

# Kathmandu Holdings

## Climbing Higher

**GUY HOOPER**

 guy.hooper@forsythbarr.co.nz  
 +64 4 495 5255

### OUTPERFORM

Kathmandu (KMD) provided a positive trading update, materially ahead of our expectations, delivering a strong recovery in sales. KMD has guided to FY20 guidance of Underlying EBITDA in excess of NZ\$70m, more than double our prior estimate (NZ\$31m), driven by higher sales activity in combination with lower gross margin pressure. We upgrade our near-term earnings forecasts accordingly and lift our target price +NZ\$0.30 to NZ\$1.50. Whilst the outlook for the retail sector remains opaque, we view current trading multiples (11x two year forward PE) as attractive. Reiterate OUTPERFORM.

| NZX Code           | KMD                 | Financials: Jul/             | 19A  | 20E   | 21E   | 22E  | Valuation (x)     | 19A  | 20E  | 21E  | 22E  |
|--------------------|---------------------|------------------------------|------|-------|-------|------|-------------------|------|------|------|------|
| Share price        | NZ\$1.27            | NPAT* (NZ\$m)                | 56.8 | 46.5  | 40.4  | 71.4 | EV/EBITDA         | 8.5  | 12.3 | 9.6  | 6.5  |
| Target price       | NZ\$1.50            | EPS* (NZc)                   | 17.6 | 7.2   | 6.2   | 11.0 | EV/EBIT           | 10.1 | 18.6 | 13.8 | 8.2  |
| Risk rating        | High                | EPS growth* (%)              | 4.8  | -59.2 | -13.0 | 76.6 | PE                | 7.2  | 17.7 | 20.4 | 11.5 |
| Issued shares      | 649.2m              | DPS (NZc)                    | 16.0 | 0.0   | 3.0   | 7.0  | Price / NTA       | 7.3  | 5.6  | 4.9  | 4.3  |
| Market cap         | NZ\$824m            | Imputation (%)               | 100  | 100   | 100   | 100  | Cash div yld (%)  | 12.6 | 0.0  | 2.4  | 5.5  |
| Avg daily turnover | 1,435k (NZ\$1,728k) | *Based on normalised profits |      |       |       |      | Gross div yld (%) | 17.5 | 0.0  | 3.3  | 7.7  |

#### Strong recovery in sales activity...

KMD's recent trading has outpaced a strong bounce in retail sales. In the six weeks to 28 June same store sales (SSS) at its two key brands Kathmandu and Rip Curl were +13% and +21% respectively. Store traffic is varied across its portfolio with stores outside of highly condensed areas (such as the CBD), generally outperforming. Supporting a recovery in bricks & mortar activity, online sales penetration has remained elevated following a surge during Alert Levels 3 and 4. Over the same six week period, online sales represented >20% of direct to consumer sales (~10% penetration pre COVID-19).

The company signalled it expects gross margin to be at the bottom end of its target 61% to 63% range, ahead of our prior expectations, as inventory control and strong sales activity have reduced the need to participate in elevated discounting activity. We expect the gross margin to remain towards the bottom of the range in FY21, as KMD cycles through a lower NZD.

#### ... near-term outlook remains uncertain

The near-term outlook beyond FY20 remains opaque, with the risk of second wave COVID-19 infections, a subdued economic backdrop, and the flow on effects of government wage support rolling off all adding uncertainty. We retain a level of caution in our forecasts, with our revised FY20E and FY21E Underlying EBITDA estimates still -49% and -45% below our pre COVID-19 forecasts respectively. We assume KMD returns to a more 'normal' level of earnings by FY22 (Underlying EBITDA NZ\$139m).

#### Well positioned; backed by well recognised brands

Whilst retail headwinds exist, we view KMD as comparatively well positioned given 1) category growth tailwind, underpinned by a trend towards domestic/adventure tourism, and 2) its well recognised adventure brands which are backed by a loyal customer base. KMD's recently bolstered balance sheet, supported by better than expected trading, should provide sufficient liquidity to see through any further disruption. Beyond COVID-19, growth avenues still exist for KMD as it leverages Rip Curl's wholesale channel expertise and market exposure to accelerate international growth for its outdoor brands.

