



# Kathmandu Holdings



# Company overview

Current Price	\$ 1.06	Market Cap (000's)	\$751,541
P/E	5.730	Enterprise Value	\$6,125,257.80
52-week range	0.4886 - 2.5409	Gross Div Yield	15.685%



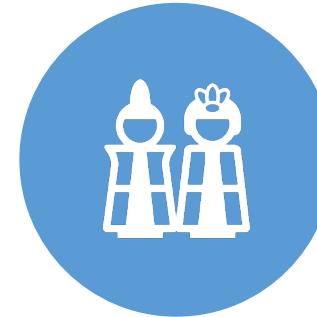
Kathmandu Holdings Limited, along with its subsidiaries is a designer, marketer, retailer and wholesaler of clothing, footwear and equipment for travel and adventure.



The company was established in Christchurch NZ in 1987 and it operates mainly in New Zealand, Australia, United Kingdom and USA. This is split into 4 geographical areas: NZ, Australia, North America, and Rest of the world.



Kathmandu holdings was formed in 2009 as a publicly listed company and is listed on both the ASX and NZX

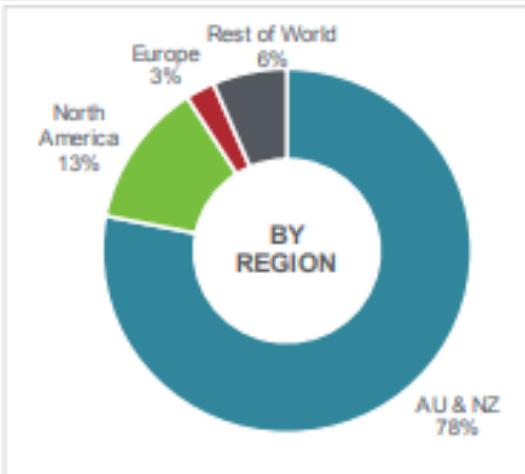
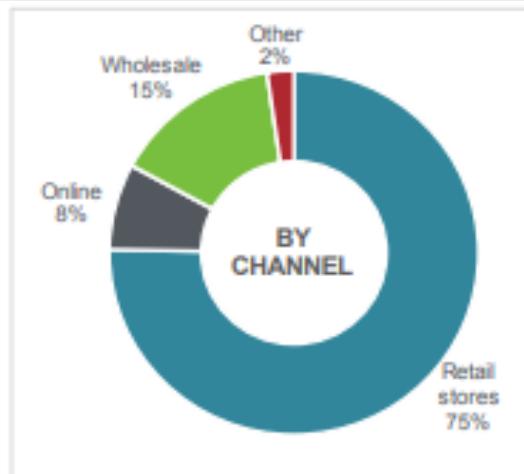
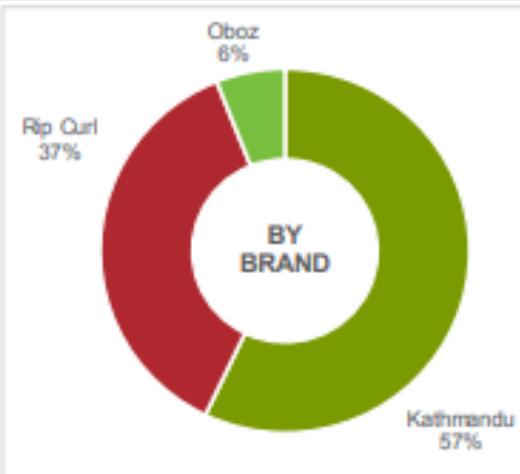


Together with the acquisitions of Oboz in 2018 and Rip Curl in 2019, the company has transformed into Australia and New Zealand's largest outdoor adventure brand and is quickly fulfilling its mission to become a global multi-channel-business.

# *Areas of Business*



Kathmandu Holdings Group Gross Profit \$ Mix 1H FY20



# Kathmandu



The company initially set up its first retail stores in Australia whilst manufacturing its range in New Zealand

In 1992, after establishing a strong operation in Australia, the brand entered the New Zealand retail marketplace



It offers a range of apparels including waterproof jackets, down jackets, thermals, fleece jackets, shirts, pants, merino apparel, footwear and socks

Kathmandu also offers equipment including packs, bags, sleeping bags, tents, travel accessories and camping accessories



# Oboz

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In April 2018, Kathmandu Holdings Limited acquired 100% of the equity interests in Oboz Footwear brand based in Montana USA.

