

Kathmandu Holdings Limited

Transcript of Annual General Meeting

11am Friday, 24 November 2017

Good morning ladies and gentlemen. I am pleased to welcome you as Chairman of Kathmandu Holdings Limited to our 2017 Annual Meeting and I extend a warm welcome to all present and also to those listening via the audio webcast. On the information conveyed to me, I declare that a quorum of shareholders is present and the meeting has been duly convened.

For those who don't know me I am David Kirk, Kathmandu Chairman.

Before we start the formal business, I would like to introduce your other Directors to you.

On my left, your right, starting from the end, are

- John Harvey
- Brent Scrimshaw
- Philip Bowman
- Sandra McPhee
- Xavier Simonet our CEO and Managing Director

I wish to advise that proxies have been received in respect of approximately 50.5% of issued shares.

More than 99.6% of the proxies directed are in favour of all resolutions.

Before moving on to the formal business of the meeting, I will outline some meeting procedures.

An opportunity will be given to shareholders to ask questions about, or make comments on, the items of business on the agenda for today's meeting. If you are a shareholder and have joined us via webcast today, please ask questions via the question box and these will be answered at the end of the AGM. Where appropriate, I will refer detailed questions best answered by management to Xavier Simonet.

Shareholders have been given the opportunity of submitting written questions via the AGM question form that accompanied the notice of meeting. No written questions have been received.

Once we have considered the financial reports, shareholders will be given the opportunity to ask questions. Shareholders with questions relating to specific resolutions are requested to ask those questions when we are considering the relevant resolution.

When we do open up the floor to discussion, I ask that for the convenience of all present, that those shareholders who wish to speak use the available microphone. Please hold up your white or green or blue cards and state your name if you wish to ask a question. If you are listening via the webcast, please type your question in the question box and it will be conveyed to the meeting.

Before moving to the various motions I will briefly run through the voting procedures. At registration you will have received an attendance/voting card:

- If you have a white voting card this indicates you are a shareholder and are entitled to vote and to address the meeting.
- If you have a blue non-voting investor card as such you are either a joint shareholder or have already returned a proxy vote, prior to the commencement of the meeting. You are entitled to address the meeting.
- If you are a visitor to the meeting you will have received a visitor card, a red card, and you are welcome here today but will not be able to address the meeting.

If you do not have a voting card and believe you are entitled to vote, please see one of the registry staff from Link Market Services at the registration desk at reception immediately.

The minutes of the 2016 Annual General Meeting held last year were available at the entrance desk. I hope those who were interested in seeing them have had a chance to do so.

The first item on the agenda is to receive and consider the Financial Report together with the Directors' and Auditors' Report as contained in the company's Annual Report for the year ended 31 July 2017.

Before seeking shareholders' comments on that report, I would like to give an overview of the 2016/2017 year and I will then ask our Chief Executive Officer, Xavier Simonet, to provide a review of our activities in the year and an update on the trading to date and the outlook for the current financial year.

I will now say a few words about company performance and activities in 2017.

Kathmandu's performance in financial year 2017 was successful on many fronts.

A feature of the result was positive same store sales growth in Australia of 6.9% and in New Zealand of 3.6%. Combined with good control of operating expenses this resulted in a 12% increase in earnings before interest and tax.

Net profit increased by \$4.5m or 13.5% resulting in earnings per share for the year of 18.9 cents.

Our total dividend payout for the full year increased to a record 13 cents per share, which is an increase of 18% over the prior year.

Along with the improved financial performance in the year we continued to invest for the future by:

- Opening our new Australian warehouse which provides a significant step up in capacity, both for online sales and physical stores;
- Increasing our Summit Club membership numbers to over 1.7m; and by
- Commencing international wholesale trials with excellent partners in the UK and

Germany; and

- Further strengthening our balance sheet through reduction in inventory levels and reducing debt.

We ended the year very well positioned for the future.