**Kathmandu (KMD)**

 Priced as at 02 Jul 2020 (NZ\$) **1.27**
**12-month target price (NZ\$)\* 1.50**

|                             |       |
|-----------------------------|-------|
| Expected share price return | 18.1% |
| Net dividend yield          | 2.4%  |
| Estimated 12-month return   | 20.5% |

**Key WACC assumptions**

|                 |       |
|-----------------|-------|
| Risk free rate  | 2.00% |
| Equity beta     | 1.16  |
| WACC            | 10.4% |
| Terminal growth | 1.5%  |

**Spot valuations (NZ\$)**

|                     |      |
|---------------------|------|
| 1. DCF              | 1.41 |
| 2. Sum of the parts | 1.30 |
| 3. n/a              | n/a  |

**DCF valuation summary (NZ\$m)**

|                                    |      |
|------------------------------------|------|
| Total firm value                   | 989  |
| (Net debt)/cash                    | (73) |
| Less: Capitalised operating leases |      |
| Value of equity                    | 916  |

**Profit and Loss Account (NZ\$m)**

|                               | 2018A       | 2019A       | 2020E       | 2021E       | 2022E        |
|-------------------------------|-------------|-------------|-------------|-------------|--------------|
| Sales revenue                 | 497.4       | 545.6       | 737.2       | 921.5       | 989.6        |
| <b>Normalised EBITDA</b>      | <b>89.8</b> | <b>99.6</b> | <b>71.1</b> | <b>93.3</b> | <b>138.5</b> |
| Depreciation and amortisation | (15.0)      | (15.3)      | (24.3)      | (28.4)      | (29.5)       |
| <b>Normalised EBIT</b>        | <b>74.8</b> | <b>84.3</b> | <b>46.8</b> | <b>64.9</b> | <b>108.9</b> |
| Net interest                  | (1.1)       | (2.9)       | (4.3)       | (6.7)       | (6.2)        |
| Associate income              | 0           | 0           | 0           | 0           | 0            |
| Tax                           | (23.1)      | (23.7)      | (6.1)       | (17.7)      | (31.3)       |
| Minority interests            | 0           | 0           | 0           | 0           | 0            |
| <b>Normalised NPAT</b>        | <b>50.7</b> | <b>56.8</b> | <b>46.5</b> | <b>40.4</b> | <b>71.4</b>  |
| Abnormals/other               | 0           | 0.8         | (10.1)      | 0           | 0            |
| <b>Reported NPAT</b>          | <b>50.7</b> | <b>57.6</b> | <b>36.4</b> | <b>40.4</b> | <b>71.4</b>  |
| Normalised EPS (cps)          | 16.7        | 17.6        | 7.2         | 6.2         | 11.0         |
| DPS (cps)                     | 15.0        | 16.0        | 0           | 3.0         | 7.0          |

**Growth Rates**

|                     | 2018A | 2019A | 2020E  | 2021E | 2022E |
|---------------------|-------|-------|--------|-------|-------|
| Revenue (%)         | 11.7  | 9.7   | 35.1   | 25.0  | 7.4   |
| EBITDA (%)          | 26.7  | 10.9  | -28.6  | 31.3  | 48.4  |
| EBIT (%)            | 31.2  | 12.7  | -44.5  | 38.6  | 67.9  |
| Normalised NPAT (%) | 33.2  | 12.2  | -18.2  | -13.0 | 76.6  |
| Normalised EPS (%)  | 28.4  | 4.8   | -59.2  | -13.0 | 76.6  |
| Ordinary DPS (%)    | 15.4  | 6.7   | -100.0 | n/a   | >100  |

**Cash Flow (NZ\$m)**

|                                        | 2018A         | 2019A       | 2020E          | 2021E       | 2022E        |
|----------------------------------------|---------------|-------------|----------------|-------------|--------------|
| <b>EBITDA</b>                          | <b>89.8</b>   | <b>99.6</b> | <b>71.1</b>    | <b>93.3</b> | <b>138.5</b> |
| Working capital change                 | 6.4           | (8.8)       | 29.4           | (10.5)      | (0.3)        |
| Interest & tax paid                    | (20.6)        | (29.1)      | (10.4)         | (24.4)      | (37.5)       |
| Other                                  | 0             | 0           | 0              | 0           | 0            |
| <b>Operating cash flow</b>             | <b>75.6</b>   | <b>61.7</b> | <b>90.0</b>    | <b>58.4</b> | <b>100.6</b> |
| Capital expenditure                    | (16.7)        | (15.7)      | (24.3)         | (28.4)      | (33.7)       |
| (Acquisitions)/divestments             | (82.7)        | (22.3)      | (368.0)        | 0           | 0            |
| Other                                  | (22.2)        | 22.3        | 7.0            | 0           | 0            |
| <b>Funding available/(required)</b>    | <b>(46.0)</b> | <b>46.0</b> | <b>(295.2)</b> | <b>29.9</b> | <b>66.9</b>  |
| Dividends paid                         | (27.2)        | (33.9)      | 0              | (19.5)      | (45.4)       |
| Equity raised/(returned)               | 48.7          | 0           | 384.0          | 0           | 0            |
| <b>(Increase)/decrease in net debt</b> | <b>(24.5)</b> | <b>12.1</b> | <b>88.8</b>    | <b>10.4</b> | <b>21.5</b>  |

