23 September 2020
(All amounts in NZ$ unless otherwise stated)

Transformational year with Rip Curl acquisition, well positioned in response to COVID-19

- **Successful acquisition and integration of Rip Curl**
- **Business growth constrained by lockdown-related store closures**
- **Strong balance sheet with low net debt and healthy inventory position**
- **Resilience of all the brands underpins sales recovery post-lockdown, and continued acceleration of online sales**

FY20 key highlights (vs FY19):

- Acceleration in online sales, with group online sales up 63% to $106.4 million, now comprising 15.7% of direct to consumer ("DTC") sales[1]
  - Rip Curl online sales up 52% to $25.5 million; 10.6% of DTC sales
  - Kathmandu online sales up 67% to $80.9 million; 18.5% of DTC sales
- Group sales up 48.7% to $801.5 million, including 9 months of Rip Curl
  - COVID-19 impact estimated at c. $135 million of sales ($80 million retail and $55 million wholesale)
- Statutory NPAT of $8.9 million includes $18.0 million of one-off transaction costs, $4.6 million of restructuring costs and a $2.6 million impact from the implementation of the IFRS 16 leasing standard (in total $22.6 million impact net of tax)
- Group Underlying EBITDA down 15.3% to $83.4 million (excluding the impact of IFRS 16 and one-off transaction and abnormal costs)
- Group Underlying NPAT down 44.5% to $31.5 million (excluding the impact of IFRS 16 and one-off transaction and abnormal costs)
- Operating cash flow up 50.9% to $93.1 million (adjusted for impacts of adopting IFRS 16)
- $207 million capital raise provided balance sheet strength and optionality for future growth, with closing net debt of $9.4 million

Kathmandu Holdings Limited (ASX/NZX: KMD) is pleased to announce its results for the twelve months ended 31 July 2020 (FY20).

[1] Sales from Rip Curl and Kathmandu retail stores and direct online sites and marketplaces. Both years include a full year of Rip Curl sales for comparability, including $3.7 million Rip Curl online sales for the three months pre-acquisition in FY20.

Financial performance for the Group

Group[2]	Statutory[3]	Underlying[4]		
NZD $m	**FY20**	**FY20**	**FY19**	**Change %**
Sales	801.5	801.5	538.9	48.7%
Gross Profit	467.0	467.0	332.5	40.5%
Operating Expenses	(318.1)	(383.7)	(234.0)	63.9%
EBITDA	148.9	83.4	98.4	(15.3%)
EBIT	45.9	56.2	83.2	(32.5%)

Commenting on the FY20 results, Group CEO Xavier Simonet said: "It has been a transformational year for us with the acquisition of Rip Curl and we are pleased with its integration into the Group over the last nine months. Unfortunately the Group faced significant unexpected challenges with COVID-19 restrictions and lockdowns. We took decisive action early to reduce costs, adjust the operating structure of the business, and raised $207 million of equity. These initiatives have resulted in a strong balance sheet and healthy inventory level, which position us well for the future."

"Our omni-channel strategy and infrastructure capacity allowed us to rapidly scale up to meet the surge in online demand from March. In addition, following the easing of lockdown restrictions, we saw retail sales for Rip Curl and Kathmandu perform strongly in our core markets of Australasia, Europe and California, as consumers trended towards outdoor and recreation activities. Both Rip Curl and Kathmandu also enjoyed an exceptional post-lockdown winter sales performance in Australia and New Zealand," added Mr Simonet.

Rip Curl: acceleration in online sales and strong post-lockdown recovery

	Pre IFRS 16
NZD $m	**Nov 19 to Jul 20**
Sales	315.7
Gross Profit	178.5
Operating Expenses	(166.8)
EBITDA (underlying)	11.7
EBIT (underlying)	4.2

COVID-19 had a significant impact on the business, with an estimated sales impact of c. $70 million. Despite this, Rip Curl generated $34 million of cash and contributed $11.7 million to Group underlying EBITDA during the initial nine months of ownership. FY21 will benefit from a full 12 months of ownership.

Total FY20 global sales were down 17.1% vs PCP (equivalent nine months of FY19). Wholesale sales were most affected as lockdowns disrupted the sell-in period for the upcoming Northern hemisphere Autumn/Winter season.

[2] FY20 NZD/AUD conversion rate 0.939 (FY19: 0.949), FY20 NZD/GBP conversion rate 0.504 (FY19: 0.522), FY20 NZD/USD conversion rate 0.636 (FY19 0.670).

[3] FY20 Statutory results include the impact of IFRS 16 leases. For comparability the impact of IFRS 16 is excluded from Underlying results.

[4] In FY20, $11.6 million has been incurred in relation to the acquisition and integration of Rip Curl, including establishment of a new Group structure. Further one-off costs of $4.6 million have been incurred in relation to restructuring support office roles. FY19 Underlying profit excludes abnormal income $1.1 million from a tax refund relating to the GST treatment of reward vouchers.

