

# Results announcement



Results for announcement to the market		
Name of issuer	Kathmandu Holdings Limited	
Reporting Period	6 months to 31 January 2020	
Previous Reporting Period	6 months to 31 January 2019	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$363,654	56.7%
Total Revenue	\$363,654	56.7%
Net profit/(loss) from continuing operations	\$8,137	-41.7%
Total net profit/(loss)	\$8,137	-41.7%
Interim Dividend		
Amount per Quoted Equity Security	No dividend payment is proposed	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	Not Applicable	
Dividend Payment Date	Not Applicable	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	-\$0.19	\$0.08
A brief explanation of any of the figures above necessary to enable the figures to be understood	The interim results are based on accounts which have been subject to review. Refer to accompanying unaudited financial statements.	
Authority for this announcement		
Name of person authorised to make this announcement	Frances Blundell	
Contact person for this announcement	Frances Blundell	
Contact phone number	0226486035	
Contact email address	companysecretary@kathmandu.co.nz	
Date of release through MAP	Wednesday, 1 April 2020	

Unaudited financial statements accompany this announcement.

**Not for distribution or release in the United States or to U.S. Persons**

**1 April 2020**

*(All amounts in New Zealand Dollars, NZ\$, unless otherwise stated)*

**Rip Curl acquisition and organic sales growth underpinned first half result,  
\$207 million Equity Raising**

Today, Kathmandu Holdings Limited (NZX/ASX: KMD) announces its 1H FY20 results, and a fully underwritten \$207 million Equity Raising, via a pro-rata accelerated entitlement offer (**Entitlement Offer**) and placement (**Placement**).

**1H FY20 key highlights (vs 1H FY19)**

- Successful completion of the Rip Curl Acquisition, creating a more diversified group of three iconic brands across key global markets
- Outdoor segment (Kathmandu and Oboz) total sales<sup>1</sup> up 0.4% at constant exchange rates
  - Kathmandu same store sales<sup>2</sup> growth of 1.5%
  - Online comparable sales growth of 33.1%; now comprising 11.1% of direct to consumer sales over the last twelve months, up from 9.5%
  - Oboz total sales up 10.4% at constant exchange rates
- Surf segment (Rip Curl) total sales up 3.7%
  - Same store sales growth of 2.7%
  - Online comparable sales growth of 19.5%
- Group total sales up 58.8% to \$363.7 million
- Group Underlying EBIT of \$29.0 million, up 46.5% (excluding the impact of IFRS 16, and one-off transaction and abnormal costs)
- Statutory NPAT of \$8.1 million includes \$10.3 million of one-off transaction costs and abnormal costs, and \$0.4 million from the implementation of the IFRS 16 leasing standard

**Equity Raising highlights**

- Kathmandu Holdings is taking pre-emptive action to fortify its balance sheet in conjunction with the aggressive and significant cost savings and structural cost reduction initiatives the Group is implementing in response to the global COVID-19 pandemic (**COVID-19**).
- The Group has launched a fully underwritten \$207 million Equity Raising at an offer price of \$0.50 per share via a \$30 million Placement to certain institutional investors, together with an approximately \$177 million 1.2 for 1 pro-rata accelerated Entitlement Offer (together, the **Equity Raising**).
- Post-raising, the Group will be strongly capitalised through the current market uncertainties caused by the global COVID-19 pandemic.

Kathmandu Holdings has announced that it intends to raise approximately \$207 million to strengthen its balance sheet and ensure the Group is strongly capitalised through the current market uncertainties caused by COVID-19.

Kathmandu Holdings' Group CEO Xavier Simonet said "The Group's first half financial results highlight the strength of our three global brands, Kathmandu, Rip Curl and Oboz. These results also show the strong position we would have been in to drive the next wave of our growth in line with our long-term diversification strategy had the global COVID-19 pandemic not occurred. In this situation of uncertainty and challenges, the health and wellbeing of our team and customers is paramount, while we maintain business continuity and ensure we are well positioned to bounce back quickly when more normal operating conditions return."

"The Board is taking pre-emptive action with the capital raising announced today, to ensure our Group remains strongly capitalised during the current market uncertainties. The proceeds of the Equity Raising will be used to

<sup>1</sup> Total sales for the Outdoor segment are for the six months ended 31 January 2020. Total sales for the Surf Segment are for three months since the acquisition of Rip Curl.

<sup>2</sup> Same store and comparable sales are measured at constant currency. For the Outdoor segment, the measurement period is the 26 full weeks ended 26 January 2020. For the Surf segment, the measurement period is the 12 full weeks of Rip Curl ownership from 4 November 2019 to 26 January 2020.

deleverage the Group's balance sheet and provide liquidity and funding in the medium-term should we experience a prolonged global COVID-19 pandemic," added Mr Simonet.

### **Strengthening the Group's Balance Sheet and Liquidity Position**

Kathmandu Holdings' management and Board are taking decisive action to address the impacts of COVID-19 and maintain business continuity, while ensuring the health and safety of the Group's team and customers remains the highest priority.

A large number of initiatives have already been undertaken covering distribution, supply chain, leases, various operating and capital expenditure, and people. Specific detail is outlined in the presentation lodged with NZX and ASX today.

In addition to these initiatives, the Group is taking pre-emptive action to ensure it remains strongly capitalised with sufficient liquidity during the current period of uncertainty. This includes:

- executing a fully underwritten \$207 million Equity Raising;
- as previously announced, suspending the Group's dividend until trading conditions improve. This includes the Group's interim 1H FY20 dividend; and
- Working with existing banking group, which has provided a covenant waiver for the periods ending 31 July 2020 and 31 January 2021, and a relaxation of certain covenants for the period ending 31 July 2021, subject to successful completion of a minimum NZ\$150 million equity raising.

The proceeds of the Equity Raising will be used to deleverage the Group's balance sheet and provide liquidity and funding for medium-term operating requirements (including estimated redundancy costs).

The Group expects to have sufficient liquidity to cover payments and meet the capital requirements of the Group for at least the next 12 months based on conservative assumptions.

## Equity Raising Details

The strengthening of the Group's balance sheet will be funded via a fully underwritten<sup>1</sup> Equity Raising comprising a \$30 million institutional Placement and a 1.2 for 1 pro-rata accelerated non-renounceable Entitlement Offer to raise approximately \$177 million. The Placement and Entitlement Offer will raise approximately \$207 million, with the issue of approximately 413.9 million new ordinary shares (**New Shares**) representing 140.3% of existing shares on issue.

The Placement and Entitlement Offer will be conducted at an offer price of \$0.50 per share (**Offer Price**), representing a:

- 30.2% discount to TERP<sup>2</sup>; and
- 51.0% discount to the last closing price of \$1.02 per share on 30 March 2020.

New Shares issued under the Placement and Entitlement Offer will rank equally with existing Kathmandu Holdings ordinary shares.

## Use of Proceeds

The Group intends to use proceeds from the Equity Raising to strengthen its balance sheet.

Specifically, the Group will use the Equity Raising proceeds for the following purposes:

- to pay down the existing Revolving Multi-Option Facility (\$86 million<sup>3</sup>);
- to provide additional cash on balance sheet (\$115 million); and
- to fund the transaction costs associated with the Equity Raising.

