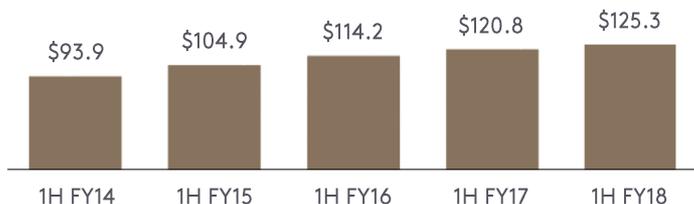
SALES: +4.3% to \$204.8m

- » Sales growth year on year:^{*1}
 - » AU +3.7%
 - » NZ -6.4%
- » International sales +96.0% to \$3.0m
- » At constant exchange rates sales growth \$1.6m / 0.8%
- » Online sales 8.0% of total sales

Group Sales (NZD \$m)



■ Australia (AUD \$m)



■ New Zealand (NZD \$m)



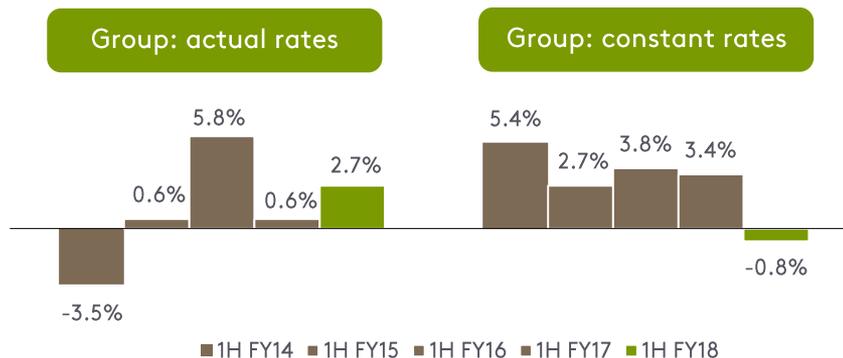
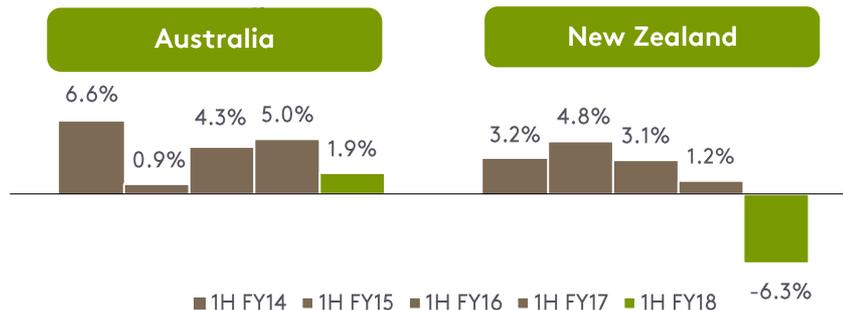
1. Calculated on local currency sales results (not affected by year-on-year exchange rate variation)
2. Country sales totals exclude inter-company sales

3. Same Store Sales result



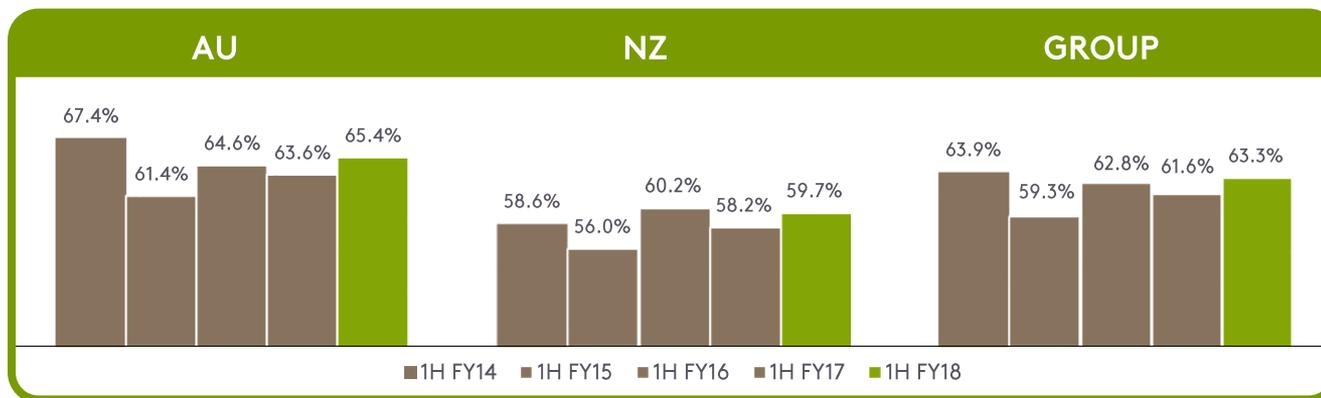
SAME STORE SALES: -0.8% at constant rates

