Start of Transcript

Operator: This is Premiere Global Services. Please stand by, we are about to begin. Good day everyone and welcome to the Kathmandu Holdings Limited half year results announcement. Today's call is being recorded. At this time for opening remarks I would like to turn the conference over to your moderator for today, Peter Halkett. Please go ahead.

Peter Halkett: Thank you Ben and welcome everybody. On the call today with me is Mark Todd, our chief financial officer. We are going to be discussing our results for the six months ended 31 January 2010 and this is the first period since Kathmandu listed on both the ASX and the NZX last November.

We will be talking through the half year report presentation that was filed with the ASX and NZX this morning. I hope and I presume most people have got a copy of this now, because I will be talking to each of the slides. We have provided a full financial performance result in New Zealand dollars, but we have also provided a summary in Australian dollars for our Australian friends.

Please note that when I am talking about the result I will be talking about the performance after eliminating the one off costs associated with our IPO last November, unless I specifically advise otherwise. The presentation is probably going to take 20-30 minutes and then we will have some questions at the end of that.

So just let me run through the contents first of all. We are going to overview the result. This is very high level and then we will go through the group results in a little more detail looking at sales and margin and EBIT and net profit. We will then go through each country to give you an idea of how each country has performed. Mark will go through in more detail the cashflow and the balance sheet. I will give you a view on our full year outlook and just update you on how we are going with our growth strategies and then come back with the questions.

So if I just turn to slide 4, this has got the year on year results overview. Our sales for the half year were $106 million. This was up $23 million or 27.5%. The EBITDA was $18.1 million or $5.3 million up or 41.2%. The EBITDA margin improved from 15.3% in the prior period to 17%. The EBIT was $15.5 and this was a difference of $5.1 million, up 49.6% and the EBIT margin improved from 12.4% to 14.6%. The net profit after tax excluding IPO costs went from a loss last year of $2.4 million to $4.4 million and this was an improvement of $6.8 million. Store numbers this year 90 compared to 80 stores last year.

Just a quick summary of the Australian dollars, that is $85.8 million, the difference being $15.6 and up 22%, the EBITDA $14.5, up $3.8 million, 35.3% and the EBIT $12.5 up from $8.7 last year and 43.3%. The net profit after tax line excluding IPO costs once again was $3.6 million and that is a difference of $5.6, because it was the equivalent of losing $2 million last year.

I am going to talk through each of those lines in a little bit more detail so if we move through to slide number 5, the next page. In fact, Mark is going to - one of the exercises we undertook was we thought we were going to be asked a lot of questions about how this compared to our prospectus forecast. In the prospectus we did not actually put a guide for the half year, but we knew we were going to get a lot of questions so Mark has put our management estimate of what that is, and I will let Mark talk through that now.

Mark Todd: Thanks Peter. So the comparison that we have done to the first half year as forecast was in the prospectus, is we have calculated the prospectus first half year forecast by looking at the estimated costs for the full financial year that we would expect under the new post-IPO company structure. With particular reference obviously to board governance and associated costs of that nature and structural change that has been associated with the set up of Kathmandu Holdings.

We calculated those amounts that would be applicable to the first half year period, as if they were being incurred throughout the full six months, recognising that Kathmandu Holdings Limited had only been in operation for 72 days out of 182 days in the half year. With particular reference to interest, we have simply taken the $85.7 million reduction in the core debt as a result of the pay down of the debt and shipped between the old and the new facility and adjusted that balance off the net debt and associated interest cost for those first 110 days. We did not take any account of the differing pricing structures between the old and new debt facility.

Peter Halkett: Thank you Mark. So just moving to the next slide, I just thought it might be useful to provide a summary of I guess how the result was achieved or why we believe it was achieved. I guess overall it was an improved retail environment and we achieved very good positive same store sales growth, as no doubt you will have already seen.

We did have a very successful Christmas sale promotion and I think it is recognition that both our products and our promotions are proving appealing to our customers. There is a lot more stay at home holidays so some of our base camp range, our larger tents and just a general - we call it stayvations where people are staying at home rather than travelling for their vacations further a field. We think that helps so that that whole travel and adventure category is strong. It was particularly strong during that tough economic period, but it is a growth category anyway or so we believe.

