



KATHMANDU - UBS Emerging Companies Conference  
Sydney 7 April 2011



# Presentation Highlights

- Recap of First Half Year Results
- Key Growth Strategies
- Australian Opportunity
- Trading Conditions and Outlook



# First Half Year Results

Solid first half sales performance (19.2% above previous half-year).

Sales performance in December / January especially strong.

1H FY11 Sales and EBIT result above the upper range provided in the 19 January 2011 market guidance:

- 1H FY11 Sales result NZ\$127.1m (guidance was \$126m)
- 1H FY11 EBIT result NZ\$19.9m (guidance was \$19.5m).

Same store sales growth 12.1% (equates to 9.5% at constant exchange rates),

- Achieved on top of 13.7% same store sales growth in 1H FY10
- Australian performance a primary contributor to the increase.

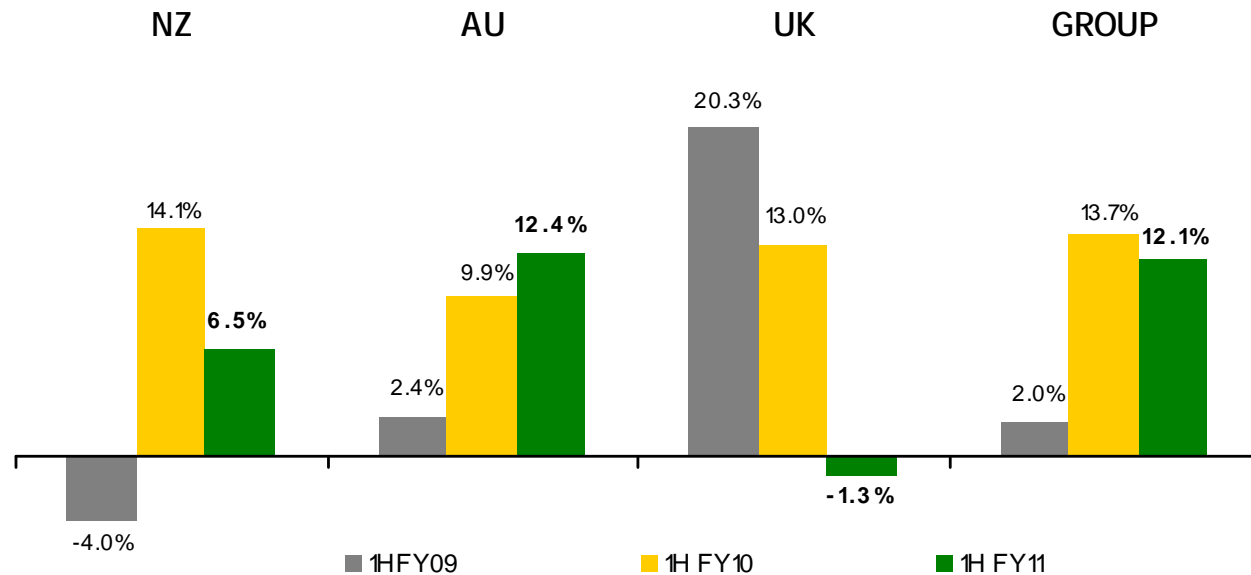
10 new stores opened since end 1H FY10 (3 in 1H FY11).

Other impacts on first half performance:

- Gross Profit Margins at the top end of long-term target range (1H FY11 64.7% vs 1H FY10 61.3%)
- Stock investment (28.5% increase in Inventories per store), supported by advertising
- Higher level of operating expenses relative to sales (planned and a portion one-off).

Result demonstrates the strength of the Kathmandu brand and continuing growth opportunity.

# Same Store Sales Growth



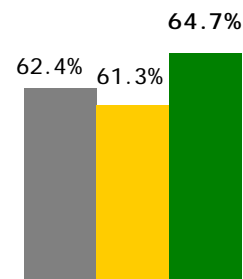
- Same store sales growth enabled through:
  - Stock Investment and advertising
  - Product offer expansion
  - Store relocations and refurbishments (Key central city stores, larger footprints)
  - Australian weather
  - Reflects relative strength of the economy in each market.