- » Same store sales:
 - +2.7% actual exchange rates
 - 0.8% constant exchange rates:
 - » Stores -1.9%
 - » Online +13.9%



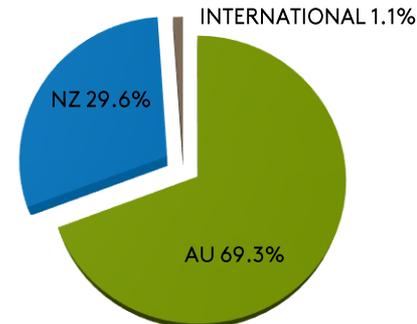
1. Measurement period 1H FY18: 26 weeks ended 28 January 2018 compared to 26 weeks ended 29 January 2017
2. Same store sales measurement includes Online and all stores from their 53rd week of trading

3. Gross margin



- » Gross margin long-term target range 61% to 63% (Australasia)
- » Gross margin improvement from increased full price sell through combined with a higher average selling price

1H FY18 SHARE OF BUSINESS
(GROSS PROFIT \$)



3. Cost of doing business



OPERATING EXPENSES: +5.1% to \$104.6m

- » Rent increase includes:
 - » Rent increase from store relocations and new stores
 - » Year-on-year exchange rate translation movement \$1.3m
- » Other operating expenses:
 - » Distribution centre labour efficiencies gained following FY17 investment in automation

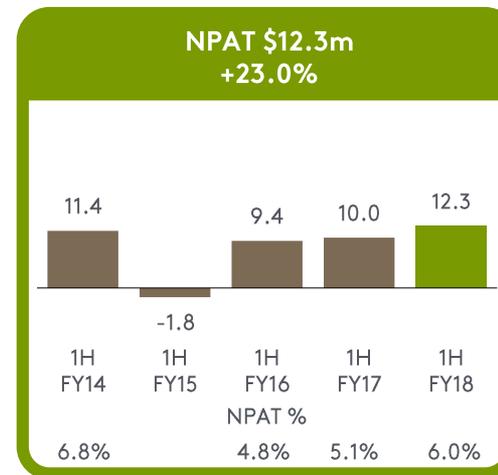
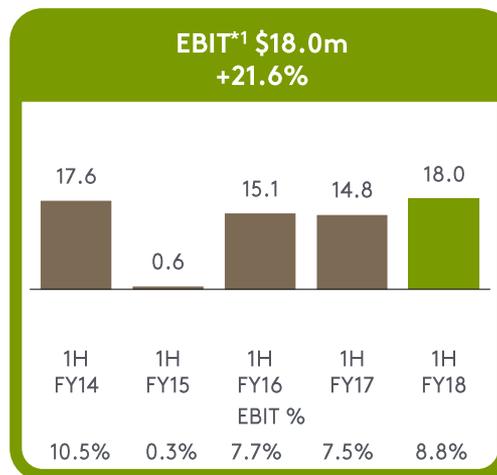
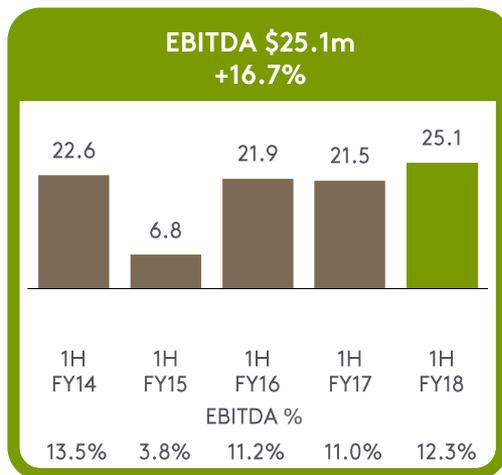


