

BILLABONG INTERNATIONAL LIMITED

FY18 HALF YEAR RESULTS
23 February 2018



Finn McGill – 2017 World Junior Champion (Photo: WSL)

CHIEF EXECUTIVE OFFICER

NEIL FISKE

Section 1 – Half Year Results to 31 December 2017
Section 2 – Boardriders’ proposal – Scheme update

 **BILLABONG** **RVCA**  **ELEMENT**

 **VONZIPPER**  **HONOLUA**
SURF CO.  **MRS PALMERS**  **KUSTOM**  **XCEL**

 **SurfDivenski***  **25 DWD SEASONS**  **AMAZON**

SECTION 1 – Half Year Results to 31 December 2017



Tom Schaar

SECTION 1 – RESULTS OVERVIEW



Results are in line with our expectations in a challenging industry undergoing tremendous change



\$474.5m
GROUP REVENUE

\$19.3m
GROUP EBITDA
(excluding significant items)

52%
GROSS MARGINS

(\$18.4m)
NET LOSS AFTER TAX
(including significant items)

Neil Fiske
Chief Executive Officer

RESULTS – CONTINUING OPERATIONS

Results excluding significant items and discontinued operations				
AUD millions	1H18	1H17	% Change (as reported)	% Change (constant currency)
Revenue				
Americas	194.2	192.1	1.1%	3.9%
Asia Pacific	198.6	212.5	-6.6%	-4.5%
Europe	81.7	84.9	-3.7%	-6.1%
Total	474.5	489.5	-3.1%	-1.5%
EBITDA Pre Global Allocation				
Americas	13.3	10.3	29.6%	34.1%
Asia Pacific	20.7	23.4	-11.7%	-9.2%
Europe	4.9	6.8	-28.6%	-29.4%
Global	(19.6)	(16.7)	-17.5%	-17.6%
Total	19.3	23.8	-19.1%	-15.9%
EBITDA Post Global Allocation				
Americas	4.8	3.4	41.2%	57.3%
Asia Pacific	11.9	15.1	-21.0%	-17.5%
Europe	1.3	3.8	-66.2%	-66.9%
Global	1.3	1.5	-18.4%	-18.4%
Total	19.3	23.8	-19.1%	-15.9%

AMERICAS: ONGOING PROGRESS



HIGHLIGHTS & KEY RESULTS*

- Continued improvement in largest market
- Revenue up 3.9%
- Gross margins up 110 basis points (bps)
- EBITDA up 34.1% to \$13.3m before global allocations
- Ecommerce up 19.5%: now 9.6% of sales
- Comparable store sales up 0.7%; margins down 70bps
- Total comp retail sales up 5.8% on slightly tighter margins
- Year-on-year revenue and EBITDA gains in H2 expected to level out against stronger prior year comparables and operational improvements

* All figures are constant currency

BILLABONG - FY18 HALF YEAR RESULTS

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REGIONAL PERFORMANCE – AMERICAS

As Reported (AUD) excluding Significant Items	1H18 \$m	1H17 \$m	Reported Change %	Constant Currency Change %
Sales	194.2	192.1	1.1%	3.9%
Gross Profit	95.6	92.5	3.4%	6.3%
<i>Gross Margin</i>	<i>49.3%</i>	<i>48.2%</i>		
Overheads (net of other income)	82.3	82.2	0.1%	2.9%
EBITDA Pre Global Allocation	13.3	10.3	29.6%	34.1%
Global Allocation	8.5	6.9	23.9%	23.9%
EBITDA Post Global Allocation	4.8	3.4	41.2%	57.3%
<i>EBITDA Margin</i>	<i>2.5%</i>	<i>1.8%</i>		
	1H18	1H17		
Comp Store Sales %	0.7%	0.5%		
Store Count (Number)	54	54		
As Reported (AUD) - Restated including Significant Items	1H18 \$m	1H17 * \$m	Reported Change %	Constant Currency Change %
Sales	194.2	192.1	1.1%	3.9%
EBITDA	(2.5)	(2.3)	(10.0%)	1.2%
<i>EBITDA Margin</i>	<i>(1.3%)</i>	<i>(1.2%)</i>		

* In the Annual Report for the year ended 30 June 2017, the Group had a correction of prior period error relating to the accounting for inventory in the USA. The same correction has been processed through the comparatives of this presentation. Refer note 5 of the Interim Financial Report for 31 December 2017 for more information.

