

KATHMANDU HOLDINGS LIMITED

ASX / NZX / MEDIA ANNOUNCEMENT

1 October 2019*(All amounts in NZ\$ unless otherwise stated)***Kathmandu announces acquisition of Rip Curl and Equity Raising**

- **Kathmandu has entered into a binding agreement to acquire 100% of Rip Curl Group Pty Limited (“Rip Curl”) for A\$350 million (NZ\$368 million), representing 7.3x EV / FY19 pro forma normalised EBITDA (excluding proportional EBITDA contribution of minority interests not being acquired)¹.**
- **Rip Curl is an iconic global surf brand and action sports company born in Bells Beach, Australia in 1969. Founded by surfer friends Brian Singer and Douglas Warbrick, Rip Curl’s vision is to be regarded as “the Ultimate Surfing Company” in all that it does.**
- **Rip Curl is a designer, manufacturer, wholesaler and retailer of surfing equipment and apparel, and has a global presence across Australia, New Zealand, North America, Europe, South East Asia and Brazil.**
- **The acquisition of Rip Curl creates a NZ\$1.0 billion² global outdoor and action sports company anchored by two iconic Australasian brands and provides the opportunity for Kathmandu to considerably diversify its geographic footprint, channels to market and seasonality profile.**
- **The transaction is to be financed via a fully underwritten 1 for 4 Pro-Rata Accelerated Entitlement Offer to raise NZ\$145 million, and a placement of approximately NZ\$32 million of new Kathmandu shares to the founders and CEO of Rip Curl who have elected to receive some of the consideration for the acquisition in Kathmandu shares. The balance of the transaction will be funded from new senior secured debt facilities.**
- **The transaction is expected to deliver meaningful EPS accretion for Kathmandu shareholders, with estimated FY20 pro forma EPS accretion in excess of 10% (pre-synergies)³.**

¹ FY19 pro forma normalised EBITDA for Rip Curl is based on Rip Curl’s statutory EBITDA as disclosed in its audited financial statements, adjusted for the impact of certain structural changes in the business and one-off items (refer to the transaction summary released in conjunction with this announcement for further detail).

² Based on Kathmandu’s statutory revenue for the financial year ending 31 July 2019, and Rip Curl’s pro forma normalised revenue for the financial year ending 30 June 2019 (where pro forma normalised revenue is based on Rip Curl’s statutory revenue per its audited financial statements, adjusted for the impact of certain structural changes in the business as detailed further in the transaction summary released in conjunction with this announcement).

³ EPS accretion has been calculated by comparing Kathmandu’s budgeted standalone FY20 EPS (calculated assuming that the acquisition does not occur, and adjusted for the impact of the pro rata accelerated entitlement offer) against the Combined Group pro forma FY20 EPS excluding any synergies and one-off transaction costs (for further details, refer to the transaction summary released in conjunction with this announcement).

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Transaction

Kathmandu Holdings Limited (“Kathmandu” or the “Company”) (ASX:KMD, NZX:KMD) is pleased to announce that a wholly owned subsidiary of the Company has entered into an agreement to acquire 100% of the shares of Rip Curl for A\$350 million (NZ\$368 million⁴).

Rip Curl is an iconic Australian global action sports brand, and a designer, manufacturer, wholesaler and retailer of surfing equipment and apparel. Born in Bells Beach, Australia, in 1969, Rip Curl has a rich history synonymous with surfing, sponsoring some of the sport’s world class athletes and premier global competitions. Founded by surfer friends Brian Singer and Douglas Warbrick, Rip Curl’s vision is to be regarded as the “Ultimate Surfing Company” in all that it does.

Rip Curl offers surf-related products, from highly technical wetsuits, boardshorts, swimwear and watches to beach lifestyle apparel, equipment and accessories. It operates a multi-channel model across the wholesale, retail and online channels, and has a global presence across Australia, New Zealand, North America, Europe, South East Asia and Brazil.

Strategic rationale

- The combination of Kathmandu, Oboz and Rip Curl creates a global outdoor and action sports company, with in excess of NZ\$1.0 billion⁵ of revenue
- The combined group will have a deeper and more meaningful global presence, with a combined footprint of 341 owned retail stores, 254 licensed stores and over 7,300 wholesale doorways globally, also driving scale benefits
- The acquisition will significantly diversify Kathmandu’s product offering, with Rip Curl’s summer / beach focus providing a seasonal balance to Kathmandu’s winter / outdoor focus
- The acquisition will significantly diversify Kathmandu’s geographic revenue profile and provide access into new markets
- Rip Curl’s presence in North America and Europe, which are strategic priorities for Kathmandu, provides capabilities and relationships for Kathmandu to accelerate its international expansion into these key regions
- Kathmandu can leverage Rip Curl’s proven wholesale expertise, relationships and global network to assist in expanding the wholesale business
- Rip Curl can leverage Kathmandu’s online capabilities to accelerate growth in its underpenetrated online channel, and can also utilise Kathmandu’s retail expertise to improve the efficiency of its store network
- Rip Curl is aligned with Kathmandu’s culture and goals, and shares a vision for creating high quality, technical products that cater to a similar core category of consumers
- The transaction is expected to deliver meaningful EPS accretion for Kathmandu shareholders, with FY20 pro forma EPS accretion in excess of 10% (pre-synergies)⁶.