Post the Equity Raising, the Group:

- will have total liquidity of NZ\$315 million<sup>4</sup>, with no debt maturities prior to November 2022; and
- will reduce Net Debt / LTM EBITDA<sup>5</sup> as at 31 January 2020 from 1.9x down to pro forma 0.5x.

## Placement Details

The Placement to institutional investors will raise \$30 million at the Offer Price of \$0.50 per share. The Placement comprises the issue of 59.8 million shares to eligible sophisticated, professional and other institutional investors located in Australia, New Zealand and select international jurisdictions. The Placement represents 20.3% of Kathmandu Holdings' ordinary shares on issue following the Entitlement Offer.

The Placement is within the Company's existing capacity under NZX Listing Rule 4.5 (following the 19 March 2020 Class Waiver and Ruling) and accordingly no shareholder approval is required to issue the New Shares.

Settlement of the Placement is scheduled to take place on Wednesday, 8 April 2020, with allotment and quotation of the New Shares on ASX expected to occur on Thursday, 9 April 2020, while in relation to the New Shares on the NZX this will all occur on Thursday, 9 April 2020.

## Entitlement Offer Details

The 1.2 for 1 Entitlement Offer will raise a total of approximately \$177 million at an Offer Price of \$0.50 per share. The Entitlement Offer will be conducted in two parts, a component to institutional investors (**Institutional Entitlement Offer**) and a retail component (**Retail Entitlement Offer**). The Entitlement Offer is non-renounceable, and entitlements will not be tradeable or otherwise transferrable.

Eligible shareholders under the Institutional Entitlement Offer include sophisticated, professional and other institutional shareholders located in Australia, New Zealand and select international jurisdictions as at the

<sup>1</sup> The Underwriting Agreement contains termination events, representations, warranties and indemnities that are customary for a transaction of this nature.

<sup>2</sup> TERP is the Theoretical Ex-Rights Price at which Kathmandu ordinary shares would trade immediately after the ex-rights date for the Entitlement Offer. TERP is calculated with reference to Kathmandu's closing share price of NZ\$1.02 on 30 March 2020 and includes all New Shares issued under the Equity Raising. TERP is a theoretical calculation only and the actual price at which Kathmandu ordinary shares will trade immediately after the ex-rights date for the Entitlement Offer will depend on many factors and may not be equal to TERP.

<sup>3</sup> Balance as at 31 January 2020.

<sup>4</sup> Pro forma liquidity as at 31 January 2020, which consists of committed undrawn multi-option facility plus cash on balance sheet post settlement of the underwritten Placement and Entitlement Offer (net of fees and expenses).

<sup>5</sup> Calculated using 12 month rolling P&L measures, including a full 12 months of Rip Curl P&L results, and excluding transaction costs.

Record Date of Friday, 3 April 2020 (**Eligible Institutional Shareholders**). The Institutional Entitlement Offer will be conducted on Wednesday, 1 April 2020.

The Retail Entitlement Offer will be offered to eligible retail shareholders with registered addresses in Australia and New Zealand at the Record Date of Friday, 3 April 2020 (**Eligible Retail Shareholders**). The Retail Entitlement Offer will open on Monday, 6 April 2020, and close on Friday, 17 April 2020 (unless extended). The Retail Offer Document, containing full details of the Entitlement Offer, will be sent to Eligible Retail Shareholders on Monday, 6 April 2020.

The Board of Kathmandu Holdings supports the Entitlement Offer, and the non-Executive Directors intend to take up their direct entitlements, to the extent that they are eligible to participate in the Entitlement Offer.

#### Indicative timetable<sup>1</sup>

Event	Date
Announcement of Equity Raising	Wednesday, 1 April 2020
Institutional Entitlement Offer and Placement opens	Wednesday, 1 April 2020
Institutional Entitlement Offer and Placement closes	Wednesday, 1 April 2020
Trading halt lifted – KMD shares recommence trading on NZX and ASX on an “ex-entitlement” basis	Thursday, 2 April 2020
Record Date for the Entitlement Offer	Friday, 3 April 2020
Retail Entitlement Offer opens	Monday, 6 April 2020
Retail Offer Document despatched and Retail Entitlements allotted	Monday, 6 April 2020
Settlement of Placement and Institutional Entitlement Offer – ASX	Wednesday, 8 April 2020
Settlement, allotment and commencement of trading of New Shares under the Institutional Entitlement Offer and Placement – NZX	Thursday, 9 April 2020
Allotment and normal trading of New Shares under the Institutional Entitlement Offer and Placement – ASX	Thursday, 9 April 2020
Retail Entitlement Offer closes	Friday, 17 April 2020
Settlement of New Shares issued under the Retail Entitlement Offer – ASX	Thursday, 23 April 2020
Settlement, allotment and commencement of trading of New Shares issued under the Retail Entitlement Offer – NZX	Friday, 24 April 2020
Despatch of holding statements and commencement of trading of New Shares issued under the Retail Entitlement Offer – ASX	Monday, 27 April 2020

#### Additional information

Additional information regarding the Equity Raising is contained in the investor presentation released to NZX and ASX today. The investor presentation contains important information including key risks and foreign selling restrictions with respect to the Equity Raising.

Nothing contained in this announcement constitutes investment, legal, tax or other advice. Investors should seek appropriate professional advice before making any investment decision.

Credit Suisse (Australia) Limited and Jarden Securities Limited are acting as arrangers for the Equity Raising and, together with Craigs Investment Partners Limited and Forsyth Barr Limited are joint lead managers and bookrunners for the Placement and Entitlement Offer.

<sup>1</sup> This timetable is indicative only and may change without notice at the Company's discretion or subject to the requirements of the NZX Listing Rules. Kathmandu Holdings has the ability at its discretion to make changes including to extend the closing date for the Retail Entitlement Offer, to withdraw the Entitlement Offer at any time prior to the issue of the New Shares and/or to accept late applications either generally or in specific areas.



The Equity Raising is fully underwritten by Credit Suisse (Australia) Limited, Jarden Partners Limited, Craigs Investment Partners Limited and Forsyth Barr Group Limited.

For any questions in respect of the Retail Entitlement Offer, please call the Kathmandu Holdings Offer Information Line on +64 9 375 5998 (within New Zealand) or +61 1300 554 474 (within Australia) between 8:30am and 5:00pm (Auckland time) Monday to Friday during the Retail Entitlement Offer Period. For other questions, investors should consult their broker, solicitor, accountant, financial adviser or other professional adviser.

## 1H FY20 results

Kathmandu Holdings is pleased to announce its results for the six months ended 31 January 2020 (1H FY20), a period where the Company successfully completed the Rip Curl acquisition and continued to drive organic sales growth.

