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# ASX ANNOUNCEMENT

**2016 ANNUAL GENERAL MEETING**

**CHAIR AND MANAGING DIRECTOR & CEO ADDRESSES**

**22 NOVEMBER 2016**

## CHAIR'S ADDRESS

**IAN POLLARD**

**Good morning**.

My name is Ian Pollard and I am the chair of your company, Billabong International Limited.

On behalf of my fellow Directors, I welcome you all to the 2016 Annual General Meeting — to those here at the meeting and to those listening in via the audio webcast on our corporate website, billabongbiz.com.

### Financial year 2016

2016 was a challenging year for our global action sports industry.

Even with the continued sales growth of our big 3 brands, operational progress and significant reductions in our costs of doing business, we reported a net loss of $23.7m. The year-on-year decline was principally due to reduced gross margins and a higher accounting tax expense. That accounting tax expense is not particularly representative of the Group's income tax payments, which increased by less than $1m to $3.1m.

Chief executive Neil Fiske will speak further to the Company's FY16 trading performance and gross margins.

### Strategy

It has been three years since our then newly-appointed CEO announced our seven-part strategy to transform the company. The board continues to believe it is the right strategy, and provides us all with clarity of purpose and direction.

As you will remember, the company's big 3 brands — Billabong, RVCA and Element — are central to the strategy. Today, Neil will report on the encouraging performance of these brands as well as the progress on our major projects that underpin the company's future long-term growth and return to sound levels of profitability. We will also hear by video from RVCA global general manager Bill Bettencourt on the impressive growth being achieved by this quite unique lifestyle brand that brings together action sports, fashion and art.

## Simplification of Brand Portfolio

The simplification of our brand portfolio plays an important role in implementing our strategy.

As part of an ongoing portfolio review, at the end of the 2016 financial year we sold the skate hardware brand Sector 9 for approximately US$12m. We are currently reviewing a number of our smaller brands, including Tigerlily, VonZipper and Xcel, with a view to possible sales that will pay down debt and continue to simplify our portfolio. Shareholders can be assured that unless we get full value for these high-quality brands we will hold them and look to grow them.

## Debt and refinancing

We continue to consider the refinancing of our debt. We believe that if we are to obtain a better financing package than we currently have, we need to see improvements to our profit and cashflow. We expect to see the beginnings of these improvements in the second half. There are no non-market contractual impediments to refinancing and our focus on earnings and simplification of the portfolio should start to put the Company in a position where, assuming credit market conditions are reasonable, refinancing on more favourable terms becomes a possibility.

## Shareholder Class Action

As previously advised, the shareholder class action proceedings relating to historical market disclosures that occurred in 2011 have been settled. The basis of settlement has had no material impact on the Company's financial results at any time, nor will it impact our immediate or future cash flows or earnings reports. Resolution of this distracting matter is a positive development.

## Board changes

Since our last Annual General Meeting, Dr Sally Pitkin has resigned as a Director and Amar Doshi resigned as Alternate Director to Jason Mozingo. On behalf of the Company, I would like to acknowledge both their contributions, especially Sally's as a Director, as Chair of the Human Resources and Remuneration Committee and as Chair of the Class Action Committee.

We are currently conducting a search for a new female independent Director as a replacement for Sally.

## Outlook and Dividend

As Neil will explain, we have had a soft start to the first half of this fiscal year but with encouraging signs coming from the US and the emerging benefits of our project agenda, and assuming a reasonably stable trading and currency environment we expect full year EBITDA before significant items and assuming no divestments to be in the range of AU$60 to $65 million.

As previously advised, we do not anticipate there being a dividend in respect of the 2016-17 financial year.

**Conclusion**

In conclusion, Billabong International has begun the new financial year with a lower cost base and a focused way forward. By its nature, transformation of this magnitude takes time. But every step of the way we strengthen the core of the business and position ourselves to excel in those areas where we can direct our future. It is a process that requires long-term commitment and vision.

