Kathmandu FY15 Full Year Results

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ$33.2 million for the year ended 31 July 2015, a decrease of NZ$31.1 million compared with the prior corresponding period. Net profit after tax (NPAT) decreased from NZ$42.2 million to NZ$20.4 million for the same period. A final dividend of NZ 5.0 cents per share will be paid, bringing the full year payout to NZ 8.0 cents per share.

Summary of Results

	NZD $m		Change	
	FY2015	**FY2014**	**NZD $m**	**%**
Sales	409.4	392.9	16.5	4.2%
Gross Profit	251.9	248.1	3.8	1.5%
EBITDA	47.1	74.5	(27.4)	(36.8%)
EBIT	33.2	64.3	(31.1)	(48.4%)
NPAT	**20.4**	**42.2**	**(21.8)**	**(51.7%)**
NPAT excluding non-recurring items	21.8	41.2	(19.4)	(47.1%)

Kathmandu's FY2015 result was a disappointing outcome from a challenging year.

The key contributing factors to the reduction in earnings were:

- Excess inventory entering FY2015 requiring aggressive clearance activity in Q1 FY2015 at compressed margins;
- Pricing and promotional activity during the first three quarters of FY2015 caused customer confusion, and was compromised by clearance activity;
- The rate of operating cost increases in anticipation of sales growth that did not eventuate;
- Subdued consumer sentiment impacting on the Australian retail environment; and
- Weakening foreign exchange rate increasing the cost of goods.

Chief Executive Xavier Simonet commented:

"The results for FY2015 were disappointing and well below our expectations. After a challenging first three quarters, our Winter promotion delivered improved same store sales and gross margin results year on year, which was a significantly better outcome than our

Christmas and Easter promotions. Summit Club members responded to a shift in promotional strategy which focused on new products and highlighted features and benefits, rather than a price and discount message."

Non-recurring items incurred in FY2015 relate to the relocation of the Australian distribution centre and Christchurch support office, along with costs arising due to the Briscoe takeover process.

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth FY2015

Sales growth in Australia was due to the expansion of the store network. Same store sales reduced by 2.7% in Australia and 1.1% in New Zealand.
In the UK growth was recorded in both total and same stores sales during the period.

	Total Sales	Total Sales Growth		Same Store Sales Growth	
	NZD $m	Local currency	NZD	Local currency	NZD
Australia	264.6	6.3%	7.0%	(2.7%)	(2.0%)
New Zealand	139.1	-1.3%	-1.3%	(1.1%)	(1.1%)
United Kingdom	5.7	17.3%	21.4%	15.7%	19.7%
Total	**409.4**	**3.7%**	**4.2%**	**(1.9%)**	**(1.4%)**

Note: Same store sales are for the 53 weeks ending 2 August 2015

Online Sales Growth

Online sales growth continued to be strong in all countries, with overall growth of c.28% led by an uplift of over 79% in the UK. Online sales are now 6.2% of total sales.

Permanent Store Openings

Kathmandu opened eight new permanent stores in the first half of FY2015, and two more in the second half of FY2015, all in Australia.

Gross Margin

Gross margin declined 1.6% pts from 63.1% in FY2014 to 61.5% in FY2015. In 2H FY2015 gross margin improved by 0.7% pts from 62.6% to 63.3%. This improvement, driven by less discounting, was particularly evident in the Winter sale promotion where margins improved by over 3.5% pts year on year.

1H FY2015 margins declined as a result of a combination of factors including the sale of a large amount of clearance stock, below target sales of higher margin summer apparel product groups, and price pressure in some key product categories.

Inventory levels

Total inventory levels increased by 9.2% (NZ$9.5m) on last year and by 2.3% on a per store basis at actual exchange rates.

	FY2015 NZD $m	**FY2014 NZD $m**	**Change NZD $m**	**Change %**	**Change per store %**
Inventory	113.3	103.8	9.5	9.2%	2.3%

The timing of new season deliveries, fewer new store openings than planned and stock investment required to support online growth have contributed to this increase. The level of clearance stock was a particular focus throughout the year, and we ended FY2015 with c.40% less aged stock than last year. Clearance stock on hand was 15% below last year following the conclusion of Winter sale.

Operating Expenses

Operating expenses have increased by NZ$29.8m and by 5.5% as a percentage of sales compared to FY2014. The primary increases are:

- Over half is attributable to retail stores and online operating costs including the full year effect of the 15 stores opening during FY2014, and part year costs of the 10 new stores opened during FY2015;
- UK growth investment expenditure (NZ$2.8m);
- Increased promotional activity; and
- Non-recurring items relating to the relocation of the New Zealand support office, Australian distribution centre and costs from the Briscoe takeover process (NZ$1.9m).

Following a structural review, cost savings of c.NZ$7.0m have been planned and are being implemented during FY2016.

Operating expenses (excluding depreciation)

	FY2015 NZD $m	FY2014 NZD $m
Rent	53.0	44.5
% of Sales	12.9%	11.3%
Other operating costs	151.8	130.5
% of Sales	37.1%	33.2%
Total	**204.8**	**175.0**
% of Sales	50.0%	44.5%

Other Financial Information

Capital expenditure decreased by NZ$4.2m compared to the prior period due to reduced investment in new and refurbished stores and a reduction in core systems investment as the upgrade project was completed in the first half of FY2015.

Operating cash flow was NZ$1.6m or 5.1% lower than FY2015. However, cash conversion was improved year on year. Gearing has increased from FY2014 but remains conservative.

	FY2015 NZD $m	FY2014 NZD $m
Capital Expenditure	20.0	24.2
Operating Cash Flow	29.6	31.2
Net Debt	69.3	55.3
Net Debt: Net Debt + Equity	18.1%	15.5%

Final Dividend

A final dividend of NZ5.0 cents per share will be paid to shareholders on the register as at 9 November 2015. The dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders.

Outlook

Chief Executive Xavier Simonet commented:

"The FY2015 result has highlighted the need to review our cost structure and we have taken decisive action on this already. It also emphasised the need to optimise our pricing strategy and promotional model in order to improve same store sales growth and profitability in existing stores. These levers will remain a strong focus for management in FY2016.

We are committed to our long term target of 180 stores across Australasia. In FY2016 three new stores are confirmed along with relocations of our flagship stores in Melbourne and Adelaide CBD's.

The Board has taken the decision to exit the UK store network in FY2016. We intend to build on our brand equity and online platform to expand internationally using a capital light model.

I am immensely excited to have joined Kathmandu in July 2015. More than a retail business, Kathmandu is an inspiring brand with a strong heritage. We have already embarked on plans to make the brand more distinctive and engage with its target customers, particularly through Summit Club.

Strengthening the distinctiveness of the brand will also open up opportunities to be relevant in international markets as well as on social, digital and online channels.

We remain committed to our FY2016 forecast."

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