Long time directors John Holland and Christine Cross retired during the year. We thank them very much for their service and contribution to the growth and success of Kathmandu. Two new directors, Brent Scrimshaw and Philip Bowman, were appointed by the board to replace Christine and John. You will be asked to vote on their election later on in the meeting. Brent and Philip bring highly relevant experience and capabilities to the Board. Their appointments have been made with an eye to the future growth prospects of Kathmandu as well as the continuing focus we have on our core operations in Australasia.

I'll briefly touch on our future plans before handing over to Xavier to provide more detail.

The customer is at the core of everything we do. Xavier continues to drive this focus. As a result, we are continuing to invest in producing innovative, high quality and distinctive products.

In Australasia, continuous improvement is the focus. Driving same store sales growth requires that we provide a great in-store experience and invest in the Kathmandu brand and our Summit Club loyalty program. Along with optimising our current store network, there remain opportunities to open new stores in Australia. Driving strong growth in a range of online channels is our third core strategy in Australasia.

International growth opportunities are in the early stages of being realised in a capital-light manner. We are excited about the medium to long term opportunity this provides.

The strength of the Kathmandu brand, our products and the passion of our people will underpin the future success of the company.

On behalf of my fellow Directors here today I thank you for your support as investors throughout 2017 and in the future.

I will now ask our CEO, Xavier Simonet, to address you.

Good morning, thank you David for your words, yes we have had a great year and its actually the second year in a row that we have reached the targets that have been set to us by the Board.

So lets get straight to the financials sales were up, net profit after tax was up 13.5% a record high dividend, a record low net debt. What makes me really proud of the work we have done as a team is really same stores sales growth across our two core markets.

In New Zealand we grew same stores sales growth by 3.6% which is very healthy considering we have got a strong market share, high penetration in New Zealand and it is hard to get to the next step and get significant growth, this number 3.6% is certainly higher than what we initially expected to achieve.

As far as Australia is concerned we have invested a lot of capital on behalf of our shareholders over the last few years opening stores and its fair to require now that we deliver a bit of non-investment for our shareholders. But still 6.9% same stores sale growth in Australia is a very healthy number particularly considering how difficult the retail environment has been in Australia over the last couple of years.

So, moving now to our strategies and our strategies that we defined two years ago are not changing. Our first and core strategy is around product. We are design-led, we are a product-led business and our mission is to design great, innovative, distinctive, adaptive and sustainable quality products.

Its about answering the needs of our customers and that's why customer centricity is a core value for us, its about understanding their needs and bringing to market products that offer solutions to customers who go on adventures travel and to the outdoors. Its about bringing to market functional products but also beautiful products with great colours and stylish products.

We have defined two keys sets of strategies, the first set of strategies are around continues improvement, its about doing better what we do as a team, when talking to our shareholders, the value they see in our business at the moment 100% of the value is in our existing business across Australia and New Zealand through the existing channels. So we need to continue strengthening the business we generate through those channels and we need to continue optimising this business. It is why continuous improvement is a very strong focus for us.

The second set of strategies I'll talk about as well a bit later in the presentation is new growth initiatives and ill talk to the international strategy as part of it. Just going to say a few words about some of our strategies. So I have talked about product, I'd like to talk about Brand and Customer.

More than a retailer Kathmandu is a great Brand, Kathmandu is a great brand with a distinctive story and a real authenticity. Our brand was born in the mountains in New Zealand and that gives us immense credibility to be able to talk about travel because no one travels further than the New Zealanders and to talk about tough and harsh conditions and offering solutions to our customers to answer their needs.

Also we are probably one of the only, probably the only actually, brand in the outdoor industry of scale coming to New Zealand with presence across multiple categories: accessories, apparel and equipment. So, there is a real story particularly when we launch internationally.