Commenting on the acquisition, Kathmandu CEO, Xavier Simonet, said: “This is a fantastic opportunity for Kathmandu to grow and diversify. The acquisition of Rip Curl transforms Kathmandu into a NZ\$1.0 billion outdoor and action sports company, anchored by two iconic global Australasian brands. The combination of Kathmandu, Oboz and Rip Curl achieves diversification in product, channel, geography and seasonality, and creates a platform for the acceleration of our brands’ global expansion into new channels and markets. Importantly, there is also strong cultural alignment between our brands, underpinned by a shared focus on quality, innovation and sustainability.”

⁴ Based on an AUD/NZD exchange rate of 1.05.

⁵ Refer to footnote 2.

⁶ Refer to footnote 3.

Rip Curl CEO, Michael Daly, said: “We are excited about the opportunity to partner with another iconic Australasian brand that shares our vision of creating high quality functional products for outdoor and action enthusiasts. We look forward to continuing to grow the Rip Curl brand as part of the Kathmandu Group.”

Rip Curl CEO, Michael Daly, will continue to lead Rip Curl from its headquarters in Torquay and will report to Xavier Simonet, Kathmandu’s CEO. Along with Rip Curl’s founder shareholders, Michael has also elected to receive some of the consideration for the acquisition in Kathmandu shares.

“We wish to acknowledge the role that Rip Curl’s founders have played in building the iconic status of the Rip Curl brand internationally as well as its unique cultural identity, and are pleased that the Founders and CEO wish to remain invested in the ongoing success of Rip Curl under Kathmandu ownership”, Kathmandu CEO, Xavier Simonet said.

Under the new Kathmandu Group, each brand will retain operational ownership of their respective businesses, however shared support functions will be considered where operational value can be derived. This will allow the Group to protect and preserve the strong brand identities and cultural values associated with each of the Kathmandu, Oboz and Rip Curl brands.

Transaction Funding

The acquisition will be fully funded through a combination of equity and debt comprising:

- An underwritten 1 for 4 pro-rata accelerated entitlement offer to raise NZ\$145 million (A\$138 million⁷) (the Offer);
- A placement of approximately A\$31 million (NZ\$32 million⁷) of new Kathmandu shares to the founders and CEO of Rip Curl (which will be subject to escrow for 12 months following issue); and
- A\$220 million (NZ\$231 million⁷) from new senior secured debt facilities.

The funding strategy for the transaction reflects Kathmandu’s commitment to maintain a strong balance sheet and financial flexibility, with pro forma net debt / FY19 EBITDA as at 31 July 2019 of approximately 1.5x. Kathmandu expects to subsequently delever to a target leverage range of 0.9 – 1.1x by the end of FY21. The new senior secured debt facilities are fully underwritten by Credit Suisse AG, Sydney Branch.

The pro-rata accelerated entitlement offer structure also gives current shareholders the opportunity to participate on an equitable basis and in priority to other prospective investors. Reflecting their commitment to the Company, all Kathmandu Directors who are current shareholders of the Company intend to participate in the Offer and intend to vote all shares held or controlled by them in favour of the resolution to approve the acquisition.

Jarden Securities Limited and Credit Suisse (Australia) Limited are Joint Lead Managers and Bookrunners for the Offer, which is fully underwritten by Jarden Partners Limited, Credit Suisse (Australia) Limited and Deutsche Craigs Limited.

The transaction will require shareholder approval at a Special Meeting of shareholders to be held in Sydney at 12.00pm (NZDT) (10.00am (AEDT)) on Friday, 18 October 2019, notice of which is released to the NZX and ASX today. Shareholders who cannot attend the Special Meeting in person will be able to participate online, as detailed in the Notice of Meeting.

⁷ Based on an AUD/NZD exchange rate of 1.05.

Transaction completion is expected to occur by the end of calendar year 2019, subject to shareholder approval and customary closing requirements.

Pro-rata 1 for 4 Accelerated Entitlement Offer

Kathmandu will raise gross proceeds of NZ\$145 million via an underwritten pro-rata accelerated entitlement offer.

