Company: **Kathmandu Holdings Limited**

Conference Title: **Full Year 2021 Results Release**

Moderator: **Sheree Dixon**

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Operator: Good day, ladies and gentlemen, and welcome to the Kathmandu Holdings Ltd full year 2021 results release. Kindly be reminded that there will be no web questions taken. Only OD questions shall be taken for today. For those who have questions, please dial in to the audio to be able to ask questions.

Today's conference is being recorded. At this time, I would like to turn the conference over to Michael Daly. Please go ahead.

Michael Daly: Right. Thank you. Good morning, everyone, and thank you for joining us in today's presentation of the Kathmandu Holdings result for the full financial year of 2021. My name is Michael Daly and I'm the CEO of the Group. I'm joined on the call by Chris Kinraid, our Chief Financial Officer.

We will be talking to the presentation lodged on the NZX and ASX this morning. Unless otherwise specified, all financial numbers are in New Zealand dollars.

We'll begin on slide two, which briefly outlines the strengths of our three iconic outdoor active brands. In short, Rip Curl is among the top three global surf brands. Kathmandu is the leading outdoor brand in Australasia, and Oboz is a fast growing North American footwear brand for hiking. We are highly engaged with our loyal and active consumer base, achieving a net promoter score that exceeds 70. We have 2.1 million active Summit Club members and 44,000 Rip Curl Search GPS watch users. One of our key strengths is the development of purpose built technical products. Research and development drives our innovation, and we are focused on using sustainable materials. A leader in sustainability in ESG. Kathmandu was an early B-Corp adopter and we are working towards extending B-Corp accreditation across all of our brands. This year, we also committed to the largest syndicated sustainability linked loan in New Zealand.

Lastly, we have built a diversified business with global reach. We're employing a multi-channel approach to appeal to a wide range of customer buying preferences and having both a winter and summer focus. We appeal to customers across seasons.

On to slide three. Our brands have extensive global reach. With over 3,000 wholesale doors in North America, over 2,000 in Europe, nearly 1,000 each of Asia and South America. 23 in Africa, and the Middle East and over a 1,000 in Australia and New Zealand. There are substantial opportunities to leverage the wholesale networks of each brand to expand our sales reach.

Turning to slide four, I'd like to discuss in more detail the Group's 2021 financial year highlights. Total Group sales were $922.8 million, and were up 15.1% on the prior year, and pleasingly our underlying EBITDA was up 35.9% to $113.3 million, underpinned by a gross margin improvement of 40 basis points. Underlying net profit after tax for the financial year was $66.3 million and we delivered strong underlying operating cash flow of $93.3 million. We ended the period with a strong net cash balance of $37 million.

Moving to slide five, I want to touch on some of the key operational highlights during the year. Rip Curl delivered strong direct to consumer sales. Same store sales growth of 19.2% with online sales growing by 31.3% Online growth was underpinned by changing consumer preferences brought about by the COVID-19 lockdown periods.

We've successfully relaunched Kathmandu's new brand platform in May, reminding people that being outside changes us and that as human beings, we are hardwired to be outside. The relaunch was very well received and pleasingly Kathmandu achieved an exceptionally high net promoter score of 76. Oboz successfully launched their online store in April, and the wholesale business is well positioned with double-digit growth in forward orders.

Moving on to slide six, sustainability is at the core of each of our brands, and I would like to highlight some notable achievements. In conjunction with our key stakeholders, we completed an ESG materiality assessment and we committed to the largest sustainability linked loan in New Zealand. Rip Curl launched a wetsuit take-back program with TerraCycle, and the business sources our sustainable cotton in line with the Better Cotton Initiative. These are important sustainability initiatives for the brand.

The Kathmandu brand meets the highest standards of environmental and social performance as certified by its B-Corp status. We've also upped our efforts to limit climate change by offsetting our emissions to claim carbon neutrality.

For Oboz, over 4 million trees have been planted since the company's inception, with the company planting a tree for every pair of footwear sold and Oboz have 95% environmentally preferred leather materials in the product range.

Moving to our refreshed Group strategy on slide eight, we have been building a portfolio of global brands and aim to further expand our global footprint as we invest in world class brands and customer experiences. We will elevate our digital capabilities by investing in Group digital platforms to deliver a world class unified commerce experience. We will also leverage and deliver operational excellence to all of our brands across shared Group support functions.

Finally, we will continue to demonstrate leadership across environmental, social and governance to drive long term value for our shareholders. Given the uncertainties associated with COVID-19, it is important for us to maintain balance sheet flexibility, allowing for capital return options and the capacity for future M&A.

Onto slide nine, our strategy focuses on building global brands. Our goal is for Rip Curl to be the number one surf brand in Australasia and a top three brand in North America and Europe.

We will be building Rip Curl’s North American presence and see the potential to double the North American business across our own stores, online and wholesale channels.