EUROPE: TIMING SHIFT AFFECTS RESULT



HIGHLIGHTS & KEY RESULTS*

- Result affected by timing shift in wholesale orders
- EBITDA down 29.4% before global allocations
- Revenue down 6.1%
- Gross margins up 100bps
- Comparable B&M store sales down 2.3%
- Ecomm up 15.1%: now 5.5% of total sales
- Total comparable retail sales down 0.3%; retail margins up 140bps
- Full Year revenue expected to be about flat, with EBITDA improvement driven by higher gross margins

* All figures are constant currency

BILLABONG - FY18 HALF YEAR RESULTS

REGIONAL PERFORMANCE – EUROPE

As Reported (AUD) excluding Significant Items	1H18 \$m	1H17 \$m	Reported Change %	Constant Currency Change %
Sales	81.7	84.9	(3.7%)	(6.1%)
Gross Profit	42.2	43.0	(1.9%)	(4.2%)
<i>Gross Margin</i>	<i>51.7%</i>	<i>50.7%</i>		
Overheads (net of other income)	37.4	36.2	3.2%	0.5%
EBITDA Pre Global Allocation	4.9	6.8	(28.6%)	(29.4%)
Global Allocation	3.6	3.0	18.0%	18.0%
EBITDA Post Global Allocation	1.3	3.8	(66.2%)	(66.9%)
<i>EBITDA Margin</i>	<i>1.6%</i>	<i>4.5%</i>		
	1H18	1H17		
Comp Store Sales %	(2.3%)	(2.2%)		
Store Count (Number)	104	106		
As Reported (AUD) including Significant Items	1H18 \$m	1H17 \$m	Reported Change %	Constant Currency Change %
Sales	81.7	84.9	(3.7%)	(6.1%)
EBITDA	0.9	3.4	(73.5%)	(74.1%)
<i>EBITDA Margin</i>	<i>1.1%</i>	<i>4.1%</i>		

ASIA PACIFIC: MARKET CHALLENGING



HIGHLIGHTS & KEY RESULTS*

- Tough trading conditions in much of the region
- EBITDA down 9.2% before global allocations
- Revenue down 4.5%
- Gross margins up 120bps
- Wholesale down 16.6% due to market contraction, shrinking of account base, and the lag effect of previously identified assortment & execution issues, since addressed
- APAC brick & mortar comps up 0.9%; Australia down 0.6% (but up 2.0% in key Dec trading)
- Ecomm up 28.7% (up 40.2% in Australia) – now 2.5% of total sales in the region
- Total comp retail sales up 1.8%
- Launch of Surf Dive'n'Ski (Aust) and Amazon Surf (NZ) on new ecommerce platform with good early results

* All figures are constant currency

REGIONAL PERFORMANCE – ASIA PACIFIC

Continuing Business (AUD) excluding Significant Items	1H18 \$m	1H17 * \$m	Reported Change %	Constant Currency Change %
Sales	198.6	212.5	(6.6%)	(4.5%)
Gross Profit	109.1	114.1	(4.4%)	(2.3%)
<i>Gross Margin</i>	54.9%	53.7%		
Overheads (net of other income)	88.4	90.7	(2.5%)	(0.5%)
EBITDA Pre Global Allocation	20.7	23.4	(11.7%)	(9.2%)
Global Allocation	8.7	8.3	5.2%	5.2%
EBITDA Post Global Allocation	11.9	15.1	(21.0%)	(17.5%)
<i>EBITDA Margin</i>	6.0%	7.1%		
	1H18	1H17		
Comp Store Sales %	0.9%	(4.0%) *		
Store Count (Number)	219	229 *		
As Reported (AUD) including Significant Items	1H18 \$m	1H17 \$m	Reported Change %	Constant Currency Change %
Sales	198.6	231.3	(14.2%)	(12.4%)
EBITDA	11.1	19.2	(41.9%)	(39.9%)
<i>EBITDA Margin</i>	5.6%	8.3%		

