KATHMANDU – FULL YEAR RESULT – YEAR ENDED 31 JULY 2011

21/9/2011 Media Conference

Peter Halkett – Welcome everybody, with me today is Mark Todd our Chief Financial Officer. We are going to be discussing our results for twelve months ending 31st July 2011. We will be talking to the results and the full year presentation that we filed this morning on the ASX the NZX and our corporate website I presume most people have either got that or had access to that and that will allow you to follow me as I work through the presentation. I will be presenting the results throughout in our reporting currency which is NZ dollars. The presentation will be about 20 minutes and then we will have time for questions with a total allocated time of 30 minutes. I have to say that in my previous presentation I was very naughty and went over time and I apologise for that. Let me just start running through an outline of the topics we are going to cover today and also point out Mark Todd will be presenting some highlights as well.

To start the presentation I would like to highlight we are using our new brand identity for this presentation and new logo, the feedback we have had from our customers and the market generally has been very very positive and I feel very proud to be able to use this for the first time publicly, thank you. From a topics point of view we are going to cover the key line items, the country results, cash flow, balance sheet, dividends, talk about our growth strategy, the outlook and take some questions. We are probably going to move relatively quickly through the financials and concentrate on the growth strategy and the outlook because I know that is what most are interested in.

The highlights – record sales of 306 million and a record Ebit result of 64 million. There was strong growth in our ... as well and we improved our Ebit margin. The same store sales growth was 15.7% and a constant exchange rate of 12.9 and really the same store growth was the overall result but not the new store roll out when the new stores are not working well it is just that at that level of same store growth is profitable for business. The same store growth was driven primarily by the strong outdoor category, driven by our product range expansion the increased investment in inventory we undertook and the weather assisted us, when you look at the historical data it was not that much colder or that much warmer but it was sort of within the bounds of what we like to see, whereas the previous year certainly over the Easter period it was very hot and that did not help at all. The weather was just about normal which suits us fine. A key milestone, we opened our 100th store during the period we are now up to 111, our Summit Club membership people who are paid up members to our loyalty scheme, reached half a million, and as I mentioned at the beginning of the presentation, we have launched our brand refresh project and the first stage of that is complete with new logos new imagery and new standards and something that is not obvious to the market is that we have completed our core system upgrade which was a very major IT project for us that is going to enable all sorts of benefits for the company in the future.

Just looking at the numbers again, I have mentioned the sales at 306 which was up 24% the gross profit was up 29% which outgrew sales and that was because not only did we get the benefit of sales lift we also got the benefit of improved margins at 65.5%. Our expenses grew faster than our sales at 28% most of the increase in expenses was turnover related or new store related but there were some one off costs and the other thing is as we open more Australian stores expenses are greater in Australia so that percentage does grow. With an Ebitda level at 31.3% 71.4 million and an Ebit level of 64 million up 32% and Net profit after tax at 39.1% which was up 55% and there are some adjustments that you can read in the footnotes in relation to last year's net profit after tax as there were some ICO related costs in there.

Key Line Items – sales growth year on year in total was up 24.5% as I mentioned 26.3% in Australia, 17% in New Zealand and UK went backwards at -7.1%. With a constant exchange rate sales were up 21.6% and something I would point out is that I think that the market is aware that our three key sales are a high proportion of our total annual sales that proportion has remained the same, so in other words, our sales activity are not getting any greater and not getting any less and our periods in between are equally as strong as our sales periods. The quality of the business is still very good and that is evidenced by our improved gross margins as well. Same store growth level for the second half was actually better than the first half certainly overall for New Zealand and Australia but we have a different situation in the UK after the gst increase things fell apart and it is a very difficult market over there and I am going to cover a little bit of that later. But it was a strong second half, a lot of that was driven by our Easter and Winter campaign, particularly the Easter campaigns.

Mark is going to talk through some of the details of the financial elements now.

