



Kathmandu[®]

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FY14 Results Presentation

September 2014

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Results Overview

Earnings

- EBITDA \$74.5m, up 0.7%
- EBIT \$64.3m, up 1.4%
- NPAT \$42.2m, down 4.5%

Key Points

- Australian growth maintained despite a difficult trading environment
- Gross margin improvement
- Significant adverse exchange rate impact on \$A to \$NZ translation (Group EBIT reduced by \$5.8m)

Sales and Margin

- Sales growth \$8.9m, +2.3% actual exchange rates (+9.9% constant exchange rates)
- Same store sales growth 4.2% constant exchange rates (-2.7% actual exchange rates)
- Gross margin 63.1%, 10bps higher than FY13

Operating Costs

- Operating expenses increased 70bps as a % of sales to 44.5%, primarily advertising and investment in online internal capability

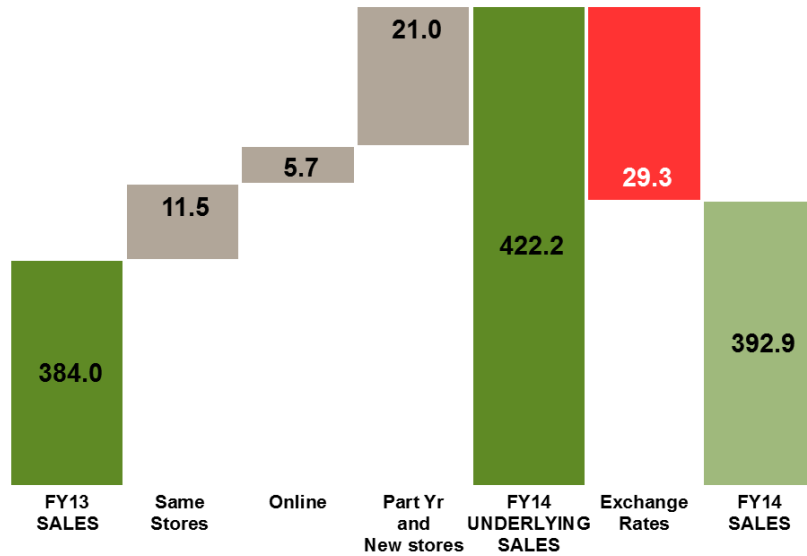
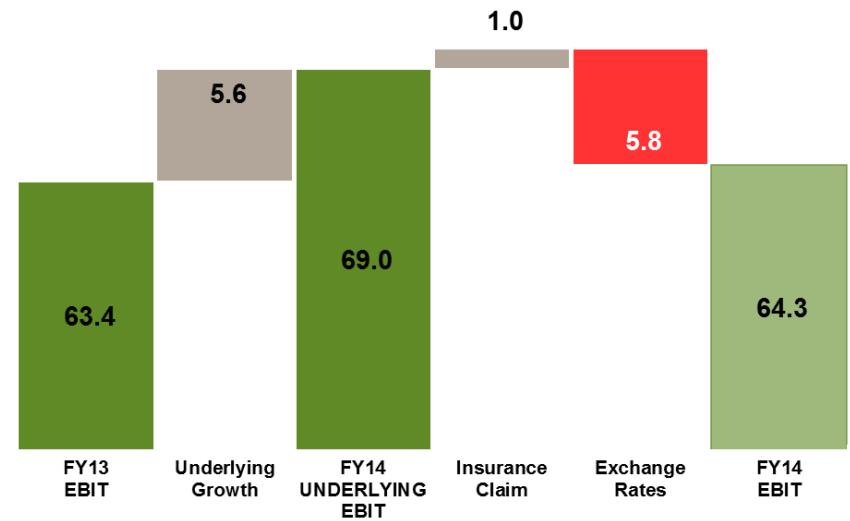
RESULTS NZD \$m*1	FY14	FY13	Var \$	Var %
SALES	392.9	384.0	8.9	2.3%
GROSS PROFIT	248.1	242.0	6.1	2.5%
<i>Gross Margin %</i>	63.1%	63.0%		
Insurance Claim	1.3	0.3	1.0	
OPERATING EXPENSES	(175.0)	(168.3)	(6.7)	4.0%
<i>% of Sales</i>	44.5%	43.8%		
EBITDA	74.5	74.0	0.5	0.7%
<i>EBITDA margin %</i>	19.0%	19.3%		
EBIT*2	64.3	63.4	0.9	1.4%
<i>EBIT margin %</i>	16.4%	16.5%		
NPAT*3	42.2	44.2	(2.0)	(4.5%)
Permanent Open Stores*4	149	136	13	

1. FY14 NZD/AUD conversion rate 0.921 (FY13: 0.823), FY14 NZD/GBP conversion rate 0.512 (FY13: 0.532).
2. Negative YOY exchange rate in FY14 EBIT \$5.8m (FY13: \$2.7m).
3. FY14 NPAT includes \$0.8m (FY13: \$3.1m) taxation expense benefit from Australian intercompany loan revaluation.
4. Currently also trading from one temporary site: Cashel St Re-Start (Christchurch). Excludes Online sales channels.
5. Rounding differences may arise in totals, both \$ and %.