## Financial performance

<b>Kathmandu Group<sup>1</sup></b>	<b>IFRS 16</b>		<b>Pre IFRS 16</b>	
<b>NZ\$m</b>	<b>1H FY20</b>	<b>1H FY20</b>	<b>1H FY19</b>	<b>Change %</b>
Sales <sup>2</sup>	363.7	363.7	229.0	58.8%
Gross Profit	218.9	218.9	141.9	54.3%
Operating Expenses	(140.2)	(178.4)	(114.3)	56.1%
EBITDA (Underlying)	78.7	40.5	27.6	46.7%
EBIT (Underlying)	34.1	29.0	19.8	46.5%
<b>Transaction Costs &amp; Abnormals<sup>3</sup></b>	<b>(10.3)</b>	<b>(10.3)</b>	<b>1.1</b>	
EBIT	23.8	18.7	20.9	(10.5%)
NPAT	8.1	7.7	14.0	(45.0%)

## Addition of Surf segment diversified the Group earnings profile

<b>NZ\$m</b>	<b>1H FY20</b>	<b>1H FY19</b>	<b>Var %</b>
Outdoor segment sales	228.7	229.0	(0.1%)
Surf segment sales	134.9	-	
<b>Total segment sales</b>	<b>363.7</b>	<b>229.0</b>	<b>58.8%</b>
Outdoor segment EBIT	15.5	21.7	(28.5%)
Surf segment EBIT	15.7	-	
<b>Total segment EBIT</b>	<b>31.2</b>	<b>21.7</b>	<b>44.0%</b>
Corporate Costs	(2.2)	(1.9)	(17.2%)
<b>Group Underlying EBIT</b>	<b>29.0</b>	<b>19.8</b>	<b>46.5%</b>

Commenting on the 1H FY20 results, Group CEO Xavier Simonet said “Over the half year the acquisition of Rip Curl underpinned a significant increase in our scale and substantially diversified our revenue and earnings streams. At the same time we were able to continue growing organically given our strong customer engagement, unique products and well-known brands.”

“We were particularly pleased to grow same store sales in Australia and New Zealand despite challenging conditions, with Australia experiencing widespread bush fires and New Zealand having had negative same store sales growth during the preceding two years. Oboz continued to perform strongly, with sales growing 10.4% even though it was cycling strong sales growth following a major product launch last year,” added Mr Simonet.

<sup>1</sup> 1H FY20 NZD/AUD conversion rate 0.955 (1H FY19: 0.938), 1H FY20 NZD/GBP conversion rate 0.508 (1H FY19: 0.525), 1H FY20 NZD/USD conversion rate 0.641 (1H FY19 0.663).

<sup>2</sup> 1H FY20 statutory sales are presented net of Summit Club vouchers issued. To improve comparability, 1H FY19 sales are also presented net of Summit Club vouchers issued.

<sup>3</sup> \$10.3m has been incurred during 1H FY20 in relation to the acquisition and integration of Rip Curl, including establishment of a new Group structure. Abnormal income of \$1.1m in 1H FY19 was from a tax refund relating to the GST treatment of reward vouchers (\$0.8m after tax).

<sup>4</sup> Rounding differences may arise in totals, both \$ and %.

### Outdoor Segment result reflected challenging conditions

Outdoor Segment	Pre IFRS 16			
	NZ\$m	1H FY20	1H FY19	Var %
Sales	228.7	229.0	(0.1%)	
Gross Profit	138.2	141.9	(2.6%)	
Operating Expenses	(114.8)	(112.8)	1.8%	
EBITDA (Underlying)	23.4	29.0	(19.4%)	
EBIT (Underlying)	15.5	21.7	(28.5%)	

Total sales in Kathmandu's largest market, Australia, were down 0.9%, with 3 stores closed since 1H FY19. Same stores sales growth of 2.0% was a positive result given the impacts of bushfires and unusually hot weather.

New Zealand total sales were up 0.5%. Same store sales growth was 0.5%, following two years of negative same store sales.

Rest of World total sales were up 6.1% at constant exchange rates, underpinned by 10.4% sales growth from Oboz and initial orders for Kathmandu North America. Oboz expects its next major product launch to start shipping from June 2020.

Kathmandu's gross margin was 1.2% below 1H FY19 due to a higher clearance sales mix and higher input costs impacted by exchange rates. Higher input costs due to exchange rates are expected to continue through 2H FY20 and FY21.

Online comparable sales were up 33.1% at constant currency exchange rates, and now comprise 11.1% of direct to consumer sales over the last twelve months (1H FY19: 9.5%).

### Surf segment: strong performance in first three months of ownership

Surf Segment	Pre IFRS 16	
	NZ\$m	Nov 19 to Jan 20
Sales	134.9	
Gross Profit	80.7	
Operating Expenses	(62.3)	
EBITDA (Underlying)	18.4	
EBIT (Underlying)	15.7	

In the three months since its acquisition, Rip Curl contributed NZ\$15.7 million to group underlying EBIT. The three months of ownership to date include the important Christmas trading period.

Rip Curl total sales for three months of ownership increased 3.7% at constant exchange rates above the comparable three month period last year. Wholesale total sales increased by 1.8%. Total sales for Australia and New Zealand increased 3.2%, while total sales for Rest of World increased 4.5%, with North America performing particularly strongly.

Direct to consumer same store sales grew 2.7% and online sales grew 19.5%. Over FY20 the Group will continue to leverage its expertise to further improve Rip Curl's store network and online capabilities.

## Outlook

Commenting on the outlook for Kathmandu, Mr Simonet said “The acquisition of Rip Curl has created a diversified global Group, consisting of three iconic, inspirational and authentic brands. We will continue to develop the channels through which we deliver our innovative and technical products to our loyal consumers.”

“Sufficient inventory levels are in place for the forthcoming season for all brands, assisted by the longer lead time of technical product categories, and a diversified supplier base.”

“While we are acting to limit the impacts of the COVID-19 pandemic, our long-term strategy does not change. We are striving to be a global outdoor and action sports company underpinned by iconic brands, technical products and a focus on sustainability. In Kathmandu, Oboz, and Rip Curl, we believe that we have authentic and inspirational brands that will attract loyal customers for the long-term.”

## Investor briefing

An investor call will be hosted by Xavier Simonet (Group CEO) and Chris Kinraid (Group CFO) at 9:00am AEDT / 11:00am NZDT today, Wednesday, 1 April 2020. For those wishing to participate, please dial one of the numbers below and provide the conference ID to the operator:

Australia Toll Free:	1800 558 698 or 1800 809 971
Australia Local:	+61 2 9007 3187
New Zealand Toll Free:	0800 453 055
United States:	+1 855 881 1339

**Conference ID: 10005263**

- ENDS -

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## Important Notices and Disclaimer

### Not for release or distribution in the United States

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### Forward-looking statements

This announcement contains certain forward-looking statements about Kathmandu Holdings. The "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "continue", and "guidance" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements in this announcement include statements regarding: statements regarding plans, strategies, growth initiatives and objectives of management, timing, expected costs for Kathmandu Holdings, based on its estimates for 2020 and beyond and the future operation and financial performance of Kathmandu Holdings, and the outcome of the Placement and the Entitlement Offer and the use of proceeds therefrom. Forward-looking statements, including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Kathmandu Holdings). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual results, performance or achievement may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and Kathmandu Holdings assumes no obligation to update such information.

All dollar values are in New Zealand dollars (" \$" or "NZ\$") unless stated otherwise.

This announcement contains certain financial measures that are "non-IFRS financial information" under ASIC Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC and also "non-GAAP financial measures" within the meaning of Regulation G under the U.S. Securities Exchange Act of 1934, as amended, and are not recognised under Australian Accounting Standards ("AAS") and International Financial Reporting Standards ("IFRS"). The non-IFRS/non-GAAP financial information does not have a standardised meaning prescribed by AAS and IFRS and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. Investors are cautioned not to place undue reliance on any non-IFRS/non-GAAP financial information included in this announcement.