NZD \$m	1H FY18	1H FY17	Var \$	Var %
Rent	33.2	30.5	2.7	8.9%
<i>% of Sales</i>	<i>16.2%</i>	<i>15.5%</i>		
Other operating expenses	71.4	69.0	2.4	3.5%
<i>% of Sales</i>	<i>34.9%</i>	<i>35.2%</i>		
Total operating expenses¹	104.6	99.5	5.1	5.1%
<i>% of Sales</i>	<i>51.1%</i>	<i>50.7%</i>		
Depreciation	7.1	6.6	0.5	7.6%
<i>% of Sales</i>	<i>3.5%</i>	<i>3.4%</i>		
Cost of doing business	111.7	106.2	5.5	5.2%
<i>% of Sales</i>	<i>54.5%</i>	<i>54.1%</i>		

1. 1H FY18 total operating expense increase attributable to year-on-year exchange rate translation movement \$3.6m

2. Rounding differences may arise in totals, both \$ and %

3. Earnings summary



1. EBIT YOY favourable exchange rate translation impact in 1H FY18 +\$0.7m

4. Segment results



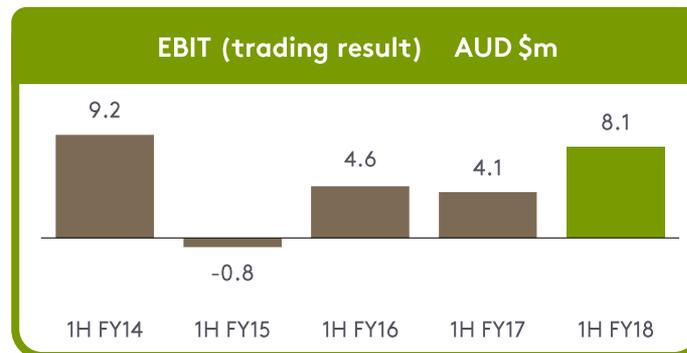
4. Australia



SALES: +3.7% to \$125.3m

- » Gross margin increased 180 bps / 1.8% of sales
- » Total operating expenses (incl. depreciation):
 - » 1H FY18 58.9% of sales
 - » 1H FY17 60.2 % of sales
- » Distribution centre labour efficiencies gained following FY17 investment in automation
- » 1 new store in 1H FY18
- » 3 stores relocated
- » 2 major store refurbishments

AUD \$m	1H FY18	1H FY17	Var %
Sales	125.3	120.8	3.7%
Same store sales growth	1.9%	5.0%	
EBIT (trading result)*2	8.1	4.1	97.6%
EBIT margin %	6.5%	3.4%	
Store count	116	114	



1. Rounding differences may arise in totals, both \$ and %
2. A reconciliation of EBIT (trading result) to the financial statements is included in Appendix 1

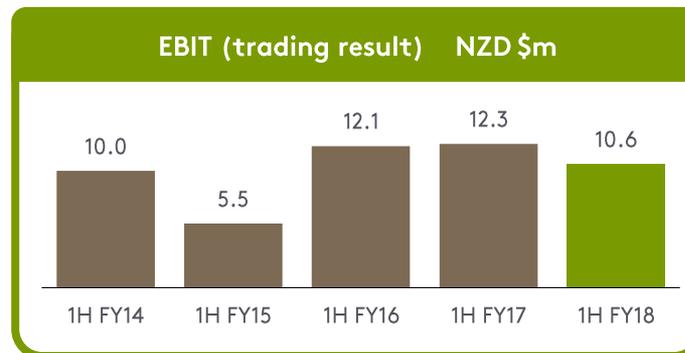
4. New Zealand



SALES: -6.4% to \$64.3m

- » Gross margin increased 150bps / 1.5% of sales
- » Total operating expenses (incl. depreciation):
 - » 1H FY18 43.2% of sales
 - » 1H FY17 40.3% of sales
- » 2 stores relocated
- » 1 major store refurbishment

NZD \$m	1H FY18	1H FY17	Var %
Sales	64.3	68.7	-6.4%
Same store sales growth	-6.3%	1.2%	
EBIT (trading result)*2	10.6	12.3	-13.8%
EBIT margin %	16.5%	17.9%	
Store count	47	47	



1. Rounding differences may arise in totals, both \$ and %
2. A reconciliation of EBIT (trading result) to the financial statements is included in Appendix 1

