

## Kathmandu Holdings Limited FY2016 first half results

- Sales increased by 9.3% to NZ\$196.0m
- Gross profit increased by 15.8% to NZ\$123.1m
- Gross margin increased from 59.3% to 62.8%
- EBIT increased to NZ\$15.1m from NZ\$0.6m
- NPAT increased to NZ\$9.4m from a loss of NZ\$1.8m

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ\$15.1 million for the six months ended 31 January 2016, an increase of NZ\$14.5 million compared with the prior corresponding period. Net profit after tax (NPAT) of NZ\$9.4 million was an increase of NZ\$11.2 million over the first half of FY2015.

### Summary of Results

	1H FY16 NZD \$m	1H FY15 NZD \$m	Change NZD \$m	Change %
Sales	196.0	179.4	16.6	9.3%
Gross Profit	123.1	106.3	16.8	15.8%
EBITDA	21.9	6.8	15.1	
EBIT	15.1	0.6	14.5	
<b>NPAT</b>	<b>9.4</b>	<b>(1.8)</b>	<b>11.2</b>	

Chief Executive Officer Xavier Simonet commented:

“The results for the first half of FY2016 were in line with our expectations. Operating margin improvement was achieved as a result of increased full price sell through combined with implementing planned cost efficiencies.”

## Sales, Store Numbers, Gross Margin and Inventory

### Sales Growth

Same store sales growth was recorded in all markets and was supplemented by expansion of the store network in Australia and New Zealand.

	<b>Total Sales</b>	<b>Total Sales Growth</b>		<b>Same Store Sales Growth</b>	
	NZD \$m	Local currency	NZD	Local currency	NZD
Australia	124.2	8.9%	11.7%	4.3%	7.0%
New Zealand	68.2	4.6%	4.6%	3.1%	3.1%
United Kingdom	3.6	1.6%	19.1%	1.5%	18.9%
<b>Total</b>	<b>196.0</b>	<b>7.2%</b>	<b>9.3%</b>	<b>3.8%</b>	<b>5.8%</b>

Note: Same store sales are for the 26 weeks ending 31 January 2016.

### Online Sales Growth

Online sales grew strongly in all countries, with overall growth of c. 23% resulting in online sales making up 6.6% of total sales.

### Store Openings

Kathmandu opened four new stores in the first half of FY2016, three in Australia, and one in New Zealand.

### Gross Margin

Gross margin improved 3.5% pts from 59.3% in 1H FY15 to 62.8% in 1H FY16.

Improved full price sell through along with initial actions taken to optimise pricing and promotional activity contributed to this increase. It is expected that gross margins in 2H FY16 will come under increasing pressure as USD hedging matures at less favourable rates.

### Inventory

Total inventory increased by 6.2% (NZ\$6.0m) on 1H FY15 and by 2.9% on a per store basis at actual exchange rates.

	<b>1H FY16</b>	<b>1H FY15</b>	<b>Change</b>	<b>Change</b>	<b>Change</b>
	NZD \$m	NZD \$m	NZD \$m	%	per store %
Inventory	103.3	97.3	6.0	6.2%	2.9%

The monetary value of inventory on hand increased due to appreciation of the USD. In terms of units available for sale vs last year, there were c. 9% fewer stock units on hand as at 31 January 2016.

### **Operating Expenses**

Operating expenses increased by NZ\$1.8m but decreased by 3.8% as a percentage of sales compared to 1H FY15.

Rent grew by NZ\$3.7m reflecting the full year impact of stores opened during FY2015 and new stores opened in 1H FY16.

Other operating expenses (inclusive of net UK store exit costs) decreased by NZ\$1.9m or 4.5% as a percentage of sales, with efficiencies achieved in advertising and distribution following a structural review which targeted cost savings of c. NZ\$7.0m during FY2016. Non-recurring expenses of NZ\$1.0m were incurred for net UK store exit costs and support office restructuring.

### **Operating expenses (excluding depreciation)**

	<b>1H FY16</b>	<b>1H FY15</b>
	<b>NZD \$m</b>	<b>NZD \$m</b>
Rent	29.0	25.3
<i>% of Sales</i>	<i>14.8%</i>	<i>14.1%</i>
Other operating expenses	72.3	74.2
<i>% of Sales</i>	<i>36.9%</i>	<i>41.4%</i>
<b>Total</b>	<b>101.3</b>	<b>99.5</b>
<i>% of Sales</i>	<i>51.7%</i>	<i>55.5%</i>

### **Other Financial Information**

Capital expenditure increased by NZ\$3.1m compared to the prior corresponding period due to investment in distribution capacity in Australia, which was offset by a reduction in core systems investment (project completed in 1H FY15).

Operating cash flow was NZ\$30.0m higher than 1H FY15 with improved cash conversion.

Gearing decreased from 1H FY15 and remains conservative.

	1H FY16 NZD \$m	1H FY15 NZD \$m
Capital Expenditure	12.9	9.8
Operating Cash Flow	24.2	(5.8)
Net Debt	66.8	85.5
Net Debt: Net Debt + Equity	17.9%	22.6%

### **Interim Dividend**

An interim dividend of NZ3.0 cents per share will be paid to shareholders on the register as at 3 June 2016. The dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders.

### **Outlook**

Chief Executive Xavier Simonet commented:

“While it is good to be on track with our plan for the first half, as in every year, the full year result is highly dependent on the sales and margin achievement in our Easter and Winter campaigns. We have just commenced our Easter Sale so it is too early to provide an update on this promotion.

We remain committed to offering great value, innovative, distinctive and quality products to our customers and providing a seamless shopping experience whether instore or online.

I am excited about the opportunities for Kathmandu to further expand into international markets and our profitable Australasian business is providing the foundation for this.

Sustainable growth requires continued cost efficiencies and leveraging existing investments and this will remain a strong focus for management in FY2016 and beyond.

We reconfirm our stated FY2016 full year net profit after tax guidance of NZ\$30.2m.”