Kathmandu is the leading outdoor brand in Australasia, with 2.1 million loyal and engaged Summit Club members, which we aim to further leverage. There is significant market opportunity to expand into Europe and North America, and we aim to launch in both Canada and Europe during FY22. We have an attractive new product pipeline, which includes an enhanced summer product offering.

Oboz is undergoing the expansion of its product range into adjacent footwear categories, and we aim to grow Oboz into a US $100 million business in the medium term with growth opportunities in the recently launched online store and further expansion of the business in Canada and also Europe, in time.

In Slide 10, with the current COVID situation accelerating a move to online sales, significant investments have been made to elevate our digital capabilities. Our goal is to increase Group online sales to 25% of direct to consumer sales in the medium term by enhancing our digital capability. With this goal in mind, a new Group online platform is being rolled out across our brands. We also are making further enhancements to our omnichannel foundations, including making point of sale upgrades to support unified commerce and click and collect functions for contactless purchases.

We're investing in our loyalty programs, including the launch of our Club Rip Curl programme in the coming year to leverage our strong consumer following. Furthermore, pricing and promotions are being enhanced based on data algorithms, and we've developed personalised consumer contact to encourage digital purchases.

Moving on to Slide 11. We aim to leverage the collective operational excellence of our brands. Having a target of improving our underlying EBITDA margin to 15% of sales. We also plan to accelerate cross-brand revenue growth opportunities. The Group has invested over $20 million to date on core platforms to support the growth of our brands, and over $10 million will be invested in FY22.

Investments will be made to optimise our supply chain, efficiently manage our fixed cost base, collaborate on product innovation between brands and to enhance core systems to unlock growth potential across loyalty programs and online.

Moving to Slide 12, being a leader in ESG will drive long term value for shareholders. We are working to extend Kathmandu's B-Corp accreditation across all of our brands. Transparency and responsibility will continue to underpin everything that we do as we manage our environmental and social impact responsibly and ethically. We are highly engaged with our people and our communities, and our ESG strategy starts with the wellbeing of workers in our supply chain. We are setting science-based targets that align with the Paris Climate Agreement and our circular business models target a zero waste supply chain.

I'll now hand over to Chris to cover the financial slides.

Chris Kinraid: Thanks, Michael. Statutory results include the adoption of International Financial Reporting Standard 16. For comparability, the impact of IFRS 16 has been excluded from our underlying results. The full year of FY21 includes a full 12 months of Rip Curl, while FY20 only included nine post-acquisition.

As you can see, we've delivered growth across all key financial metrics, underpinned by exceptional sales performance in both Rip Curl and Oboz. Total sales increased 15.1% to $922.8 million, while underlying EBITDA increased 35.9% to $113.3 million.

We continue to carefully manage our operating expenses, given the current operating environment. Our results include the benefit of $7.3 million from rent abatements, agreed with landlords and the $15 million annualised restructuring and synergy savings implemented during the onset of the COVID pandemic last year.

Lease renewals were completed for 14% of the store portfolio, which delivered $1.4 million in annualised savings.

The result also included a COVID related write down of Indonesian receivables of $2.7 million and net wage subsidies across Australia and New Zealand of $16.6 million. Depreciation included $5 million in notional amortisation of Rip Curl customer relationships. Included in interest costs, were the $2.1 million write-down of underwriting costs related to the Rip Curl acquisition. These have been excluded from our underlying results.

A future tax benefit of $7 million was also recognised from the recognition of historical US tax losses.

Moving to Slide 15, we delivered strong sales of $922.8 million, underpinned by 12 months of Rip Curl ownership. While online sales moderated following 63% growth in FY20, they have grown at a strong CAGR of 21.9% since FY17, and now comprise 14.4% of total direct to consumer sales.

Our sales mix is diversifying across brand, channel and region. Rip Curl recorded strong online sales growth of 31.3%, while Kathmandu online sales normalised from a COVID surge in FY20 to now make up 15.8% of direct consumer sales of the brand.

Given strategic investments made we expect to achieve robust growth in online sales from both Rip Curl and Kathmandu over the medium term.

Moving to our balance sheet on Slide 16, we are in a very strong position we have significant balance sheet headroom with $37 million net cash at year end and a current debt facility of circa $300 million.

Our long-term leverage ratio target is 0.5x Net Debt to EBITDA. We've managed our inventory carefully during lockdown periods, and we'll continue to do so in FY22. A strong balance sheet position allows the Group to ride through any short term COVID related challenges or supporting growth investments in providing room to pursue further M&A opportunities and flexibility for future capital management options.

Moving to Slide 17, we delivered strong operating cash flows of $93.3 million despite challenging conditions.

Moving forward, capital expenditure for FY22 is expected to be around $35 million, which will support our continued investment in systems capabilities and ongoing brand development.

As a result of the strong performance across the Group, we have resumed paying dividends following a suspension during FY20. Our Directors declaring dividends totalling 5 cents per share for the full year, including a final dividend of 3 cents per share. This will be fully franked for Australian shareholders, however not imputed for New Zealand shareholders.

I'll now talk through the segment results and performance of each of our brands.