Also, as a brand we have great values, particularly sustainability, and we've got a unique point of distinctiveness which is our expertise in adventure travel that we need to focus on and we need to talk about. So that works really well in the context of our customers because we need to connect the brand and our customers and there has been a lot of work that we have done in terms of content and particularly trough social media and in-

store marketing to engage with our customers and particularly with our Summit Club Members, we've got a huge loyalty base of 1.7m Summit Club Members with significant growth against last year and this is continuing to grow and Summit Club is, yes, a card that gives access to promotions and activities and great value, its one of our pillars, but tis more than that. It's a way to engage with us and our customers through content to talk about our values of sustainability and the outdoors and adventure travel.

More than a retailer we are a great brand, but actually we like to be a great retailer, particularly in the context of tough retail conditions and its hard and expensive to operate retail stores, particularly in Australia. So as a team we are putting a very strong focus on being a better retailer, first and foremost we are investing in our stores, last year we opened a few stores and refurbished a few other stores, this year we are going to accelerate the refurbishment programme and refurbish many more stores with an upgraded concept that we've launched in Chirmside, Queensland, Chadstone here in Melbourne and also our flagship store in Tower Junction in Christchurch.

Also that means that were putting a very strong emphasis on delivering increased densities, sales and growth margin densities per square metres and a lot of work is being done by our teams to allocate the space to the right categories and the right products at the right level of margin to be able to improve our sales densities and increase profits.

Omni-channel, its not really about online, online accounts form 7.5% of our business and its been growing very fast over the last few years, but Omni-channel is more about a connected journey for our customer as a business were channel agnostic and it doesn't matter to us whether our customers browse online or in our stores and buy online or in our stores. We just want to offer them the same great customer experience through all the commercial channels that we offer them. But we continue to see investing on online and we are also adding resources to support our growth in social media international marketing.

As far as online in concerned we launched a new website in Australia and New Zealand which is a responsive website that connects content and commerce, that happened last year, we also launched an international responsive website which is our first global website and we've also heavily invested in a new distribution centre here in Melbourne for Australia taking into account all the capital we are investing in opening stores and the need for us to

deliver not only efficiencies but optimisation in our warehouse.

International is a long term strategy, but sure no one is waiting for us, the best brands are everywhere its how and when and where we find our little sweet spot of opportunity and push hard and grow, also it is about two and half years ago when the business underperformed, we promised the Board and the Shareholders that when looking at new opportunities we would first look at a capital light model where we would test and trial before investing behind initiatives that are showing success and sustainable profitable growth, so yes its about growing international sales, yes its about growth but its more than that about profitable sustainable growth. So we've launched international through three channels and our journey started not even a year ago, we only travelling internationally to meet back in December last year, so we have three channels we are now starting with.

The first one is wholesale, so we've starting selling or products with two key strategic retailers in Europe. With GoOutdoors the largest outdoor retailer in the UK and in SportsCheck the largest outdoor retailer in Germany. It's a trial, it doesn't mean were going to succeed but we're hoping that with the point of distinctiveness and some of our distinctive products we've got the opportunity to go further and make a difference.

The first month of trading in GoOutdoors has actually been good for us and GoOutdoors have confirmed to us that for Europe in Summer 18 they will extend distribution and also extend the product range that they have listed with us in apparel and equipment. As far as SportsCheck is concerned, they have also confirmed that for Summer 18, they would widen the distribution to more stores with all their keys stores as part of our distribution. The wholesale is a key channel for us and actually most outdoor brands generate a lot of their international sales through this channel and we are going to continue having discussions with other potential retailers to get them onboard and grow the business.

The second channel we've launched is our global website which is responsive so connects content and commerce, you can transact online but at the same time you can get a lot of information about our products.

This website is about being inspiring its about talking about the brand and our brands story, our point of distinctive, then talking about our products, our features and benefits, how technical we are and how we can answer the functional needs of our customers and

then obviously transact. Its early days but we've launched this website already.

And last but not least, we launched a couple of weeks ago on TMall Global. TMall Global is a huge online shop targeting China, we've got good traction with Chinese customers in Australia and New Zealand whether they're local Chinese living in Australia or New Zealand, or tourists and we thought within our capital light approach launching with TMall would be a great opportunity for us to sell in China but also we get exposure there.