1 Results Overview: Half-Year split YOY


RESULTS NZ \$m	1H FY14	1H FY13	Var \$	Var %	2H FY14	2H FY13	Var \$	Var %
SALES	167.6	165.9	1.7	1.0%	225.3	218.1	7.2	3.3%
GROSS PROFIT	107.1	104.1	3.0	2.9%	141.0	137.9	3.1	2.2%
<i>Gross Margin %</i>	<i>63.9%</i>	<i>62.7%</i>			<i>62.6%</i>	<i>63.2%</i>		
Insurance Claim	-	-			1.3	0.3	1.0	
OPERATING EXPENSES	(84.5)	(83.2)	(1.3)	1.6%	(90.5)	(85.1)	(5.4)	6.3%
<i>% of Sales</i>	<i>50.4%</i>	<i>50.1%</i>			<i>40.2%</i>	<i>39.0%</i>		
EBITDA	22.6	20.9	1.7	8.1%	51.9	53.1	(1.2)	(2.3%)
<i>EBITDA margin %</i>	<i>13.5%</i>	<i>12.6%</i>			<i>23.0%</i>	<i>24.3%</i>		
EBIT	17.6	15.8	1.8	11.4%	46.7	47.6	(0.9)	(1.9%)
<i>EBIT margin %</i>	<i>10.5%</i>	<i>9.5%</i>			<i>20.7%</i>	<i>21.8%</i>		
NPAT	11.4	10.3	1.1	10.7%	30.8	33.9	(3.1)	(9.1%)
Permanent Open Stores	139	129	10		149	136	13	

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

SALES UNDERLYING GROWTH 9.9%

EBIT UNDERLYING GROWTH 8.8%


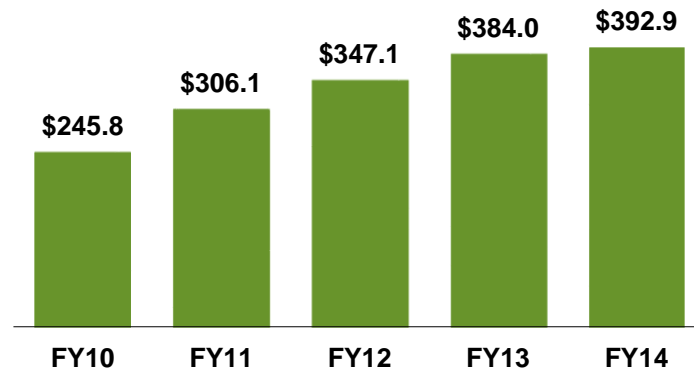
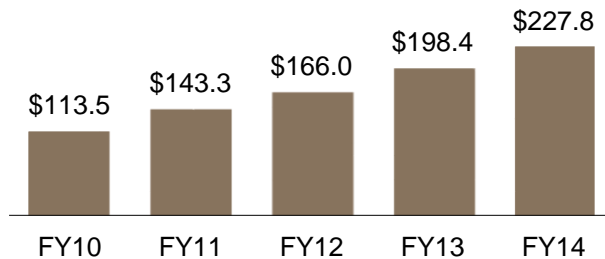
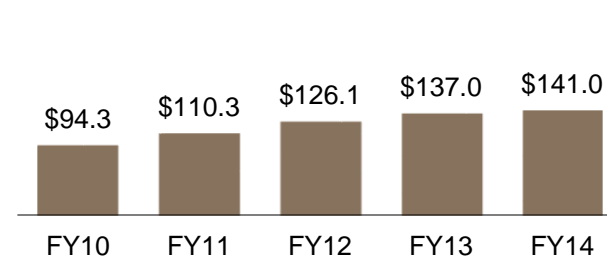
1. Rounding differences may arise in totals.



