

## KATHMANDU HOLDINGS LTD 20 NOVEMBER 2013

### CHAIRMAN'S ADDRESS TO ANNUAL GENERAL MEETING

Firstly please note that a copy of this address is available on the Company's website, at [www.kathmanduholdings.com](http://www.kathmanduholdings.com).

I am pleased to report a record sales and earnings result for Kathmandu Holdings Limited in the 2012/2013 year. Kathmandu's continued leadership of the outdoor, travel and adventure categories in New Zealand and Australia was reflected in solid same store sales growth in both markets, and a 26.6% uplift in Group profits for the year to a record \$44.2 million. This result was viewed positively by investor markets in both countries, particularly in comparison to the listed retail sector, and our share price has been significantly re-rated since the result was announced in late September.

Before talking further about our performance, I want to note as I did in our Annual Report the very tragic loss earlier this year of James Strong our founding Chairman. Kathmandu's success as an already substantial but still growing trans-Tasman retailer, owes much to the leadership and guidance James provided us over our first 3 years as a listed company. In May we were very pleased to announce the James Strong Memorial Project in his honour, providing additional education funding to benefit children in the Solu Khimbu region, one of the most remote regions of Nepal. It is fitting in our view that we have been able to remember James in this way, in association with the Australian Himalayan Foundation, recognizing the source of our heritage as an outdoor brand. James was a true lover of the outdoors, and a passionate adventurer. He is sadly missed.

**I will comment on the makeup of your Board later in my address. I turn now to our financial performance in the 2012 -2013 year.**

Kathmandu's Group sales increased in the year by \$37 million to \$384 million. This reflected relatively consistent same store sales performance across the whole year, supported by a number of good quality new stores opened and effective management of operating expenses throughout the twelve months. This growth, supported by steady gross margins and improved operating leverage resulted in a \$6.4 million or 11% increase in earnings before interest and tax. Favourable exchange rate translation benefits resulting in a reduced tax charge, specifically in Australia, further enhanced the growth in earnings at the net profit after tax level to \$44.2m or an increase of 26.6%. It remains inherent to the assessment of Kathmandu's trading performance that earnings are strongly weighted to our second half year result, and in 2012-2013 we did well to achieve sales targets during autumn and winter seasons that were less favourable to us than in the prior year. Peter Halkett will comment further on our trading result, but I am pleased to be able to report a 22.1 cents earnings per share result and the consequent 20% lift in our total dividend payout rate for the full year.

### **Strategic planning and growth opportunities**

Kathmandu has focused to date primarily on the 5 key growth strategies outlined at the time of our IPO in 2009, specifically:

- Continuing our new store rollout in Australia and New Zealand;
- Improvement of our existing store network;
- Enhancing the Kathmandu product offering;
- Growing our Summit Club membership, and
- Developing and growing our online and digital channel capabilities.

We have continued to achieve significant progress against these strategies in the past year, and Peter's presentation goes into further detail on our progress in these areas following my address. The primary short to medium term focus for your Board is the continuing successful execution in a challenging retail and economic environment, of profitable growth in the Australian market. We are achieving this through on-going new store rollout coupled with further enhancement and investment in our online and digital capabilities. This does not mean we are neglecting our New Zealand base, far from it. We have had excellent same store sales growth in this market in the past 3 years, and even though there are limited store rollout opportunities here, we are confident that our brand strength coupled with continuing investment in product design and the resulting depth and variety of range offered will sustain same store sales growth in this market.

In the medium and longer term your Board sees the potential for the Kathmandu brand to grow internationally, and the work done to realign our UK business and develop our online sales channels in this part of the world are important steps in this strategy. We will continue to allocate a substantial portion of our investment to enhancements in this area. This is being done in tandem with building up our team expertise needed to ensure we maximize the potential that the online channel provides a vertical retail brand such as Kathmandu. It is a fairly unique and exciting opportunity for us.

### **Board composition**

We were very fortunate to have Christine Cross join the Board in December 2012. Christine's experience in the international retail and consumer goods sector, with particular emphasis on the online space has been extremely helpful to the Board as we assess and invest to support our future growth plans in this area.

Following James Strong's death we advised that we would utilise an external Search Firm to assist in identifying a replacement director and potential chairman to fill the vacancy. I am pleased to

announce today that David Kirk will be appointed as a Director of Kathmandu following the AGM and our intention is for David to be appointed Chairman in early 2014. David, who is here today, will be well known to investors on both sides of the Tasman for his achievements in business following his successful sporting career. He is currently Chairman of TradeMe Group and Hoyts Group. David is the co-founder and Managing Partner of Bailador Investment Management, sits on the Board of Bailador portfolio companies and a director of Forsyth Barr Group. He also has a number of not for profit directorships. David's experience in online and digital technology will be invaluable to Kathmandu. We look forward to welcoming David to the board.

### **Kathmandu Team**

We have achieved a lot since we listed 4 years ago and it is appropriate to thank the entire dedicated Kathmandu team who have made this possible. The board has set, and will continue to set, challenging growth targets and our team, led by Peter Halkett who is ably supported by Mark Todd, have responded outstandingly. I take this opportunity to record the board's appreciation of these efforts.

## **Looking forward and economic outlook**

The Kathmandu management team has numerous exciting opportunities available that have the potential to deliver future profitable growth for the business over and above our store rollout, and your Board is focused on our need to fully assess, prioritise and support these as appropriate. It is clear that successful execution of our strategies in the 4 years since our IPO has differentiated Kathmandu from our competitors, in that we have absolute control of our brand and our strong balance sheet enables us to invest for growth in the current environment. We intend to continue to build on that competitive advantage.

Economic prospects both globally and in Australia continue to be very uncertain. New Zealand appears to be well placed to weather the next two to three years, and we have reasonable confidence in our prospects in this market, but, Australian retail conditions have not been favourable to most discretionary retail categories throughout 2013. Kathmandu is well placed to deal with this environment, but we are not immune from economic uncertainty. On the positive side, we believe this is also a time to take the opportunity to invest to grow our business, and we are confident Kathmandu's strong market position will continue to be enhanced, even if there are tougher times ahead for our category. On behalf of your Board, I thank you for your support as investors and you can be confident we will continue to invest for profitable growth in the future.

**I will now ask our CEO, Peter Halkett, to address you.**

**John Harvey**

**Chairman**