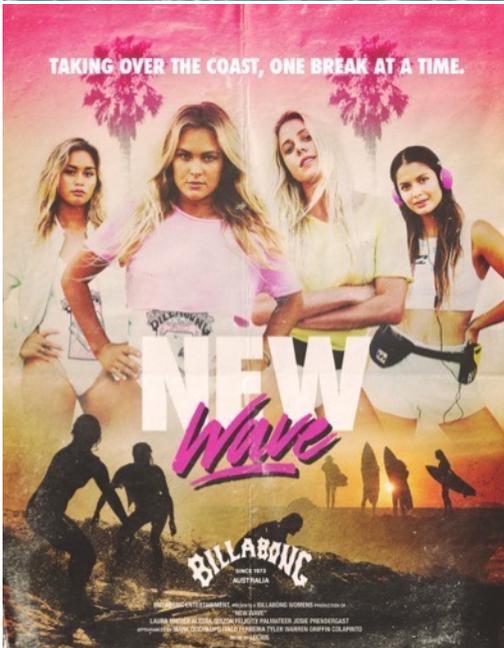
* Adjusted for the divestment of Tigerlily

SUMMARY DTC REGIONAL PERFORMANCE

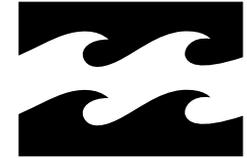
% growth pcp*	AMS	APAC	EU	TOTAL
Comparable retail revenue (B&M + ecommerce)	5.8%	1.8%	(0.3%)	2.5%
Brick & Mortar comparable store sales	0.7%	0.9%	(2.3%)	0.4%
ecommerce sales	19.5%	28.7%	15.1%	20.3%
ecommerce as % of sales	9.6%	2.5%	5.5%	5.9%

At 5.9% — still under-developed in ecommerce

*constant currency



BILLABONG



18.4m global followers

Athletes

- Finn McGill 2017 Junior World Champion; Joh Azuchi runner-up
- Griffin Colapinto wins 2017 Vans Triple Crown
- Josh Moniz wins 2018 Volcom Pipe Pro
- Courtney Conlogue fourth in WSL Women's Championship Tour

Lifestyle

- Leading brand in US core market
- Billabong Lab launches Iggy Pop collection
- Two new retail stores opened: International Market Place in Waikiki and Mission Viejo in Orange County
- Successful launch of New Wave women's throwback collection



ELEMENT

13.2m global followers

Athletes

Nyjah Huston wins 2017 Street League Super Crown World Championship; retained through 2020 Olympics

Signed Tyson Peterson to skateboard and apparel categories

Promoted Jarne Verbruggen (EU) and Alex Lawton (AU) to regional pro ranks

Lifestyle

Bam Margera project generates >400M social media impressions

Industry veteran Andy Jenkins appointed Global Art Director

Artist BB Batsidas and Element skateboarders launch 'Innervision' board series with event and short film in Tokyo