In addition, the pro forma historical financial information included in this announcement does not purport to be in compliance with Article 11 of Regulation S-X under the US Securities Act and was not prepared with a view towards compliance with the rules and regulations or guidelines of the U.S. Securities and Exchange Commission or the American Institute of Certified Public Accountants for the preparation and presentation of pro forma financial information.

# **KATHMANDU HOLDINGS LIMITED**

## **INTERIM REPORT 2020**

# KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

## DIRECTORS' REPORT

The Directors of Kathmandu Holdings Limited present the Interim Report for the Company and its controlled entities for the half year ended 31 January 2020.

### Review of Operations

The consolidated net profit after tax for the period was NZ\$8.1 million (2019: NZ\$14.0 million) including acquisition costs of NZ\$10.1m. The consolidated net profit after tax excluding acquisition costs is NZ\$18.2m. Sales for the period were NZ\$363.7 million (2019: NZ\$232.0 million).

A review of the operations of the Company and its controlled entities is set out in the accompanying Company's media release of 1 April 2020. The key line items in the half year results were:

- Sales up 56.7% to NZ\$363.7m,
- EBIT up NZ\$2.9m to NZ\$23.8m,
- NPAT down NZ\$5.8m to NZ\$8.1m.

### Seasonality

Due to the seasonal nature of the Company and its controlled entities activities, the activities in the second half of the year historically provide a larger portion of the sales and net profit for the full year.

### Going Concern and the Impact of COVID-19

The Group has reviewed the impact on the business from the rapidly evolving COVID-19 situation. Providing accurate forecasts in this rapidly evolving environment is challenging however the Directors are of the view that there is likely to be a material adverse impact to earnings in the next 12 months. Refer to Note 16 of the Financial Statements for further disclosure about the impact of COVID-19 on the going concern assumption.

Signed in accordance with a resolution of the directors:



David Kirk  
Director



Xavier Simonet  
Director

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
		NZ\$'000	NZ\$'000	NZ\$'000
Sales revenue	4	363,654	232,024	545,618
Cost of sales		(144,754)	(90,160)	(213,125)
Gross profit		218,900	141,864	332,493
Other income		628	1,115	1,130
Selling expenses	5	(87,168)	(77,968)	(160,581)
Administration and general expenses	5	(64,025)	(36,332)	(73,477)
		(150,565)	(113,185)	(232,928)
<b>Earnings before interest, tax, depreciation and amortisation</b>		68,335	28,679	99,565
Depreciation and amortisation	5	(44,575)	(7,755)	(15,272)
<b>Earnings before interest and tax</b>		23,760	20,924	84,293
Finance income		29	54	37
Finance expenses		(9,531)	(1,506)	(2,952)
Finance costs - net	5	(9,502)	(1,452)	(2,915)
<b>Profit before income tax</b>		14,258	19,472	81,378
Income tax expense		(6,121)	(5,518)	(23,745)
<b>Profit after income tax</b>		8,137	13,954	57,633
<b>Profit for the period attributable to:</b>				
Shareholders of the company		7,471	13,954	57,633
Non-controlling interest		666	-	-
<b>Other comprehensive income/(loss) that may be recycled through profit and loss:</b>				
Movement in cash flow hedge reserve		(407)	(1,524)	620
Movement in foreign currency translation reserve		(2,870)	(6,583)	(3,297)
<b>Other comprehensive income/(loss) for the period, net of tax</b>		(3,277)	(8,107)	(2,677)
<b>Total comprehensive income for the period</b>		4,860	5,847	54,956
<b>Total comprehensive income for the period attributable to:</b>				
Owners of the company		4,335	5,847	54,956
Non-controlling interest		525	-	-
<b>Basic earnings per share</b> (restated)	3	2.8 cps	6.0 cps	24.6 cps
<b>Diluted earnings per share</b> (restated)	3	2.8 cps	5.9 cps	24.4 cps
<b>Weighted average basic ordinary shares outstanding</b> ('000) (restated)	3	269,324	234,399	234,561
<b>Weighted average diluted ordinary shares outstanding</b> ('000) (restated)	3	270,433	236,231	236,526

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Retained Earnings	Non- controlling Interest	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>Balance as at 31 July 2018</b>	<b>249,882</b>	<b>3,498</b>	<b>(8,975)</b>	<b>2,760</b>	<b>173,356</b>	<b>-</b>	<b>420,521</b>
Profit after tax	-	-	-	-	57,633	-	57,633
Other comprehensive income	-	620	(3,297)	-	-	-	(2,677)
Dividends paid	-	-	-	-	(33,883)	-	(33,883)
Issue of share capital	1,231	-	-	(1,231)	-	-	-
Share based payment expense	-	-	-	721	-	-	721
Lapsed share options	-	-	-	(14)	14	-	-
Deferred tax on share-based payment transactions	-	-	-	(253)	-	-	(253)
<b>Balance as at 31 July 2019</b>	<b>251,113</b>	<b>4,118</b>	<b>(12,272)</b>	<b>1,983</b>	<b>197,120</b>	<b>-</b>	<b>442,062</b>
Profit after tax	-	-	-	-	7,471	666	8,137
Other comprehensive income	-	(407)	(2,729)	-	-	(141)	(3,277)
Dividends paid	-	-	-	-	(27,209)	-	(27,209)
Issue of share capital	174,649	-	-	(1,613)	-	-	173,036
Share based payment expense	-	-	-	116	-	-	116
Deferred tax on share-based payment transactions	-	-	-	83	-	-	83
Non-controlling interest on acquisition	-	-	-	-	-	3,312	3,312
Transition to NZ IFRS 16	-	-	-	-	(16,308)	-	(16,308)
<b>Balance as at 31 January 2020</b>	<b>425,762</b>	<b>3,711</b>	<b>(15,001)</b>	<b>569</b>	<b>161,074</b>	<b>3,837</b>	<b>579,952</b>

# KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

## CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 31 January 2020	Unaudited As at 31 January 2019	Audited As at 31 July 2019
		NZ\$'000	NZ\$'000	NZ\$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		40,259	4,650	6,230
Trade and other receivables		81,121	11,373	14,206
Inventories		254,560	130,050	122,773
Derivative financial instruments	13	5,677	3,366	4,964
Current tax asset		18,897	805	-
Other financial assets		-	22,210	-
<b>Total current assets</b>		<b>400,514</b>	<b>172,454</b>	<b>148,173</b>
<b>Non-current assets</b>				
Property, plant and equipment	12	93,125	60,941	60,319
Intangible assets		634,834	384,624	386,061
Right-of-use assets	15	309,733	-	-
<b>Total non-current assets</b>		<b>1,037,692</b>	<b>445,565</b>	<b>446,380</b>
<b>Total assets</b>		<b>1,438,206</b>	<b>618,019</b>	<b>594,553</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		131,037	60,747	74,560
Derivative financial instruments	13	186	1,348	113
Current tax liabilities		12,828	-	6,458
Other financial liabilities		-	21,739	-
Lease liability	15	78,041	-	-
<b>Total current liabilities</b>		<b>222,092</b>	<b>83,834</b>	<b>81,131</b>
<b>Non-current liabilities</b>				
Derivative financial instruments	13	13	45	9
Non-current trade and other payables		2,480	-	-
Interest bearing liabilities	8	313,425	83,850	25,500
Deferred tax		53,444	48,667	45,851
Lease liability	15	266,800	-	-
<b>Total non-current liabilities</b>		<b>636,162</b>	<b>132,562</b>	<b>71,360</b>
<b>Total liabilities</b>		<b>858,254</b>	<b>216,396</b>	<b>152,491</b>
<b>Net assets</b>		<b>579,952</b>	<b>401,623</b>	<b>442,062</b>
<b>EQUITY</b>				
Contributed equity - ordinary shares		425,762	251,113	251,113
Reserves		(10,721)	(11,825)	(6,171)
Retained earnings		161,074	162,335	197,120
Non-controlling interest		3,837	-	-
<b>Total equity</b>		<b>579,952</b>	<b>401,623</b>	<b>442,062</b>