 **Key Line Items**

SALES: +2.3% to \$392.9m

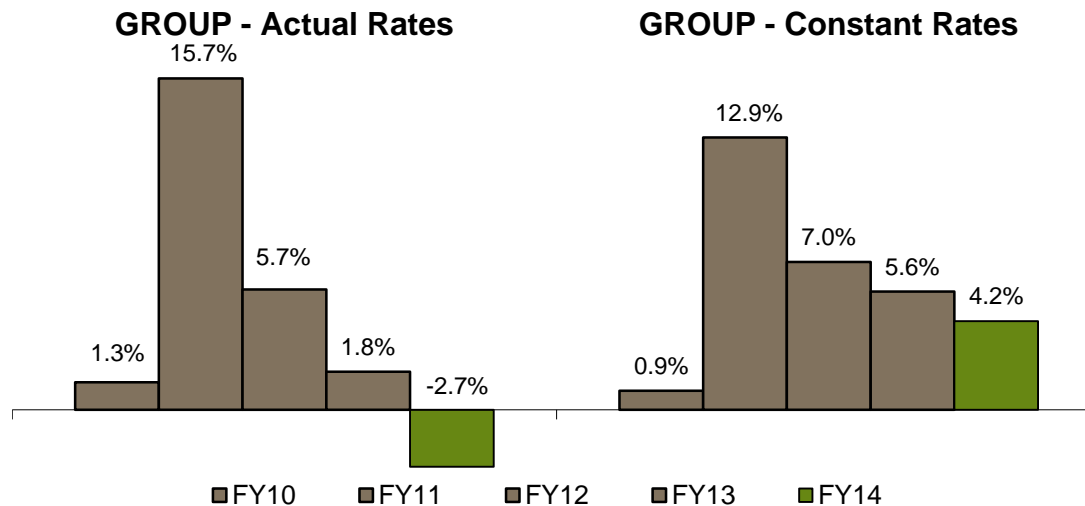
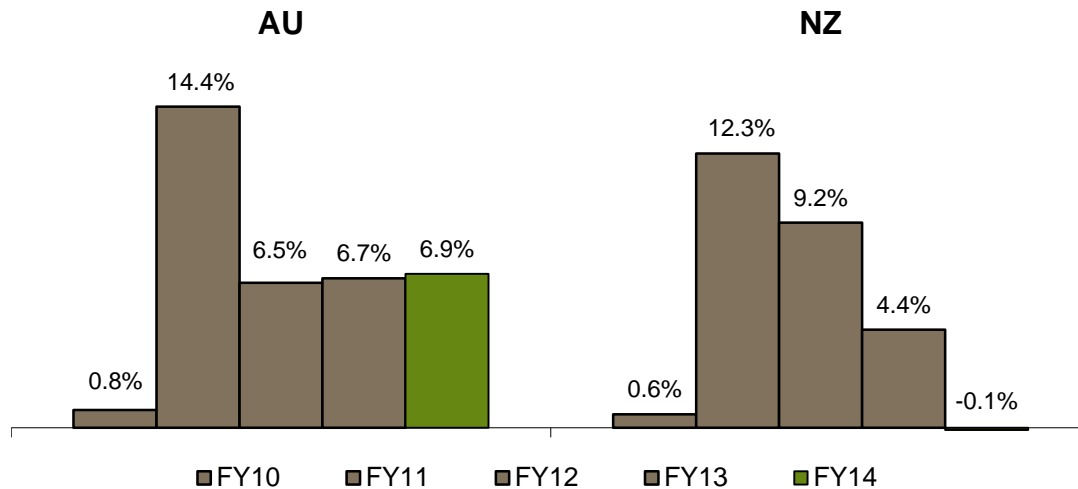
- Sales growth year on year:^{*2}
AU 14.8%, NZ 2.9%, UK -22.6%;
- At constant exchange rates sales growth \$38.2m / 9.9%;
- Online sales 5.1% of total sales.

Group Sales (NZD \$m) ^{*1}

■ Australia (AUD \$m)

■ New Zealand (NZD \$m)


1. UK Sales: FY14 £2.4m, FY13 £3.1m.

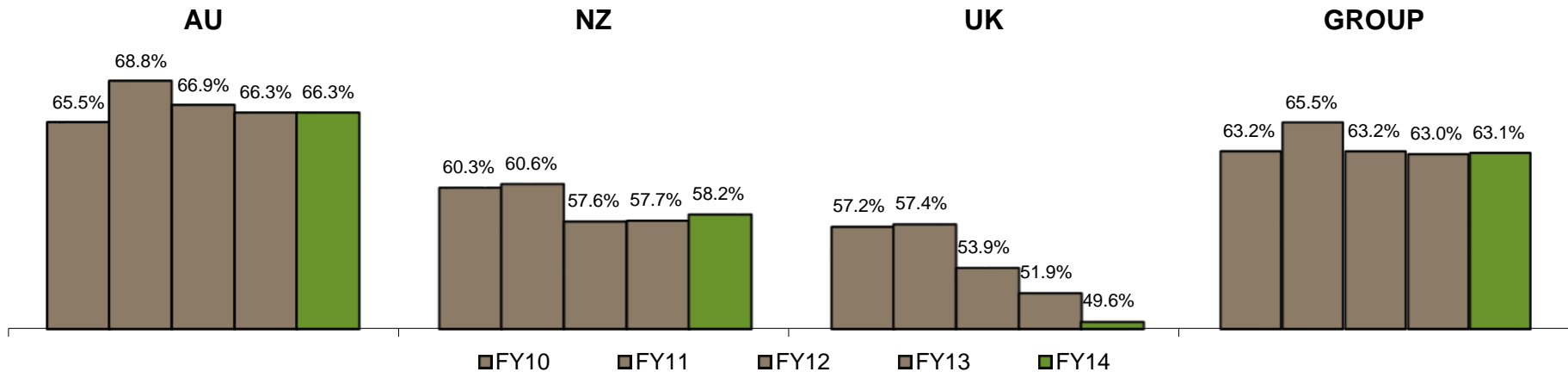
2. Calculated on local currency sales results (not affected by year-on-year exchange rate variation).

