KMD Brands Limited
ASX / NZX / Media announcement

22 March 2023

KMD Brands returns to growth in 1H FY23

(All amounts in NZ$ unless otherwise stated)

KMD Brands Limited (**ASX/NZX: KMD**, **"KMD"** or the **"Company"**) is pleased to announce its results for the six months ended 31 January 2023 ("1H FY23").

1H FY23 key highlights (vs 1H FY22):

- Sales growth up 34.5% to $547.9 million, a record first half for KMD Brands
- Continued sales growth for Rip Curl, strong Australian recovery for Kathmandu, and record first half sales for Oboz
- Gross margin remains resilient, increasing +100 bps (1.0% of sales)
- Underlying EBITDA[1] of $45.3 million (1H FY22: $10.2 million) with group underlying EBITDA margin[1] improving on a rolling 12-month basis
- Statutory NPAT of $14.0 million; Underlying NPAT[1] of $16.5 million (1H FY22: loss of $5.1 million)
- Balance sheet remains strong, with expectation of inventory unwind to underpin strong cashflow generation in the second half
- Interim dividend of 3 cents per share declared (fully franked for Australian shareholders)

Commenting on the 1H FY23 results, Group CEO & Managing Director Michael Daly said:

"We are delighted with the results our team has delivered in 1H FY23, building on the strong momentum of the previous six months. We achieved record sales results for the Group, highlighting the strength of our global brands."

"For the first time since Rip Curl was acquired, the Group has experienced a full 12 months of trade without significant interruption from the COVID pandemic, which resulted in group sales of over $1 billion."

"Despite uncertainties in consumer outlook, all three of our brands – Rip Curl, Kathmandu, and Oboz – delivered strong sales growth in the half, and as a group we have improved our gross margin."

"We were also very proud to recently announce that KMD Brands and all three of its brands are now Certified B Corporations, becoming one of the first multinational companies in Australia and New Zealand to have all its brands individually certified. This is testament to our commitment to setting ourselves high standards of social and environmental impact, accountability, and transparency."

"With a healthy balance sheet, and expectations for strong cash flow generation in the second half, we are in an excellent position to execute on our growth strategy through expanding our global footprint, investing in digital platforms, leveraging operational excellence, and leading the industry through sustainability and innovation."

[1] Excluding the impact of IFRS 16 and notional amortisation of Rip Curl and Oboz customer relationships

Group financial performance

	Statutory	Underlying[2]		
NZ$ million[3]	**1H FY23**	**1H FY23**	**1H FY22**	**Var %**
Sales	547.9	547.9	407.3	34.5%
Gross Profit	321.8	321.8	234.9	37.0%
Gross margin	58.7%	58.7%	57.7%	
Operating Expenses	(230.9)	(276.4)	(224.7)	23.0%
EBITDA	90.8	45.3	10.2	342.5%
EBIT	31.4	29.3	(3.0)	
NPAT	14.0	16.5	(5.1)	

The 1H FY23 Group results were boosted by record first half sales, cycling Australasian COVID lockdowns last year, and supported by the return of international travel and tourism. Although the Group continued to experience elevated international freight costs and raw material cost pressures, gross margin increased by 100 bps to 58.7%.

Operating expenses reflect continued investment to support brand expansion, while leveraging sales growth. 1H FY23 operating expenses are 50.4% of sales, with a strong sales recovery post-COVID lockdowns last year. FY23 full year operating expenses are expected to be c. 48% of sales, with ongoing initiatives to further reduce annualised operating costs by up to 2% of sales for FY24.

Rip Curl: sales growth across all channels

	Underlying[2]		
NZ$ million	**1H FY23**	**1H FY22**	**Var%**
Sales	306.4	257.8	18.8%
EBITDA	37.6	33.7	11.4%
EBIT	31.5	28.8	9.4%

Rip Curl's sales results were strengthened by growth across all channels, with total sales up 18.8% to $306.4 million. Direct-to-consumer sales growth was particularly strong in Australasia after COVID lockdowns last year, with Hawaii also performing strongly off the back of a return of international travel.

Wholesale sales are showing resilience with 2.2% growth at constant exchange rates, despite softening wetsuit demand from record highs, and strategic destocking from retailers. Whilst online traffic reduced year on year, online sales remain significantly above pre-COVID levels. The direct-to-consumer (DTC) channel, including owned retail stores and online, generated same store sales growth of 13.9%.

EBITDA was up 11.4% to $37.6 million, moderated by the impact of channel mix and freight costs on gross margin, and increased distribution costs.