The store roll out program has been going very well. All the new stores are trading to expectations or better, and we did have a couple more stores than expected at the Christmas promotion so that also assisted. While all that is going on we have ensured that we have maintained very tight control of our costs and our margins have been managed. We will talk later. You will have noticed they are down 1%, but we are comfortable with that but we will talk through that in more detail in a minute. We have a number of supply chain initiatives going on at the moment that have also helped reduce our international freight and local freight costs.

So it has been a pleasing start and it is great to become a member of the ASX-300 as well as the NZX-50, and that will give the company a lot more profile as you know.

Just moving to the group result in a little more detail, as I said before the total sales were $106.6 million, up 27.5%. Same store growth was 13.7%. That was up 14.1% in New Zealand and 9.9% in Australia. We think the reason that the Australian number was a little lower was partly because of the stimulus package cycling through, and making it more difficult to compete year on year. Also the base camp range in New Zealand, the large family camping, I think that struck a chord as well. You can see the sales split identified on the chart between New Zealand, Australia and the UK. You will see very much how Australia is the dominant part of the business now.

Moving to the gross profit, it was down 110 basis points. For us, that is well within the tolerance of what we would expect because at any moment in time we have various products that sell in different volumes. For example, the more footwear and the more tents we sell, the lower the margin is because they are lower margin products for us. Depending on the sales mix between New Zealand and Australia can also impact the margin, because our gross margins are different between those countries. But what you will see in the table is the first half is historically lower than the second half, so we are quite comfortable that we are still on track for the full year 64%.

The next level is the EBITDA. Our EBITDA was up 41.2% to $18.1 million. Probably what you are most interested in is to see what has happened with our costs. Our rental costs have gone up $1.9 million or 17%. Other costs have gone up 14% and you can see for example salaries and wages have gone up 12%, advertising has gone up 13%. Most of our costs have either gone up in relation to the new stores or they have gone up because they are volume related items, such as freight. Overall because the costs have gone up by the average of about 14% and yet our sales have gone up by 27%, then clearly we are demonstrating very good operating leverage so we are very happy with that. That is once again the reason why EBITDA margins have improved. If we compare year on year they have gone from $15.3 to $17. You will note that the second, that the average for the year is a lot higher. The first half is traditionally lower and that is mainly a function of 40% of our sales are in the first half and 60% in the second half, so you get a higher percentage as a result of that.

Mark is just going to talk through the next page, which is the net profit after tax.

Mark Todd: So net profit after tax improved by $6.8 million from a loss of $2.4 in the first half year last year to $4.4 million for the second half. The point is already made before that in the end of the full year forecast, we are only approximately 20% of the way there. The effect below the EBITDA line from the reduction in interest rate costs because of our reduction in core debt, is our total interest cost for the period is $5.4 million and only $1.1 million of that is post-IPO. So the annualised estimated cost of that is $4.6 million for the year in a full year new debt structured basis and the prospectus calculation for that was $4.4. The tax rate on the profit for the first six months was in line with the prospectus forecast at 31%.

If I talk then specifically about the one off costs associated with the IPO, the total amount of cost for the IPO was $21.3 million and that is apportioned in relation to the portion of the share issue proceeds that was required for raising of new debt, and the share that is relating to the pay out to the existing shareholder. So $16.8 million of those IPO costs were expensed in our accounts and $4.5 million are a reduction against equity.

The total - the costs did increase because the transactions was more complex, particularly in relation to compliance with both the ASX and NZX requirements. But as we have said it is a one off cost [indistinct] and the effect of the increase in costs was actually a reduction in the pay out to the exiting shareholders as the costs were taken out of the issue proceeds, so they do not have an impact on the ongoing shareholders in the new entity.

Peter Halkett: Thank you Mark. Just moving forward now to slide 12, which is the country view of how we performed. The sales in New Zealand were $42.8 million up 24.9%, same store growth of 14.1%. During that period we opened two new stores, one in Timaru and a clearance store in Onehunga. For the next period we are going to open at least three new stores in New Zealand, Hastings, Gisborne and Tauranga and they will open for our Christmas sale - sorry, our winter sale - I am losing track of time.

Our Christchurch city, our Cashel Street store in Christchurch, there is a number of large refurbishments that come on track. In fact, one of those will come on track for our Easter sale, which starts next week. So operating expenses for New Zealand declined from 43.9% to 38.6%, and as a result the EBITDA went up considerably. It went up 83.8% to $8.8 million. Store numbers year on year were 33 compared to 30.