Given the progress we're making on our strategy, the quality and resilience of our brands and the commitment and hard work of our employees, your company today is stronger operationally than it was twelve months ago.

I thank our dedicated worldwide workforce of over 4,000 people for their continued commitment to the business and its customers, both wholesale and retail.

I thank shareholders for their ongoing interest in the company and I look forward to reporting back on our continued progress.

To give you some further insight to Billabong's underlying performance and the path ahead, please welcome chief executive Neil Fiske.

**MANAGING DIRECTOR & CEO'S ADDRESS**

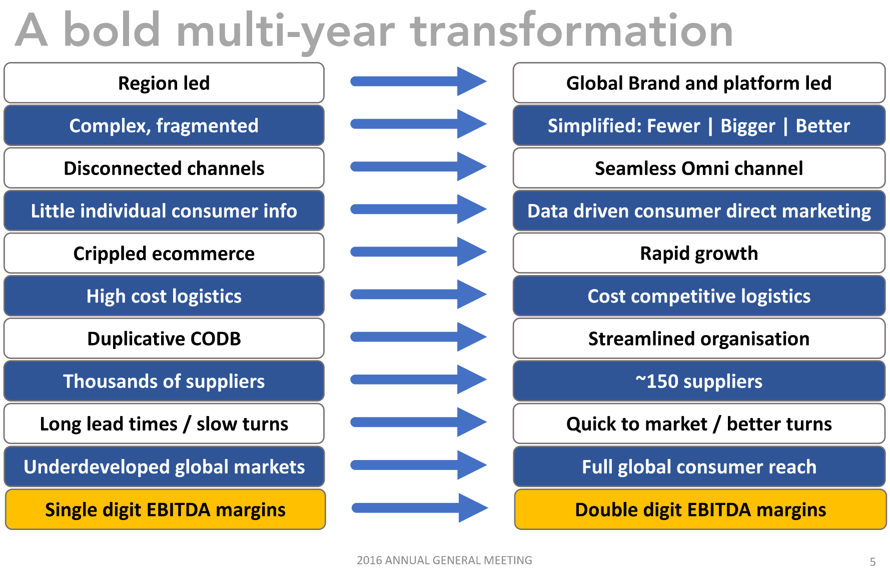
**NEIL FISKE**

Thank you, Ian. Good morning to everyone here and to those listening in on the webcast.

It has been three years since I first spoke at a Billabong Annual General Meeting and outlined the comprehensive seven-part strategy that we believed then, and believe now, is the key to rebuilding Billabong's profitability.

Accordingly, it is worth pausing a moment to take stock and reflect on what has occurred to the business and the market in that time.

The vision we laid out three years ago called for a bold, far reaching transformation of the company.




Our mantra was to do fewer things, bigger and better, and we narrowed our focus to building global brands on global platforms. We knew it would take time, hard work and resolve. We knew there would be ups and downs along the way… and reminded everyone that progress would not necessarily be linear. But our belief from the start is that ours can be a business with double digit EBITDA margins and sustained growth from expanding global reach.

Today the company is well on its way in that transformation – from a complex, regional, fragmented business three years ago to a much simplified, brand-led, truly global company. We have brought in and promoted the right talent to drive this change and today we have one of the most capable management teams in the industry. We have adopted the Fewer/Bigger/Better approach. And the company is now organizationally stronger and far better positioned to compete and grow in a rapidly evolving retail environment.

## Global brands


| | | |
|---|---|---|
| THE BEST SURF BRAND IN THE WORLD | UNIQUE FUSION OF ART AND YOUTH LIFESTYLE | THE NAME BEHIND THE WORLD'S LEADING SKATE TEAM |

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With a focus on our three big brands — Billabong, RVCA and Element — and their place in a global market with a burgeoning global followership, we are beginning to see results. Overall, I am pleased with our progress in the face of some very challenging market conditions.

**Key achievements**

In three years we have achieved a number of key successes:

Our big three brands have become stronger, gained market share, and built their global following.