Onto Slide 19 for Rip Curl. We can see the P&L contribution for the 12 months in FY21, compared to 9 months in FY20. Total sales were 10.5% above last year with sales continuing above pre-COVID levels in the key regions of North America and Europe during the northern hemisphere summer season.

Direct to consumer same store sales grew strongly at 19.2% for the 12 months ended 31st July. Sales through our online channel grew strongly to $33.5 million and now comprise 12.5% of direct to consumer sales.

Over the past four years, online sales have grown at a CAGR of 44.4%. Wholesale sales were 9.6% above the previous year. Despite a COVID disrupted sell-in in the first half. Order books are now significantly above pre-COVID-19 levels, reflecting strong category performance. Sales are back to pre-COVID levels, even though stores in airports, Australia, Hawaii, Asia, and parts of Europe, continued to be affected in FY21.

Gross margins have increased as direct to consumer sales are increasing as a proportion of total sales.

The next two slides focus on Rip Curl product and brand marketing initiatives. As shown on Slide 20, a key tenet of Rip Curl and all our brands is our technical excellence and innovation, which allows us to provide the best possible products for our customers. The Icons of Surf collection is a selection of the most iconic logos in the industry. These products blend timeless design and bold graphics to create one of the strongest volume driving collections in surf. The Mirage Ultimate is the most unique and innovative swimwear in surf, tested by the world's best. The line includes premium Italian lycra that offers support and flexibility with water repellent glide neoprene panels providing comfort, compression and wind chill reduction.

The surf series includes technical surf inspired products. These products are engineered with wet dry surf functionality, and hydrophobic materials.

Slide 21 covers Rip Curl key marketing initiatives. The Rip Curl World Surf League title was decided last week for the first time in an exciting one-day format, which included the top five men and women in surfing and featured both Olympic gold medallists from the Tokyo Olympic Games.

The men's title was taken out by Rip Curl athlete Gabriel Medina and the event was a great opportunity for us to host our key customer accounts and showcase the Rip Curl brand in a key growth market.

In terms of bringing innovation to the market, the new E7 wetsuit combines our latest stretch and warmth technologies and will be launched by Mick Fanning and Molly Picklum. The launch is taking place this month and will cover digital, outdoor, retail and broadcast channels in the Northern hemisphere.

Now on to Kathmandu. Slide 23 shows the underlying P&L for FY21 on a pre-IFRS 16 basis. COVID-19 lockdowns and travel restrictions impacted Kathmandu's financials, with total sales declining 17%. In Australia, sales were 18% below last year with 4,700 trading days lost in FY21.

In New Zealand total sales were 14% below last year, with 400 trading days lost, compared to 2,450 in FY20.

Online sales at $56.8 million represented 15.8% of direct-to-consumer sales and have grown at 14.3% CAGR over the last four years.

Same store sales were 18.2% below last year. Strong winter launch momentum in conjunction with the Kathmandu brand relaunch prior to the Australian lockdown resulted in second half insulation growth compared to the pre-COVID period in the second half of FY19, despite significant store closures.

Gross margin improved in the second half by 240 basis points. The improvement in operating expenses included the benefits from restructuring, rent abatements, and wage assistance. Kathmandu inventory is well controlled and ended the year in line with the expectations.

Turning to Slide 24. We are building a strong, meaningful and differentiated brand with strong brand awareness in Australasia, where we dominate the category. Kathmandu launched its new brand positioning during the winter this year to improve the well-being of the world through the outdoors, celebrating being out there in nature in a fun, spontaneous and inclusive way. Our customer base is active and highly engaged with a net promoter score of 76, four points above the level last year.

We have 2.1 million active Summit Club members, and these members are responsible for over 70% of total Kathmandu sales, and they spend approximately 30% more per transaction than non-members. We are setting the foundations for Kathmandu brand growth. An integrated brand campaign was launched in May 2021, which generated 30 million views. We have relaunched our website, improved the user experience, and we are planning to relaunch the Summit Club during the first half of FY22.

We continue to lead in product innovation. Slide 25 shows how we're aiming to establish year-round relevance and excitement. Focusing on the eight months of transitional weather. Our aim is to ultimately become, in summer, what we are in winter.

Furthermore, we are broadening our customer appeal to reach a younger, more cosmopolitan consumer. An example is the new Mulga summer range designed with playful characters and colors, in collaboration with Sydney based artist Mulga. The new SUN-Stopper range launching in stores now is an example of a new product focus, combining technical innovation while capitalising on the summer opportunity. The range combines serious chemical free UPF 50+ sun protection with fun colours and easy wearing silhouettes.

Moving on to Oboz, Slide 27, and it shows a strong financial performance in FY21. Sales grew 44.9% on a constant currency basis to reach $78.4 million. The result was driven by a successful product innovation strategy and a strong recovery following the COVID lockdown period.

Gross margin was impacted by one off air freight costs of $1.5 million to support key customer deliveries of winter seasonal sales in the first half. Plus, increased ocean freight costs due to supply chain congestion in the second half.