RVCA **VA**

10.3m global followers

Athletes/Advocates

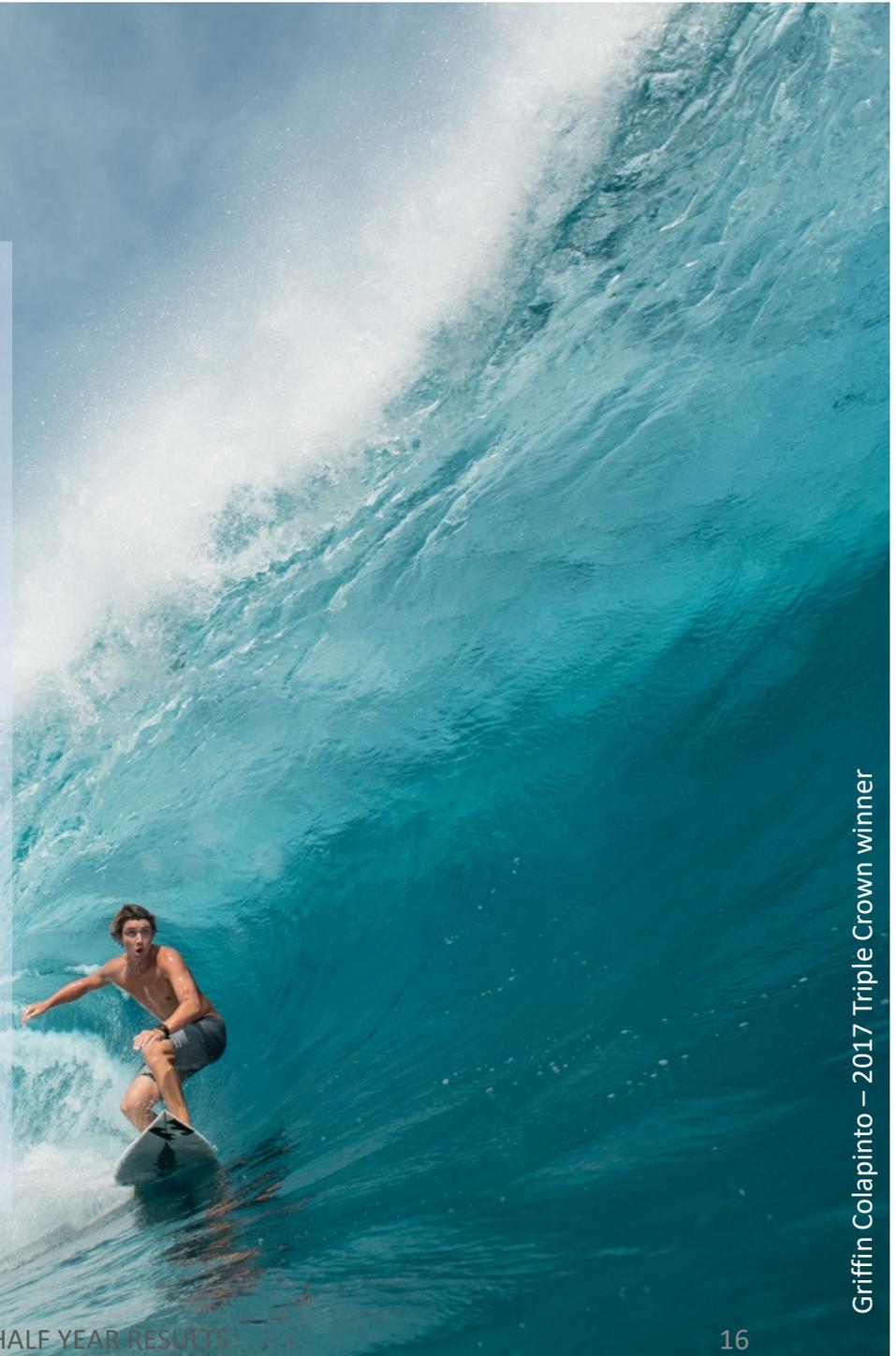
4 ANP artists launch Neutral Collection: Mark Oblow, Sylvie Colless, Andrea DoSouto and Keegan Gibbs
 Steve "Espo" Powers launches KCDC skateshop collaboration in Brooklyn

Lifestyle

RVCA Men's now #3 brand in US core market, gaining share
 RVCA Sport continues strong growth trajectory with solid DTC sales
 Successful launch of Toy Machine skate line
 RVCAloha brings together surf, skate, training and art to celebrate the Balance of Opposites

SUMMARY

- Over the last 4 years:
 - Progressed but not yet completed global brands on global platform transformation
 - Operational improvements offset by market conditions and external factors
 - Balance sheet initiatives include asset sales, improved cash conversion and lower restructuring costs
- EBITDA stabilised but not growing
- Term loan matures in less than 2 years
- Investment to deliver the strategy not compatible with current debt levels
- Scheme offers certainty vs risk of alternatives - raising equity or selling assets