### Three years on…

- Defined our strategy and aligned organisation
- Strengthened management team & upgraded talent
- Implemented global brand leadership for Big 3 brands
  - Gained market share, global followership, and brand equity
- Simplified portfolio: divested West 49, Surfstitch, Sector 9
- Returned Europe to profitability
- Lowered our cost base
- Regained control of our websites, accelerating ecommerce
- Launched 5 global platform initiatives to support growth and margin expansion
  - Sourcing, Logistics, Concept to customer, Omni, Emerging markets

- This progress has been critical to offset FX and other challenging external conditions for the sector
- Major platform initiatives beginning to yield results and will lift H2 and beyond

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Billabong has reaffirmed itself as the world's leading surf brand and is dominant in the key US and Australian specialty channels. Independent analysis by ActionWatch shows

Billabong has widened its number one market share lead in both men's and women's surf apparel in both the US and Australia.

RVCA has proven its global appeal and opportunity, most recently in Australia with a smashing 44% growth in wholesale equivalent sales last year, and demand exceeding supply.

Element has built on its strength in Europe and begun to recapture its core position in the US market.

And global social media followership has increased by 20% or more every year for our big three brands.

We simplified the business, exiting the Company's difficult West 49 investment, the complex and cash-draining Surfstitch joint venture, and the Sector 9 skateboard business.

Our cost base has become more competitive.

Europe returned to solid profitability, with EBITDA margins now approaching double digits before corporate allocations, and demonstrating the benefit of simplification and global platforms.

We regained control of our websites, allowing us to build a rapidly growing ecommerce business, even ahead of the new omni platform. Ecommerce grew 52% in 2016. While accounting for only 4% of total sales, ecommerce is up from about 1.5% of our sales before it was repatriated from Surfstitch, and could grow to 10-15% of sales over the next few years.

Most fundamentally, we launched five major global platform initiatives to support our long-term growth and margin expansion: Sourcing, Logistics, Concept to customer, Omni, and emerging markets.

- We now have a global sourcing organization with experts in key categories.
- We are streamlining our global logistics and costs are coming down.
- We have installed a merchant front-end to the business and are cutting product lead times.
- Omni is nearing its first launch.
- And we've seen some tactical wins in Emerging Markets that validate our conviction in the opportunity there.

Importantly, the years of underlying foundational work in re-platforming the business are just now starting to show results, with a big impact slated for H2 and building from there.

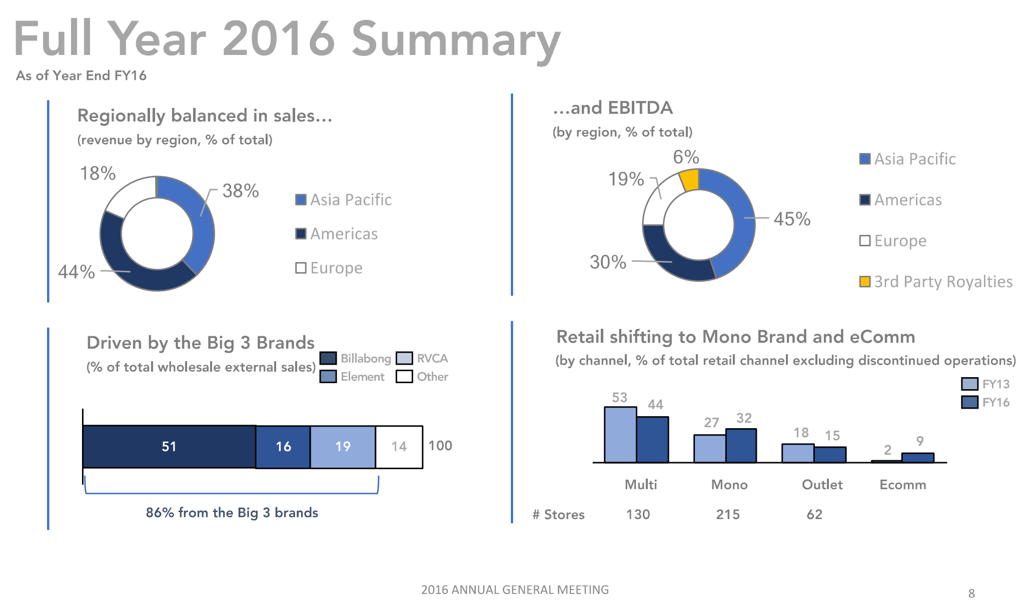
**Challenges**

We have achieved all this at a time when a number of our traditional wholesale accounts have faced major challenges, including negative same-store sales and, in some cases, bankruptcies and closures.