We expect gross margins to normalise to historical levels when global supply chain congestion and related shipping rates return to normal.

Pleasingly, our forward order book is at its highest ever level, which allowed us to invest further to support future growth initiatives.

Moving to Slide 28. Oboz has been broadening the appeal of its product range since acquisition with a series of strong product launches and robust brand activations, underpinning continued strong growth. The recent launch of the new Oboz online store also provides significant sales growth potential.

The brand experienced 20% growth in its social media audience during the second half and is currently involved in a number of exciting social initiatives. These include the Oboz Trails Experience and the Oboz first ever collaboration with the Black Folks Camp Too initiative, which launches this month.

I'll now hand back to Michael to cover the outlook for the Group.

Michael Daly: Thanks, Chris. Moving to Slide 30. COVID continues to impact the global business. Lost trading days in FY21 due to lockdown restrictions were around 13,000, compared to 15,000 in FY20. Continued lockdowns in New South Wales, Victoria, ACT and New Zealand will continue to impact our results during the first half of FY22. Trade in airport locations, in emerging countries such as Brazil, Indonesia and Thailand remains significantly impacted by COVID, while Northern hemisphere retail stores are managing with staff constraints and sporadic closures as positive team COVID results arise.

COVID is also impacting our supply chain, with reduced factory capacity stretching lead times, freight congestion leading to delivery delays and increased freight costs. As we continue to proactively manage the impacts of COVID daily, our main priority is to ensure the health and safety of our staff, our customers, and our suppliers.

On to Slide 31, our key priorities for FY22 are to build global brands, elevate digital capabilities, leverage operational excellence and be a leader in ESG. To build our global brands we'll increase our investment in marketing sustainability initiatives. Importantly, we will be launching Kathmandu in Europe and Canada and will continue to launch innovative products to capitalise on growing participation rates in outdoors, beach, and surfing activities.

In relation to our digital capabilities, we'll be launching a loyalty programme for Rip Curl, initially in Australia and New Zealand, and relaunching Kathmandu Summit Club. We will also implement unified commerce capabilities throughout ANZ and re-platform our European online capabilities.

We aim to increase the use of data insights, analysis and personalisation to drive growth and to also expand our marketplace presence.

In terms of driving operational excellence, we will put a Group executive structure in place to build out our Group capabilities. We will align technical platforms across our brands, initially in Australia and New Zealand. This will involve an investment of circa $10 million in core systems capital expenditure in FY22.

We are setting clear margin and expense targets to drive a permanent shift to 15% EBITDA margins as we emerge from the impacts of the COVID pandemic.

Our key ESG priorities are to extend B-Corp accreditation to all of our brands, set science-based ESG targets and implement the Rip Curl ESG strategy.

Turning to our trading update on Slide 32, Rip Curl same store sales for the first six weeks in FY22 have declined 12.8% on an absolute basis, however, have increased 3.6% when adjusted for COVID lockdowns. Kathmandu same store sales have declined 19.9%, but are up 18.3% when adjusted for lockdowns.

Online sales growth has been strong, up 25.9% across the Group. Pleasingly, Kathmandu has seen strong sales in regions less affected by COVID restrictions. COVID restrictions are impacting suppliers in Asia, and the Group is actively managing supply chains to minimise impacts. The impact of freight costs on gross margin is expected to be offset by improved foreign exchange rates. Due to these ongoing COVID impacts, the first half FY22 profit is expected to be below the first half of FY21. We are encouraged that both Rip Curl and Oboz wholesale order books are significantly above pre-COVID levels.

In terms of the outlook, all of our brands are well positioned to capitalise on growing participation in outdoor, beach and surfing activities. We are set to capitalise on opportunities resulting from the global COVID vaccination rollout as restrictions ease in key growth markets and international travel restrictions are expected to ease as FY22 progresses.

This now concludes the formal part of today's presentation. I want to thank all of our shareholders for their support through this challenging year, and for taking the time to join us on this call. I would now like to open the call for questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on the phone line will indicate when your line is open. Please state your name and company at the tone before posing a question. Again, press star one to ask a question. We'll now take our first question. At the tone, please state your name and company before posing a question. Your line is open. Please go ahead.

Andrew Steele: Good morning, guys, Andrew Steele from Jarden here. The first one for me is just on the current lockdown restrictions in Australia and New Zealand. A key component of that, could you just give a sense as to what your weekly loss run rate is in New Zealand and Victoria and New South Wales at this time of year?

Michael Daly: I'll pass to Chris for that one.

Chris Kinraid: Yeah, I mean, it will change in each month, Andrew. And August is still a reasonable month for Kathmandu. But the circa run rate was between – from the August period is between 8 and 10 million impact on EBITDA after that first month. It reduced a little bit for September October, but that's the current run rate. So, we're looking forward to all the stores opening up in due course.

Andrew Steele: Great. Thanks. And just a little bit more detail on your launch in Europe and Canada. Please talk to the types of stores that you're going into, the numbers of stores and any sort of expectation around revenue contribution at this stage.