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Oboz also shares Kathmandu's values and importance in innovation through a sustainable approach to business.

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Kathmandu had already been selling Oboz footwear as they do not produce their own footwear

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The acquisition benefited both parties providing more resources and further opportunities for growth. For Kathmandu, it allowed them to grow their footwear business in Australia and NZ.

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Allowed the company to diversify its channels, products and markets, providing significant contribution to group sales and profit.





In October 2019, Kathmandu Holdings acquired Rip Curl through a NZ\$145 million equity raise and NZ\$231 million debt facility.

The Combined group will have 341 owned retail stores and estimated NZD \$1 billion in revenue.

The acquisition significantly diversified the groups product offering; with Rip Curl's Summer/beach focus providing a seasonal balance to Kathmandu's winter/outdoor focus.

The acquisition provided access into new markets. Rip Curl's presence in North America and Europe, which are strategic priorities for Kathmandu, provides capabilities and relationships for Kathmandu to accelerate its international expansion into these key regions.

## *Industry drivers*

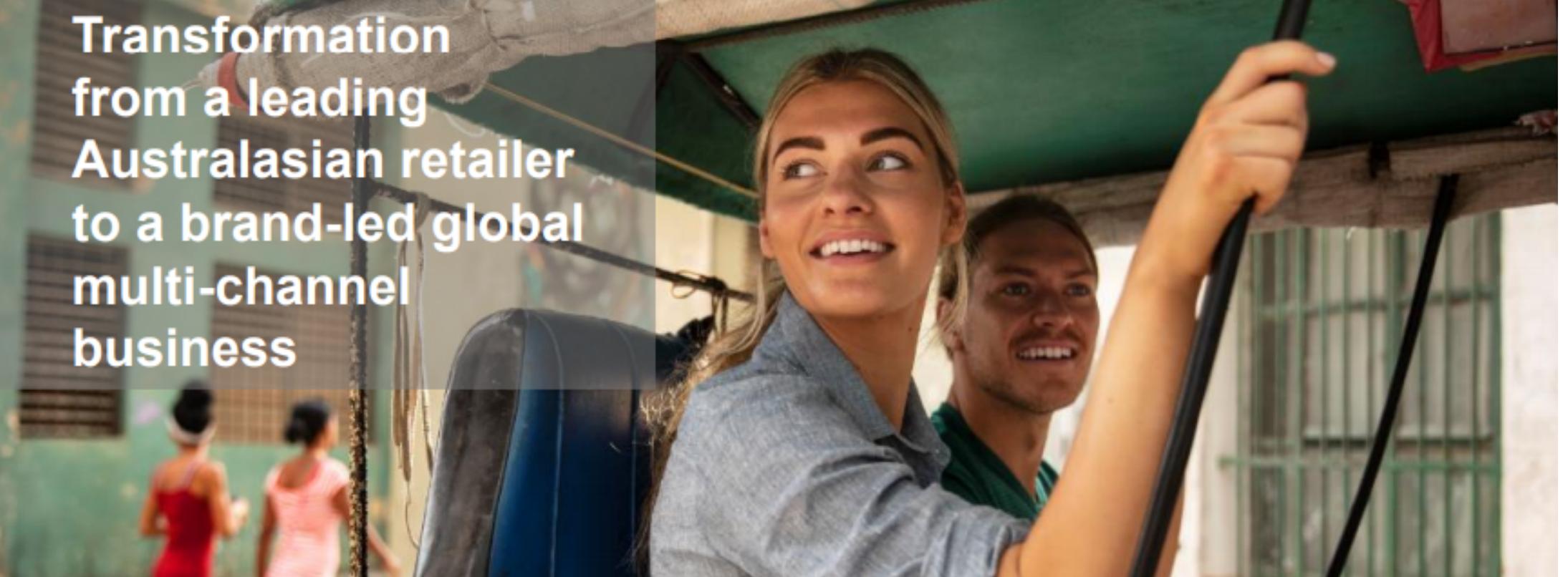
- **Outdoor recreation** - powers a vast economic engine that creates billions in spending and millions of good-paying jobs. Governments especially in 1<sup>st</sup> world countries direct millions in funding towards tourism infrastructure and outdoor recreational hotspots.
- **Health and well-being** – General trend in society of becoming more health conscious thus increasingly becoming more active and taking up recreational activities.
- **Outdoor recreation a cheaper alternative to organised Sport** - The outdoors offers New Zealanders a free or low-cost means of staying active and experiencing nature.
- **The affluent society** - General rise in income meaning people have more disposable money with travel seen as invaluable and desirable experience.