As Peter has already said Gross Profit Margin was up over 2 percentage points and that was underpinned by a strong improvement in Australian growth margins through the year up over 2 percentage points. Cost of doing business increased by over 1% 41% of sales to 42.2%, primarily structured around a large increase in volume of stock over the year increased by around 40% year on year potentially the increased stock levels holding more stock should be able to meet unfulfilled demand and there was an equivalent increase in managing these costs and as we grow the Australian cost will become an increase in proportion of total costs for the business. Earnings – we talked about between FY9 - FY11 were up over 20% year on compound rates between FY9 and FY11 and net profit after tax was up by a mitigated proportion. Country by country results and store opening, we opened 14 stores in FY11 in Australia and 3 in New Zealand primarily our approach in Australia was in regional centres in Australia they have traded particularly well, we did a limited refurbishment – we have relocated five stores in the two countries and most of the projects we had in mind were in tandom with the branding of the new identity and the rollout of that across the business as a consequence our capital expenditure for the year was down from 13.6 million in FY10 to 11.5 million in FY11. But we are expecting some capital expenditure increase substantially in FY12 through new stores and refurbishment.

In the existing store network in particular. As we have already talked about, the UK results went back quite a bit simply because of the reduction in sales through the second half of the year. Cash balance year on year were virtually flat, substantial increase in inventory was the main drag on cashflow, but off setting that obviously was the underlying growth in profit. Inventory held, although it increased 26% between the two years if you compare our levels to FY9 when there was cash constraints in FY10 inventory levels per store only increased 1% in value terms despite the increase in stock and range across the three years since then.

Final dividends for the year – we are planning to pay out a final of NZ 7 cents per share which makes the full payout at 10 cents and that is approximately 51% of full year NPAT which is at the bottom level of our range primarily as I have said before we are very focused on next year and the years ahead in re investing surplus operating cashflow into improvement of the business to the capital investment programme.

Our Hedging profile has been advantageous to us this year especially with the Australian dollar rate against the US compared to the year before we have got further benefits to come to that in FY12 with a strong exchange rates for both Australian dollar and the New Zealand dollar.

Peter Halkett – thank you Mark, we are going to pick up on Growth Strategies now, those of you who have been following us since the IPO will notice these are virtually identical to what we talked about in the prospectus and over the last two years. New store roll outs there is only 15 again this year, 150 remains our target, we still believe opportunity exists, in fact there may well be more growth beyond what we are talking about. We have secured 4 of the 15 already, although one of those was in relation to a delay from last year which is why we hit 14 last year. We are moving our stores to more prime locations and larger stores and our regional Australian stores have been very successful pretty much like the characteristics of New Zealand regional stores where they are low rent, lower fit out costs and ramp up the profitability quickly. Although we have 100 stores we have a lot of stores that are quite old and those stores are not fully optimised so the growth strategy is to include the existing store network and maximising the market share by fully optimising the existing store network so we have identified the stores that are under performing, that is not under performing financially because they fix some very good targets, but under performing relative to the potential they have for the catchment they are in, which means are they in the right place, are they the right size. We have got a partner we have selected to help us with the analysis, we will look at 200 different data points like visibility, catchment make up, climate, tourists, there is all sorts of data points and that allows us to identify where we have opportunities to do better. We are pursuing as lot of those new style opportunities now we have already got four committed. We are continuing to grow the product offering, increase our sales through product range growth, launch new products, enter new categories and grow in range in terms of options and choices for our customers, we are growing that at 10% per year. We will review that situation again at the end of FY13. We have grown our product team we have got more designers and more technical skills, from the market point of view of our brand we are sure we are re-enforcing our technical credentials so that we are not just being a mass market brand and we are looking at introducing an elite range and we are maintaining our increased inventory position because that has been what has bought results for us.

If you turn the page over we have got three more strategies, which once again, they should not be a surprise to you. Our Summit Club membership the target is membership of half a million so we need to double that over the next few years. We have already increased the benefits provided to our members remember that this enables us to enhance our and data minding capabilities, better targeting vices, it is a tremendous fit with the news and online digital world and it also provides insights and feedback on where we should be developing the business and our products in our stores. Online and digital, which is a hot topic at the moment, we have already got successful sites in New Zealand, Australia and the UK. In New Zealand and Australia are a far better median store, they have actually doubled year on year and I expect them to double in the coming year, if not more, what we want to do there is maximize those sales but we also want to begin the process of putting the capability and functionality to target global sale opportunities, in other words sales outside our current market. As brand owners and have control of the brand a vertical retailer, we have a great opportunity, no one else can sell Kathmandu except us so things like marketing and price are less of an issue for us. Existing sites are successful but they are constrained so that is why we need to upgrade them. The project to add scale and functionality is already underway we would expect to see these new sites coming into place later next year and we have actually got a dedicated team within our business of experts focused on this area. So we are very excited about that. So that really fits with the next point which is the United Kingdom, now that has been a tortuous time for us over there given the state of the market and some of the decisions we have made, but ultimately our goal remains to eliminate those losses and create a successful business model that we may be able to use in other markets outside New Zealand and Australia. We are not going to open any more stores, we are going to drive sales through on line because that is where the opportunity in the UK and what many of the UK customers are doing and fits with our plans to enhance our site. Which is the reason we are staying in the UK, we are going to reduce the losses by greater integration of the New Zealand and Australia businesses in other words leverage more off that as the restructure process of our business continues.