Currency has also been a big challenge. Because we pay for our products in US dollars, currency changes last year alone amounted to a $17m cost increase and a substantial reduction to our profit margins in FY16, which is on top of the prior year's currency impacts.

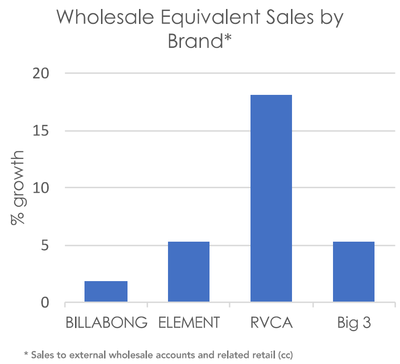
These external factors could have had a more severe effect on the business had it not been for the progress we've made in other areas. Executing against our strategy has helped us withstand most of the adverse market conditions, and our project agenda is just beginning to contribute financially. Among our competitive set, I think we have performed reasonably well.

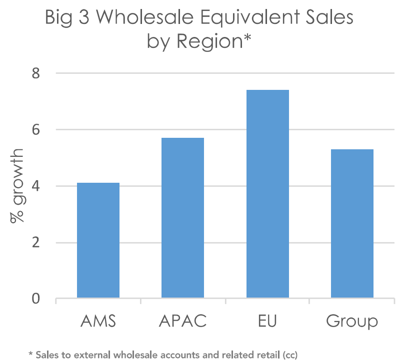
**2016 results**




As we move to the outcome for the fiscal year 2016, this gives you a snapshot of the shape of the business. Total group sales (excluding discontinued operations) were up 4.6% to $1.1 billion, though on a constant currency basis the total was down slightly. This is a creditable outcome in a tough retail environment.

## Growth in Big 3 Brands: FY2016

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Sales for our Big 3 brands — Billabong, Element and RVCA — were up 5.3% globally including the wholesale equivalent sales to our own channels. Billabong was up 1.9%. Element was up 5.3%. And RVCA up a commendable 18.1%. Later we'll hear more about RVCA's unique approach—a blend of the youth subcultures of sport, fashion and art—that is winning admirers, global followers and market share in each of our major regions.

## 52% growth in ecommerce: FY2016

| % annual growth | AMS | APAC | EU | TOTAL |
|---|---|---|---|---|
| Comparable retail revenue (comparable B&M + ecommerce) | 0.2% | 0.4% | 9.1% | 1.8% |
| Brick & Mortar comparable store sales | (6.0%) | (1.7%) | 2.7% | (2.0%) |
| ecommerce sales | 25% | 154% | 160% | 52% |
| ecommerce as % of sales | 5.7% | 1.8% | 3.5% | 3.8% |

At 3.8% — still under-developed in ecommerce; a big opportunity

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Comparable total retail revenues (including comparable Brick & Mortar and e-commerce) were up 1.8% for the year, including an increase of 52% in global e-commerce sales.

The positive top-line result is testament to the strength of our brands and shows yet again that a good brand, built on a foundation of passion, quality and a core connection to its market, can still command a premium price and an attractive margin.


We now have 26 million social media followers for the Billabong, Element and RVCA brands, their advocates and their athletes, up more than 20% on the year. These are brands with a global reach across the surf, skate and urban art communities. And it's the strength and growth potential of these brands that remain the focus of our transformation.

On the cost side in 2016, our restructuring successfully reduced the cost of doing business by $19.5m or 110 basis points on sales (on a constant currency basis), and represents an ongoing reduction in the cost base.