Kathmandu: strong Australian recovery

	Underlying[2]		
NZ$ million	**1H FY23**	**1H FY22**	**Var %**
Sales	194.0	128.3	51.2%
EBITDA	12.3	(18.3)	-
EBIT	2.7	(26.3)	-

Kathmandu's performance in the first half of FY23 was attributed to a strong recovery in the Australian market following COVID lockdowns last year. Total sales were up 51.2% to $194.0 million, driven by a strong rebound in Australia (+59%) after lockdowns, the return of domestic and international tourism in New

[2] Excluding the impact of IFRS 16 and notional amortisation of Rip Curl and Oboz customer relationships
[3] 1H FY23 NZD/AUD conversion rate 0.910 (1H FY22: 0.953), 1H FY23 NZD/USD conversion rate 0.612 (1H FY22 0.694)

Zealand (+22%), and international sales of $1.4 million, which includes first deliveries to select new wholesale customers in Europe and Canada.

Online sales normalised at c. $26 million following lockdowns last year, which represents 13.6% of DTC sales, and continues to be significantly above pre-COVID levels.

Gross margin increased +580 bps, driven by currency benefit, and the deliberate strategy to carefully moderate the historic “high-low” pricing model.

Oboz: underlying profit recovery following last year’s supply challenges

	Underlying[2]		
NZ$ million	**1H FY23**	**1H FY22**	**Var %**
Sales	47.5	21.2	124.3%
EBITDA	2.9	(0.0)	-
EBIT	2.5	(0.4)	-

Oboz wholesale and online sales performed strongly in the first half, demonstrating a successful recovery following last year’s significant supply challenges, as well as strong growth in the new online sales channel which increased the mix of DTC sales.

Gross margin decreased 50 bps due to elevated international freight costs over the last twelve months, noting that freight costs are now trending towards historical levels. Operating expenses reflect investment in brand and product teams, which is expected to be leveraged as sales growth continues.

Maintaining a strong balance sheet

As at 31 January 2023, the Group had a net debt position of $84.9 million with significant funding headroom over $200 million.

The higher inventory balance reflects investments in Oboz inventory to meet 2H forward orders, as well as investments in wetsuit raw material for perennial styles to mitigate international supply challenges. The Company expects inventory to be $270 to $280 million by the end of FY23, depending on currency translation and timing of goods in transit. Inventory obsolescence provisions represent 1.4% of gross inventory on hand, 50 bps below July 2022.

Operating cash flows were affected by the temporary inventory build. It is expected that an unwind of inventory will underpin the traditionally strong operating cashflow generation in the second half.

The Company’s strong balance sheet and positive growth outlook led Directors to declare an interim dividend of 3.0 cents per share (fully franked for Australian shareholders). The record date for this dividend is 15 June 2023, and the payment date is 30 June 2023.

Dedicated to leading in ESG

Commenting on the Group’s sustainability initiatives, Mr Daly said: “We are pleased to have made significant progress on ESG initiatives during the half as we continue to work towards becoming a leader in ESG across all of our businesses.”

“In addition to the recent B Corp announcement for all of our brands, the Group was also recognised with the Deloitte New Zealand Top 200 Sustainable Business Leadership award. We have also submitted science-based targets to SBTi, with 2030 emission reduction goals aligned to the Paris Climate agreement.”

Positive 2H FY23 outlook

Positive first half sales momentum has continued through February, with continued strong diversified sales growth across brands, channels, and key international regions. Total group sales were up 31.9% in February 2023 compared to February 2022, noting that February is not a significant trading month.

Commenting on the outlook for the Group, Mr Daly said:
"Positive direct-to-consumer sales trends have continued into the second half, and we are well positioned to continue to benefit from the return of international travel and tourism. Products across all three of our brands appeal to a diverse range of consumer interests, ages, and demographics."

"While the consumer outlook remains uncertain, with high global inflation and rising interest rates expected to impact consumer demand, we remain cautiously optimistic. The Group is well capitalised and will continue to invest in the long-term global expansion of all our brands."

Investor briefing being held today @ 8:30am AEDT / 10:30am NZDT

Michael Daly (Group CEO & Managing Director) and Chris Kinraid (Group CFO) will be holding a briefing session for investors and analysts at 8:30am AEDT / 10:30am NZDT today (Wednesday, 22 March 2023). To pre-register and avoid a queue when calling, please follow this link:

https://event.webcasts.com/starthere.jsp?ei=1598790&tp_key=0d8b1335e6

If you are unable to pre-register, at the time of the call please dial one of the numbers below and provide the **Conference ID 445053** to the operator.

Australia Toll Free:	1800 590 693
New Zealand Toll Free:	0800 423 972
United States:	800 289 0459
France:	0805 119 536
United Kingdom:	0200 279 0424

The webcast will be available on the KMD Brands investor website following the call.

This announcement has been authorised for release to NZX / ASX by the Board of Directors of KMD Brands Limited.

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