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KATHMANDU HOLDINGS LIMITED (ASX/NZX: KMD)

ASX/NZX/Media Announcement
24 September 2013

Kathmandu Holdings announces FY2013 full year results:

- **Sales up $36.9m (10.6%) to NZ$384.0m,**
- **EBIT up 11.2% to NZ$63.4m,**
- **NPAT up 26.6% to NZ$44.2m,**
- **Earnings per share 22.1 cps, up 4.7c**

Final dividend 9.0 cents per share, full year payout of 12.0 cents per share (up 20%).

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ$63.4 million, for the year ended 31 July 2013, an increase of $6.4 million compared with the prior corresponding period. Net profit after tax (NPAT) increased from NZ$34.9 million to NZ$44.2 million for the same period.

RESULTS OVERVIEW

	NZ $m		**Growth**	
Year ending 31 July 2013	**FY2013**	**FY2012**	**NZ $m**	**%**
Sales	384.0	347.1	36.9	10.6%
Gross Profit	242.0	219.5	22.5	10.3%
EBITDA	74.0	66.5	7.5	11.3%
EBIT	63.4	57.0	6.4	11.2%
NPAT [1]	44.2	34.9	9.3	26.6%

1. FY2013 NPAT includes $3.1m taxation expense benefit from Australian intercompany loan revaluation.

Kathmandu Holdings Limited Chief Executive Officer, Mr. Peter Halkett said “this was a good result given the difficult retail environment. It was pleasing to achieve positive same store sales growth over the year. Operating expenses reduced as a % of sales compared to FY2012, which also contributed to earnings growth.”

For the full year same store sales growth was 5.6% at comparable exchange rates (1.8% at actual exchange rates). The company opened seventeen new permanent stores, eight of these in the second half. Online sales growth of 55% contributed over 4% of total sales.

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SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Year ending 31 July 2013	NZ $m FY2013	% of Total	Total sales growth %*[1]	Same store growth %	FY2013 # new stores
Sales – Australia	241.1	62.8%	19.5%	6.7%	14
Sales – New Zealand	137.0	35.7%	8.6%	4.4%	2
Sales – United Kingdom	5.9	1.5%	(12.2%)	(6.5%)	1
Total	**384.0**	**100.0%**	**10.6%**	**5.6%**	**17**

[1] Calculated on local currency sales results (not affected by year-on-year exchange rate variation)

Australia and New Zealand both performed strongly, delivering positive comparable sales growth on the previous corresponding period.

Permanent stores open 31 July 2013	FY2013	FY2012
Australia	87	72
New Zealand	44	42
United Kingdom	5	6
Total Group	136	120

In the second half year Kathmandu opened eight new stores (following nine in the first half) and closed two stores in the United Kingdom as part of the re-organisation of that business:

- Australia: Eastgardens, Penrith (Sydney), The Glen, Nunawading (Melbourne) and Hobart CBD.
- New Zealand: Pukekohe, Westgate (Auckland).
- United Kingdom: Kensington High Street (London) opened. Closed Berners St (London) and Brighton.

During the year four stores were relocated; Richmond (Melbourne) and Perth in Australia, Nelson and Invercargill in New Zealand. Major refurbishments were completed in the Highpoint, Knox City (Melbourne), Bondi (Sydney) and Covent Garden (London) stores.

In the first half of FY2014, seven new stores are confirmed, six of these in Australia:
- West Lakes (Adelaide);
- Northland, Uni Hill, Emporium (Melbourne); and
- Jindalee, Indooroopilly (Brisbane)

The first New Zealand small format store opened at St Lukes in Auckland last week.

The new online platform launched early in FY2013 has supported further strong growth in this sales channel. “We expect the growth opportunities available to us online to be enhanced further as we offer an improved customer experience by utilising our CRM capabilities” said Peter Halkett. He further commented that “sales growth in the UK and other markets globally will be focused on driving brand awareness in the online channel, supported by launching the Kathmandu brand in web based marketplaces such as Amazon, where Kathmandu UK has just launched a selected product range."

Year ending 31 July 2013	FY2013	FY2012
Gross profit margin %	63.0%	63.2%

Gross profit margin remained within Kathmandu's target range of 62% to 64%. Margins were slightly reduced in Australia (down 60 bps) and marginally improved in New Zealand (up 10bps). Margins in the United Kingdom were lower than FY2012 by 200 bps due to the impact of clearance activity associated with store closures.

OPERATING COSTS

Operating Expenses	**NZ $m & % of Sales**	
(excluding depreciation)	**FY2013**	**FY2012**
Rent	43.8m	39.6m
% of Sales	*11.4%*	*11.4%*
Other operating costs	124.2m	113.4m
% of sales	*32.4%*	*32.7%*
Total	**168.0m**	**153.0m**
% of sales	*43.8%*	*44.1%*

Kathmandu's operating expenses decreased by 30 bps as a % of sales. Expenses in the second half year were consistent with the prior comparable period as a % of sales. Although retail rent increased as a % of sales, this was offset by leverage achieved in warehouse and office rent costs, and the effect of exchange rate translation. Advertising and distribution costs reduced as a % of sales, whilst operating costs related to sales activity, both retail and online, increased due to continuing growth in the Australian domiciled portion of the total business.

"We were successful in reducing operating costs as a % of sales. This continues to be a key priority and we are confident Kathmandu will achieve further efficiency improvements in the future" said Mr. Halkett.

EBIT margin increased from 16.4% to 16.5% of sales. Earnings per share grew by 27.0% to 22.1 cents per share (FY2012: 17.4 cents per share).

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OTHER FINANCIAL INFORMATION

	NZ $m	
Year ending 31 July 2013	**FY2013**	**FY2012**
Capital Expenditure	17.4	21.8
Operating Cashflow	45.7	32.5
Inventories	80.0	73.3
Net Debt	40.2	51.9
Net Debt : Net Debt + Equity	12.0%	15.7%
Interim Dividend (cents per share)	3 cents	3 cents
Final Dividend proposed (cents per share)	9 cents	7 cents

The decrease in capital expenditure year on year was a combination of timing, with $2.2m of spend relating to store projects completed in FY2013 occurring in FY2012, and efficiency improvements in our store rollout programme. In addition to the seventeen permanent new stores opened in FY2013, eight stores have either been relocated or refurbished during the period. Other capital investment included reconfiguration of the Australian distribution centre and the first modules of our new retail systems platform.

Total inventories have increased by $6.7m (9.1%), with early timing of summer season deliveries contributing $2.5m of this increase.

Total net debt at 31 July decreased by 22.5% on the previous year as a result of increased operating cash flow and reduced capital expenditure. The ratio of net debt to net debt plus equity at 31 July decreased to 12.0%.

FINAL DIVIDEND

Kathmandu confirms that a final dividend of NZ 9.0 cents will be paid, bringing the total dividend payout for FY2013 to 12.0 cents (FY2012: 10.0 cents). The dividend will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders.

FUTURE OUTLOOK

Peter Halkett confirmed Kathmandu's overall key growth strategies remain consistent. "We will continue to invest in our store network through opening new stores and relocating or refurbishing existing stores in Australia and New Zealand. Maximising the return on the investment made in inventory and store space remains a key focus while continuing to effectively manage operating costs." Mr. Halkett noted that "Kathmandu will continue to invest in systems infrastructure to grow our online sales, given the opportunity presented by this channel." He concluded by saying that "providing there is no deterioration in economic conditions, Kathmandu expects another solid performance in FY2014."

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