I'd like to touch base on sustainability. Sustainability is a core value for us and it's a not commercial value, its not something were really showing off about, its just a value that is ingrained in our business and the reason why we focus at all times on sustainability is because it's the right thing to do for business, for the shareholders, for the teams but also because of the global context of what is coming and what is going on in the world.

So when talking about sustainability, we've got four pillars, one is human rights, which from our point of view is the key pillar particularly as far as manufacturing is concerned; our second pillar is to work on sustainable fabrics and material; communities is a big one for us and also all the work were doing in our stores Australia and New Zealand, our distributions centres and headoffices around wastage and carbon.

The focus on sustainability, again we're doing it because it's the right thing to do, we're not expecting a commercial benefit and that's not why we started as a company working on sustainability but having said that sustainability has become a major factor for shareholders in terms of where they put their money and invest their dollars and I thank our shareholders for seriously taking into account the ability and supporting us in our efforts to make the world more sustainable.

Its also something that our customers and our teams, more and more, are taking into account, when we ask younger people who join our business why they're joining Kathmandu. One of the key aspects is that we want to be a sustainable business and sustainability is a key factor for them of decision. As far as our customer is concerned it increasingly sustainability and our focus on sustainability many aspects is really important particularly to the younger customers in Australia and New Zealand and also internationally.

I'd like to now give a trading update which is not new, it's the same trading update that we release a couple of days ago to the stock market, so this slide is just to show that although trading is always important the first quarter of the year is not very material in the context of the whole year, last year it was only 17% of the full year sales.

So coming back to the trading update, so the first quarter, the first major headline there is that we had at the end of FY17 less clearance stock, much less clearance stock in Australia and New Zealand. The positive aspect of this is that we had a cleaner balance sheet and that's great in terms of strengthening our balance sheet, cashflow position and lower debt. The negative aspect of it is that we didn't have stock or enough stock at the time when every single retailer in many categories, including the outdoor category in Australia and New Zealand are on clearance. The obviously this had an impact on our sales in our first quarter, having said that our growth sales margin was higher by 40 basis points, lower inventory handling costs, drawn working capital position, and at the end of the day improved profitability in the first quarter.

In the 16 weeks to the 19th November, total sales were up 0.6% at constant exchange rate, group same store sales were down 1.6% with actually good performance in Australia where despite not having clearance stock our same store sales continued to grow by 2.9% which I think is very healthy in the context of what is happening in retail in Australia at the moment. New Zealand suffered a lot, our sales went down 10% and clearance was certainly a key driver of the underperformance of New Zealand.

In terms of outlook for FY18, as usual we always cautious because of the importance of Christmas so yes we expect that the first half profits will be above last year but at the same time as usual, and probably as any retailer anyway, we are highly dependent on the success of the Christmas activities and the January promotions.

Thank you very much, oh one more word. I want to thank our shareholders, I want to thank the board for their support, I want to thank our customers but I want to also thank our teams, it's a great team. The big word we use at Kathmandu is that we want to be collaborative. We are a company, yes we need structures and hierarchies and all the stuff that you have in companies, particularly when you are listed and all the process, but its more than that we are a collaborative team, everybody has got a say and we all contribute to the business in many ways, so thank you very much.

Thank you Xavier.

I would again like to express my thanks and those of my fellow Directors to you and your team for the contribution that you have all made over the last year.

Returning to Item 1 on the agenda this is the opportunity for shareholders to ask any questions or comment on the Annual Report, the presentations Xavier and I have made today, or on any other matters relating to the Company.

I also note we do have Mr Nathan Wylie, a representative of our auditors PricewaterhouseCoopers, present at the meeting should there be any queries of a technical nature relating to the audit of our financial statements.

Would anybody now wishing to speak and ask a question please hold up your card and a microphone will be passed to you. Those that are present on our webcast, please ask your questions via the question box

If there are no questions I will just move on

The second item on the agenda is the election of Directors.