Griffin Colapinto – 2017 Triple Crown winner

DETAILED FINANCIALS



RECONCILIATION TO STATUTORY RESULT

Billabong - Half Year to December 2017

AUD millions	Statutory Result	Included In Statutory Result		
		Significant Items	Continuing Businesses 1H18	Continuing Businesses 1H17
Sales Revenue	474.5	-	474.5	489.5
EBITDA	10.8	8.5	19.3	23.9
Less Depreciation, Amortisation	13.6	-	13.6	14.1
EBIT	(2.8)	8.5	5.7	9.8
Less Finance Charges	13.5	-	13.5	
Loss Before Tax	(16.2)	8.5	(7.7)	
Less Tax Expense	2.2	(0.3)	1.9	
Net Loss After Tax Attributable to Members	(18.4)	8.8	(9.6)	

- Bridge from statutory loss of \$18.4M to continuing business EBITDA of \$19.3M
- Similar reconciliation for 1H17 is provided on slide 24

RESULTS – CONTINUING OPERATIONS

Results excluding significant items and discontinued operations				
AUD millions	1H18	1H17	% Change (as reported)	% Change (constant currency)
Revenue				
Americas	194.2	192.1	1.1%	3.9%
Asia Pacific	198.6	212.5	-6.6%	-4.5%
Europe	81.7	84.9	-3.7%	-6.1%
Total	474.5	489.5	-3.1%	-1.5%
EBITDA Pre Global Allocation				
Americas	13.3	10.3	29.6%	34.1%
Asia Pacific	20.7	23.4	-11.7%	-9.2%
Europe	4.9	6.8	-28.6%	-29.4%
Global	(19.6)	(16.7)	-17.5%	-17.6%
Total	19.3	23.8	-19.1%	-15.9%
EBITDA Post Global Allocation				
Americas	4.8	3.4	41.2%	57.3%
Asia Pacific	11.9	15.1	-21.0%	-17.5%
Europe	1.3	3.8	-66.2%	-66.9%
Global	1.3	1.5	-18.4%	-18.4%
Total	19.3	23.8	-19.1%	-15.9%

SIGNIFICANT ITEMS

As Reported (AUD)	1H18	Restated
	\$m	1H17
	\$m	\$m
Significant Items - Income Items		
Legal settlement	2.4	-
	2.4	-
Significant Items - Expense Items		
Inventory adjustment	-	1.9
Redundancy costs	0.4	1.3
RVCA compensation expense	0.0	0.8
Logistics initiative transition costs	2.6	-
Legal settlement expense	0.7	-
Transaction and due diligence expenses	2.5	-
Sales tax provision	1.4	-
Strategy and other restructuring costs	3.2	2.5
Loss from adjustment to RVCA contingent consideration	-	0.9
Divestment costs in relation to prior year divestment of immaterial operations	-	0.1
Total net pre tax expense significant items	(8.5)	(7.4)
Income tax (benefit) / expense	(0.3)	1.2
Total after tax significant expense items	(8.8)	(6.2)

Payments to suppliers and employees in the Cash Flow Statement includes approximately \$7M (compared to \$4M in the pcp) of cash outflows from significant items and payments from restructuring provisions.

CASH FLOW

Net receipts from customers less payments to suppliers/employees of \$39.0M is lower than the pcp primarily due to the prior year including cash flows for Tigerlily.

Payments to suppliers and employees in the Cash Flow Statement includes approximately \$7M (compared to \$4M in the pcp) of cash outflows from significant items and payments from restructuring provisions.

Cash financing costs of \$7.2M decreased significantly on the pcp. The Group had lower cash interest payments in the current year due to lower levels of term loan debt in the current year. Also the prior year included ABL refinancing costs and Term loan amendment fees.

Capex was higher in the current year at \$16.1M compared to \$12.1M in the pcp with the increase primarily related to the Omni-Channel platform project.