3. Country sales totals exclude intercompany sales.



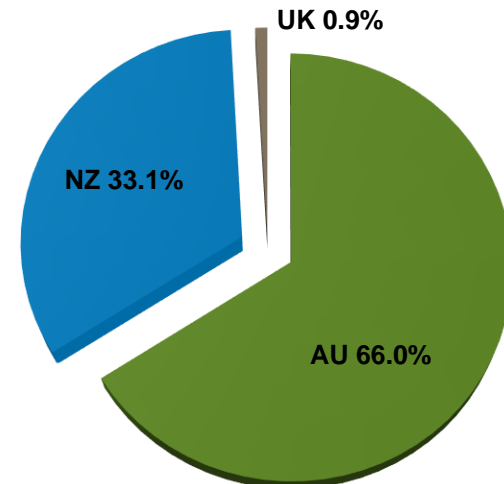
- Same store sales: ^{*1}
 -2.7% actual exchange rates
 +4.2% constant currency:
 - Stores only +3.1%
 - Online only +29.2%
- UK SSS +12.7%
 (total sales 22.6% below FY13 due to store closures);
- June SSS -15.7% reflecting record warm winter weather, especially in NZ;
- 5 year average: ^{*2}
 - AU 7.1%
 - NZ 5.3%
 - Group 6.1%

1. Same store sales measurement includes Online and all stores from their 53rd week of trading.
 2. Calculated on local currency sales results (not affected by year-on-year exchange rate variation).



- First half gross margins remained strong through the Christmas and January trading periods;
- Second half gross margins lower year on year primarily due to change in timing of sales mix;
- UK gross margin would have been 51.1% adjusting for clearance activity with store closure (White City, London).

**FY14 SHARE OF BUSINESS
(GROSS PROFIT \$)**



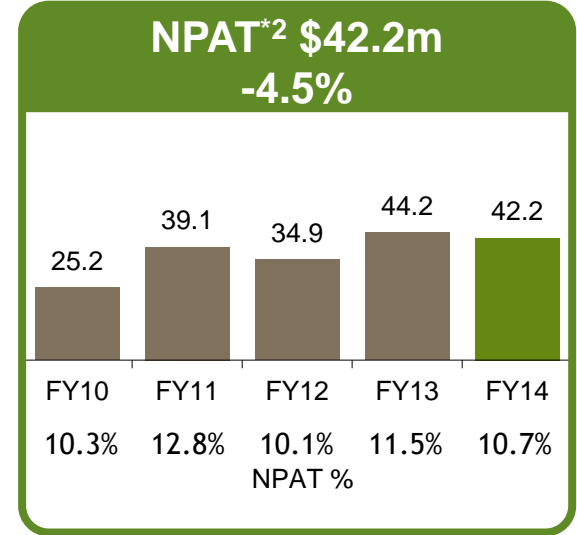
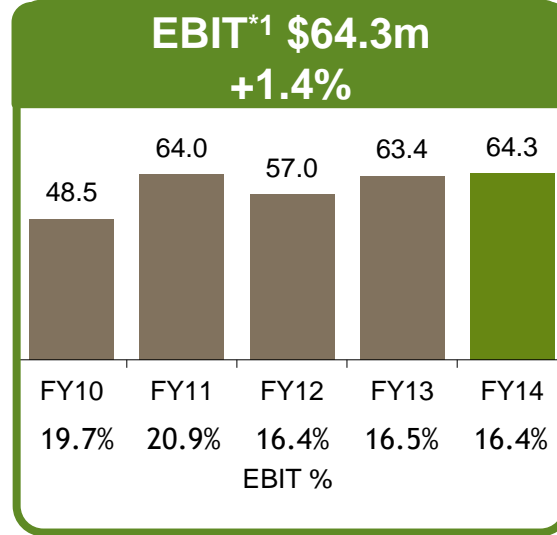
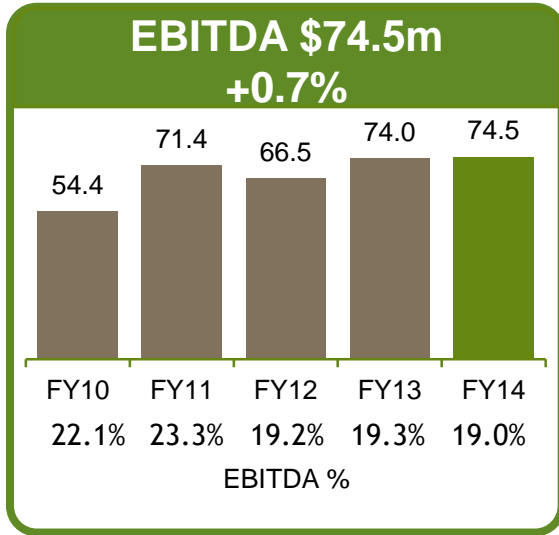
OPERATING EXPENSES: +4.0% to \$175.0m

- Operating expenses increased as a % of sales year on year (70 bps);
- Sales below expectations resulted in higher operating expenses as a % of sales;
- Other operating expenses increased 80bps / 0.8% of sales, primarily advertising and investment (primarily headcount) in online and systems development internal capability.