Just moving through to Australia, sort of similar numbers in many ways, 24.7% and total sales in Australian dollars this time of $47.2. Same store growth of 9.9% and there were six new stores opened during that period. They were Devonport, South Wharf DFO, which is a clearance, Frankston, Chapel Street, Townsville and Macarthur. During that period there was a relocated store. We moved our Brisbane store from Elizabeth Street onto a more prominent position in a larger store, and that has been performing very well.

For the second half we have two more stores, Ballarat and Logan, although we do expect another three stores. We are very close to finalising those deals and they would also be open in time for winter sales, so that is potential upside. Bourke Street and Central Sydney store will be refurbished. In fact, Bourke Street will be refurbished in time for Easter sale.

Once again, operating expenses declined. They declined from 51.6% to 46.2% of sales and that led to once again an improvement in the EBITDA, up 39.1% to $8.4 million. Year on year there were 51 stores compared to 44, so once again a very good result.

Mark is going to talk about the UK. It involves a couple of financial transactions that have impacted the look of the P&L.

Mark Todd: So the trading performance in the UK, the sales are up 37.3% and same store sales growth is 13%, recognising that that is a comparison of four stores in the previous year and part year for six stores this year, so the two new stores were substantial contributors to that same store sales growth. Again, a similar percentage point decline in operating expenses and our overall expectation for the UK is we would continue to expect a small loss.

Just as a point of comparison, you will see in the 2009 year it reported a profit but the reason that the profit was reported was because at that stage the UK balance sheet carried the funding for the UK operations by way of inter-company loan. The group is restructuring that and the company loan to equity funding, and as a consequence the variation from an exchange rate perspective on the inter-company funding to the UK will fall out of the profit and loss account and be reported through equity and the foreign currency translation reserve. So for a comparability performance you will see that the EBITDA performance in both years once you back out that effect in FY09, is approximately a ₤0.2 million loss. At that stage we continue to state that we said in the prospectus, that there is no intention to open new additional stores in the UK at this point in time.

Peter Halkett: Mark is going to continue and go through the group cashflow as well as the balance sheet.

Mark Todd: So operating cashflow, traditionally the first half year from an operating cashflow perspective has been negative cashflow. But because of the improved trading performance this year and effective inventory management, which I will talk to on the next slide, we have achieved slightly positive operating cashflow in the period and an $8.8 million improvement in the half year. We originally forecast in the prospectus a $12.6 million capital expenditure spend for the year. You will see there the year to date actuals on new stores and maintenance. We would expect with the number of stores we are opening, even if they are at say the 12 or 13, that we would slightly exceed the new store capex level.

The maintenance capex, we have identified in the earlier slide six or seven major relocation or refurbishment projects but they will not get to the level of maintenance capex that we originally expected in the prospectus forecast. So you may expect total capex for the year to be potentially as much as $2 million below the forecast number. Then in terms of the financing transactions for the year, well we have already talked about the fact about the pay out of $85.7 million worth of bank debt and the replacement of the old bank facilities with the new and $19.7 million of the issue proceeds that we used to pay for the IPO costs incurred.

Then moving onto the actual analytics on the balance sheet, inventory at first store and across the business is down nearly by 25%. Obviously sales performance is something to do with that, a key factor in relation to that, but also ongoing supply chain efficiency improvement in the business as we get ourselves better organised in terms of efficient and well spread drops of stock into the right stores and the right time. I have talked of the net debt positions, they have been well previously explained. Just I would keep highlighting the fact that the variability in debt balances from surplus cashflow and seasonal variation and working capital requirements, affects that number considerably.

We have a core debt facility of $80 million, but we have a working capital facility of $45 million and we utilised a very significant portion of that working capital facility pre our major sales promotions in the year. Of the $80 million of debt, which is $40 million Australian and $40 million New Zealand, we have hedged $35 of that, $20 million Australian and $10 million New Zealand over a two or three year period at a range of rates between 4.7 and 5.25%.

The only other thing of note within the balance sheet is the movement between an asset balance and a liability balance of the value of derivative financial instruments, depending on spot rates that exist, particularly our existing forward cover book.