Turning the page, I wanted to highlight that Kathmandu, for the first time in history, is adopting and has adopted, and there is more on our website and the annual report, is the sustainability policy. We call it Sustainer Dream, we have broken it into four categories, one is to minimise our environmental footprint, one is the respect of human rights particularly given the numbers in our factory in China, strengthen our community partnerships which you will see some of them below, and develop our people. There will be more on that come through in the next year or two but this is the beginning for Kathmandu to really participate seriously in this area and within the categories it is very important for our customers that they see we are doing our part.

From an outlook point of view which I know you are interested in within Kathmandu we are going to continue with the strategies that are working and have been around for a respected time they are delivering the results that you are seeing today, we will complete the roll out of our refresh brand and it is important that the market understands that Kathmandu is a brand first and foremost and secondly we operate our own retail stores to distribute the product, in other words our growth is not restricted by our store network our growth is about what can this brand be, what product can this brand sell. So growth is limited by our brand not our supplies with our store network. We are going to continue to increase our advertising spend those of you listening from the media will be very pleased to see we are going to keep helping to pay your wages. Greater emphasis on the Australian penetration, at the moment Australia per head of sales per head of population is about 40% of New Zealand, if we can get that to 60% that would be a 50% increase in our Australian business, so there is a lot more growth before we need to consider other longer term strategies. We are probably going to double our capital expenditure programme because of our store renovations and relocations plus the internet project plus the IT upgrade that we have planned. From a market point of view it is unlikely we will see significant change to retail conditions in the short and probably the medium term, I am not an economist so I have no idea to be blunt, but the fact is I do not see anything changing dramatically, I do not see circuit breakers that the market is all of a sudden going to become a fabulous growing retail environment.

Operating costs such as rent and payroll are outgrowing the sales growth so for people not getting same store sales growth this is a real issue. The Active Outdoor segment is a very attractive market but it is also attracting more competition both regionally and globally, volatility and unpredictability are becoming the norm. So in Summary when we look at what we are doing and we look at the market, we would say despite the difficult retail conditions as we have experienced during FY11, we are confident in the Kathmandu business model, the brand and our proven growth strategy, while not wanting for, not providing specific guidance due to the market uncertainty the business is playing for continued growth and we remain very positive for the outlook for FY12.

Questions

Olga Bolacho from the Hill Sun - Good morning – just wondering if you could talk a little bit more about the increase in your operating expenses as percentage of sales as you roll out more stores. At what point does that percentage of sales become untenable?

Peter – I am not sure what you mean by untenable there are a number of things, increasing our operating costs as we grow, some of them are related to turnover. For example the more stock you sell the more our dc costs go up because we have got to receive that and deliver out to our stores, so there are things that the more we sell the more costs we incur and then as we roll out more stores we obviously incur more rent and those sort of costs plus staff costs and the fact is that in Australia the costs are higher in terms of rent, people and marketing costs so the more Australian stores we open then the higher our costs go and then last year we faced a number of one off costs but within roughly where we are sitting at the moment where I would expect we will be over the few years, give or take extent or failure.

Olga – do you anticipate that over the next year or two the operating expense percentage of sales will go up 1 or 2%?

Peter – it all depends on what our same store sales growth reaches if you do not get any same store sales growth and salaries, wages and marketing costs and rent are going up say 4-5% per annum clearly you are not going to get any operating leverage at all, however if you get same store sales increases above the average rate of your costs going up then you will get operating leverage unless you decide to invest even more than you did the prior year. Does that make sense?

Olga – Yes that's fine. Just a couple more questions about the older stores that you have. Have you already identified which ones you are going to be refurbishing or upgrading or relocating? And how many of them are there?

Peter – Yes we have identified many of those stores. I have made a point in the presentation that we have appointed a specialist partner who will actually go through our portfolio and go through the catchments and identify where we are under performing so that project is well and truly under way. There are many we know that are obviously not reaching their potential because they are upstairs or in the back of beyond or not in the right catchment area. We would expect that over the next three years that there would be more than 20 stores that we would want to relocate.