Under the Offer, eligible shareholders may subscribe for 1 new ordinary share for every 4 existing shares held as at 8.00pm (NZDT) or 5.00pm (AEST) on the Record Date of Thursday, 3 October 2019, at an application price of NZ\$2.55 per new share (or A\$2.37 per new share for Australian retail shareholders).

The application price reflects a 14.4% discount to NZ\$2.98, being the volume weighted average price (ex-dividend) of Kathmandu's shares traded on the NZX for the last five trading days prior to 1 October 2019, and a 13.6% discount to the theoretical ex-entitlement price of NZ\$2.95.

Eligible retail shareholders have until 21 October 2019 to subscribe for new shares, while the institutional component of the Offer will be accelerated and complete on 3 October 2019. Online application is strongly encouraged given the potential for delay with the postal system. Furthermore, eligible retail shareholders will be given the opportunity to apply for additional shares not taken up by other shareholders.

Under the Offer, there will be no trading of entitlements. Instead, new shares not taken up or attributable to ineligible shareholders will be offered through bookbuilds run by the Joint Lead Managers. Any premium achieved above the application price for the new shares in the bookbuilds will be shared on a pro-rata basis (with no brokerage costs deducted) between those shareholders who do not exercise their entitlements or who are ineligible to do so. Those shareholders who do not exercise their entitlements, or who are ineligible to do so, will however have their shareholdings diluted.

On 18 September 2019, Kathmandu declared a final dividend of NZ\$0.12 per share in respect of the financial year ending 31 July 2019, with a record date of 30 September 2019. New shares issued under the Offer will not be eligible to receive that dividend.

Indicative Timetable

The timetable below is indicative only and subject to change. Kathmandu reserves the right to alter the below dates at its full discretion and without prior notice, subject to the relevant ASX and NZX Listing Rules.

Important dates

General	
Announcement and Trading Halt	Tuesday, 1 October 2019
Record Date for Entitlement Offer	Thursday, 3 October 2019
Notice of Special Meeting despatched to shareholders	Thursday, 3 October 2019
Special Meeting	Friday, 18 October 2019
Institutional Entitlement Offer	
Institutional Entitlement Offer opens	Tuesday, 1 October 2019
Institutional Entitlement Offer closes	Wednesday, 2 October 2019
Institutional Shortfall bookbuild closes	Thursday, 3 October 2019
Institutional Offer settlement (ASX)	Thursday, 10 October 2019

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Institutional Offer settlement (NZX); Allotment and commencement of trading of new shares	Friday, 11 October 2019
Retail Entitlement Offer	
Retail Entitlement Offer opens	Friday, 4 October 2019
Retail Entitlement Offer closes	Monday, 21 October 2019
Retail Shortfall bookbuild closes	Wednesday, 23 October 2019
Retail Offer settlement (ASX)	Friday, 25 October 2019
Retail Offer settlement (NZX); Allotment and commencement of trading of new shares	Tuesday, 29 October 2019

Further Information

Further information on the transaction and equity raising are set out in the transaction summary and offer document also released to the NZX and ASX today. The transaction summary and offer document contain important information including specific key risks that Kathmandu has identified in relation to the Rip Curl acquisition.

Jarden Limited and Credit Suisse (Australia) Limited are acting as Kathmandu's financial advisers, Deloitte is acting as transaction services and taxation adviser, and Kathmandu's New Zealand and Australian legal advisers are Chapman Tripp and Gadens respectively.

Investor Briefing

An investor call will be hosted by Xavier Simonet (CEO), Reuben Casey (COO) and Chris Kinraid (CFO) at 10.00am AEST / 1.00pm NZDT today, Tuesday 1 October 2019. For those wishing to participate, please dial one of the numbers below and provide the conference ID to the operator:

Australia Toll Free: 1800 123 296
 Australia Local: +61 2 8038 5221
 New Zealand Toll Free: 0800 452 782
 Conference ID: 8835029

- ENDS -

For further information, please contact:

Corporate

Xavier Simonet
 Chief Executive Officer
 P: +61 41 821 5175

Reuben Casey
 Chief Operating Officer
 P: +64 27 272 7573

Chris Kinraid
 Chief Financial Officer
 P: +64 21 390 669

Investors

Eric Kuret
 Market Eye
 P: +61 417 311 335
 E: eric.kuret@marketeye.com.au

Media

Helen McCombie
 Citadel-MAGNUS
 P: + 61 2 8234 0103

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FORWARD LOOKING STATEMENTS

This announcement may include forward-looking statements. These forward-looking statements are based on Kathmandu's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Kathmandu and which could cause actual results to differ materially from such statements. Kathmandu makes no undertaking to subsequently update or revise the forward-looking statements made in this announcement, to reflect the circumstances or events after the date of that announcement.