The big issue in FY16 was gross margins, which were down 200 basis points due to the $17m in adverse currency impacts mentioned before, and an overbought inventory situation in the US which we have now addressed. Currency takes a little longer to overcome, but I'm confident that our sourcing and merchandising strategies will over time recapture this lost margin. In fact, margins began to show recovery in the second half.

Overall, we recorded a solid underlying trading performance, despite tough market conditions.

The FY16 group EBITDA, excluding significant items and discontinued operations, was $57.5m, down $8.2m on the previous year. It is worth noting that over half of that decline in Group EBITDA was attributable to the decline in Sector 9, which was sold in June.

**Current conditions and 2017 outlook**

Looking ahead for FY17, we are mindful that trading conditions remain challenging. We will stay focused on making progress in margins, costs, inventories and building brand equity through premium, high quality products, innovative marketing and tight distribution. I am pleased to report positive signs in the US, with EBITDA for the first four months ahead of the same period last year, and positive brick & mortar comp-store sales. However, among the big accounts in the US one of RVCA's major customers recently emerged from bankruptcy and is well down on previous trading levels.

Trading in parts of APAC and in Europe retail was slow for the first four months in part due to unseasonal weather. In Australia, October was particularly weak across the surf retail market as a whole. However, as weather conditions have normalized, our trading has picked up substantially in November. These same weather patterns have affected our wholesale accounts, so while we have had fewer re-orders across the first four months, the improving trends should extend to our wholesale accounts as well. As always, the December trading month in Australia is a big part of our first half result. Meanwhile, in the Middle East, we have seen an inventory back-up with our distributor partner cut into first half sales, and expect that situation to correct gradually over the course of the fiscal year.

On the positive side, we have identified additional cost saving opportunities with the deployment of our global platform initiatives and continued streamlining of the organization. We expect these to deliver material benefits this fiscal year.

## Current Trading & FY17

Based on trading to date, we expect first half EBITDA to be down substantially on the same period last year, due mostly to the weakness in the first four months in Australian and European retail. However, we expect full year FY17 EBITDA to be ahead of FY16 overall and in the range of AU$60 to $65 million (excluding significant items and assuming no divestments).

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I'd like to talk briefly about the outlook for FY17. Based on trading to date, we expect first half EBITDA to be down substantially on the same period last year, due mostly to the weakness in the first four months in Australian and European retail. However, we expect full year FY17 EBITDA excluding significant items and assuming no divestments to be ahead of FY16 overall, and in the range of AU$60 to $65 million.

Of course, our full year expectation is subject to reasonable trading conditions and currency markets remaining relatively stable.

We continue to have a significant bias of APAC earnings to the last 6 weeks of the calendar year and, in the case of the Americas, a bias of earnings to the month of June. Our sales performance in those periods is key to delivering on our full year expectations.

There are a number of factors that lead us to have confidence that the full year will be up on last year and in this range, including:

1. Additional cost saving initiatives,

2. Improving EBITDA trends in the US, and the weighting of its earnings to the second half, and

3. Visibility to cost and gross margin improvements from our platform initiatives.

**Affirmation of the strategy**

## Global Brands on Global Platforms

### Benefits at maturity

| Omni | Global Sourcing | Global Logistics "Pipeline" | Concept to Customer | Emerging Markets |
|---|---|---|---|---|
| Seamless experience across channels<br>• ecommerce<br>• Retail<br>• B2B<br>• Social<br><br>Single view of the customer<br><br>Single view of inventory<br>• better turns, margins<br><br>Positive comp store sales<br><br>Growing social media footprint and customer database<br><br>ecommerce to >$100M | Leverage global scale for cost, quality, speed<br><br>Fewer, deeper supplier relationships<br><br>Improved product consistency<br><br>Social and environmental compliance<br><br>Lifting margins in H2 17, and building to $25M annual sourcing benefits at maturity | Lower cost distribution<br><br>Consolidation centres in China and Singapore<br><br>Rationalise regional distribution footprints<br><br>$10M+ annual savings at maturity<br><br>Appointed SVP Global Operations to oversee logistics improvements | Merchant Front End<br><br>Fewer/bigger/better merchandising philosophy<br><br>Speed to market<br><br>Fewer "blind buys" due to shorter Order-to-Delivery times<br><br>Gross margin expansion; faster inventory turns | Global leadership and focus<br><br>Leverage global platforms e.g. Omni, Pipeline<br><br>Globally coherent emerging market strategy<br><br>Globally co-ordinated sales support, customer service and brand delivery<br><br>Potential for emerging market sales through agents and distributors to triple to $150M within 5 years |