Olga – Right and who have you appointed to help you with this process?

Peter – It is a company called Spectrum, they are based out of Melbourne, they are guys with milk bottle type glasses, sit at desks computer based, basically they have technical skills in analysing data, there are 200 data points to catchment size, graphics to the visibility of the store, to the location of the store, the footprint of the store to the number of tourists that go past it. If you think of every single thing that influences a store that is what they take our existing portfolio, they take all those data points and then they apply that. Then they rate each data point and then they look at which stores are under performing relative to those data points. As you can see there is a reason I do not do as I cannot even explain it, but what I do get out of this is here are the stores that have the potential to be better than they are today and that involves relocating them or enlarging them or both.

Olga – OK thank you

Chris Adams of the NZ Herald – Hi guys – Are you able to give us a bit of an idea on what sales have been like since the end of July, particularly in Australia where there has been talk of consumer confidence declining over in that market a bit.

Peter – We have pretty well traded in line with how we traded last year. There is a little bit of a difference between countries Australia probably is a little softer but the six weeks between the end of our period and now in relative terms to the whole financial year is a fraction of what we expect to do so it is not that meaningful but from our point of view it is a positive tracking at that same level.

Mark – Chris to clarify that last year is for the whole year not the same six weeks last year. The trend of FY11 we managed for the first six weeks to maintain even though it is a very small part of this year.

Chris – OK – have you seen any impact on sales from the Rugby World Cup in New Zealand that could last for weeks?

Peter – New Zealand is probably out performing Australia a little bit, that probably would be down to the World Cup, but on an annualised basis it probably won't shift the dial that much.

Chris – and you are pretty confident that Kathmandu is going to weather any slow down in consumer confidence across the Tasman in Australia?

Peter – I think as a retailer you plan for ranges of outcomes. Last year was a very difficult environment and we sort of battened down the hatches but it is fair to say that we finished at the upper end of our expectations, if things slow down we probably won't get the level of increase we had last year, but we still believe our growth strategy and the things we are doing are working for us. We remain optimistic even if the market does deteriorate. If it deteriorates a lot then that is going to be pretty tough for everybody.

Chris – Do you have any plans further down the track for entering other markets other than the UK, Aussie and New Zealand?

Peter – We would like to think that once we have maximised the potential we have in New Zealand and Australia and got a successful model happening in the UK that we could take that to other places, but that is probably going to be driven off the back of on line and not a full store network roll out, there maybe some stores but it will be basically driven from an on line strategy rather than opening 1,000 stores in the US.

Chris – what other markets are sort of on your radar?

Peter – I think if you look globally and said what are the really good outdoor markets you know, we all know about the Seattles and the Portlands, the Vancouvers, Canada and there is all sorts of interesting places but we have not done that work that I could speak with confidence and say well here is the areas that we would absolutely will go to. I talked about the Spectrum analysis and how we are looking at our stores and how they perform and where the opportunity is we can sort adopt the same approach and start with which are the key states which are the greatest characteristics, where can Kathmandu most likely be, it would be fair to say if we did that exercise a few years ago we probably would not have gone to the UK although there is cultural alignment but UK is not the same characteristics in terms of outdoor marketing as New Zealand and Australia there are other markets like the western part of America that are much more similar to New Zealand and Australia in terms of their activities and requirements.

Chris – thanks very much

Elijah Greenblat of the Agency paper – Hi guys – Are you guys saying perhaps you are looking planning to expand the Kathmandu stores into perhaps the western coast of America and Canada?

Peter – No the question was asked where do we see potential. Look for the next two to three years we have plenty of growth in New Zealand and Australia like that would be on the horizon as a possibility and we using the UK and I have spoken about the UK before and we have a bit of a test there and that is why we are hanging in there we do close to 4 million pounds over in the UK and over time we would like to think we can convert some of that business to on line rather than a physical store so we could manage our costs and turn that business around that is a bit of an experimental market. If we could get that right then that would open up opportunities in other places and fairly big outdoor markets like the western US. That is more like a long term vision than it is a strategy that we are intending to pursue in the next two to three years.

Elijah – and just on the British stores as you mentioned before you are always going to be pursuing the future of those stores, when you said today that you are going to keep them open but you won't open more stores, is that a new announcement is that a new decision by the Board that you are reporting today?

