BRISCOE GROUP INITIAL REACTIONS TO KATHMANDU TARGET COMPANY STATEMENT

7 August 2015

Briscoe Group said today that following its initial review of the Target Company Statement it believes that its takeover offer fully reflects the value of Kathmandu shares.

Managing director Rod Duke said: “The 2015 full year earnings figures came in well below what we had expected and well short of analyst consensus forecasts. In the absence of our takeover offer, it is highly likely that the Kathmandu share price would have suffered a significant downward correction from the NZ$1.39 price as at market close immediately prior to Briscoe Group announcing its 19.9% shareholding.

“It is a tough retailing market out there. As retailers we accept that, and seek to develop and implement strategies to ensure that we outperform our competitors, and some of us have seen good results. But I did not expect the Kathmandu Board to simply throw up a catalogue of excuses as to what it got wrong and to expect shareholders to accept it. Anyone who follows Kathmandu closely will know that same store sales growth across the group has been in decline for the past four years. The failure to address this was always going to catch up with the company. As Kathmandu’s largest shareholder its latest performance gives us little confidence in its 2016 full year forecast, which in our view are based on ambitious assumptions that come with enormous execution risks.

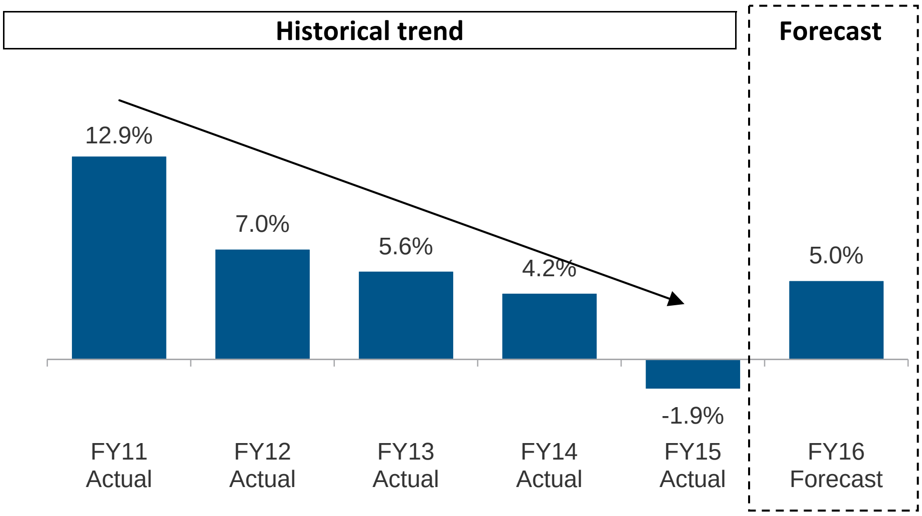
“Our offer remains on the table and is open for acceptance until the 17th of September, unless extended in accordance with the Takovers Code. We believe that Kathmandu is a great brand and has good products, but by its own admission is failing to execute basic retailing fundamentals. Nothing in Kathmandu’s Target Company Statement provides confidence that management is able to deliver a turnaround and achieve its lofty earnings forecasts. We believe that it makes enormous sense to join the Kathmandu business with ours to create a bigger, better and stronger retailing group to the benefit of both companies’ shareholders.”

The following sets out the views of Briscoe Group on some of the assertions contained in the Target Company Statement:

1. FY15 result

As Kathmandu's largest shareholder, we are very disappointed that 2H15 EBIT is nearly 30% down on the prior comparable period, and particularly surprised at the result given the recent cold weather in both Australia and New Zealand and Kathmandu's own commentary that the 2H14 period was impacted by low levels of demand. This continues a trend of underperformance, after reporting a 1H15 EBIT figure 97% lower than the prior comparable period.

Same store sales growth continues to decline (on a constant currency basis)



Source: Kathmandu Annual Reports and Target Company Statement

2. Kathmandu's retailing challenges

By Kathmandu's own admission in the Target Company Statement, its key failings relate to the fundamentals of retailing, including confusing pricing decisions and repetition of non-innovative promotional activities over key promotional periods in FY15, poor inventory management and operating cost overruns.

It is these key pillars of effective retailing which are Briscoe Group's strengths and a key contributor to its strong performance over a number of years. From Kathmandu's disclosure, it is clear that the business needs retailing skills to successfully achieve the potential of its vertical model and Briscoe Group believes its offer to Kathmandu shareholders provides significantly greater certainty in achieving this potential.

3. FY16 forecast appears highly optimistic

To achieve its published FY16 forecast, Kathmandu would need to deliver a turnaround in nearly every aspect of the business and in particular the reversal of a downward trend over several years in same store sales.

Kathmandu's forecast is against a backdrop of increased competitor store numbers, deteriorating currencies (in particular against the USD) and challenging retailing conditions. In this context, it looks very optimistic to plan to grow top line revenue, including same store sales by 5%, and to open further new stores in Australia where the cost of doing business is higher, all while reducing overheads by NZ$7.0m.

The Kathmandu Board is asking shareholders to take a leap of faith in trusting a new and untested management team to remedy a number of key issues and drive a forecast 40% uplift in earnings.

4. Valuation range

There is a disconnect between the premium valuation multiples applied in the report to Kathmandu's earnings and those of similar transactions and trading comparables, particularly given the execution risk in Kathmandu achieving its FY16 earnings forecast. A premium multiple might have been appropriate if Kathmandu had been performing strongly and generating consistent profitable growth, but given the company's recent performance we believe this is not the case.

Both Kathmandu (in the Target Company Statement) and Briscoe Group have used EBIT multiples when presenting the value of Kathmandu. The EBIT multiple range implied by the Independent Adviser (10.5x – 11.8x FY16 forecast EBIT) is at a significant premium to the Independent Adviser's median multiples of 9.2x for relevant transactions, 9.0x for listed companies and 9.5x for IPOs in the retail sector.

The FY15 EBIT multiple range implied by the Independent Adviser (15.0x – 16.8x FY15 EBIT) is at a very significant premium to the Independent Adviser's median multiple of 9.6x for relevant transactions and for listed companies and its median multiple of 11.1x for IPOs in the retail sector.

In our view, the Independent Adviser's valuation range also does not reflect that very significant volumes of Kathmandu shares have changed hands at a price of NZ$1.80 or less, including from a number of Kathmandu's major shareholders. In the three months prior to the announcement of the takeover offer 53% of Kathmandu's shares changed hands for less than NZ$1.50, some 17% below the implied takeover offer price of NZ$1.80. Post the announcement of Briscoe Group's takeover offer and including the 14.9% pre bid stake acquired, a further 38% has been transacted at a price of NZ$1.80 or less.

5. Briscoe Group continues to believe that its current offer is reasonable

Briscoe Group has continued its consistent track record of sales and earnings growth in its most recent quarterly sales update and believes it is very well placed to remedy the structural issues

Kathmandu is encountering. Kathmandu shareholders stand to benefit from this and other synergies from their shareholding in the Combined Group.

Concluding comment

Kathmandu's current trading price reflects the presence of Briscoe Group's offer. In the absence of the offer, there is a high possibility that the Kathmandu share price would fall to the levels it had been trading at prior to the announcement of the offer, if not lower, particularly given the poor FY15 result.

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