Then if we then move on and talk about our hedging performance in the half year and our hedging profile going forward, a minimal change in our hedging performance in this half year compared to the half year in the previous year. The forward position is in similar in that the Australian, we are in the range of $0.80 to $0.825 and in the New Zealand hedging we have got a slightly lower effective rate. The hedging does have an impact on the relative competitiveness of our pricing, but it remains more critical to us to give some long term certainty to product design and sourcing and respective pricing, so we continue to hedge forward for 12 months.

Just also for people considering the aspect of the recent movement in the New Zealand Australian dollar cross rate, indicatively in the second half year for every one cent variation of around our prospectus forecast of an $0.82 cross, would that cause a $250,000 differential change to the full year EBIT result, whether it be up or down around that $0.82 rate.

Peter Halkett: Thank you Mark. I will just go to the full year outlook now. First of all, I thought it would be useful if I put together what our view of the future environment is. Overall, we think the environment is going to continue to improve, although there is certainly still some risks out there.

From an Australian point of view, the growth looks very promising, however there is some risk with the cycling through of the government's stimulus package, and I think that's going to really be a risk over the next six months. But just how that impacts Kathmandu I'm not sure. It hasn't been too bad to date, but I think the package did build momentum over time.

From a New Zealand point of view, it's a very slow and steadily improving retail environment. A lot longer timeframe and very fragile. And in many ways, both countries trading can be quite unpredictable. One minute it can be very strong and it can fall away very quickly, and I think that's as a result of media and announcements in general - general I guess mood in the economy.

The United Kingdom - I think that's a very very difficult environment at the moment. There are some rays of light, and, but overall we think that's a tough market and we're going to sort of steer clear of there for a fair while.

So our forecast for the first full year, I think it's important to remember that so far the first half is a very relatively small portion of our profit, and it's only 40% of our sales, so we've still got a far and away the majority to go, so we are being a little careful, but we are confident we're on track for the prospectus forecast of $57.1 million, and a net profit after tax of $30.9 million.

The second half - which is the 60% of sales - will be still influenced by two very important promotional events for us - Easter sale and winter sale. Weather conditions do impact our business. I don't want to overstate it because over the last few years we've had various weather - warm winters and cold winters. I think as long as it stays within a reasonable parameter we can expect a reasonable winter sale. But if it's very warm that can scrub off some sales. And I guess a good general retail environment across all of our locations.

As per the prospectus, there is no interim dividend, however final dividend of 6.7 cents will be paid, presuming the prospectus forecast is achieved.

And just finally, I thought it was useful to write an update on our growth strategies, and this is actually taken from the prospectus when we talked about our new store roll out in the period - store improvements and product opportunities. From a store roll out point of view we are ahead of schedule, and I can absolutely confirm we'll open 12 stores, and it could be as high as 15, and we're just finalising those leases over the next few weeks. So, I would imagine that we would be able to update the market and that should be something positive for us.

From a store improvement point of view, we have upgraded stores in Brisbane and Christchurch, and we've got refurbishments in Bourke Street and in Sydney and in Dunedin planned before the end of the period, and we've got some minor refurbishments planned in Wellington and we're extending our Sylvia Park store. We do, over the longer term, intend to upgrade at least eight stores per annum. So that's on track.

And from a product opportunity we've got some fantastic new products coming out for winter sale. We've got a new thermals range. We've got new travel accessories. We've got upgraded merino. We go some fantastic new fleece products, and we've got some updated and new Gore-Tex products as well.

But I think the biggest opportunity we continue to have -and it seems a bit unusual because our stock levels are low relative to the previous year - but probably our greatest opportunity in product is still about having the right product in the right place at the right time and reducing our out of stocks. And our new supply chain team are doing a fantastic job there, and so there's a lot of advantages, a lot of benefit of that to flow through. So we're happy that the things that are going to drive our growth over the next few years are on track.

That's the end of the formal presentation. We have time for questions now, so I'm going to hand back to the moderator who has a system to allow us to deal with questions in a logical and orderly manner.

Thanks Ben.

Operator: Thank you. The question and answer session will be conducted electronically. If you'd like to ask a question please do so by pressing the star key followed by the digit one on your touchtone telephone. We will proceed in the order in which you signal us, and we'll take as many questions as time permits.