Peter – Sort of. We have said that we are reviewing that business and I guess the options were to shut it grow it, hold it, and what we are saying is we believe in staying in that market and trying to create a model that could replicate elsewhere, so it is sort of an announcement. It is an announcement that says that we are not really going to make any radical changes it is an announcement in terms of we are not going.

Elijah – but you won't open any more stores there though?

Peter – No No we would need our head read if we did that.

Elijah – now just on the results itself in the last month or so we have seen the results of other retailers and they have all been pretty bad and all retailers CEO's in apparel are saying how tough it is out there you know Myers, BJ's and Nony B and even BW and Target they are all going pretty badly why is it that your customers are still spending money and spending more money than they did last year why is it still confident, why is your segment why is your area going so well when every other apparel company is really saying it is tough out there?

Peter – I think you have touched on one of the points which is the Outdoor Active sector is a very strong sector, people are continuing to travel as you probably read in other sections of your newspaper, there has been a change, this category used to be for people who went hiking and mountain climbing, to be honest it was not all that cool fifteen, ten years ago but now the whole outdoor sport action orientated is driven off the back of things like mountain biking is actually pretty cool and people want to be associated with that. It is a bit like what happened with Nike years ago it is a bit like what happened with Billabong, Ripcurl. We think this category is a good category, it is a growing category, combine that with the travel side of our business as well where people are getting out getting overseas doing all sorts stuff, you combine that with a tough economy and people wanting to go camping and get back to basics this makes it a good category. The next thing is our Brand, in terms of Australia it is still relatively immature, I don't irresponsible, I mean in the lifestyle of our business we are still growing so we have not fully optimised so we still have a lot more growth, where as a lot of those other people you have talked about have been in the market with their current size, with their current levels of awareness for a long time. We are still immature we have still got opportunities, further dimensions, beside the fact that our relocations and our product range growth is assisting us. We have addressed some of our inventory issues that we had last year, certainly I have read a couple of reports that put a lot of this to the weather and I need to clarify the weather last year was a bit of a problem around the Easter Sale this year we did not encounter that problem, this year we certainly did not have weather that was so much in our favour that has created a result that will be unrepeatable, the weather was what we would have expected under normality when we look at patterns over many years but relative to last year the Easter period was much better for us.

Elijah – OK again quickly sorry Sales in August and September did you say they are still pretty much in keeping in last year months, how have you been going the last eight weeks or so?

Peter – As we have said, the last eight weeks in terms of our whole year is not that significant so you certainly wouldn't want to extrapolate it and say this year going to look better, we have been tracking at that same level of same store increase as last year, so it is more of the same, so we continue to do well

Elijah – OK thank you

Rachel Duncan of the West Australian newspaper – Hi guys – most of my questions have been answered but just on your loyalty programme, I think you said at about half a million customers, whats the potential for that, can you give us some idea of the percentage of sales that you do through that?

Peter – First of all thank you for the question and it is going to be the last question because I am running out of time. In answer to your question of the Summit Club, we are currently at half a million we have set ourselves a goal to double that over the next two to three years to get to a million. Summit Club members are very loyal they spend more than the average in terms of when they come into the store and they come in more often, they are our high value, they are our bull's eye target type people and they are also people that are less promiscuous in terms of shopping with our competitors, so they are very important and they are our high percentage of the business and I would get into a lot of trouble if I told you what that percentage was so I am not.

Rachel – alright can I just sneak one more quick question in on Australia, are there any states or areas you are particularly unrepresented at the moment?

Peter – Well where you come from is one of them, we are desperate to get into a couple of regions, a couple of areas over there although we have opened a few new stores recently and enlarged our ? store so Western Australia pretty well a lot of regions of Australia we still have not covered when we look at even New South Wales we are under penetrated in terms of store numbers I mean for example in Auckland I think we have about 10 stores which is a million and one population and when we come to Sydney which has not got that many stores with 4 million people. From a penetration across the country it is pretty evenly spread but Western Australian and Queensland where we think we are way under represented. We have just opened a store in Cairns a few months ago in that hotter climate and it is gone very very well we are confident that whole northern Queensland even up into Darwin is a good opportunity for us.

Rachel – OK thank you

Peter – thank you everybody we have run out of time I hope you found that useful I know I am catching up with the odd person separately. One thing I would ask, it is a selfish request but we would really love you guys when you are putting your stories together to use our new logo our new identity, I know that is completely selfish but I would really appreciate it.