**Balance Sheet (NZ\$m)**

|                              | 2018A        | 2019A        | 2020E        | 2021E        | 2022E        |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Working capital              | 52.6         | 62.4         | 161.4        | 171.9        | 172.2        |
| Fixed assets                 | 63.5         | 60.3         | 106.7        | 106.7        | 110.8        |
| Intangibles                  | 390.3        | 386.1        | 595.8        | 595.8        | 595.8        |
| Right of use asset           | 0            | 0            | 0            | 0            | 0            |
| Other assets                 | 27.3         | 5.0          | 31.5         | 31.5         | 31.5         |
| <b>Total funds employed</b>  | <b>533.7</b> | <b>513.8</b> | <b>895.2</b> | <b>905.8</b> | <b>910.2</b> |
| Net debt/(cash)              | 31.4         | 19.3         | 73.0         | 62.6         | 41.1         |
| Lease liability              | 0            | 0            | 0            | 0            | 0            |
| Other liabilities            | 82.0         | 52.4         | 80.2         | 80.2         | 80.2         |
| Shareholder's funds          | 420.4        | 442.1        | 742.0        | 763.0        | 788.9        |
| Minority interests           | 0            | 0            | 0            | 0            | 0            |
| <b>Total funding sources</b> | <b>533.7</b> | <b>513.8</b> | <b>895.2</b> | <b>905.8</b> | <b>910.2</b> |

**Valuation Ratios**

|                          | 2018A | 2019A | 2020E | 2021E | 2022E |
|--------------------------|-------|-------|-------|-------|-------|
| EV/EBITDA (x)            | 9.4   | 8.5   | 12.3  | 9.6   | 6.5   |
| EV/EBIT (x)              | 11.3  | 10.1  | 18.6  | 13.8  | 8.2   |
| PE (x)                   | 7.6   | 7.2   | 17.7  | 20.4  | 11.5  |
| Price/NTA (x)            | 12.8  | 7.3   | 5.6   | 4.9   | 4.3   |
| Free cash flow yield (%) | 7.1   | 5.6   | 8.0   | 3.6   | 8.1   |
| Net dividend yield (%)   | 11.8  | 12.6  | 0.0   | 2.4   | 5.5   |
| Gross dividend yield (%) | 16.4  | 17.5  | 0.0   | 3.3   | 7.7   |

**Capital Structure**

|                           | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------|-------|-------|-------|-------|-------|
| Interest cover EBIT (x)   | 70.6  | 28.9  | 11.0  | 9.7   | 17.6  |
| Interest cover EBITDA (x) | 84.8  | 34.2  | 16.7  | 14.0  | 22.3  |
| Net debt/ND+E (%)         | 6.9   | 4.2   | 9.0   | 7.6   | 4.9   |
| Net debt/EBITDA (x)       | 0.3   | 0.2   | 1.0   | 0.7   | 0.3   |

**Key Ratios**

|                              | 2018A | 2019A | 2020E | 2021E | 2022E |
|------------------------------|-------|-------|-------|-------|-------|
| Return on assets (%)         | 12.2  | 14.2  | 4.0   | 5.4   | 9.0   |
| Return on equity (%)         | 12.1  | 13.0  | 4.9   | 5.3   | 9.0   |
| Return on funds employed (%) | 13.3  | 12.9  | 5.1   | 5.5   | 9.2   |
| EBITDA margin (%)            | 18.0  | 18.2  | 9.6   | 10.1  | 14.0  |
| EBIT margin (%)              | 15.0  | 15.4  | 6.3   | 7.0   | 11.0  |
| Capex to sales (%)           | 3.4   | 2.9   | 3.3   | 3.1   | 3.4   |
| Capex to depreciation (%)    | 112   | 103   | 100   | 100   | 114   |
| Imputation (%)               | 100   | 100   | 100   | 100   | 100   |
| Pay-out ratio (%)            | 90    | 91    | 0     | 48    | 64    |

**Operating Performance**
**Divisional sales (NZ\$m)**

|                           | 2018A        | 2019A        | 2020E        | 2021E        | 2022E        |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| New Zealand               | 143.0        | 138.6        | 122.6        | 128.8        | 137.9        |
| Australia                 | 333.7        | 338.7        | 301.0        | 308.7        | 331.8        |
| International (incl Oboz) | 20.8         | 68.3         | 57.6         | 61.7         | 67.8         |
| Rip Curl                  | 0            | 0            | 256.0        | 422.4        | 452.0        |
| <b>Total store sales</b>  | <b>497.4</b> | <b>545.6</b> | <b>737.2</b> | <b>921.5</b> | <b>989.6</b> |