Michael Daly: Yeah, I'll take that one. Look, obviously early days, Andrew, in terms of launching into Europe and Canada. The sell in period for the particular season we're aiming is in sort of November. So obviously being in mid-September at the moment, we're sort of still in the initial planning phase, I guess, arranging samples and so forth. But certainly, we've had various conversations with accounts. That includes everything from outdoor specialists to sports chains to online pure play retailers. And certainly, from so far, the conversations have been quite proactive and positive. A bit hard to articulate in terms of how many accounts may very well look to buy into the range because as I said, we haven't actually sold it in and won't sell it in till November. But certainly, as we've said before, if you look at the broader wholesale account base for Rip Curl, there's some 14-15% of our top 20 customers that stock both surf and outdoor. So, in Europe in particular, a lot of the distribution is at a volume distribution. They typically stock both all outdoor brands, and that includes everything from surf right through to outdoor. So, there's a lot of potential there as far as overall wholesale accounts, but it's a bit hard to articulate exactly how many accounts will buy into the range until we've actually had those detailed meetings.

Andrew Steele: Great. Thank you. And just my last one. It seemed like a good result in terms of rent saving at $1.4 million, I think it was. If you were to go through that process across your entire lease space, what would the annualised rent roll look like? What sort of savings would we be talking about and that are a realistic or achievable outcome?

Michael Daly: I think [inaudible].

Chris Kinraid: Yeah, I mean, in terms of overall savings, we don't expect that to – I mean, that was from the negotiations last year and there were some good outcomes. We expect that probably normalised to some degree over the future negotiations. So, I don't expect – I wouldn't roll that forward across the whole lease base and extrapolate that saving, Andrew.

Andrew Steele: Good. Thank you.

Operator: Thank you. We'll now take our next question from Bianca Fledderus of UBS. Your line is open. Please go ahead.

Bianca Fledderus: Yeah, good morning, guys. First question from me, so you mentioned that the impact of freight costs on gross margin is expected to be offset by improved foreign exchange rates. And just wondering sort of what about raw material costs. Do you still see pressure there? And how much of this can you push through to consumers?

Michael Daly: Yeah, look, we're definitely seeing freight costs, obviously one component of the input costs, but we're certainly seeing raw material prices increase as well, as you could appreciate not necessarily across the board. It's typically in certain areas. And to be quite honest, it's evolving on a daily and weekly basis. So, look at this point in time, there's definitely – I would say there's definitely some inflation in some areas of raw materials, fabrics and so-forth. I think at this point in time, we're managing quite well. We've got long term relationships with our suppliers, which puts us in really good position for all of our brands. And as we've mentioned with the upside that we expect from foreign exchange, we're not too overly concerned on the overall impact of margins. But it would be fair to say, it's one that we are watching and managing on a daily basis. And that's my view today. But that could change quickly, depending on what happens. Because obviously with the pandemic, as we see on a regular basis, things change very quickly.

Bianca Fledderus: Okay. Yeah, Okay. Thanks. And then I guess, second question on your inventory position at the moment. So yeah, obviously we see those global shipping issues. How are you sort of managing your inventory and purchasing for the future? And then, I guess on the rebrand as well? How would you sort of expect the new Kathmandu product may impact your inventory as it's obviously more colorful products and therefore, I guess possibly increased risk to managing the inventory, especially at the moment with lockdowns, for example?

Michael Daly: Yeah. So, there's two components to that. As far as our overall inventory, we're certainly seeing delays in the timeliness of delivery and depending on the ports in which products are coming out of and into and there's particular ports around the world that are quite congested. We're dealing with that by bringing forward buys and building into our buying timelines. Additional time to allow for those freight delays. We can't get it perfectly, of course, but we feel we've made the adjustments to ensure that we have a free flow of inventory.

And it's important to remember that 12 months ago, we were in a very similar situation, albeit different. 12 months ago, we were actively pulling back inventory in forward orders because of concerns of that pandemic. So, we traded through the first half of last year with some challenging inventory positions. And obviously, we're going to be trading through the first half of this year with some interesting and challenging inventory positions, but we feel we've made the adjustments. There are some delays, but overall, we're managing quite well. The one area that is well known globally where there's problems is footwear. Footwear, particularly out of Vietnam and other South East Asian countries. That's probably the category of most watch at this point in time and most under pressure. And obviously, Nike has been very open about those issues. And I think most footwear brands have.

In terms of the inventory risk with the re-position of the Kathmandu brand and products, look, it's not something that we're overly concerned about. The feedback that we've had from stores that are open at the moment with respect to the new colorful summer range - it's been extremely positive. Certainly, on the Rip Curl side from which I'm from, colour has been a foundation of our business for a long time, and I'm an avid watcher of what's happening in North America. And if you go into their stores at the moment, they are very colourful. So, I'm certainly confident that that color trend will continue here in Australia. And I think we're going to be well placed with respect to our inventory in the Kathmandu side.