DTC same store sales growth was stronger post-lockdown[5] (+14.4%[6]) than pre-lockdown (+2.6%), assisted by government economic stimulus, and increased opportunity for surfing while consumers worked from home. Post-lockdown same store sales were +17.7%[6] in Australia and +20.6%[6] in Europe as interest in surfing increased. Mainland USA same store sales also improved post-lockdown (+12.3%[6]), however, due to travel restrictions, Hawaiian retail stores were down significantly (-73.3%[6]).

Online sales growth underwent a step change. Online sales for FY20 were up 52% overall, and now comprise 10.6% of DTC sales, with a strong runway for future growth.

Kathmandu: online sales accelerate, and strong post-lockdown winter sales performance

	Pre IFRS 16		
NZD $m	**FY20**	**FY19**	**Var %**
Sales	426.4	472.3	(9.7%)
Gross Profit	265.1	306.1	(13.4%)
Operating Expenses	(198.2)	(216.5)	(8.5%)
EBITDA (underlying)	66.9	89.6	(25.3%)
EBIT (underlying)	51.4	74.7	(31.3%)

Total FY20 sales in Australia were down 11.6% on a constant currency basis, with 117 stores closed during the April-May lockdown period, while New Zealand total sales were down 7.2%, with 48 stores closed during lockdown period. The overall revenue impact of COVID-19 is estimated at c. $50 million due to store closures and ongoing lockdowns. Same stores sales growth was stronger post-lockdown (+6.9%[6]) than pre-lockdown (+1.2%).

Kathmandu's gross margin was 2.6% below FY19, as a result of foreign currency, increased mix of clearance sales and duration of promotions through the winter season. Operating expenses include restructuring savings of $1.9 million in FY20, delivering annualised savings of c. $6.2 million.

Online sales were up 67% on a constant currency basis, and now comprise 18.5% of DTC sales (FY19: 10.1%). This step change in online penetration and an increase in conversion rate was driven by changes in consumer behaviour during COVID-19. Infrastructure and platform capacity allowed the team to scale up to meet this record online demand.

Oboz: strong momentum with key customers despite COVID-19

	Pre IFRS 16		
USD $m	**FY20**	**FY19**	**Var %**
Sales	37.8	44.6	(15.2%)
Gross Profit	15.0	17.7	(15.4%)
Operating Expenses	(10.1)	(9.7)	4.0%
EBITDA (underlying)	4.8	7.9	(39.1%)
EBIT (underlying)	4.6	7.8	(40.4%)

The revenue impact from COVID-19 is estimated at c. $15 million (c. US$10 million). Pre-COVID sales for the 8 months to the end of March 2020 were +4.6% YOY, whilst COVID-19 impacted sales from April to July 2020 were -52.8% YOY.

[5] 10 full weeks from 18 May to 26 July.
[6] Adjusted to remove stores that were not able to open this year for a comparable week because of COVID 19 lockdowns.

Operating expenses increased pre-COVID-19 due to investments in improved distribution capability and in strengthening the brand and product team. Expenses were carefully controlled from March in response to COVID-19.

Oboz penetration and market share has been strong in key customer online trading sites during COVID-19, including REI and Zappos. Oboz aims to launch a DTC online shop this financial year.

Outlook

COVID-19 has continued to impact some key markets during the first seven weeks of FY21, with Melbourne, Auckland, Hawaii, Bali and airport store closures. However, given post-lockdown retail store performance in FY20, demand is expected to return in these markets when stores reopen.

As a result of the COVID-19 disruption, the Group has experienced mixed same store sales performance over the first seven weeks of FY21 (a non-indicative trading period).

Commenting on the outlook for the Group, Xavier Simonet said: “Despite the challenges posed by COVID-19, the business remains strong financially and operationally. The balance sheet was significantly strengthened by the recent equity raise, our brands are well-positioned to capitalise on increased participation in outdoor, beach and surfing activities following the end of the lockdowns, and our investment into omni-channel capabilities allows us to quickly respond to shifts in consumer habits and strong growth in online demand.”

“Beyond the short-term impacts from lockdowns, our long-term strategy remains unchanged. Product innovation, brand differentiation, a key focus on sustainability, and a step change in digital transformation, will enable us to continue answering the needs of our customers and also inspiring them.

“I want to thank our team members and crew worldwide for their outstanding resilience, flexibility and commitment as we addressed the challenges of the global COVID-19 pandemic,” added Mr Simonet.

Investor briefing

An investor call will be hosted by Xavier Simonet (Group CEO) and Chris Kinraid (Group CFO) at 8.30am AEST / 10:30am NZT today, Wednesday 23 September 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
Australia Local:	+61 2 9007 3187
New Zealand Toll Free:	0800 453 055
United States:	+1 855 881 1339

Conference ID: 10009441

This announcement has been authorised for release to ASX by the Board of Directors of Kathmandu Holdings Limited.

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