# Company drivers

- There is a strong overlap between outdoor recreation and tourism in New Zealand. Outdoor and adventure activities are amongst the most popular reason for visiting New Zealand.
- The company experienced strong sales in key winter period across Australia and New Zealand, whilst maintaining a strong focus on cost control and efficiency, allowing the company to grow earnings faster than revenue.
- Oboz provides new channels and opportunities for Kathmandu to accelerate international wholesale growth while diversifying customer and product mix, overall increasing sales and EBIT.

	NZD \$m	FY19	FY18	Var \$	Var %
Rent	69.2	67.4	1.8	2.7%	
% of Sales	12.7%	13.6%			
Other operating expenses	164.8	158.3	6.5	4.1%	
% of Sales	30.2%	31.8%			
Total operating expenses <sup>1,2</sup>	234.0	225.7	8.3	3.7%	
% of Sales	42.9%	45.4%			
Depreciation and amortisation	15.3	15.0	0.3	2.0%	
% of Sales	2.8%	3.0%			
Cost of doing business	249.3	240.7	8.6	3.6%	
% of Sales	45.7%	48.4%			





**Transformation  
from a leading  
Australasian retailer  
to a brand-led global  
multi-channel  
business**

# *Strategy*



Diversification



Distinctive  
product



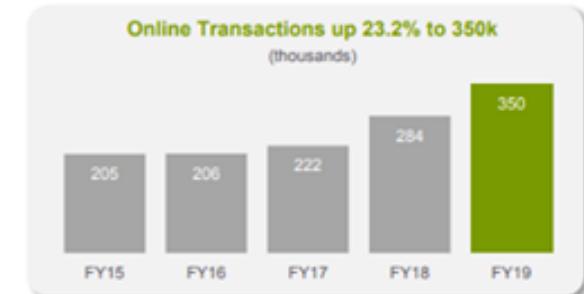
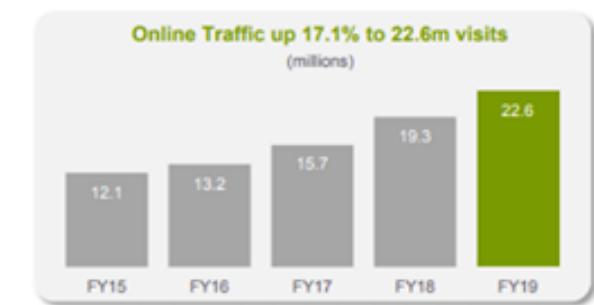
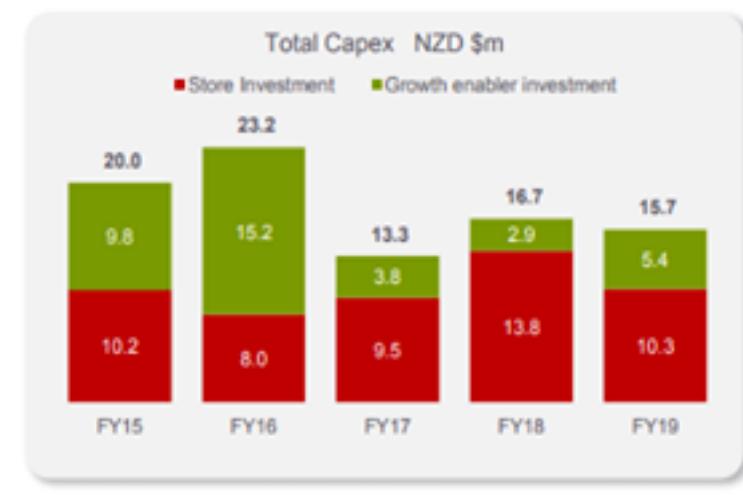
Global  
Company