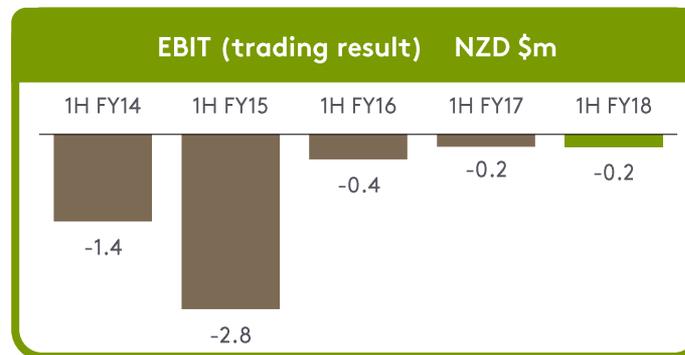
4. International



SALES: +96.0% to NZD \$3.0m

- » Total operating expenses:
 - » 1H FY18 54.7% of sales
 - » 1H FY17 69.4% of sales
- » Sales growth coming from wholesale and direct to consumer channels
- » Gross margin from wholesale c. 40%
- » Start-up promotional costs relating to the international direct to consumer website and Tmall

NZD \$m	1H FY18	1H FY17	Var %
Sales	3.0	1.5	96.0%
EBIT (trading result)*2	(0.2)	(0.2)	-11.3%
EBIT margin %	-6.9%	-12.1%	
Store count	1	1	



1. Rounding differences may arise in totals, both \$ and %
 2. A reconciliation of EBIT (trading result) to the financial statements is included in Appendix 1

5. Cash Flow, Balance Sheet, Dividend



5. Cash Flow



Capital expenditure \$8.7m (LY \$6.8m):

- » Stores \$7.2m (LY \$3.9m)
 - » 1 new store
 - » 5 relocations
 - » 3 major refurbishments

- » Systems and Infrastructure \$1.5m (LY \$2.9m)
 - » Online platform upgrade

NZD \$m	1H FY18	1H FY17
NPAT	12.3	10.0
Change in working capital	(3.5)	(8.1)
Change in non-cash items	8.1	8.1
Operating cash flow	16.9	10.0

Key line items:		
Net interest paid (including facility fees)	(0.8)	(1.3)
Income taxes paid	(9.8)	(6.7)
Capital expenditure	(8.7)	(6.8)
Dividends paid	(18.2)	(16.1)
Increase/(Decrease) in net debt	9.3	8.5

1. Rounding differences may arise in totals, both \$ and %

5. Balance Sheet



- » Year on year decrease in stock per store -13.8%
- » Stock turns approaching our target of 2.0x

1. Rounding differences may arise in totals, both \$ and %
2. COGS (rolling 12 months) / Average Inventories YOY
3. Net Debt / (Net Debt + Equity)
4. (EBITDA + Rent) / (Rent+ Net Finance Costs excl. FX)
5. EBIT/ (Net Debt + Equity)

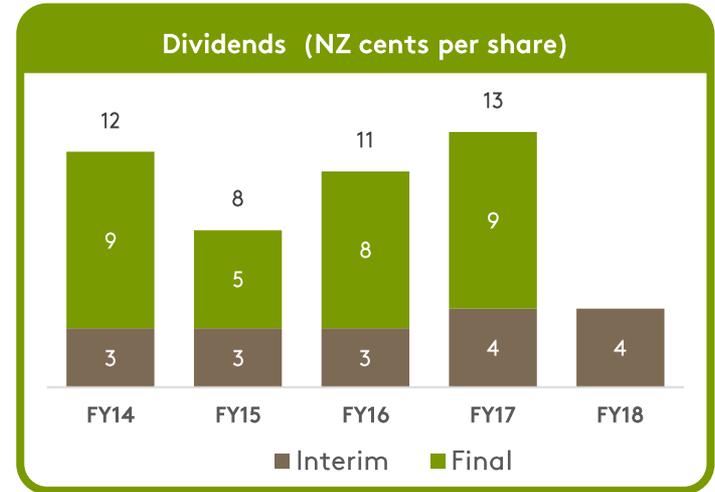
Balance Sheet (NZD \$m)	1H FY18	1H FY17
Inventories	84.2	96.4
Property, plant and equipment	64.2	61.2
Intangible assets	283.1	277.0
Other assets	6.2	8.1
Total assets (excl. cash)	437.7	442.7
Net interest bearing liabilities and cash	17.0	48.9
Other non-current liabilities	0.1	0.3
Current liabilities	93.0	87.6
Total liabilities (net of cash)	110.1	136.8
Net assets	327.6	305.9