If you are using a speaker phone, please ensure your mute function is switched off to allow your signal to reach our equipment.

Once again, please press star one on your touchtone telephone to queue to ask a question.

And we'll now move to our first question in queue, from the line of Ed Prendergast from Pegana Capital. Please go ahead.

Ed Prendergast: (Pegana Capital, Analyst) Thank you. Guys I was just wondering, with the second half, you make the comment that cycling the government handouts in the prior corresponding period presents a challenge. Can you just give us an idea, because that was obviously, that would have been within your planning anyway, can you give us an idea of what, broadly what you've assumed there? And also how good it was this time a year ago when the handouts were dished out?

Mark Todd: I mean, obviously the area of greatest effect for us will be in the Easter sale period, because that, our promotion and the handouts were kind of tabulating at the same time.

But to answer that in more detail is quite complex, because effectively the performance of what we offer in the sale and the stock, and the stock mix between the sales, is not necessarily directly comparable. All we really can say is that we would expect that if you're looking at an Easter sale period, Australia, there's a definite potential effect to come, and you've seen the relativities that we had from Christmas and you know, Christmas was a whole half year. Obviously that difference in same store sales was a whole half year, but Christmas was a significant portion of that.

Peter Halkett: It's very difficult to determine how much benefit we received from the stimulus, as you would know. I mean we've used the difference in like for like [indistinct] New Zealand and Australia as a bit of a guide, but that's, but there were more new stores in Australia which impacts greater cannibalisation, so I think we're probably just being a little cautious. We don't know what to expect.

Mark Todd: And we're not a big ticket seller item either, you know, we sell small price point product generally, so sorting out that differential is not that straightforward.

Ed Prendergast: (Pegana Capital, Analyst) So do you - just in summary - did you think you got a bigger or a more noticeable positive from the first or the second handout last time?

Peter Halkett: Once again it's difficult to tell, but I think it was accumulated. Probably the people that got the greatest benefit was probably anyone selling a large screen TV. They did call it the plasma rebate eventually, and I think that we saw that through the JB Hi-Fi's and through the Harvey Norman's.

So, I mean with our lower dollar value, I'm not too concerned. I'm just trying to be very cautious about what may eventuate through that period. I mean given that our like for likes over the whole year were 3 and 3.5, and given our performance to date, I think that we are being on the cautious side.

Operator: WE will now move to our next question from the line of Sandra Urlich from First NZ Capital. Please go ahead.

Sandra Urlich: (First NZ Capital, Analyst) Hi guys. Just a couple of things, and just perhaps harking back to what Ed was talking about - if you actually look at your seasonal breakdown that you disclose in the prospectus, based on the EBIT number that you've actually presented today, it, all things being equal, means that you could pretty much blitz your prospectus forecast. I know what you're going to say to me about being cautious and such like, but have you changed - have you changed your view on seasonality or is this just a cautious comment?

Because I mean if I look at $15.5 million over the $51 million in the prospectus - this is the EBIT number - then it's more saying that the first half has 30% contribution as opposed to the 26%, you know, 25%, 26% you spoke about in the prospectus. Can you just talk about that a bit?

Peter Halkett: I think Sandra it's fair to say we are being cautious. I mean the prospectus is a very important year for Kathmandu. You know, we're a listed company - first time we've listed. You know, we've got a prospectus number out there which is set in stone. We are 40% of the way through in sales, 60% to go. So, I think it was generally felt with between ourselves and the board that we should be sticking to the prospectus forecast. It may well be that once we get through Easter sale we can update the market again.

Sandra Urlich: (First NZ Capital, Analyst) Yep.

Peter Halkett: So, yeah, I think that's the reality as we believe it's appropriate given that we're a newly listed company and we've got a prospectus out there, and that there's so much uncertainty, be it that it is improving, that we be cautious.

Mark Todd: I think also in the media announcements Sandra you need to remember that the first half year we have just gone through cycles against the first half year of the previous year which was right in the midst of the global financial crisis - right in the midst. So it's not as if - and we are comparing against a pretty weak first half year in '09, so that also is a very relevant factor.

Sandra Urlich: (First NZ Capital, Analyst) But it's not a - it could be, I mean I'm just going to say something ridiculous - but there's every possibility that you could beat it, all things being equal, right?