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### CONSOLIDATED STATEMENT OF CASH FLOWS

Note	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from customers	378,631	235,097	546,499
Income tax received	-	-	207
Interest received	29	54	621
	<u>378,660</u>	<u>235,151</u>	<u>547,327</u>
<b>Cash was applied to:</b>			
Payments to suppliers and employees	300,475	234,566	455,743
Income tax paid	15,914	15,338	26,673
Interest paid	7,035	1,404	3,237
	<u>323,424</u>	<u>251,308</u>	<u>485,653</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<u>55,236</u>	<u>(16,157)</u>	<u>61,674</u>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of property, plant and equipment	-	1	1
Proceeds from investment in other financial assets	-	-	22,321
		<u>1</u>	<u>22,322</u>
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	8,337	5,171	11,345
Purchase of intangibles	2,228	1,813	4,351
Acquisition of subsidiaries	378,794	84	22,321
	<u>389,359</u>	<u>7,068</u>	<u>38,017</u>
<b>Net cash (outflow) from investing activities</b>	<u>(389,359)</u>	<u>(7,067)</u>	<u>(15,695)</u>
<b>Cash flows from financing activities</b>			
<b>Cash was provided from:</b>			
Proceeds of loan advances	451,338	70,214	92,606
Proceeds from share issue	140,081	-	-
	<u>591,419</u>	<u>70,214</u>	<u>92,606</u>
<b>Cash was applied to:</b>			
Dividends	27,209	24,836	33,883
Repayment of loan advances	160,516	25,624	106,606
Repayment of lease liabilities	34,331	-	-
	<u>222,056</u>	<u>50,460</u>	<u>140,489</u>
<b>Net cash inflow/(outflow) from financing activities</b>	<u>369,363</u>	<u>19,754</u>	<u>(47,883)</u>
<b>Net increase/(decrease) in cash held</b>	<u>35,240</u>	<u>(3,470)</u>	<u>(1,904)</u>
Opening cash and cash equivalents	6,230	8,146	8,146
Effect of foreign exchange rates	(1,211)	(26)	(12)
<b>Closing cash and cash equivalents</b>	<u>40,259</u>	<u>4,650</u>	<u>6,230</u>

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
<b>Profit after income tax</b>	8,137	13,954	57,633
<i>Movement in working capital:</i>			
(Increase) / decrease in trade & other receivables	17,942	1,660	(379)
(Increase) / decrease in inventories	(11,649)	(20,516)	(13,042)
Increase / (decrease) in trade and other payables	(7,782)	(10,290)	3,662
Increase / (decrease) in tax liability	(8,368)	(10,639)	(3,260)
	(9,857)	(39,785)	(13,019)
<i>Add non cash items:</i>			
Depreciation of property, plant and equipment	8,609	5,851	11,920
Amortisation of intangibles	2,904	1,904	3,352
Depreciation of right-of-use assets	33,061	-	-
Foreign currency translation of working capital balances	13,284	181	(286)
Increase / (decrease) in deferred taxation	(1,425)	818	539
Employee share based remuneration	116	576	721
Loss on disposal of property, plant and equipment	407	344	814
	56,956	9,674	17,060
<b>Cash inflow/(outflow) from operating activities</b>	55,236	(16,157)	61,674

# KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

## 1 GENERAL INFORMATION

Kathmandu Holdings Limited (the Company) and its subsidiaries (together the Group) is a designer, marketer, retailer and wholesaler of apparel, footwear and equipment for surfing and the outdoors. It operates in New Zealand, Australia, North America, Europe, South East Asia and Brazil.

The Company is a limited liability company incorporated and domiciled in New Zealand. Kathmandu Holdings Limited is a company registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is 223 Tuam Street, Christchurch.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 1 April 2020, and have been reviewed, not audited.

### Seasonality

Due to the seasonal nature of the Company and its controlled entities activities, the activities in the second half of the year historically provide a larger portion of the sales and net profit for the full year.

## 2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general purpose financial statements for the six months ended 31 January 2020 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting. In complying with NZ IAS 34, these consolidated interim financial statements also comply with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2019 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The Group is designated as a profit-oriented entity for financial reporting purposes.

## 3 ACCOUNTING POLICIES

Other than the new accounting standards adopted during the period as set out in Note 18 and the earnings per share and segment restatement noted below, the consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as those used in the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2019.

The Group has restated the prior year basic and diluted EPS to reflect the impact of the implied bonus element on shares issued from the institutional entitlement offer on 11 October 2019, retail entitlement offer on 29 October 2019 and share placement on 31 October 2019. Shares were issued at an issue price of NZ\$2.55, representing a 14.4% discount to the NZ\$2.98 volume weighted average price (ex-dividend) of Kathmandu's shares traded on the NZX for the last five trading days prior to 1 October 2019, and a 13.6% discount to the theoretical ex-entitlement price of NZ\$2.95.

The Group has restated the January 2019 segment disclosure in Note 6 to align the comparative disclosure with the new operating segments identified following the acquisition of Rip Curl Group Pty Ltd in October 2019.

## 4 REVENUE

	<b>Unaudited Six Months Ended 31 January 2020</b>	<b>Unaudited Six Months Ended 31 January 2019</b>	<b>Audited Year Ended 31 July 2019</b>
	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>
<b>Disaggregation of revenue:</b>			
Sale of goods	361,300	232,024	545,618
Licensing revenue	2,354	-	-
	<b>363,654</b>	<b>232,024</b>	<b>545,618</b>

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### 5 EXPENSES

	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
<b>Profit before tax includes the following expenses:</b>			
Depreciation of property, plant and equipment	8,609	5,851	11,920
Amortisation	2,904	1,904	3,352
Depreciation of right-of-use assets	33,061	-	-
Employee benefit expense	77,594	46,557	92,035
Rental expense	10,107	34,372	69,187
Acquisition costs	10,073	-	-
<b>Finance costs – net consist of:</b>			
Interest income	(29)	(54)	(37)
Interest expense on term debt	2,197	894	1,877
Interest on lease liabilities	4,462	-	-
Other finance costs	1,803	437	886
Net exchange loss on foreign currency borrowings	1,069	175	189
	9,502	1,452	2,915

### 6 SEGMENTAL INFORMATION

Following the acquisition of Rip Curl Group Pty Limited in October 2019 the Group has three operating segments.

Outdoor – including the Kathmandu and Oboz brands. This segment designs, markets, retails and wholesales apparel, footwear and equipment for outdoor travel and adventure.