**Group gross margin**

|  | 2018A | 2019A | 2020E | 2021E | 2022E |
|--|-------|-------|-------|-------|-------|
|  | 63%   | 61%   | 57%   | 57%   | 59%   |

**Divisional EBITDA (NZ\$m)**

|                           | 2018A       | 2019A       | 2020E       | 2021E       | 2022E        |
|---------------------------|-------------|-------------|-------------|-------------|--------------|
| New Zealand               | 35.2        | 33.9        | 28.4        | 26.6        | 33.5         |
| Australia                 | 57.7        | 59.5        | 41.5        | 42.8        | 58.7         |
| International (incl Oboz) | 1.9         | 9.1         | 6.6         | 8.7         | 10.0         |
| Rip Curl                  | 0           | 0           | (2.2)       | 18.6        | 39.7         |
| Unallocated               | (5.0)       | (3.0)       | (3.3)       | (3.4)       | (3.6)        |
| <b>Total EBITDA</b>       | <b>89.8</b> | <b>99.6</b> | <b>71.1</b> | <b>93.3</b> | <b>138.5</b> |

**Divisional EBITDA margin**

|                           | 2018A      | 2019A      | 2020E      | 2021E      | 2022E      |
|---------------------------|------------|------------|------------|------------|------------|
| New Zealand               | 25%        | 24%        | 23%        | 21%        | 24%        |
| Australia                 | 17%        | 18%        | 14%        | 14%        | 18%        |
| International (incl Oboz) | 9%         | 13%        | 11%        | 14%        | 15%        |
| Rip Curl                  | n/a        | n/a        | -1%        | 4%         | 9%         |
| <b>Total store sales</b>  | <b>18%</b> | <b>18%</b> | <b>10%</b> | <b>10%</b> | <b>14%</b> |

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

## Strong sales recovery

KMD released a positive trading update, significantly ahead of our expectations, as the company delivered strong sales with limited impact on gross margin. KMD's FY20 Underlying EBITDA guidance of "above NZ\$70m" is more than double our prior estimate (NZ \$31m), and we have upgraded our forecasts accordingly.

KMD cited heightened uncertainty surrounding the near-term outlook, with the risk of second wave COVID-19 infections, economic outlook, and the flow on effects of government wage support rolling off. We view this risk as factored into the share price, and see current forward trading multiples (11x two year forward PE) as attractive. KMD offers investors exposure to a better than expected consumer recovery, for undemanding multiples, through a company with a proven management team and well recognised brands. Reiterate OUTPERFORM.

## Earnings changes

We lift out underlying FY20E EBITDA forecast +NZ\$40m to NZ\$71m, in line with company guidance of greater than NZ\$70m. The key drivers of our near-term changes are 1) a shorter than expected lockdown & Alert Level 2 period, 2) a surge in retail activity fuelled by pent-up demand, and 3) higher than expected gross margin realisation given lower levels of discounting activity than expected. Our FY22 forecasts lift slightly, with more comfort around inventory positioning alleviating some gross margin concern.

Our underlying EBITDA forecasts remain well below our pre COVID-19 estimates, down -49%/-45%/-22% in FY20E/FY21E/FY22E.

Figure 1. Earnings changes (NZ\$m)

|                          | FY20E       |             |               | FY21E       |             |             | FY22E        |              |              |
|--------------------------|-------------|-------------|---------------|-------------|-------------|-------------|--------------|--------------|--------------|
|                          | Old         | New         | % chg         | Old         | New         | % chg       | Old          | New          | % chg        |
| Sales                    | 687.4       | 737.2       | 7.2%          | 902.7       | 921.5       | 2.1%        | 986.5        | 989.6        | 0.3%         |
| <b>Underlying EBITDA</b> | <b>31.4</b> | <b>71.1</b> | <b>126.6%</b> | <b>88.3</b> | <b>93.3</b> | <b>5.6%</b> | <b>138.8</b> | <b>138.5</b> | <b>-0.3%</b> |
| Underlying NPAT          | 6.8         | 46.5        | 585.2%        | 36.9        | 40.4        | 9.6%        | 71.4         | 71.4         | -0.0%        |
| Underlying EPS (cps)     | 1.0         | 7.2         | 585.2%        | 5.7         | 6.2         | 9.6%        | 11.0         | 11.0         | -0.0%        |
| DPS (cps)                | -           | -           | -             | 3.0         | 3.0         | -           | 7.0          | 7.0          | -            |