NZD \$m	FY14	FY13	Var \$	Var %
Rent	44.5	43.8	0.7	1.6%
<i>% of Sales</i>	11.3%	11.4%		
Other operating expenses	130.5	124.5	6.0	4.8%
<i>% of Sales</i>	33.2%	32.4%		
Total operating expenses*¹	175.0	168.3	6.7	4.0%
<i>% of Sales</i>	44.5%	43.8%		
Depreciation & amortisation	10.2	10.6	(0.4)	(3.8%)
<i>% of Sales</i>	2.6%	2.7%		
Cost of doing business	185.2	178.9	6.3	3.5%
<i>% of Sales</i>	47.1%	46.6%		

1. FY14 total operating expense decrease attributable to year-on-year exchange rate movement \$12.9m.

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



CAGR since listing:

- EBITDA: 8.2%
- EBIT: 7.3%
- NPAT: 13.8%

1. EBIT includes negative YOY exchange rate impact \$5.8m.
 2. FY10 NPAT result excludes IPO costs net of associated tax deductions.

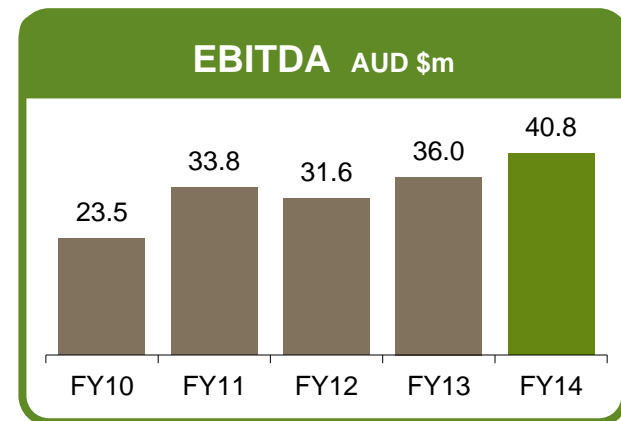


Country Results

SALES: +14.8% to \$227.8m

- Same store sales growth above 6% for the fourth successive year;
- Total operating expenses (excl. depreciation):
 - FY14 48.4% of sales;
 - FY13 48.2% of sales.
- 14 new stores:
 - 4 in 1H FY14;
 - 10 in 2H FY14:
 - Melbourne (Chadstone, Emporium);
 - Brisbane (Indooroopilly);
 - Perth (Belmont);
 - Regional VIC (Shepparton, Traralgon);
 - Regional NSW (Charlestown);
 - Regional QLD (Rockhampton, Hervey Bay);
 - Regional WA (Bunbury).
- 1 store closed in 1H FY14:
 - Sydney (Chatswood Outlet).
- Refurbishments / Relocations:
 - 2 stores relocated, 7 stores refurbished;
 - Major refurbishments: Brisbane, Cronulla, Macquarie.

AUD \$m	FY14	FY13	Var %
Sales	227.8	198.4	14.8%
Same store sales growth	6.9%	6.7%	
EBITDA (trading result) ¹	40.8	36.0	13.3%
EBITDA margin %	17.9%	18.1%	
Permanent Open Stores	100	87	

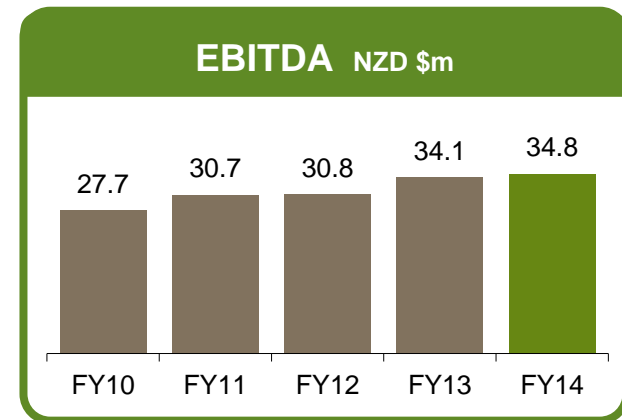


1. A reconciliation of EBITDA (trading result) to the financial statements is included in Appendix 1.

SALES: +2.9% to \$141.0m

- Same store sales growth in all 2H FY14 months except June;
- EBITDA 4yr CAGR 5.9%;
- Improved gross margin despite winter challenges;
- Total operating expenses (excl. depreciation):
 - FY14 33.5% of sales;
 - FY13 32.8% of sales.
- Higher operating expenses as a % of sales reflect mainly the outcome of sales not meeting expectations;
- 1 new store in 1H FY14:
 - Auckland (St Lukes).
- Refurbishments / Relocations:
 - 4 stores relocated, 2 stores refurbished;
 - Major relocations: Wellington Outlet, Napier, Onehunga;
 - Major refurbishments: Petone, Queen St (Auckland).