Surf – including the Rip Curl brand. This segment designs, manufactures, wholesales and retails surfing equipment and apparel.

The Corporate segment represents group costs, holding companies and consolidation eliminations and constitutes other business activities that do not fall within outdoor or surf segments.

These operating segments have been determined based on the reports reviewed by the Group Chief Executive Officer and Group Executive Management team.

EBITDA represents earnings before income taxes (a non-GAAP measure), excluding interest income, interest expense, depreciation and amortisation, as reported in the financial statements. EBIT represents EBITDA less depreciation and amortisation.

Costs recharged between Group companies are calculated on an arms-length basis. The default basis of allocation is % of revenue with other bases being used where appropriate.

31 January 2020	Outdoor NZ\$'000	Surf NZ\$'000	Corporate NZ\$'000	Total NZ\$'000
Sales from external customers	228,747	134,907	-	363,654
EBITDA	50,780	28,891	(11,336)	68,335
Depreciation and software amortisation	(31,559)	(12,110)	(906)	(44,575)
EBIT	19,221	16,781	(12,242)	23,760
Income tax expense	3,251	4,922	(2,052)	6,121
Total segment assets	768,602	662,623	6,981	1,438,206
<i>Total assets includes:</i>				
Non-current assets	612,322	425,370	-	1,037,692
Additions to non-current assets	19,596	405,975	-	425,571
Total segment liabilities	290,199	251,719	316,336	858,254

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

31 January 2019 – Restated (Note 3)	Outdoor NZ\$'000	Surf NZ\$'000	Corporate NZ\$'000	Total NZ\$'000
Sales from external customers	232,024	-	-	232,024
EBITDA	30,130	-	(1,451)	28,679
Depreciation and software amortisation	(7,355)	-	(400)	(7,755)
EBIT	22,775	-	(1,851)	20,924
Income tax expense	6,123	-	(605)	5,518
Total segment assets	591,856	-	26,163	618,019
<i>Total assets includes:</i>				
Non-current assets	445,565	-	-	445,565
Additions to non-current assets	6,983	-	84	7,067
Total segment liabilities	111,521	-	104,875	216,396

### 7 RELATED PARTY DISCLOSURES

No amounts owed to related parties have been written off or forgiven during the period.

### 8 INTEREST BEARING LIABILITIES

	Unaudited As at 31 January 2020	Unaudited As at 31 January 2019	Audited As at 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Non-current portion	313,425	83,850	25,500

The Group has a multi-option syndicated facility agreement, with a term loan facility of A\$220 million, a revolving cash advances facility of NZ\$58 million and A\$37 million, a trade finance sub-facility of A\$30 million and NZ\$10 million, and instruments sub-facility of A\$20 million. All facilities are repayable in full on 30 November 2022.

Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD borrowings), or the applicable short term rate for interest periods less than 30 days, plus a margin of up to 1.05%. The debt is secured by the assets of the guaranteeing group in accordance with the Security Trust Deed dated 25 October 2019.

The covenants entered into by the Group require specified calculations of Group earnings (excluding one-off transaction costs) before interest, tax, depreciation and amortisation (EBITDA) plus lease rental costs to exceed total fixed charges (net interest expense and lease rental costs) at the end of each half during the financial year. Similarly EBITDA (excluding one-off transaction costs) must be no less than a specified proportion of total net debt at the end of each six month interim period. The calculations of these covenants are specified in the bank facility agreement of 25 October 2019 and have been complied with at 31 January 2020.

The current interest rates, prior to hedging, on the term loans ranged from 1.89% - 2.30% (2019: 2.56% - 3.34%).

### 9 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 January 2020 (2019: nil).

### 10 CONTINGENT ASSETS

There are no contingent assets as at 31 January 2020 (2019: nil).

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### 11 COMMITMENTS

#### Capital commitments

Capital commitments contracted for at balance date are:

	Unaudited As at 31 January 2020	Unaudited As at 31 January 2019	Audited As at 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Property, plant and equipment	5,300	3,515	1,877
Intangible assets	1,433	3,089	704

Since 31 January 2020 \$5,262,000 of these commitments have been subsequently paid.

### 12 PROPERTY PLANT & EQUIPMENT

	Unaudited Ended 31 January 2020	Unaudited Ended 31 January 2019	Audited Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Additions	8,337	5,170	11,345
Acquisition of businesses	35,228	-	-
Disposals	(407)	(334)	(802)

### 13 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain risk exposures. Derivatives are exclusively used for economic hedging purposes, i.e. not as trading or other speculative instruments, however not all derivative financial instruments qualify for hedge accounting.

Risk management is carried out based on policies approved by the Board of Directors. The Group treasury policy provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages this risk by actively managing working capital and ensuring flexibility in funding arrangements. Refer to Note 7 for details of the funding arrangements in place as at 31 January 2020. Also refer to Note 16 for the liquidity risk in relation to the impact of COVID-19.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 July 2019. There have been no changes in the risk management department or in any risk.

#### (b) Fair value estimation

The only financial instruments held by the Group that are measured at fair value are over-the-counter derivatives. These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 13) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

There were no changes in valuation techniques during the period.

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

The following methods and assumptions were used to estimate the fair values for each class of financial instrument.

### *Trade debtors, trade creditors and bank balances*

The carrying value of these items is equivalent to their fair value.

### *Term liabilities*

The fair value of the Group's term liabilities is approximately carrying value.

### *Foreign exchange contracts and interest rate swaps*

The forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are insignificant for these derivatives.

### *Guarantees and overdraft facilities*

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments is approximately nil. All guarantees are repayable on demand.

The following table presents the group's assets and liabilities that are measured at fair value at 31 January 2020.

	<b>Total NZ\$' 000</b>
<b>Assets</b>	
Derivative financial instruments	5,677
<b>Total assets</b>	5,677
<b>Liabilities</b>	
Derivative financial instruments	199
<b>Total liabilities</b>	199

## 14 ACQUISITION OF RIP CURL GROUP PTY LTD

On 31 October 2019 Kathmandu Holdings Limited through its wholly-owned subsidiary Barrel Wave Holdings Pty Limited acquired 100% of the equity interests in Rip Curl Group Pty Limited and its controlled entities based out of Australia. The total purchase price was A\$350,000,000. The non-controlling interest on acquisition relates to the interest acquired by the Group in Rip Curl joint ventures in New Zealand, Thailand and Europe.

Rip Curl is a designer, manufacturer and retailer of surfing equipment and apparel, and has a global presence across Australia, New Zealand, North America, Europe, South East Asia and Brazil. The acquisition creates a global outdoor and action sports company anchored by two iconic Australian brands and provides the opportunity for Kathmandu to considerably diversify its geographic footprint, channels to market and seasonality profile.

At the time the interim financial report was authorised for issue, the Group had not yet finalised the purchase price allocation for the acquisition of Rip Curl. Fair values of the assets and liabilities disclosed below are determined provisionally as management is in process of reviewing the details of independent valuations. In segment information (Note 6), management temporarily allocates related assets and liabilities of the acquired business in the "Surf" segment. The Group expects to finalise the purchase price allocation in the next few months.