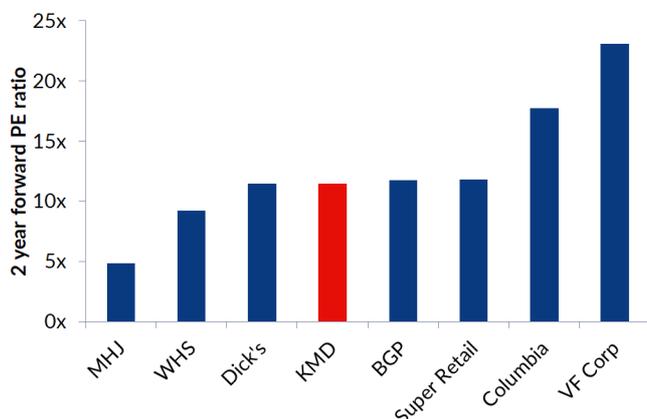
Source: Forsyth Barr analysis

## Valuation – Lift target price to NZ\$1.50 reiterate OUTPERFORM

We lift our target price +NZ\$0.30 to NZ\$1.50. The key driver of our valuation uplift is our earnings multiple derived sum of the parts, with key peers having traded up ~+30% since our last update on 6 May 2020. With no major changes to our earnings assumptions beyond FY22, our DCF remains relatively flat, up +4% to NZ\$1.41.

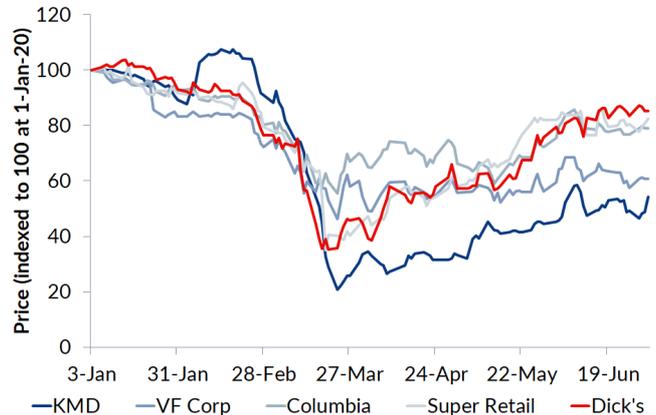
We view KMD's current trading multiple (two year forward PE of 11x) as attractive and compensating for earnings risk.

Figure 2. Consensus forward PE ratio



Source: Bloomberg, Forsyth Barr analysis

Figure 3. 2020 share price performance



Source: Bloomberg, Forsyth Barr analysis

## Outpacing elevated spending levels post-lockdown

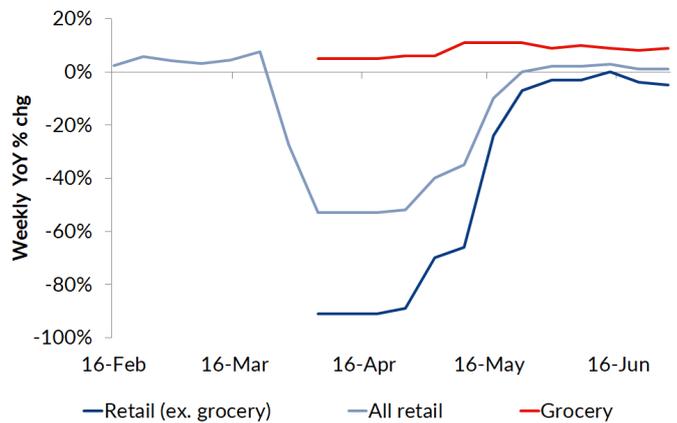
KMD's recent trading has outpaced a better than expected bounce in total retail activity.

Retail activity surged in New Zealand as we exited Alert Level 3. The bricks & mortar channel effectively recovered to pre COVID-19 levels within the first full week of Alert Level 2 (week started 18 May), despite social distancing restrictions still being in place, and has remained close to those levels since.

KMD same store sales (SSS, across all markets and adjusted for stores still closed) for the six weeks of 18 May to 28 June outpaced general retail activity and were materially ahead of our expectations.