# Diversification

- Currently majority of Kathmandu sales are derived from three major sales promotions each year:
  - Christmas Sale (December and January)
  - Autumn Sale (March and April)
  - Winter Sale (June and July) – this is the largest of the three promotions
- The Main focus is to grow the core markets of Australia and NZ. The company is currently making large investments to optimize the locations of their store network in these regions in order to increase Kathmandu's business
- Plans to diversify sales, by growing their contribution of the summer season and adding to their product mix

# Distinctive product

- The company recognises that distinctive products is what will separate them from their competitors thus they aim to:
  - Extend leadership in key product categories
  - Accelerate the growth in high potential categories.
- The company also plans to enhance the customer experience through digital. The company will focus on maximising mobile as a key method of customer engagement and to enhance the brand.



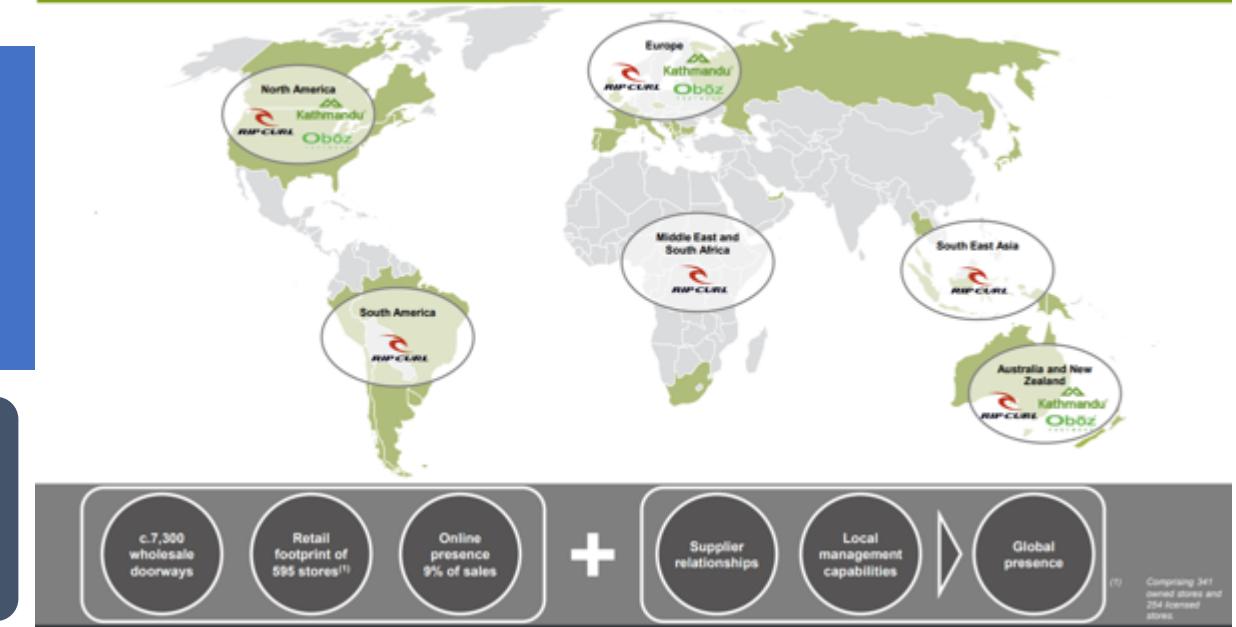
# Global Company



The long-term goal is to become a global business. In particular, grow in the American market and ignite demand for the Kathmandu brand.



Aim to achieve this by building strategic wholesale partnerships, leveraging both the relationships of Oboz and newly acquired Rip Curl to build the Kathmandu brand.