Obviously, the lockdowns don't help. We will be accumulating some inventory in lockdowns, but we're just managing our forward inventory purchases to make sure we've managed that to deliver consistent inventory flows and reasonable levels of inventory.

Bianca Fledderus:: Yes. Okay, great. Very helpful. That's all for me. Thank you.

Operator: Thank you. We'll now take our next question from Mark Wade of CLSA. Your line is open. Please go ahead.

Mark Wade: Good morning, Chris, Michael. Thanks for taking the questions. I'll continue on the relaunch of the "We're out there" theme in the Kathmandu brand. I mean, how have you found it's gone I mean, in terms have being able to measure that. What kind of customer apart from the 30 million views, what kind of responses have you seen to the brand and how have you been able to manage that?

Michael Daly: Yeah, well, it's obviously early days. The relaunch was only May. And obviously some of the products associated with that relaunch are just landing in store as we speak for the spring summer. As I mentioned earlier, feedback overall has been quite positive from our teams, and that's probably the best indicator that we have initially of the success of that launch. And so certainly the feedback from our teams, both on the relaunch and the product that is hitting stores now and is in stores now has been extremely positive. And certainly, our net promoter scores that we measure in store with customer interactions have all been positive post that involvement.

And then on top of that, we manage and watch what's happening on social media. And again, all of the feedback we've received and the tracking of social measures and analysis are all positive. I think the number is around about 95% positive sentiment on the rebrand positioning. So now we're very confident on that reposition and I'm really excited by the pipeline of new products that we've got coming through. As part of that, we've really rebuilt both our marketing and product capabilities for the Kathmandu brand over the last 12 months. And the new team is delivering some exciting things and we're looking forward to seeing how they work in store in the immediate future and through FY22.

Chris Kinraid: Yes. And Mark, other points – I mean, we also saw during the launch Kathmandu was trading quite strongly, especially in Australian markets, and that went to launch and went to periods before the lockdowns hit Melbourne and Sydney. So strong double-digit growth. So we’ve had some good sentiment and we saw that from the customer base. So that gives us plenty of confidence going forward.

Mark Wade: Yeah, exactly. Okay. I hope it goes well. And one for Michael. I mean, what part of the strategy do you envisage will need to be tweaked and what do you think will really stay largely the same under your healm?

Michael Daly: Yeah, so I mean, the key focus areas I talked to, are certainly the areas that I feel needs to be a major area of focus for us. I mentioned about building those global brands. Rip Curl, I guess, is the closest to that and certainly off the back of Rip Curl’s experience and Rip Curl’s broader geographical spread, really excited by the opportunities that are open for Kathmandu and Oboz. I guess that's probably where the biggest area of excitement for me is, and probably the biggest area of change from where we were previously. We have talked about it, but really internally, this is the first time that we've really pushed hard on it.

So certainly, from my point of view, that's most the most exciting part. We’ve got a lot of work to do on our digital capabilities in terms of building our platforms in a unified commerce experience. It's not a key strength that I would call out just yet, but certainly it's an area of major focus and major investment at the moment, and we certainly look to work through the FY22 year to look to, our aim is to sort of be best in class in that space over the period. So major investment as we've outlined.

And then in terms of the other areas in terms of ESG leadership and driving that operational excellence, I think they are two things that we've done well across our brands previously and they are, I guess, a continuation of what we've done in the past with some minor tweaks. So, yeah, in terms of, to answer your question, the two major changes have been really elevating that focus on our digital execution and then really a push towards making sure that all of our brands have global aspirations and really looking to do that in a smart, efficient and as much as possible low risk way. But with these things, you need to make investments for the future, and that's what we're doing. And as we've stated in the announcements, investing in the brands, most importantly, is a major focus.

Mark Wade: Thank you. And lastly, the Kathmandu brand, you had online sales fall 30%, a lot worse than the total brand, down 17%. What were you – I can't remember what you said you put that down to. Something around, was it just the fact that when stores reopened ...

Chris Kinraid: Yeah, it's just a mix of the big COVID surge last year. So, the percentage of sales, that's normalised, but on a sort of a two- or three-year basis that’s gone from FY19, it was 11% it's a stable basis of approaching 16%. And we've got a pretty firm goal of driving it north from here. But it's a normalisation once we open the stores for trading as well.

Michael Daly: I mean, the thing I'd add is Kathmandu has built up an amazing business appealing to that travelling outdoor consumer and particularly it's got a loyal base that consistently come back for those products, for when they're travelling to, whether it's Japan or Europe. And obviously, with that not happening, those educated consumers looking for that product aren't coming back online. So, I certainly suspect that's a part of it. And the other part is last year we tightened up our inventory buys, coming into summer because of the concerns of the pandemic and the impact on trade. And as a result of that, we just didn't have as much stock on clearance.

And obviously, the online consumer is a particularly price sensitive consumer. So, if you've got less product to clear online, you're going to drive less sales. So certainly, that was also an impact reducing that online volume last year.