As Reported (AUD)	1H18	1H17	Change %
	\$m	\$m	
Receipts from customers (inclusive of sales taxes)	549.1	586.8	
Payments to suppliers and employees (inclusive of sales taxes)	<u>(510.1)</u>	<u>(542.6)</u>	
	39.0	44.2	(11.7%)
Other income	4.0	4.0	
Finance costs	(7.2)	(17.4)	
Income taxes paid	<u>(2.8)</u>	<u>(3.5)</u>	
Net cash inflow from operating activities	33.0	27.3	20.9%
Cash flows from investing activities			
Payments for capex	(16.1)	(12.1)	
Payments for transaction costs from prior year sale of business	(1.2)	(1.0)	
Proceeds from sale of property, plant and equipment	<u>0.1</u>	<u>-</u>	
Net cash outflow from investing activities	(17.2)	(13.1)	
Cash flows from financing activities			
Net repayments of borrowings	<u>(3.0)</u>	<u>(2.2)</u>	
Net cash outflow from financing activities	(3.0)	(2.2)	
Net Movement in Cash Held	<u>12.8</u>	<u>12.0</u>	

BALANCE SHEET, GEARING & INTEREST

Working capital represents 16.5% of the prior 12 months' sales stated at 31 December 2017 exchange rates compared to the pcp of 15.1% when excluding Tigerlily.

Net interest expense decreased from \$16.4M to \$13.5M due to proceeds from the divestment of Tigerlily being used to reduce the term loan in April 2017. On a constant currency basis net interest expense was \$15.9M in the pcp.

Term loan at balance date US\$177.5M.

Asset-based lending facility provided access to \$66.3M of undrawn liquidity at 31 December 2017.

As Reported (AUD)	Dec-17 \$m	Jun-17 \$m	Restated * Dec-16 \$m	Reported Change %	
				Jun-17	Dec-16
Working capital					
Receivables	134.2	169.3	137.2	(20.8%)	(2.2%)
Inventory	189.7	162.3	186.0	16.9%	2.0%
Creditors	165.4	146.7	160.4	12.7%	3.1%
Working capital	158.5	184.9	162.9	(14.3%)	(2.7%)
As Reported					
As Reported	Dec-17 \$m	Jun-17 \$m	Reported Change %		
Term loan (USD)	177.5	172.2	3.1%		
<i>FX Rate</i>	<i>0.7770</i>	<i>0.7692</i>			
Net debt (AUD)	138.6	148.6	(6.7%)		
As Reported (AUD)					
As Reported (AUD)	1H18 \$m	1H17 \$m			
Net interest expense	13.5	16.4			
As Reported (AUD)					
As Reported (AUD)	Dec-17 \$m	Jun-17 \$m			
Cash	84.2	71.7			
Undrawn ABL - Net available for drawing	66.3	69.9			

* In the annual report for the year ended 30 June 2017, the Group had a correction of prior period error relating to the accounting for inventory in the USA, the same correction has been processed through the comparatives of this presentation. Refer note 5 of the Interim Financial Report for 31 December 2017 for more information.

FOREIGN EXCHANGE

- To assist users in understanding the impact of foreign exchange on the Group's key financials the following key exchange rates have been provided for information purposes.
- The Group's results are converted at average exchange rates each month. The exchange rates set out below represent an approximate average of those rates for the half-year.

Half Year Average Rates			
	AUD/ USD	AUD/ EUR	EUR/ USD
1H18 Average (July - December 2017)	0.7789	0.6623	1.1761
1H17 Average (July - December 2016)	0.7539	0.6869	1.0975
Spot / Period End Rates			
	AUD/ USD	AUD/ EUR	EUR/ USD
31 December 2017	0.7770	0.6517	1.1923
30 June 2017	0.7692	0.6730	1.1429
31 December 2016	0.7172	0.6833	1.0496

RECONCILIATION – PCP STATUTORY RESULT

Billabong - Half Year to December 2016

AUD millions	Statutory Result	Included In Statutory Result		
		Significant Items	FY17 Divestment: Tigerlily *	Continuing Businesses 1H17
Sales Revenue	508.3	-	(18.8)	489.5
EBITDA	21.9	7.4	(5.5)	23.9
Less Depreciation, Amortisation & Impairment	14.6	-	(0.5)	14.1
EBIT	7.3	7.4	(5.0)	9.8
Less Finance Charges	16.4	-		
Loss Before Tax	(9.1)	7.4		
Less Tax Expense	3.9	1.2		
Net Loss After Tax Attributable to Members	(13.0)	6.2		