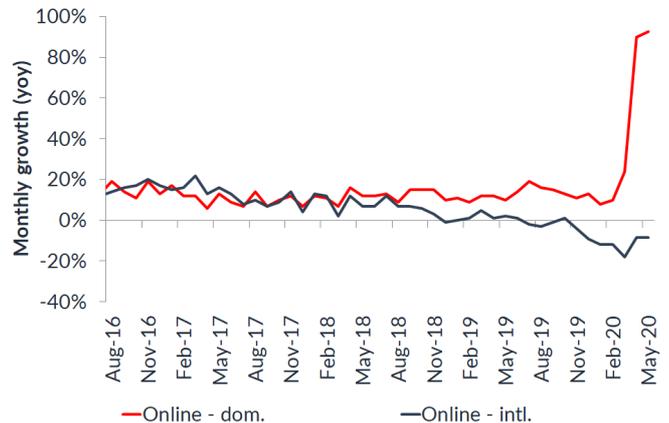
- Kathmandu brand – SSS up +12.5%, total retail store sales up +2.2%
- Rip Curl – SSS up +21%, total retail store sales up +5.1%

**Figure 4. Weekly consumer spend growth rate (year-on-year)**



Source: Paymark, Forsyth Barr analysis

**Figure 5. Online sales growth (domestic sites vs. international)**



Source: Marketview, Forsyth Barr analysis

## Surging online sales provided offset to bricks & mortar; penetration remains elevated

Online sales surged through Alert Levels 3 and 4 and penetration levels remain elevated since. In the six weeks to 28 June, online sales across KMD's two key brands continued to grow at a rapid pace.

- Kathmandu – Online sales rose +78%, representing 21% of total direct to consumer sales (pre COVID-19 penetration was ~11%)
- Rip Curl – Online sales surged +151%, representing 23% of total direct to consumer sales (pre COVID-19 penetration was ~9%)

## Gross margin not so bad

KMD's FY20 gross margin guidance was materially ahead of our expectations, enabled by solid inventory control and strong sales reducing the need to participate in discounting activity. Kathmandu brand gross margin is "expected to be at the lower end of the 61% to 63% target range", which compares to our prior assumption of 58%.

The timing of Alert Level changes was particularly favourable for Kathmandu, which derives ~30% of sales through the key winter sales period. The surge in consumer activity, coupled with seasonal queues and outdoor category tailwinds, are likely key drivers of KMD's trading performance.

## FY21E gross margin concerns remain

Although recent selling activity and inventory level commentary has alleviated some concern around discounting levels, we expect gross margin to remain towards the bottom end of the target range. Weak foreign exchange rates for the NZD in combination with a subdued economic outlook are likely to weigh on margins.

## Economic reality yet to come

Despite a strong recovery in sales activity, the outlook for the retail sector remains uncertain. We retain a level of caution around the FY21 outlook, and factor that into our forecasts, particularly as government support packages begin to roll off. In addition, recent increases in case numbers in Australia and other parts of the world serve as a reminder that the risk of further COVID-19 outbreaks exists.

**Balance sheet in a strong position**

KMD's balance sheet is in a solid position following the completion of its NZ\$207m capital raise. Recent trading suggests the company will have available liquidity in excess of NZ\$300m, which should be sufficient to support it through further disruption should it arise.

## Investment Summary

Kathmandu Holdings (KMD) has a strong brand, market leading position and its vertically integrated model is a key strength. The key area of optionality is KMD's international expansion strategy, with Oboz and Rip Curl expected to help accelerate this pathway. As consumer activity resumes post COVID-19, we view KMD as offering attractive risk reward, and are attracted to 1) its strong management team and track record of execution, particularly around inventory management, 2) its bolstered balance sheet strength, and 3) its well recognised adventure brands, which are backed by a loyal customer base. **OUTPERFORM**

### Business quality

- **Strong base:** KMD has a strong brand, vertically integrated model, valuable loyalty database and a market leading position. Continued investment in IT will also support growth and working capital management.
- **Management:** Execution over the last three years has been strong, with the company delivering a turnaround in its profit trajectory.
- **Briscoe Groups stake:** BGP's full takeover offer in 2015 was unsuccessful; however, it maintains a 6.7% stake.

### Earnings and cashflow outlook

- **Store rollout:** The long-term target Australasian store footprint is 180, up from its current 167 stores (119 Australia: 48 NZ).
- **International expansion strategy:** This is the key avenue of optionality for growth with its capital light wholesale model. Oboz and Rip Curl provide platforms in international markets.
- **Oboz and Rip Curl acquisitions:** The strategy is to leverage the companies wholesale relationships in the US and European markets while also providing product and market diversity.
- **NZDUSD and hedging:** Given the competitive retail backdrop and price conscious consumer, we don't expect retailers to be able to pass on the full impact of unfavourable FX movements.