Mark Wade: Michael, Chris, thanks so much for those insights. Really appreciate it.

Chris Kinraid: Thanks, Mark.

Operator: We'll now take our next question from Julian Mulcahy from EAP. Your line is open. Please go ahead.

Julian Mulcahy: Hi, guys. Just a couple of questions. Firstly, how do you explain like the Australians sales being so much weaker given the comparable trading days weren't that different from last year? And also, why New Zealand fell quite a bit given the lost days are way less than last year?

Michael Daly: You're talking overall there, Julian or specific to the –

Julian Mulcahy: Just the Kathmandu business.

Michael Daly: Yeah. Well, in terms of the Kathmandu brand, obviously, as I mentioned earlier, obviously the impact of travel and the pull back on the inventory definitely had a major impact on the Kathmandu brand. There's no doubt about that. They've built a big business appealing to that outdoor traveller. The positioning of the brand was very much around adventure travel. And on the back of those border closures, a big chunk of that business disappeared. So the products appealing to that consumer, so backpacks, insulation, those type of products now, with the benefit of hindsight, our stores would have been loaded up with tents and camping gear and so forth. And if it was, our results probably would have been a lot better. But the unfortunate situation was we'd built a large business around adventure travel, and when that adventure travel stops, it does have a very significant impact on our results, which clearly it has.

And as I mentioned earlier, as far as New Zealand trade there, the New Zealand consumer is particularly a price sensitive consumer. If you've got less inventory on clearance, there's less for them to buy. So that again has a drag on your overall performance. That would be the two key call outs that I would make in terms of my observations. Chris, you've got anything to add to that?

Chris Kinraid: Yeah. I mean, Kathmandu, I mean, second half was travelling reasonably well. As I said earlier, we lost as we guided in our June update, the impacts are quite significant on the back end of June-July, which is the key trading period for Kathmandu. So overall, the circa $22 million impact on EBITDA for those last sort of six weeks thanks to the lockdown. So, the business was travelling overall as a Group travelling well north of where we landed, and the lockdowns extended deeper into July than originally expected. So that's a massive impact when you've got at some stages over 50% of your store network closed. So that was a big impact overall in the second half.

Julian Mulcahy: Right. So, there's like plenty more a case of in the result last year, like the comp was boosted by sort of clearance of inventory and it was a bit cleaner this time around. It's just keep by -.

Chris Kinraid: Yeah, definitely a whole lot lower clearance, which is a good place to be, helpful on to margins, but a little bit more clearance this year, but significantly still lower than in FY19. So that'll help. And we saw in August we actually had more stock and the trading was going quite strongly until additional lockdowns, especially in New Zealand and Queensland and WA were trading quite strongly and continue to do okay. So, it's really hard to get a really pure read thanks to ongoing closures. That's the reality. And July is a big trading period for Kathmandu. So, it looks like bad timing for the brand.

Julian Mulcahy: Okay. And with the first six weeks of trading with the adjusted numbers, how many stores does that actually include?

Chris Kinraid: I mean, I can say right now I've got I think, about 130 stores closed right now. It was about 150 until the New Zealand level two adjustment, excluding Auckland. So right now, is about 42% of the network is closed.

Julian Mulcahy: Right. And that's similar to last year?

Chris Kinraid: Was actually worse than last year because Auckland only had a two week period last year. But we've got Victoria and New South Wales, where last time it was just basically Victoria. So, the lockdown period for the first quarter is worse than in prior years, which is pretty obvious. So, I think looking forward to really moving on beyond Q1 and getting retail stores opened up and get everybody trading. That's what we're looking forward to.

Julian Mulcahy: And just one more, with the launch into Canada and Europe. Is it mainly just backpacks, wet weather gear or a broader range of Kathmandu products?

Michael Daly: Yeah, really major focus on apparel to start with. There will be some pieces of equipment, but we won't be going with the full camping outdoor line. We'll start with a curated range, which will really look to appeal to, I guess, more the apparel consumer than anything. There will be some pieces of backpacks in there, for sure, but obviously a little challenging to sell backpacks in the current environment with various border closures and so forth. So more of the focus on apparel for the initial launch.

Julian Mulcahy: Okay. Great. Thanks, guys.

Chris Kinraid: Thank, Julian.

Operator: Thank you. We'll now take our next question from Marni of Macquarie Capital. Your line is open. Please go ahead.

Marni: Good morning, Chris and Michael. Thanks for taking my questions.

Chris Kinraid: Hi, Marni.

Marni: I just want to understand just the Rip Curl result. So, it looks as though the second half of 21 EBITDA margin came in the realm of 7.4%, and obviously the first half of 21 was particularly strong. How do we think about – I mean, assuming – the absence of lockdowns, with the synergies that have come through and the cost measures you've put in place, what's an ideal EBITDA margin for that Surf segment?