NZD \$m	FY14	FY13	Var %
Sales	141.0	137.0	2.9%
Same store sales growth	(0.1%)	4.4%	
EBITDA (trading result) ¹	34.8	34.1	2.1%
EBITDA margin %	24.7%	24.9%	
Permanent Open Stores	45	44	

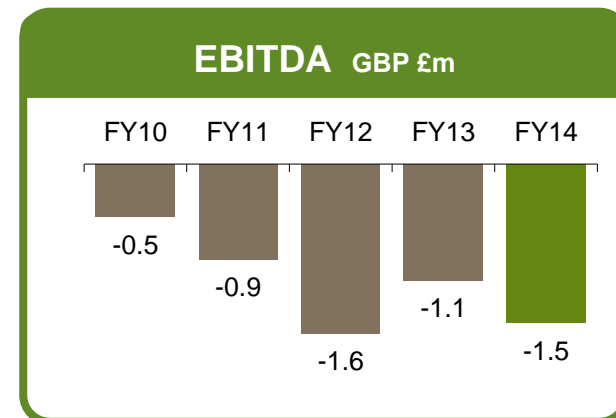


1. A reconciliation of EBITDA (trading result) to the financial statements is included in Appendix 1.

SALES: -22.6% to £2.4m

- Same store sales growth 12.7% (incl. Online);
- Gross margin met expectations;
- Initial brand building advertising costs £0.24m;
- Total operating expenses (excl. depreciation):
 - FY14 112.1% of sales;
 - FY13 87.4% of sales.
- 1 store closed in 1H FY14:
 - White City (London).
- Refurbishments / Relocations:
 - Refurbished: Spitalfields, Covent Garden.

GBP £m	FY14	FY13	Var %
Sales	2.4	3.1	(22.6%)
Same store sales growth* ¹	7.4%	(7.0%)	
Online sales growth* ²	53.4%	1.9%	
EBITDA (trading result)* ³	(1.5)	(1.1)	(36.4%)
EBITDA margin %	(62.5%)	(35.5%)	
Permanent Open Stores	4	5	



1. Excludes Online (below).
2. Kathmandu.co.uk website only. Excludes Amazon UK and NEXT UK.
3. A reconciliation of EBITDA (trading result) to the financial statements is included in Appendix 1.



Cash Flow
Balance Sheet
Dividend



Capital expenditure \$24.2m (LY \$17.4m):

- New stores capex \$8.7m (LY \$10.5m):
 - 15 new stores;
 - 6 relocations.
- Existing stores capex \$6.1m (LY \$2.2m):
 - Major refurbishments at Brisbane CBD, Queen St (Auckland), Petone (Wellington) and Spitalfields (London).
- IT capex \$8.6m (LY \$3.6m):
 - Microsoft Dynamics AX.
- Other capex \$0.8m (LY \$1.1m).

NZD \$m	FY14	FY13
NPAT	42.2	44.2
Change in working capital	(22.6)	(6.1)
Change in non-cash items	11.6	7.6
Operating cash flow	31.2	45.7

Key Line items:		
Net interest paid (including facility fees)	(4.4)	(4.5)
Income taxes paid	(19.6)	(18.4)
Capital expenditure	(24.2)	(17.4)
Dividends paid	(24.0)	(20.0)
Increase/(Decrease) in term borrowing	20.8	(7.5)

- Net debt increase primarily inventory increase (refer following slide);
- Debt facility to be renegotiated 1H 2015;
- Interest rate swaps (NZ \$22m, AU \$24m).

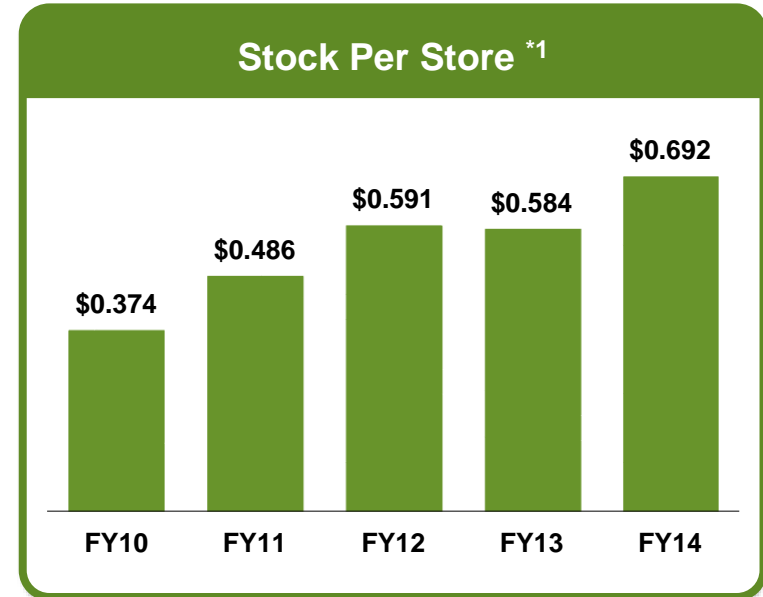
Key Ratios	FY14	FY13
Gearing ^{*1}	15.5%	12.0%
Stock Turns ^{*2}	1.6	1.9

NZD \$m	FY14	FY13
Inventories	103.8	80.0
Property, plant and equipment	48.4	43.4
Intangible assets	238.7	234.9
Other assets	10.2	15.6
Total assets (excl. cash)	401.1	373.9