## Revenue Synergy Opportunities



Wholesale doorways  
48 doors in North America  
16 doors in Europe



c. 1,250 doors in North America  
c. 2,350 doors in Europe

Global (ANZ, North America, Europe,  
SE Asia, Brazil)

Geographic presence c. 90% AU & NZ

Leveraging Rip Curl's global wholesale network and Kathmandu's strong online capabilities to accelerate revenue growth

Online Investments made to develop strong platform

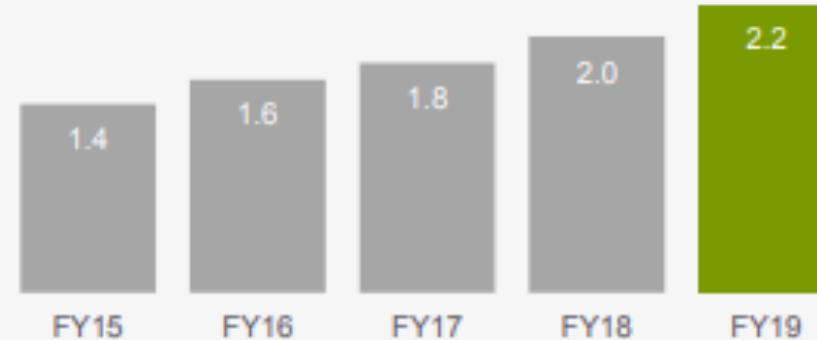
Relatively new, underpenetrated online channel

- ✓ Beginning to leverage international wholesale channel at Kathmandu, notably in the US and Europe
- ✓ Ability to further improve efficiency of Rip Curl's store network



# Competitive advantages

Summit Club active members (millions)  
4yr CAGR +11.2%



**Brand** – Kathmandu is Australia and New Zealand's largest outdoor adventure brand and the acquisition of Rip Curl further strengthened the company name.



**Sustainability** - Sustainability is in the DNA of the company and is central to the brand.

Kathmandu is a clear leader in sustainability and is paving the way for companies; It is largest certified B Corp in Australia and New Zealand.



**Summit Club loyalty programme** - Club's active members has grown consistently every year, with over 50% growth since FY2015.

Programme represents over 70% of Kathmandu Sales, showing that they have loyal customers who back the brand.



## Risks

- **A competitive industry** - Kathmandu Holdings Limited operates in a very competitive Retailing industry.
  - Rip Curl has higher exposure to fashion categories which brings additional risk to Kathmandu's core business.
- **Expanding into America** - In 2015 a costly United Kingdom expansion ended in retreat. So battered was Kathmandu's share price. It was nearly lost in a hostile takeover to retailer, Briscoe Group.
- **E-Commerce** - The company operates in an industry impacted by digital transformation for all retail channels and a challenging economic environment.

# Consolidated Statement of Comprehensive Income

For the Year Ended 31 July 2019

	Section	2019 NZ\$'000	2018 NZ\$'000
Sales	2.2	545,618	497,437
Cost of sales		(213,125)	(181,961)
Gross profit		332,493	315,476
Other income		1,130	-
Selling expenses	2.2	(160,581)	(155,677)
Administration and general expenses	2.2	(73,477)	(70,038)
		(232,928)	(225,715)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>99,565</b>	<b>89,761</b>
Depreciation and amortisation	3.2/3.5	(15,272)	(14,958)
<b>Earnings before interest and tax</b>		<b>84,293</b>	<b>74,803</b>
Finance income		37	47
Finance expenses		(2,952)	(1,106)
Finance costs - net	4.1.1	(2,915)	(1,059)
<b>Profit before income tax</b>		<b>81,378</b>	<b>73,744</b>
Income tax expense	2.3	(23,745)	(23,073)
<b>Profit after income tax</b>		<b>57,633</b>	<b>50,671</b>
<b>Other comprehensive income/(expense) that may be recycled through profit or loss:</b>			
Movement in cash flow hedge reserve	4.3.2	620	8,820
Movement in foreign currency translation reserve	4.3.2	(3,297)	10,518
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>(2,677)</b>	<b>19,338</b>
<b>Total comprehensive income for the year attributable to shareholders</b>		<b>54,956</b>	<b>70,009</b>
Basic earnings per share	2.4	25.5cps	24.0cps
Diluted earnings per share	2.4	25.3cps	23.8cps
Weighted average basic ordinary shares outstanding ('000)	2.4	226,024	211,261
Weighted average diluted ordinary shares outstanding ('000)	2.4	227,989	213,187