Article 4.4 of the Company's constitution requires at least one-third of the Directors to retire by rotation at the Annual Shareholders' Meeting.

To comply with the Listing Rules, it is necessary for each Director to be appointed by separate resolution.

The first motion relates to the re-appointment of Mr. John Harvey as a Director of the Company.

I have pleasure in moving:

That Mr. John Harvey who retires in accordance with Article 4.4 of the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company.

Is there any discussion on the motion?

There being no further discussion, I will now put the motion.

Those in favour please raise their voting cards in favour of the re-election of Mr John Harvey.

Those Against, please raise your card.

I declare the resolution carried.

Thank you and congratulations John on your re-election to the Board.

The second motion relates to the appointment of Mr. Philip Bowman as a Director of the Company.

I have pleasure in moving:

That Mr. Philip Bowman, having been appointed by the Board as a Director on 2 October 2017 and holding office only until the next Annual Meeting, is now eligible for election in accordance with Article 4.3 of the Company's Constitution and, being eligible, offers himself for election, be elected as a Director of the Company."

Are there any questions or discussion on the motion?

There being no questions, I will now put the motion.

Those in favour please raise their voting cards. Thank you, those against please raise your cards.

I declare the resolution carried.

Thank you and our congratulations to Philip on his election to the Board.

The third motion relates to the appointment of Mr. Brent Scrimshaw as a Director of the Company.

I have pleasure in moving:

That Mr. Brent Scrimshaw, having been appointed by the Board as a Director on 2 October 2017 and holding office only until the next Annual Meeting, is now eligible for election in accordance with Article 4.3 of the Company's Constitution and, being eligible, offers himself for election, be elected as a Director of the Company."

Is there any discussion on the motion?

There being no further discussion, I will now put the motion.

Those in favour please raise their voting cards. Thank you, those against please raise your cards.

I declare the resolution carried.

Thank you and our congratulations to Brent on his election to the Board.

Thank you Ladies and Gentlemen for your continued support of the Board.

The third item on the agenda is to authorise the Directors to fix the fees and expenses of PricewaterhouseCoopers as the Company's auditor. Therefore, I move:

To record that PricewaterhouseCoopers continue in office as the Company's auditors and to authorise the Directors to fix the remuneration of PricewaterhouseCoopers for the ensuing year.

Is there any discussion on the motion?

There being no discussion, I will now put the motion.

Those in favour please raise their voting cards. Thank you, those against please raise your cards. I declare the resolution carried.

The fourth item on the agenda is the approval of the grant of performance

rights to our CEO Xavier Simonet, under the Kathmandu Holdings Limited Long Term Incentive Plan.

Shareholder approval is required under ASX listing rule 10.14 for the granting of performance rights to any Executive Director. The Explanatory statement accompanying your notice of meeting provides details of the value of rights to be granted to Xavier and the basis of that grant.

Accordingly, I will put the motion for the approval of the grant of performance rights to Xavier, as detailed in the notice of meeting as follows:

“That, for the purposes of ASX Listing Rule 10.14, and for all other purposes, approval is hereby given for the grant to Xavier Simonet, Managing Director and Chief Executive Officer, of a number of performance rights up to a value of A\$568,050, calculated in accordance with the formula and terms described in the Explanatory Statement which forms part of the Meeting.”

Is there any discussion on the motion?

There being no further discussion, I will now put the motion.

Those in favour please raise their voting cards. Those against please raise their cards.

I declare the resolution carried.

I would now like to give shareholders an opportunity to ask any questions concerning any matters addressed at this meeting.

Anybody who now wishes to ask any further questions should raise their card and use the microphone provided.

Are there any questions on the audio webcast? No.

Ladies and Gentlemen, that concludes the formalities. I thank you for your

continued support and attendance today. In declaring the meeting closed, I invite you all to join us for a cup of tea and a biscuit and/ or sandwich.