Net interest bearing liabilities and cash	55.3	40.2
Other non-current liabilities	0.2	0.7
Current liabilities	43.5	38.8
Total liabilities (net of cash)	99.0	79.7
Net assets	302.1	294.2

1. *Net Debt / (Net Debt + Equity) at balance date.*
 2. *COGS (rolling 12 months) / Average Inventories (start and end of period).*

- Year on year increase in stock per store 18.5%, slightly higher than expectations;
- Growth in operating inventory to support new stores and online growth;
- Online sales now equivalent to eight average stores;
- Targeted investment in key categories for winter;
- Action taken on winter clearance items during August;
- Year on year increase in stock per store as at 31 August, 11.8%.



Key Ratios	FY14	FY13
Stock Turns ^{*2}	1.6	1.9

1. Each year includes permanent and temporary stores.
 2. COGS (rolling 12 months) / Average Inventories (start and end of period).

- NZ 9.0 cents per share final dividend; full year payout NZ 12.0 cps (2013: NZ 12.0 cps);
- Supplementary dividend payable to non-NZ shareholders of 0.15882 NZ cps;
- AU dividend will be fully franked;
- NZ dividend will be fully imputed;
- Record date 10 November 2014, Payment date 21 November 2014.

- Effective USD hedge rates FY14:
 - AUD/USD 0.961 FY14 vs 1.005 FY13;
 - NZD/USD 0.805 FY14 vs 0.791 FY13.
- Forward Hedging Position:
 - Longest dated hedges September 2015;
 - FY15 over 90% cover for full year;
 - Rolling cover applied 12 months forward.
- No hedging NZD/AUD.

FORWARD HEDGING POSITION		FY15	FY16
AUD/USD	% covered	90%+	10%+
	Effective Rate	0.897	0.910

NZD/USD	% covered	90%+	10%+
	Effective Rate	0.816	0.812



Growth Strategy Update

GROWTH STRATEGY

COMMENTARY

New store rollout

- 180 stores targeted for Australia and New Zealand

- Expect to open most of these stores by FY17
- 15 new stores in FY15, 8 sites already confirmed and most are planned to open before Christmas
- New stores including small format continue to perform to expectations
- Introducing CBD flagship stores
- Exploring further store rollout / format opportunities

Summit Club Loyalty Programme

- Focus on building an enhanced loyalty and individual engagement programme
- Foundation for global sales growth

- Summit Club rewards scheme enriched: accumulated spend balances no longer expire
- Dynamics CRM platform enabler to achieve best practice loyalty programme with comprehensive customer insight and segmentation capability
- Significant upside potential in Australian Summit club: c.50% increase in member numbers targeted by end FY17
- Strong growth in active UK member numbers for improved SSS

Enhance product offering

- Invest in growth categories
- Maintain innovation, leadership and competitiveness

- Investment in capability continues, particularly in our design team (new Head of Design recruited)
- 3 year product roadmap to enhance product range and seasonal colour consultancy allows us to remain on trend
- Improving research and product development, selection of technical fabrics
- Sustainability remains a key focus for supplier, fabric, and packaging selection

GROWTH STRATEGY

COMMENTARY

<p>Online and international</p>	<ul style="list-style-type: none"> • Grow online sales in AU, NZ and international markets. 	<ul style="list-style-type: none"> • Online sales now over 5% of total Group sales • International shipping launched, international Summit Club membership growing • International market place sites launched (NEXT, Amazon), other similar opportunities from 2015 onwards
<p>Optimise existing store network</p>	<ul style="list-style-type: none"> • Maximise market potential / share by fully optimising the existing store locations 	<ul style="list-style-type: none"> • Lease renewals allow us to re-assess store positioning, size, and ranging, for best return on resulting refurbishment/ relocation investment • Store categorisation and assortment range planning, by size and network role, to optimise GMROF/GMROI from product ranges • Flagship and brand store roles defined across the network for role in brand building, product merchandising and range extension
<p>Growth strategy enablers</p>	<ul style="list-style-type: none"> • Investing in systems, supply chain and people 	<ul style="list-style-type: none"> • Transforming systems architecture key enabler to improving customer omni-channel experience and entering new markets • End to end capability, scalability and continual upgrade path enable back office and supply chain efficiencies • New Christchurch support office allows for future growth and provides enhanced creative work environment

Australia remains key growth region for the next 5 years; targeting at least 50% of NZ per capita spend equates to c.A\$340m sales.

Where this \$110m growth will come from:

- Store rollout c.30 stores;
- Brand awareness increasing:
 - advertising “share of voice”;
 - more prime locations;
 - customer loyalty.
- Summit club membership growth and spend per member growth;
- Product range alignment with Australian market;
- Store format / assortment range planning optimised for Australia.