Michael Daly: Hi, Marni, how are you? Look, as we've previously discussed and outlined, certainly, our longer term aim is 15% EBITDA. We feel that's a sustainable ratio on an annual basis. That said, the first half always skews to the northern hemisphere, which is a lower margin. And obviously in this second half that we just saw, we had two impacts. One was obviously the lockdowns that came late in terms of Australia, which had a negative impact on our result. And also late in the year, we picked up some doubtful debts with respect to one of our Indonesian partners. And the effect of both of those is probably looking at a circa 10% at least drop away in EBITDA in the last month of the year. So, from that point of view, I would say that the 7% EBITDA you quoted for the second half is on the lower side. You would normally expect that to be double digits in the second half in the normal year. And therefore, that EBITDA ratio for Rip Curl would be closer to the 15%. But we're also investing in the brand and investing in long term growth. We have strong aspirations to build our North American business. So, we certainly want to invest in our marketing in particular over the next 12-18 months to drive that future long-term growth. So, yeah, continuing to invest in our brand. So, we see that the EBITDA margin will only go up from here and certainly tracking towards 15%.

Marni: Okay. And obviously, there might be some – from what you just said, it implies that the first half might be just a bit north of 15%, given that there are lockdowns in Australia, there could be a slight downside risk to that or is it – because I mean, there's just so much exposure offshore a lot of the weakness in the first half of 22 profitability is probably more skewed to Kathmandu?

Michael Daly: Yeah, look, in terms of the first half with respect to – well, honestly, with the first half with all brands to give any sort of guidance or detail at the moment would just be remiss of me because I mean, as of a week ago, I was out of lockdown and a week later, I'm back in lockdown. So yeah, I really can't comment on that. You know what we do know – from what we - everything we know today, as of the 21st of September, we know that our first half for FY22 will be lower than the first half of last year. As far as how much, we really just don't know until we can see when particularly New South Wales and Victoria open up.

And obviously we're hoping and assuming that there's no lockdowns or closures of other states or indeed other countries, knowing that our breadth of results across those and Rip Curl skews to northern hemisphere and Europe as well.

Chris Kinraid: Yeah. And I think we're going to look – the way we look at it Marni is, I mean, clearly for Q1, there's a lot of impacts with lockdowns. I mean, that's pretty clear for everybody. And some supply chain challenges related to that. Long term, I mean, we've got some – we've mentioned a few times the order book's incredibly strong, especially for Oboz and for Rip Curl and into 2H. And so, I think we look at it with a lot of confidence that the first half will be impacted no doubt because of the lockdown.

Marni: Okay. Okay, that's clear. And it's – because there's talk in the press this week about markets like Bali opening up, in the lead in to the opening of borders of some markets like we thought you've spoken about particularly Hawaii performing really well. Do you get any kind of lead indications from your partners there about the reopening and ordering? Or does the ordering kind of come through once they've reopened?

Michael Daly: Yeah. Look, it changes on a daily basis, Marni. All I would say is that where we have seen – historically where we have seen borders open and travel come in strong, we've seen outstanding results. Six months ago, we were talking about Hawaii and our business there being decimated. Since they've opened up that travel back to Hawaii, those stores have come back online strongly and are back at pre-COVID levels, indeed above that. I have no doubt that when Bali ultimately opens up and when Thailand opens up, and quite frankly, even in the Australian results, particularly for the Rip Curl business, with borders closed, with tourists from Victoria and New South Wales not getting over to WA and not getting up to Queensland, that has a negative result as well. So certainly, I'd expect that once we see Australian borders open up, once we see Bali open up, Thailand open up, as we have seen historically, we're certainly expecting a really strong bounce, which gives us a lot of encouragement for the future. But obviously we've just got to wait patiently for these borders to open up.

Marni: Okay. Just a final question from me. You've called out M&A, and I think I recall you calling out something similar at the interim result, just in terms of when you talk about your balance sheet providing you with the capacity to do that. Is that something that you're going to prioritise as we remain in the lockdown? Are there very good opportunities? And are the opportunities skewed to offshore or within Australia.

Michael Daly: Yeah, I think that at the moment, it's a very active space, obviously. As you would know, a lot of things out there are available for purchase. But at the same time, I would say across the board, there's probably some inflated expectations. So, from our point of view, we want to have that flexibility, and it's something that we'll look at. But is it a priority at this point in time? No. I think that with the complications of looking at particularly anything offshore and doing due diligence on the business when we can't travel, there is some obvious limitations on what we can do. So, it's an option for us. We've got the balance sheet to do it if something that comes up is perfect and a really ideal fit for us, but it's not certainly in – it's not front of mind for myself at this point in time. We've got plenty to work on with our existing brands and plenty of potential as the world opens up, and that's my main focus.

Marni: Well, that's clear those are my questions. Thank you for answering them Chris and Michael. I'll jump back in the queue.

Operator: Thank you. It appears there are no further questions. Michael, I'd like to turn the conference back to you for any additional or closing remarks.

Michael Daly: Thanks. No look – Thanks, everyone for your time. Look, we're really comfortable with the result and excited by the future. We just got to get these things back, open up and borders open, and we're looking forward to that. So, thanks for your time and patience.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.