Key Ratios	1H FY18	1H FY17
Stock Turns* ²	1.87x	1.62x
Net Debt to Equity* ³	4.9%	13.8%
Fixed Charge Cover* ⁴	2.09x	1.99x
ROIC* ⁵	17.5%	14.3%

5. Dividend



- » NZ 4.0 cents per share interim dividend (1H FY17 NZ 4.0 cps)
- » Dividend will not be imputed for New Zealand shareholders
- » Dividend will be fully franked for Australian shareholders
- » Record date 8 June 2018
- » Payment date 22 June 2018
- » Final dividend is expected to be fully franked and fully imputed



5. Foreign currency



FORWARD HEDGING POSITION		FY17	FY18	FY19
AUD/USD	Effective Rate	0.728	0.758	0.783

NZD/USD	Effective Rate	0.659	0.708	0.714
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- » 1H FY18 USD hedging rates c.9% above 1H FY17
- » 2H FY18 USD hedging rates c.3% above 2H FY17
- » 1H FY19 USD hedging rates c.2% above 1H FY18
- » Forward hedging position:
 - » Longest dated hedges March 2019
 - » Rolling cover applied 12 months forward
- » No hedging NZD/AUD



6. Oboz acquisition, trading update, and outlook



Kathmandu to acquire premium footwear brand: Oboz

- » Kathmandu has agreed to acquire US-based Oboz Footwear LLC for a base cash consideration of US\$60m and earn-out of up to US\$15m
- » Oboz designs, sources, and sells footwear for backpacking, hiking, travel, winter and general outdoor wear
- » Oboz was founded in 2007 to seize an opportunity for a new brand targeting outdoor enthusiasts looking for hiking footwear with superior performance, quality, comfort and fit
- » Oboz distributes its products directly to North American outdoor chains, specialty outdoor retailers, limited online sellers, shoe stores and sporting goods retailers
- » The brand resonates strongly with hiking enthusiasts in the broader outdoor adventure market owing to key attributes:
 - » Authenticity – Oboz has deep understanding of their target customer, its senior management team consists of outdoor enthusiasts with extensive experience in product design
 - » Quality – Products are known for high quality, fit, and comfort. Every Oboz shoe includes a deluxe aftermarket O-FIT™ insole
 - » Corporate Responsibility – Brand ethos of sustainability and environmental friendliness, with one tree planted for every pair of shoes sold
- » A separate announcement with further information on the acquisition has been lodged on the ASX / NZX

6. Trading update



For the six weeks ending 11 March 2018:

- » Total Group sales +7.9% above last year at constant exchange rates
- » Same store sales growth at constant exchange rates:
 - » Group +7.0%
 - » AU +7.5%
 - » NZ +5.1%

February 2018 gross margins +460 bps / 4.6% of sales above last year

6. Outlook



- » Kathmandu is a strong brand that designs great, innovative, distinctive and sustainable quality products
- » We remain committed to continuous improvement in Kathmandu's core markets, with key focuses on:
 - » same store sales growth
 - » strengthening the Kathmandu brand and customer engagement
 - » connecting with customers through social media and digital channels
 - » cost control and efficiencies
- » Competitor mix is constantly changing and remains competitive
- » Our commitment to sustainability is a key point of difference and an emerging competitive advantage
- » The Oboz acquisition enables the Kathmandu Group to:
 - » accelerate international growth
 - » diversify product mix, geography and channels to market

7. Questions



Appendix 1 – Reconciliation of segment EBIT trading results



1H FY18 (\$'000)	Australia	New Zealand	International	Other	Total
EBIT per financial statements (NZD)	8,418	11,118	(207)	(1,325)	18,004
Internal charges not trading related*1 (NZD)	520	(520)	-	-	-
EBIT (trading result) (NZD)	8,938	10,598	(207)	(1,325)	18,004
EBIT (trading result) (local currency)	8,142				

1H FY17 (\$'000)	Australia	New Zealand	International	Other	Total
EBIT per financial statements (NZD)	3,702	12,829	(186)	(1,515)	14,830
Internal charges not trading related*1 (NZD)	561	(561)	-	-	-
EBIT (trading result) (NZD)	4,263	12,268	(186)	(1,515)	14,830
EBIT (trading result) (local currency)	4,084				

1. Internal charges not trading related include arm's length margins charged for internal services