Key Measures	FY14	FY09	CAGR %
Sales (AUD \$m)	227.8	98.5	18.3%
EBITDA (AUD \$m)	40.8	21.1	14.1%
Stores	100	45	
Summit Club members	Growth of over 500k members		
Sales per capita (AUD)	\$9.85	\$4.64	16.3%
<i>Sales per capita NZ (NZD)</i>	<i>\$31.59</i>	<i>\$19.93</i>	<i>9.6%</i>
Stores per million people	4.3	2.1	

- UK business reorganisation complete, initial results very positive;
- Internal performance milestones reached (SSS, brand tracking, Summit Club). This provides confidence to continue investing;
- Major brand awareness campaign is about to commence, local UK management recruited, focus is on customer base expansion and brand development;
- Increased brand awareness will drive sales in existing channels: stores, online, NEXT, Amazon and soon eBay. Potential for wholesale channels is being explored;
- First European marketplace listing will be on Otto, early 2015, other sites being actively pursued;
- A structured investment programme over the next 3 years, ring fenced and reassessed annually to determine success. FY2015 plan to spend c. \$5m.

- Australasian business growth strategies clearly identified and will continue to be executed;
- Expect to increase sales and earnings in Australasia through next 3 to 5 years at least;
- This is the right time for Kathmandu to pursue growth outside the Australasian foundation for global brand opportunity;
- Technology and infrastructure investment enables expansion;
- Level of spend to support UK, Europe and global sales is:
 - relatively small (thus lower risk), but with;
 - performance targets and outcomes that are clear and measurable.
- Focus for investment initially on brand awareness and increased customer numbers and retention;
- Outside Australasia sales through online channels prioritised rather than store network expansion;
- Long term significant upside and further opportunity if positive earnings achieved from global growth.



FY15 Outlook

Market / Environment

- For the foreseeable future, global environment will be uncertain;
- Australian economic growth prospects still subdued, New Zealand may slow down in 2015;
- Outdoor category competitor mix changing, and very competitive particularly in New Zealand;
- Accessibility of international brands a key challenge to continued local growth, but equally an opportunity for us globally.

Kathmandu

- August/September trading to date very strong supported by winter clearance campaign. Group same store sales growth to 14 September over 30%;
- Recruitment process underway for a new CEO.

Summary

- First phase of 3 year investment in global brand development, focused initially on UK and Europe;
- Australasian sales expected to continue to grow at similar rates to FY14 and improved earnings can be anticipated from AU/NZ, however the overall outcome will be impacted by the UK investment.



Questions

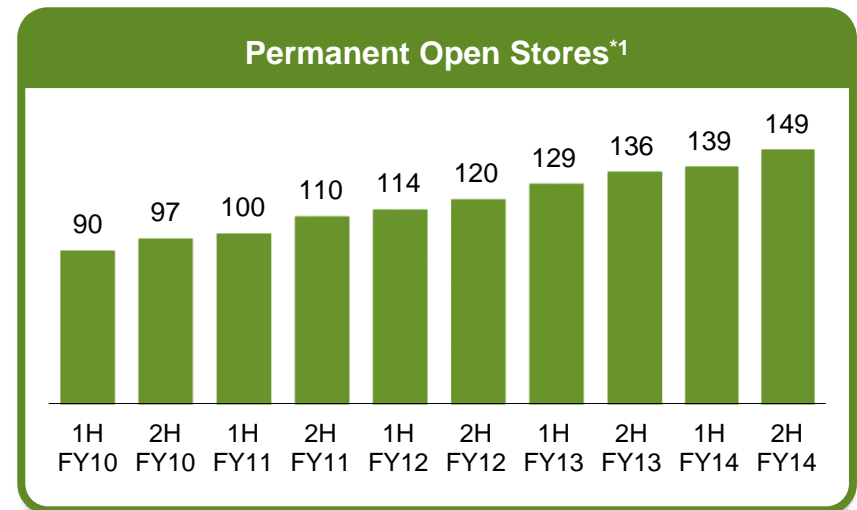


Appendix 1 – Reconciliation of Country Trading Results **Kathmandu®**

Australia (NZ \$m)	FY14	FY13
Segment profit	29.7	20.5
Net interest	2.7	2.1
Facility fees	0.3	0.3
Depreciation	6.2	7.0
Inter-Co. financing	2.7	3.4
Foreign currency borrowings (Gain)/Loss	2.7	10.4
EBITDA (trading result)	44.3	43.7

New Zealand (NZ \$m)	FY14	FY13
Segment profit	30.7	30.3
Net interest	1.1	1.7
Facility fees	0.2	0.3
Depreciation	3.7	3.2
Inter-Co. financing	(2.7)	(3.4)
Holding Co. costs	1.7	1.8
Foreign currency borrowings (Gain)/Loss	0.0	0.2
EBITDA (trading result)	34.8	34.1

United Kingdom (NZ \$m)	FY14	FY13
Segment profit	(3.1)	(2.3)
Depreciation	0.3	0.4
Foreign currency borrowings (Gain)/Loss	(0.1)	(0.1)
EBITDA (trading result)	(2.9)	(2.0)



1. Currently also trading from one temporary site: Cashel St Re-Start (Christchurch). Excludes Online store.
2. Rounding differences may arise in totals, both \$ and %.