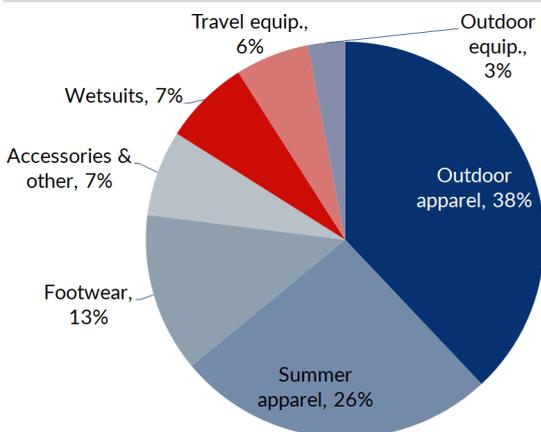
### Financial structure

- **Gearing:** KMD materially increased its debt profile following the acquisition of Rip Curl. Facing an uncertain operating backdrop amid COVID-19 related disruption, KMD has recently completed a capital raise to pay off debt and provide additional liquidity.

### Risk factors

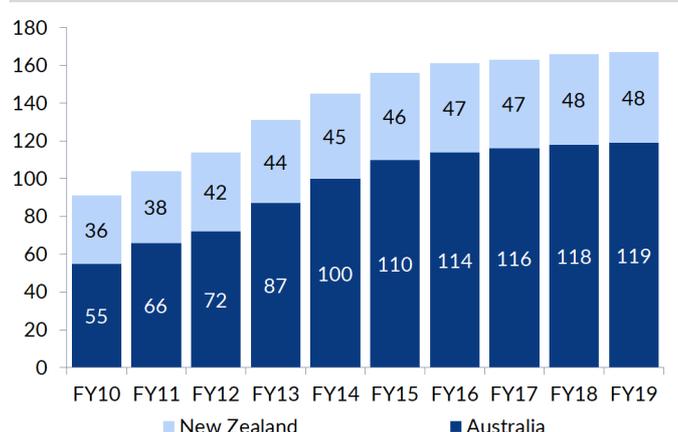
- **Earnings predictability:** A risk given the high seasonality and lumpy nature of earnings which are weighted to its winter sale. Rip Curl acquisition reduces singular season risk.
- **Consumer sentiment and cost inflation:** Deterioration in economic conditions. Cost inflation, particularly rising wages and rent.

Figure 6. FY19 pro forma revenue breakdown (incl. Rip Curl)

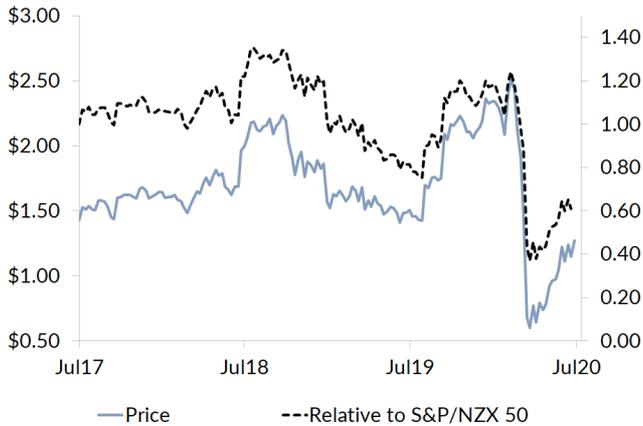


Source: Company reports, Forsyth Barr analysis

Figure 7. Australasian store footprint



Source: Company reports, Forsyth Barr analysis

**Figure 8. Price performance**


Source: Forsyth Barr analysis

**Figure 9. Substantial shareholders**

| Shareholder                                          | Latest Holding |
|------------------------------------------------------|----------------|
| TA Universal                                         | 10.2%          |
| Harbour Asset Management & Jarden Securities Limited | 8.1%           |
| Briscoe Group                                        | 6.8%           |
| ACC                                                  | 6.3%           |
| New Zealand Superannuation Fund                      | 5.1%           |

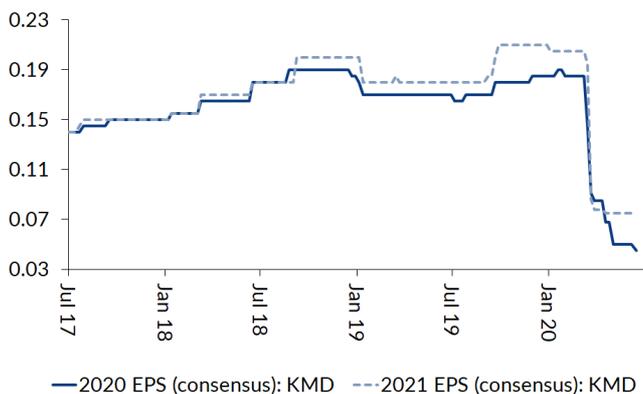
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 10. International valuation comparisons**