Peter Halkett: Well we'd like…

Sandra Urlich: (First NZ Capital, Analyst) If you continue the trends that you're seeing now.

Peter Halkett: That's certainly our intention, but we wouldn't want to put that, make a commitment to that given the importance of the prospectus to Kathmandu.

Sandra Urlich: (First NZ Capital, Analyst) Yep, and just secondly - you may have spoken about it, but I was just trying to do something else - in terms of the margins for New Zealand - did you talk about why they were so, there was such a massive upgrade there compared to last year?

Peter Halkett: Are you talking EBITDA margins?

Sandra Urlich: (First NZ Capital, Analyst) Yeah.

Peter Halkett: Well they're not massive per se, but again if you - in percentage terms - yeah, in the percentage terms it's a large number, but it's the lower, it's the lower half year and it's function of the increased sales for that.

Sandra Urlich: (First NZ Capital, Analyst) So there's just operating leverage?

Mark Todd: Correct.

Sandra Urlich: (First NZ Capital, Analyst) Okay. And just lastly, in terms of housekeeping, I - can you, in terms of the interest cost for this, will they be similar to what they were, what you've disclosed in the prospectus?

Mark Todd: Yeah, as I said, they, we disclosed 4.4 and we've forecast as per that slide 4.6.

Sandra Urlich: (First NZ Capital, Analyst) Okay, I missed that. So, okay, that is in there.

Mark Todd: Former basis, yep.

Sandra Urlich: (First NZ Capital, Analyst) Okay. That's fine. Thank you very much.

Operator: We will now move to our next question in queue from the line of George Batsakis from Goldman Sachs. Please go ahead.

George Batsakis: (Goldman Sachs, Analyst) Morning Peter. Good morning Mark. Just a question on your like for like sales growth - very strong in both Australia and New Zealand. Were they helped by low base? Did you have a softish Christmas in the previous corresponding period?

Peter Halkett: Well first of all, hi George. I think that we've made that point, and we think we are coming off a little lower base, because you know, that period was in the teeth of the global financial crisis, and so I think we've probably done a little better than we thought, but it must be remembered it is off the low base.

George Batsakis: (Goldman Sachs, Analyst) Okay. Second question just on the operating cost line - you did a fantastic job there reducing operating costs as a percentage of sales, as you pointed out, but was that just fixed cost leverages you commented, or was there some cost reduction benefits in there as well?

Mark Todd: There's a little bit of cost reduction benefit in there, but primarily fixed George.

George Batsakis: (Goldman Sachs, Analyst) And just the other question was on the rent ratio, it actually fell from 13% to 11.9% half on half. With your move into shopping centres and higher rent locations, it was a bit surprised at that, was there any lease incentives or anything like that in that helping that? Or was that again fixed cost leverage?

Peter Halkett: No, that's mainly fixed cost leverage. I think there was an issue with a opening and closing store, which may have created a…

Mark Todd: But not much.

Peter Halkett: …but in the big scheme of things, it's very little.

George Batsakis: (Goldman Sachs, Analyst) Excellent. That was all from me. Thank you.

Peter Halkett: Thanks George.

Operator: We have one question remaining in queue. As a reminder, if you'd like to ask a question over the phone it's star one on your telephone keypad. And we'll now move to our next question in queue from the line of Ray David calling from UBS. Please go ahead.

Ray David: (UBS, Analyst) Oh g'day guys. Just a question on stock levels down 24% on average - quite a good result. Can you just sort of talk me through - is that base sustainable level, like does that reflect more sales or supply chain initiatives? And I guess going forward, is there an opportunity around sort of stock turn just based on some of those supply chain initiatives you mentioned?

Peter Halkett: It's a function of improved supply chain and increased sales. There's no doubt about that. I think it's at the level that ultimately we want to be at over time, but there is still improvements in our inventory management we need to do to ensure that that's going to be a sustainable level.

So I think at this point in time we may drift - really, once again, it depends how we go over our Easter and winter sales, because at the end of winter sale if that's performed well we'll be back down to that sort of equivalent level. If we haven't gone as well as we'd like it'll be a little high. But in answer to your question, that's the sort of level we think we should be at, which is only about 2.1 stock turns, which I think for a vertical retailer is okay, but we'd probably want to try and get it more to 2.5 or somewhere in that order over time.