1. Same store sales measurement not adjusted for cannibalised stores.  
 2. At constant exchange rates, Group results would be 1H FY09 0.2%, 1H FY10 11.7%, 1H FY11 9.5%

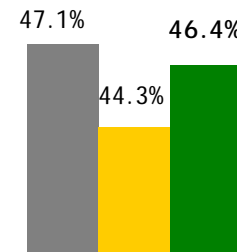
# Gross Profit Margin and Cost of Doing Business

- Gross Profit margin improvement 340bps:
    - Retail price adjustments / product mix
    - Country mix, with higher margin in Australia
    - Strong Christmas trade, reduced level of post sale clearance activity.
  - Above long-term target range.
  - No significant FX benefit year on year.
  - Greater impact on margin from supplier labour and material cost increases still to come.
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- Total operating expenses as % of sales increased (advertising, supply chain, management incentives & listed company costs above rate of sales increase).
  - Ongoing level of operating expenses expected to be at least FY10 full year level as % of sales.

Gross Profit Margin %



Operating Expense<sup>2</sup> % of Sales



■ 1H FY09    ■ 1H FY10    ■ 1H FY11

1. Consolidated Gross Profit Margin % is not adjusted for currency fluctuations  
2. Operating expenses exclude depreciation

# Key Growth Strategies

Kathmandu core growth paths continue to provide varied strategic choices

## GROWTH STRATEGY

## UPDATE

### New store rollout

- Objective is 15 stores in FY11
- 150 stores in total
- Investigating new store formats

- 7 opened, Southport, Logan (QLD), Wollongong (NSW), Belconnen (ACT), Perth Harbour Town & Whitford City (WA). Papanui (NZ).
- 7 further locations confirmed: NZ 3 Whakatane, Coastlands (north of Wellington), Ashburton. Aus 4 Cairns, Toowoomba, Orange, Southland (Melbourne).
- Similar potential for FY12, continuing focus on under represented areas in Australia

### Existing store network optimisation

- Refurbishments
- Relocations
- Increasing store sizes of the existing store portfolio

- Most major central city stores already refurbished in new format: Melbourne, Sydney, Canberra, Brisbane, Auckland (1H FY11), Christchurch, Dunedin
- 2 store relocations completed in 1H FY11 (Palmerston North, New Plymouth), and 1 store extension (Innaloo WA)
- Several other projects about to confirm

### Product range growth

- Opportunity to grow the width and the depth of the range:
  - more product categories
  - more options within each category

- More volume deals offered across a broader selection of Product Groups
- Winter 11 Focus on proprietary fabric and system technology, extensions to quickDRY, Merino, InsuLITE (Insulation) ranges, launch new large Travel and Hiking Packs
- Commitment to increase inventory investment in key categories that underpin promotional activity

### Grow and maximise the customer database

- Double the number of Summit club members
- Increase spend per customer

- Growth rate in numbers and spend in line with store rollout and targets
- Enhancements in programme to come in year ahead
- Linkage with online strategy

# Australian Opportunity

## LATEST HALF YEAR RESULT:

Sales: up 20.8% to A\$57.0m

Same store sales growth: 12.4%

EBITDA (trading result): up 64.1% to A\$10.5m

- Store numbers in Australia doubled since 31 July 2007 (30 to 60)
- Prospectus October 2010 envisaged up to 100 stores in Australia (target by end of 2013)
- Sales growth in Australia from FY07 (30 stores) to FY11 (expect 67 stores) of around A\$72m, giving average sales per new store in that period of around A\$1.5m plus growth in same stores
- Further 30 to 35 stores to reach 100 store Prospectus target should generate total sales from all Australian stores of at least A\$180m per annum, A\$8.00 per capita (on 22.5m total population). A\$200m base sales result from 100 stores is \$A8.90 per capita
- This sales per capita converted to \$NZ (\$NZ10.65 to \$NZ11.90) compares to NZ expected sales per capita in FY2011 of approximately \$NZ24. Australian sales per capita at this rate <50% of New Zealand
- Benchmarking against comparable listed speciality retailers (Michael Hill & Pumpkin Patch) indicates we have potential to reach further in the Australian market.