### **Goodwill arising on acquisition**

On completion of the purchase price allocation, goodwill may be recognised on the acquisition of Rip Curl because of the established workforce and control premiums paid. This is not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

### **Acquisition costs**

Acquisition related costs of \$10,073,000 have been excluded from the consideration transferred and are included in administration and general expenses in the statement of comprehensive income and in operating cash flows in the statement of cash flows in the current year.

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### Provisional Purchase Price Allocation

	NZD\$'000
<b>Purchase price</b>	377,562
Less estimated net indebtedness adjustment	(81,202)
Plus estimated working capital settlement adjustments	29,165
<b>Total net consideration</b>	<b>325,525</b>
<i>Carrying amounts of identifiable assets acquired and liabilities assumed;</i>	
<b>Current assets</b>	
Cash and cash equivalents	29,142
Trade and other receivables	88,043
Inventories	125,761
Derivative financial instruments	1,052
Current tax asset	8,147
<b>Non-current assets</b>	
Property, plant and equipment	35,228
Right-of-use assets	148,855
<b>Current liabilities</b>	
Trade and other payables	(83,338)
Current tax liability	(3,797)
Current lease liabilities	(34,784)
<b>Non-current liabilities</b>	
Non-current lease liabilities	(114,071)
Interest bearing liabilities	(115,366)
Deferred tax	(15,125)
Less non-controlling interest acquired	(3,312)
<b>Net assets acquired</b>	<b>66,435</b>
Intangible assets to be allocated	259,090
<b>Total net consideration</b>	<b>325,525</b>
Less cash and cash equivalents acquired	(29,142)
Less consideration paid as shares	(32,955)
Plus indebtedness settled on acquisition	115,366
<b>Net cash outflow on acquisition</b>	<b>378,794</b>

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### 15 LEASES

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### *Lease Liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The Group's incremental borrowing rate has been determined as the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever;

- the lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

#### *Right of Use Asset*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date.

The Group applies NZ IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

#### *Variable Rents*

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the selling expenses line in the consolidated statement of comprehensive income.

#### *Group as a lessee*

The Group leases several assets including buildings and motor vehicles. Some of the existing lease arrangements have right of renewal options for varying terms. Renewal options are included within the lease liability if they are within 2 years and the Group is reasonably certain to take up the option. The average lease term including rights of renewal is 7 years.

#### *Right-of-use assets and lease liabilities on acquisition*

These relate to the acquisition of Rip Curl Group Pty Ltd. The Group is yet to complete the review over the term of the lease and incremental borrowing rates. This will be completed together with the purchase price allocation (note 14).

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### Right-of-use assets

The movements in right of use assets for the six months ended 31 January 2020 were as follows:

	<b>NZ\$' 000</b>
<b>Opening net book value 1 August 2019</b>	-
Movements on transition	178,774
Additions	20,297
Right-of-use assets recognised on acquisition (Note 14)	148,855
Depreciation for the period	(33,061)
Exchange differences	(5,132)
<b>Closing net book value 31 January 2020</b>	<b>309,733</b>

Lease amounts recognised in the consolidated statement of comprehensive income:

	<b>Unaudited Six Months Ended 31 January 2020 NZ\$' 000</b>
Depreciation right-of-use asset	33,061
Short-term lease expense	316
Low-value lease expense	309
Variable lease expense	106
Lease outgoing	9,375
Interest expense related to lease liabilities	4,462
<b>Total</b>	<b>47,629</b>

Some of the property leases in which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased stores. Variable payment terms are used to link rental payments to store cash flows and reduce fixed cost.

Overall the variable payments constitute up to 0.2% of the Group's entire lease payments. The Group expects this ratio to remain constant in future years. The variable payments depend on sales and consequently on the overall economic development over the next few years. Taking into account the development of sales expected over the next 3 years, variable rent expenses are expected to continue to present a similar proportion of store sales in future years.

The total cash outflow for leases amounts to \$48,175,000.

### Lease liabilities

Reconciliation of operating lease commitments to lease liabilities recognised on initial application;

	<b>NZ\$' 000</b>
<b>Operating lease obligation as 31 July 2019</b>	206,476
Recognition exemption for short term leases	(318)
Adjustments as result of different treatment of renewal options	28,257
Lease contracts committed to but not yet available for use	(6,256)
Effect of discounting at the incremental borrowing rate as of 1 August 2019	(12,795)
<b>Lease liabilities as at 1 August 2019</b>	<b>215,364</b>

The weighted average incremental borrowing rate applied to lease liabilities recognised in the consolidated balance sheet at 1 August 2019 is 3.05%.

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The movements in lease liabilities for the six months ended 31 January 2020 were as follows:

	<b>NZ\$' 000</b>
<b>Opening lease liabilities 1 August 2019</b>	-
Movements on transition	215,364
Additions	20,297
Lease liabilities recognised on acquisition (Note 14)	148,855
Interest expense related to lease liabilities	4,462
Repayment of lease liabilities (including interest)	(38,793)
Exchange differences	(5,344)
<b>Closing lease liabilities 31 January 2020</b>	<b>344,841</b>

### 16 GOING CONCERN AND THE IMPACT OF COVID-19

The Group has reviewed the impact on the business from the rapidly evolving COVID-19 situation. As at the date of this report the Group has sufficient inventory levels for the forthcoming season for all brands. However there has been significant reduction in foot traffic across the Group's store footprint globally with Government enforced shutdowns of store locations. Given the New Zealand Government announced move to Stage 4 all New Zealand stores are now closed until notified by the Government. The Group also closed the Australian retail stores as of 27 March 2019.

Providing accurate forecasts in this rapidly evolving environment is challenging however the Directors are of the view that there will be a material adverse impact to earnings in the next 12 months.

In response to these trading conditions the Group is taking decisive actions, specifically in reducing operating expenses, deferring non-essential capital projects, optimising labour costs, managing inventory levels and has implemented a travel and hiring freeze. The Group has also accessed available government incentives.

Even after taking these steps into consideration the Group is forecasting to breach its bank covenants within the immediate future. The Directors have therefore decided to proceed with a capital raise to provide sufficient liquidity headroom given the uncertainty of future earnings presented with the COVID-19 situation.

In addition, the Group has sought support from its banking syndicate in the form of a waiver of current covenant measurements until the 31 July 2021 measurement point and is renegotiating the terms of its banking facilities. The covenant waiver is dependent on the successful completion of the proposed capital raise by April 2020. The Directors have taken all reasonable steps to ensure the successful completion of the capital raise including signing an underwriting agreement with Craigs Investment Partners Limited, Forsyth Barr Limited, Credit Suisse AG and Jarden Limited as Joint Lead Managers and Joint Bookrunners ("JLMs") of the capital raise, however these steps do not eliminate the inherent equity market risk.

Having taken these actions the Directors have concluded that it is appropriate that these financial statements are prepared on a going concern basis. However, it is acknowledged that there are material uncertainties with respect to the Group successfully renegotiating revised terms on its banking facilities, forecasting revenue in the COVID-19 environment, whether the capital raise can be achieved and whether the amount raised is sufficient to meet the Group's funding requirements for the next 12 months.