Ray David: (UBS, Analyst) Yep, and just again from the like for like sales strong result, was there any sort of notable impact from base camp in that result or was it just reflecting sort of a weaker PCP?

Peter Halkett: Well I did point out that I thought base camp - I mean base camp has gone very well, there's no doubt about that. In fact, you know, we're probably at a very low level of base camp when we'd like to have a little bit of stock heading into our Easter sale because of our lead times - which are six months - it makes a little bit of a challenge for us. But base camp went very well. In fact all of that sort of family camping in New Zealand was very strong, with furniture, the lighting. Yeah, it was a strong period. I think we're on trend. It's a growth category, and I think people were taking localised holidays which helped Kathmandu overall - including our apparel. But base camp in particular was strong.

It is a slightly lower margin product, because it's more fiercely competed, which is what brings our average margin down slightly, and my explanation why we've sort of dropped 1% or 110 basis points.

Ray David: (UBS, Analyst) And with your like for like sales going to sort of second half, can you give us an idea of what actual like for like sales you're cycling on second half '09?

Peter Halkett: No, relatively low as was outlined in the prospectus. You can pick that numbers back up in the prospectus Ray.

Ray David: (UBS, Analyst) Yep. Okay. No worries. Thanks guys.

Operator: We will now move to our next question in queue from the line of Adam Simpson, calling from Macquarie. Please go ahead.

Adam Simpson: (Macquarie, Analyst) G'day guys. Congratulations on a great result. Just a quick one on your increase in store target - stores opened before winter, opened late in the second half but just before winter, do you want to give us a feel for what sort of profit contribution they might be able to contribute, given they only trade through the, you know, the super sales period?

Mark Todd: Yeah, well I mean the answer to that Adam is that they should be profitable, but they wouldn't be profitable at anywhere near the same average margin that you're looking at for other stores, simply because every one of those stores we usually have at least a month's worth of fixed costs upfront before the store opens, and stuff, so you can expect a contribution but not - and obviously this is in the context of the overall perspective - not substantial enough to make a huge difference to the overall performance, and it does depend on which store locations they are.

Adam Simpson: (Macquarie, Analyst) And just update us on your plans for base camp in Australia.

Peter Halkett: The current plan is we're still trialling, and we're re-entering bringing it back into Queensland and to Western Australia.

Adam Simpson: (Macquarie, Analyst) Yep.

Mark Todd: It's probably going to take a couple of years to get sort of critical mass, but we do have a couple of stores we're just about to sign up to help consolidate Queensland - for example, we already have a store in Townsville that's base camp. The Fortitude Valley store has been put back into base camp. So we're basically searching for sites. So it's really a strategy over the next couple of years. There hasn't been any short-term benefit from that at this point in time.

Adam Simpson: (Macquarie, Analyst) You're not marketing base camp separately in Australia at this point?

Peter Halkett: No, in fact we're not marketing it at all at the moment. We purely have it in-store, and it's opportunistic, because that's one of the reasons, when I first started, we took it out because it wasn't economic at that point of view - point in time, so I took it out - but we're bringing it into those hotter climate areas where we can sell it for nine months of the year.

So we're really just beginning that strategy. But the first entry into the market is going to be in those two hotter climate areas.

Adam Simpson: (Macquarie, Analyst) And I think you've flagged circa another 15 stores in '11. Have you got many of those sites identified yet, or is that still a work in progress?

Mark Todd: Well we don't have any signed - maybe one - but I wouldn't expect it to be a major issue.

Adam Simpson: (Macquarie, Analyst) Yep. Very good. Congratulations guys.

Peter Halkett: Thanks Adam.

Operator: We have no further questions in queue. I would like to hand the call back across to Peter Halkett for any closing or additional remarks.

Peter Halkett: Thanks everyone for dialling in today. I appreciate the feedback you have given us. For us it's our first six months result, and once a gain we'd appreciate any feedback on anything we can do to improve how we've presented the information, how we've presented the information today, anything you can do to assist us to help you guys, we'd much appreciate.

But overall, thanks for your time, and I think we're catching up with many of you over the next week, so look forward to having a cup of tea together.

Thanks.

Operator: And that concludes today's conference. Thank you all for your participation.

END OF TRANSCRIPT