# Australian Opportunity: Benchmarking Listed Retailers

COMAPARABLE LISTED RETAILERS*1	AUSTRALIA		NEW ZEALAND		AU AS % OF NZ	
FY10	STORES	SALES PER STORE (NZ\$m)	STORES	SALES PER STORE (NZ\$m)	STORES	SALES PER STORE (NZ\$m)
Michael Hill International ("MHI")	141	2.1	53	1.8	266%	115%
Pumpkin Patch Limited ("PPL")	119	1.7	49	1.2	243%	139%
Kathmandu ("KMD")	55	2.6	36	2.6	153%	98%

COMAPARABLE LISTED RETAILERS*1	AUSTRALIA		NEW ZEALAND		AU AS % OF NZ	
FY10	SALES (NZ\$m)	SALES PER CAPITA*2	SALES (NZ\$m)	SALES PER CAPITA*2	SALES PER CAPITA*2	
Michael Hill International ("MHI")	293.0	\$14.16	95.8	\$23.79	60%	
Pumpkin Patch Limited ("PPL")	198.3	\$9.58	58.9	\$14.62	66%	
Kathmandu ("KMD")	141.9	\$6.86	94.3	\$23.41	29%	

- For FY10, sales per capita in Australia market less than half the performance of MHI and PPL
  - Both MHI and PPL could be more heavily competed in their categories than KMD
  - In some parts of Australia, weather patterns may disadvantage KMD whereas MHI and PPL not weather dependent
  - Are there any critical factors that suggest KMD cannot perform to the equivalent levels of these retailers?
  - 60% sales per capita ratio AU:NZ a reasonable target for Kathmandu?

1. Source: Company annual reports FY10

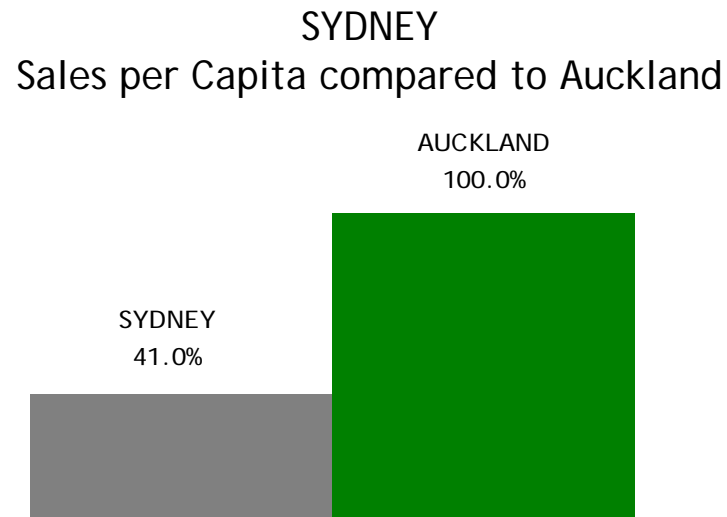
2. Based on 2006 Census data. NZ population 4,027,947. AU population 20,695,501. Since this date AU population growth rate faster than NZ



# Australia vs New Zealand- why the varying market penetration

- Store network - store numbers (market reach), store size and prime locations
- Product offering - To date primarily NZ driven product range with emphasis on colder climates
- Brand awareness and brand attributes - less appeal to wider lifestyle market and less well known in large parts of Australia
- Climate and lifestyle differences do lead to smaller categories/market size with regional variation
- Greater competition in Australia than NZ likely means most specialist retail categories may not achieve same penetration in the larger market