* Results for the half year ended 31 December 2016

- Reported EBITDA excluding significant items for 1H17 was \$29.3M. After sale of Tigerlily and discontinued operations the equivalent result was \$23.9M
- Both the 1H17 statutory result and significant items have been restated however there was no net impact to EBITDA excluding significant items of \$29.3M

OUTLOOK

- **The Company today confirms the guidance provided in early January that it expects the Group's FY18 EBITDA (excluding significant items) to exceed the prior year, and to be in a range between \$51.1 million and \$54 million, subject to reasonable trading conditions and currency markets remaining relatively stable.**
- **The Group continues to have a significant bias of second half earnings to the Americas, with a high concentration of sales in the month of June. Trading in that month remains key to achieving the Group's full year expectations.**

SECTION 2 – BOARDRIDERS' PROPOSAL



BOARDRIDERS' PROPOSAL

- The reasons for the Directors' unanimous recommendation (absent a superior proposal) include the following:
 - EBIT multiple of 16.6x enterprise value/pro forma FY17 EBIT - favourable relative to comparable precedent transactions
 - Premium to share price: +28% to 30 November 2017 undisturbed price; +69% to 3-month average prior to that date
 - The Independent Expert has determined that the Scheme is Fair and Reasonable and is in the best interests of shareholders (absent a superior proposal)
 - Since the announcement of the Scheme almost three months ago, no superior proposal has emerged
 - The Scheme is subject to certain conditions but is not subject to financing or due diligence
 - If the Scheme proceeds, Scheme Shareholders will receive certain value for their investment in Billabong, and will avoid ongoing risks and uncertainties associated with Billabong's business (see following slide)
 - Billabong's share price may fall if the Scheme is not implemented
- Founder Gordon Merchant and the nominee company of cornerstone investor Centerbridge Partners have both stated they intend to vote in favour of the Scheme (absent a superior proposal).

BOARDRIDERS' PROPOSAL (cont.)

- If the Scheme does not proceed Billabong faces various risks and uncertainties (Sections 1.1(c) and 6.3 of the Scheme Booklet)
- Despite significant operational improvements in recent years, progress towards long term financial goals has been slower and more difficult than anticipated, due to:
 - the state of the global action sports market and retail markets generally;
 - potential consolidation and further closures in the action sports sector; and
 - the operations and project risks associated with the execution of Billabong's strategy
- EBITDA has been stabilised but is not growing materially - FY18 guidance implies a third year of relatively flat EBITDA
- In the absence of the Scheme, it will be necessary to materially reduce debt in order to continue with the current strategy, as well as deal with the maturity of the approximately AU \$228m* Term Loan in September 19**. Main alternatives are:
 - **An equity raising:** even if Billabong's gross debt was only reduced to 2 times FY17 EBITDA, it would require a substantial equity raising (more than \$100 million) which would be highly reliant on the support of the Company's existing three major shareholders, which cannot be guaranteed since each have expressed support for the Scheme. Even if it could be achieved it would be highly dilutive.
 - **Asset sales:** Billabong will need to sell significant assets, which would reduce scale and require a change in strategy – representing a highly uncertain outcome for shareholders.
- The Board has considered these alternative scenarios in detail, and believes that the Scheme provides a certain and superior outcome for Billabong Shareholders (see section 1.2 of the Scheme Booklet)
- If the Scheme does not proceed, Centerbridge's and Oaktree's interests may, having regard to their positions as senior secured lenders, not always align with those of the other shareholders

* Based on the USD:AUD exchange rate as at 31 December 2017.

** Subject to the circumstances described in footnote 6 on page 14 of the Scheme Booklet.

DISCLAIMER

Billabong International Limited (Billabong) does not accept any liability to any person, organisation or company for any loss or damage suffered as a result of reliance on this document. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements, and are subject to variation. All forward-looking statements in this document reflect the current expectations of Billabong concerning future results and events.

Any forward-looking statements contained or implied, either within this document or verbally, involve known and unknown risks, uncertainties and other factors (including economic and market conditions, changes in operating conditions, currency fluctuations, political events, labour relations, availability and cost of labour, material and equipment) that may cause Billabong's actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by any forward-looking statements.