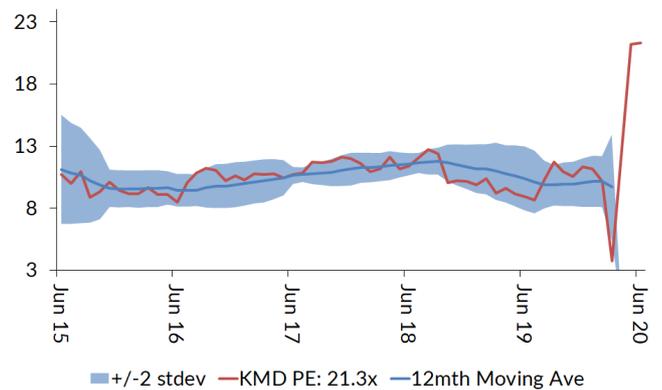
| Company                   | Code          | Price           | Mkt Cap (m)    | PE           |              | EV/EBITDA    |              | EV/EBIT      |              | Cash Yld    |
|---------------------------|---------------|-----------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                           |               |                 |                | 2020E        | 2021E        | 2020E        | 2021E        | 2020E        | 2021E        |             |
| <b>Kathmandu Holdings</b> | <b>KMD NZ</b> | <b>NZ\$1.27</b> | <b>NZ\$824</b> | <b>17.7x</b> | <b>20.4x</b> | <b>11.9x</b> | <b>9.0x</b>  | <b>18.0x</b> | <b>13.0x</b> | <b>2.4%</b> |
| SUPER RETAIL GROUP        | SUL AT        | A\$8.17         | A\$1,801       | 12.6x        | 12.7x        | 7.6x         | 7.4x         | 13.4x        | 12.9x        | 5.2%        |
| VF CORP                   | VFC US        | US\$60.50       | US\$23,570     | 42.1x        | 45.5x        | 21.2x        | 25.4x        | 34.4x        | 37.0x        | 3.3%        |
| COLUMBIA SPORTSWEAR CO    | COLM US       | US\$79.94       | US\$5,286      | 32.8x        | 30.2x        | 14.8x        | 15.2x        | 25.1x        | 25.1x        | 1.0%        |
| DICK'S SPORTING GOODS INC | DKS US        | US\$40.56       | US\$3,626      | >50x         | >50x         | 11.8x        | 14.0x        | 51.9x        | 51.1x        | 2.5%        |
| PREMIER INVESTMENTS       | PMV AT        | A\$17.44        | A\$2,768       | 26.6x        | 23.5x        | 14.1x        | 14.0x        | 26.1x        | 27.1x        | 3.4%        |
| MICHAEL HILL INTL *       | MHJ NZ        | A\$0.35         | A\$136         | 14.2x        | 39.7x        | 4.2x         | 5.7x         | 9.4x         | 19.6x        | 8.1%        |
| BRISCOE GROUP *           | BGP NZ        | NZ\$3.10        | NZ\$689        | 17.2x        | 18.5x        | 7.2x         | 7.0x         | 10.2x        | 9.9x         | 4.1%        |
| THE WAREHOUSE GROUP *     | WHS NZ        | NZ\$2.06        | NZ\$714        | 13.2x        | 26.7x        | 5.6x         | 7.6x         | 9.6x         | 17.8x        | 0.0%        |
| <b>Compcop Average:</b>   |               |                 |                | <b>22.7x</b> | <b>28.1x</b> | <b>10.8x</b> | <b>12.1x</b> | <b>22.5x</b> | <b>25.1x</b> | <b>3.4%</b> |
| <b>KMD Relative:</b>      |               |                 |                | <b>-22%</b>  | <b>-27%</b>  | <b>10%</b>   | <b>-25%</b>  | <b>-20%</b>  | <b>-48%</b>  | <b>-31%</b> |

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compcop metrics re-weighted to reflect headline (KMD) companies fiscal year end

**Figure 11. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 12. One year forward PE (x)**


Source: Forsyth Barr analysis

**Analyst certification:** The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

**Analyst holdings:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Ratings distributions:** As at 1 Jul 2020, Forsyth Barr's research ratings were distributed as follows:

| <b>OUTPERFORM</b> | <b>NEUTRAL</b> | <b>UNDERPERFORM</b> |
|-------------------|----------------|---------------------|
| <b>49.0%</b>      | <b>35.3%</b>   | <b>15.7%</b>        |

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

**Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

**Investment banking engagements:** Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: KMD

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

**Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

**Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.