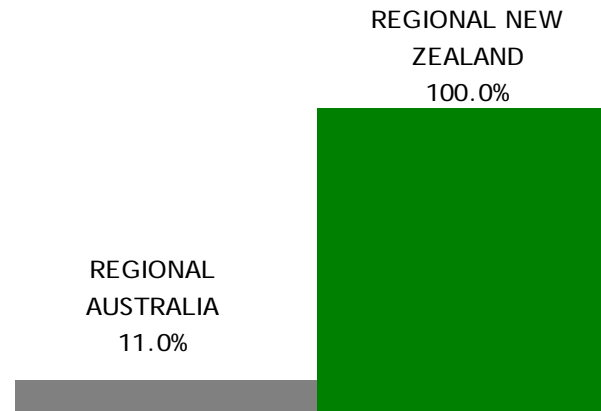
# Australian Opportunity: City Example



- Comment: Auckland and Sydney are similar lifestyle and climate, Sydney we assess to be at least as good a market demographically for Kathmandu as Auckland.
- If Sydney could increase Sales per Capita from 41% of Auckland to 60%:
  - Total Sydney sales potential increase is 47% from FY10 levels
  - Using the current average Sydney sales per store, applied to the increase in sales potential (above), store numbers can increase from 14 at the end of FY10 to 21 in the long-term or
  - We can open fewer new stores but with larger or more prime retail locations

# Australian Opportunity: Regional Australia Opportunity

## REGIONAL AUSTRALIA Sales per Capita compared to Regional New Zealand



- Comment: Australian regional areas clearly in aggregate warmer than New Zealand, and geographically more diverse. Possible that benchmark penetration per capita relative to New Zealand would not be as high as major cities.
- As an example of opportunity if Regional Australia can increase Sales per Capita from 11% of Regional New Zealand to a level of 40%:
  - Total Regional Australia sales would increase by over 250% from FY10 levels
  - Using the current average Regional Australia sales per store, applied to the increase in sales potential (above), store numbers could increase from 8 at the end of FY10 to 30 in the long-term

# Australian Opportunity – Summary & Strategies to maximise

Store numbers, sales per store and sales per capita benchmarking and Kathmandu's own Australian sales performance all highlight the opportunity for:

- Sales per capita in Australia to reach up to 60% of New Zealand performance
- Store network in Australia of more than 100 stores and/or better locations amongst existing stores
- Resulting sales achieved from Australian market that exceeds potential envisaged at time of IPO
- Extended growth timeline over 3 to 5 years.

How do we achieve this?

Adopt a much greater focus on the specific Australian market requirements:

- Store network review - new site identification and optimise current network
- Market review by region and detailed study of specific product requirements/differences to NZ - especially warmer climate zones
- Customer research into brand awareness, equity and positioning
- Place new key roles into the Melbourne office - especially product and marketing related
- Think Australian.

*At a 60% ratio the potential target Australian sales base would be around A\$240 million p.a., with further upside if penetration rates can be moved towards NZ levels.*

# FY11 Outlook, Little Changed from Recent Half year Result

## Kathmandu

- Store rollout on track for FY11 - only 1 store outstanding to achieve 15 store target.
- Store refurbishment programme continues - most major central city stores already complete.
- Product range expansion and increased inventory investment will continue
- Brand refresh project is underway, new imagery will be apparent from July onwards
- Gross profit margins more challenging from 2H FY11 onwards due to supplier cost increases for Winter season
- Operating costs as a percentage of sales may be slightly higher than FY10 reflecting investment in advertising, people and resources

## The Market

- Nothing to date that indicates improvement in Australasian consumer discretionary spending, which is to be expected given world wide issues
- New Zealand economy is being impacted by earthquake
- China capacity and cost constraints continue to be more challenging (lead-time commitments)
- Competition continues to increase and also move towards the vertical business model

## Summary

- First half year performance and trading since 31 January provides confidence that improvement in both second half and YOY profitability will be achieved. 3<sup>rd</sup> quarter update to come in early May.