# Consolidated Balance Sheet

As at 31 July 2019

	Section	2019 NZ\$'000	2018 NZ\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3.1.2	6,230	8,146
Trade and other receivables	3.1.3	14,206	13,453
Inventories	3.1.1	122,773	111,929
Derivative financial instruments	4.2	4,964	5,076
Other financial assets	3.1.4	-	22,180
<b>Total current assets</b>		<b>148,173</b>	<b>160,784</b>
<b>Non-current assets</b>			
Property, plant and equipment	3.2	60,319	63,514
Intangible assets	3.3	386,061	386,906
<b>Total non-current assets</b>		<b>446,380</b>	<b>450,420</b>
<b>Total assets</b>		<b>594,553</b>	<b>611,204</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3.1.5	74,560	72,770
Derivative financial instruments	4.2	113	156
Current tax liabilities		6,458	9,968
Other financial liabilities	3.1.6	-	21,994
<b>Total current liabilities</b>		<b>81,131</b>	<b>104,888</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	4.2	9	62
Interest bearing liabilities	4.1	25,500	39,500
Deferred tax	2.3	45,851	46,233
<b>Total non-current liabilities</b>		<b>71,360</b>	<b>85,795</b>
<b>Total liabilities</b>		<b>152,491</b>	<b>190,683</b>
<b>Net assets</b>		<b>442,062</b>	<b>420,521</b>
<b>EQUITY</b>			
Contributed equity - ordinary shares	4.3.1	251,113	249,882
Reserves	4.3.2	(6,171)	(2,717)
Retained earnings		197,120	173,356
<b>Total equity</b>		<b>442,062</b>	<b>420,521</b>

# Consolidated Statement of Cash Flows

For the Year Ended 31 July 2019

	Section	2019 NZ\$'000	2018 NZ\$'000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from customers		546,499	502,703
Income tax received		207	156
Interest received		621	47
		547,327	502,906
<b>Cash was applied to:</b>			
Payments to suppliers and employees		455,743	406,508
Income tax paid		26,675	18,710
Interest paid		3,237	2,087
		485,653	427,305
<b>Net cash inflow from operating activities</b>		<b>61,674</b>	<b>75,601</b>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of property, plant and equipment		1	-
Proceeds from investment in other financial assets	3.1.4	22,321	-
		22,322	-
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	3.2	11,345	14,300
Purchase of intangibles	3.3	4,351	2,394
Acquisition of subsidiaries	5.1	22,321	82,746
Investments in other financial assets	3.1.4	-	22,180
		38,017	121,620
<b>Net cash outflow from investing activities</b>		<b>(15,695)</b>	<b>(121,620)</b>
<b>Cash flows from financing activities</b>			
<b>Cash was provided from:</b>			
Proceeds of loan advances		92,606	148,815
Proceeds from share issues		-	48,702
		92,606	197,517
<b>Cash was applied to:</b>			
Dividends paid		33,883	27,208
Repayment of loan advances		106,606	119,907
		140,489	147,115
<b>Net cash inflow / (outflow) from financing activities</b>		<b>(47,883)</b>	<b>50,402</b>
<b>Net increase / (decrease) in cash held</b>		<b>(1,904)</b>	<b>4,383</b>
Opening cash and cash equivalents		8,146	3,537
Effect of foreign exchange rates		(12)	226
<b>Closing cash and cash equivalents</b>	<b>3.1.2</b>	<b>6,230</b>	<b>8,146</b>

## Group Result: Cash Flow

Cash Flow (NZ\$m)	1H FY20	1H FY19
NPAT	8.1	14.0
Change in working capital	(9.9)	(39.8)
Change in non-cash items	22.6	9.6
<b>Adjusted operating cash flow<sup>1</sup></b>	<b>20.9</b>	<b>(16.2)</b>

### Key Line Items:

Net interest paid (including facility fees) <sup>2</sup>	(2.5)	(1.4)
Income taxes paid	(15.9)	(15.3)
Capital expenditure	(10.6)	(7.0)
Dividends paid	(27.2)	(24.8)
Increase/(Decrease) in borrowings	290.8	44.6

- » For consistency between periods, 1H FY20 adjusted operating cash flows are reduced by the principal element of right-of-use lease payments (\$34.3m), which are classified as financing rather than operating cash flows in the IFRS 16 statutory accounts
- » Increase in net interest paid and increase in borrowings due to the Rip Curl acquisition
- » Capital expenditure includes \$3.4m for Rip Curl