The Directors acknowledge that if the Group does not complete its capital raise and successfully renegotiate revised terms on its banking facilities, or is unable to secure alternative funding then the going concern assumption may not be appropriate. These matters therefore indicate that there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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### 17 EVENTS OCCURRING AFTER BALANCE DATE

As discussed in Note 16, the rapid global rise of COVID-19 has had a significant impact on the global financial markets and asset prices have materially changed. The values of the Group's assets and liabilities may have materially changed since 31 January 2020 including the value of the Group's intangible assets (goodwill and brands) and its financial instruments. An assessment of the underlying values of the Group's assets and liabilities and the extent of any potential change in values can be made once some normality has returned to the market or at the latest in the Group's financial statements for the year ending 31 July 2020.

### 18 NEW ACCOUNTING STANDARDS

#### (a) New standards first applied in the period

New Accounting Standard	Effective Date Applicable to the Group	Summary of Changes	Group Impact
NZ IFRS 16 Leases	1 August 2019	Introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months where they are not considered low value. A right-of-use asset is recognised representing the right to use the underlying leased asset and a lease liability representing the obligations to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.	<p>The Group has applied NZ IFRS 16 using a modified retrospective transition method. Comparative figures have not been restated and the cumulative effect of initially applying IFRS 16 has been recognised as an opening retained earnings adjustment.</p> <p>NZ IFRS 16 changes how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off-balance-sheet.</p> <p>Applying NZ IFRS 16, for all leases (except as noted below), the Group has:</p> <ul style="list-style-type: none"> <li>a) recognised lease liabilities and right-of-use assets in the consolidated balance sheet. Lease liabilities have been initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 August 2019. Right-of-use assets has been initially measured at carrying amount as if NZ IFRS 16 had always applied since the lease commencement date, using a discount rate based on the incremental borrowing rate at 1 August 2019;</li> <li>b) recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and</li> <li>c) separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.</li> </ul> <p>Lease incentives (eg rent free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under NZ IAS 17 they resulted in the recognition of a lease liability, amortised as a reduction of rental expense on a straight-line basis.</p> <p>Under NZ IFRS 16, right-of-use assets are tested for impairment in accordance with NZ IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.</p> <p>For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as office equipment), the Group has opted to recognise a lease expense on a straight-line basis as permitted by NZ</p>

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			<p>IFRS 16. This expense is presented within selling expenses and administration and general expenses within the consolidated statement of comprehensive income.</p> <p>The Group has used the following practical expedients on initial application of NZ IFRS 16;</p> <ul style="list-style-type: none"><li>- whether an existing contract is, or contains, a lease has not been reassessed;</li><li>- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;</li><li>- relied on its assessment of whether leases are onerous applying NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before 1 August 2019 as an alternative to performing an impairment review;</li><li>- excluded initial direct costs from the measurement of the right-of-use asset at 1 August 2019;</li><li>- used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.</li></ul>
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### **(b) Standards, interpretations and amendments to published standards that are not yet effective**

There are no standards or amendments published but not yet effective that are expected to have a significant impact on the group.

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## STATUTORY INFORMATION

### GROUP STRUCTURE

Kathmandu Holdings Limited owns 100% of the following companies unless otherwise stated:

Milford Group Holdings Limited  
Kathmandu Limited  
Kathmandu Pty Limited  
Kathmandu (UK) Limited  
Kathmandu US Holdings LLC  
Oboz Footwear LLC  
Rip Curl Group Pty Ltd (from 31 October 2019)  
Rip Curl International Pty Ltd  
PT Jarosite  
Rip Curl Pty Ltd  
Onsmooth Thai Co Ltd  
Rip Curl Investments Pty Ltd  
Blue Surf Pty Ltd  
RC Surf Pty Ltd  
Rip Curl Airport & Tourist Stores Pty Ltd  
JRRC Rundle Mall Pty Ltd  
Rip Curl (Thailand) Ltd (group owns 50%)  
RC Airports Pty Ltd  
Ozmosis Pty Ltd  
RC Chermside Pty Ltd  
Bondi Rip Pty Ltd  
Rip Curl Japan  
Curl Retail No 1. Pty Ltd  
RC Surf Pty Ltd  
RC Surf South Pty Ltd  
RC Surf NZ Limited (group owns 50%)  
Rip Curl Finance Pty Ltd  
Rip Curl Europe S.A.S  
Rip Curl Spain S.A.U  
Rip Curl Suisse S.A.R.L  
Surf Odyssey S.A.R.L (group owns 70%)  
Rip Surf LDA  
Rip Curl UK Ltd  
Rip Curl Germany GMBH  
Rip Curl Italy SRL  
Rip Curl Nordic AB  
Rip Curl Inc  
Ultra Manufacturing Inc (in liquidation)  
Rip Curl Canada Inc  
Rip Curl Brazil LTDA

### DIRECTORS' DETAILS

David Kirk	Chairman, Non-Executive Director
Xavier Simonet	Managing Director and Group Chief Executive Officer
John Harvey	Non-Executive Director
Philip Bowman	Non-Executive Director
Brent Scrimshaw	Non-Executive Director
Andrea Martens	Non-Executive Director (appointed 1 August 2019)
Sandra McPhee	Non-Executive Director (retired 27 September 2019)

### EXECUTIVES' DETAILS

Xavier Simonet	Group Chief Executive Officer
Chris Kinraid	Group Chief Financial Officer and Company Secretary

### DIRECTORY

The details of the company's principal administrative and registered office in New Zealand is:

223 Tuam Street  
Christchurch Central  
PO Box 1234  
Christchurch 8011

## KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

### SHARE REGISTRY

**In New Zealand:** **Link Market Services (LINK)**

Physical Address: Level 11 Deloitte Centre  
80 Queen Street  
Auckland 1010  
New Zealand

Postal Address: PO Box 91976  
Auckland, 1142  
New Zealand

Telephone: +64 9 375 5999  
Investor enquiries: +64 9 375 5998  
Facsimile: +64 9 375 5990  
Internet address: [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)

**In Australia:** **Link Market Services (LINK)**

Physical Address: Level 1, 333 Collins Street  
Melbourne, VIC 3000  
Australia

Postal Address: Locked Bag A14  
Sydney, South NSW 1235  
Australia

Telephone: +61 2 8280 7111  
Investor enquiries: +61 2 8280 7111  
Facsimile: +61 2 9287 0303  
Internet address: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### STOCK EXCHANGES

The company's shares are listed on the NZX and on the ASX as a foreign exempt listing.

### INCORPORATION

The company is incorporated in New Zealand.



## ***Independent review report***

To the shareholders of Kathmandu Holdings Limited

### ***Report on the consolidated interim financial statements***

We have reviewed the accompanying consolidated interim financial statements of Kathmandu Holdings Limited (the Company) and its controlled entities (the Group) on pages 3 to 18, which comprise the consolidated balance sheet as at 31 January 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

### ***Directors' responsibility for the consolidated interim financial statements***

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

### ***Our responsibility***

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of agreed procedures over store turnover certificates, a covenant compliance audit, tax compliance and tax advisory services. The provision of these other services has not impaired our independence.



***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2020, and its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

***Material uncertainty relating to Going Concern***

We draw attention to note 16 to the consolidated interim financial statements which describe the impacts of the COVID-19 situation on trading, a forecasted breach of banking covenants within the immediate future and measures taken by the Group which include a proposed capital raise, renegotiated banking facilities including a covenant waiver or securing alternative funding. These conditions indicate the existence of a material uncertainty that may cast doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

***Who we report to***

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, light-colored signature line.

Chartered Accountants  
1 April 2020

Christchurch