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Our seven-part strategy has served us well over the last three years during a period of enormous industry change. We've made good progress and have more to do. We look at the external challenges we face as a call to action… to accelerate the rate of change; to build on our positions of leadership in the market. As Ian mentioned, we see the opportunity to further simplify and focus the business on its core. And that core is powerful global brands operating on global platforms.

I would summarize progress on these platform initiatives as follows:

First… Global Sourcing. Getting the benefit of our size, narrowing our vendor base, diversifying beyond China, and using true category experts to get the best combination of cost, quality, and speed to market. There may be some masking due to currency moves, but we are on track to overachieve on this platform, with targeted annual reduction in cost of goods upgraded to AU$25m.

Second… Project Pipeline – After a couple of IT-related delays I am pleased to advise that this initiative is on track to save about AU$10m per annum on a run rate basis by FY18 in distribution and logistics costs by redesigning and optimizing our global network. And we see more opportunity into FY19 as we look to further structural changes in European logistics.

Combined, the Pipeline and Sourcing projects will deliver benefits at maturity in FY19 of $35m with the sourcing benefits contributing meaningfully in the second half of FY17. I would note that a substantial majority of the $35m will emerge in FY18 and FY19.

Next… Concept to customer, which is about having a more disciplined and agile product development process, executing our category strategies, and working with the global sourcing team to cut lead times and get closer to market. Here, we continue to rationalize our lines to fewer/bigger/better styles and have much improved our product development processes. Combining that progress with global sourcing now allows us to attack lead times and buy much more of our inventory against committed orders.


Finally, omni channel…we are expecting to launch the initial stage in early 2017 with following stages to rollout over the subsequent 12 to 18 months. This platform will connect all our channels – retail, wholesale, and ecommerce – to give the customer a seamless brand experience and take our brand stories directly to the consumer. Anytime, anywhere. Bricks and clicks. Content and Commerce. Social, mobile, local. Knowing our customer like the back of our hand and being able to engage them on their terms, the way they want to interact. Today, we have over 26 million global followers. But we know less than 1 million of them by name. Omni changes all that, allowing us to identify them, market to them directly, and maximize their value across all channels. Our omni platform will be cloud based and global, allowing us to tap into consumers all around the world, including currently underserved and emerging markets.

We see this business as capable of generating double digit EBITDA margins over time. The path to get us there would have gross margin expansion of about 300 basis points based on global sourcing and concept to customer, plus a CODB reduction from pipeline, organizational restructuring and leverage on incremental sales.

We are just beginning to see the benefits of all the hard work – enough to validate the goals we have set. Change of this magnitude doesn't happen quickly or without the normal risks of large scale projects. But it's exciting to be at this stage, with strong brands gaining share and poised to become even more competitive and profitable in the years ahead.

This is an industry in transition. Winners will be those with strong global brands, tight quality distribution, and a powerful omni-channel capability. Our strategy and all our efforts align to these critical success factors.

I'd like to thank the board for its ongoing support, the executive team for its talent and leadership and Billabong's community of employees, athletes, and advocates whose passion, skill and commitment underpin everything that we achieve.


There is something intrinsically communal about our brands; they are a hallmark of our tribe. Brands say something about who we are, how we align ourselves and what values we hold dear. We wear these emblems with pride because they reveal us completely. Our customers wrap themselves in a common passion that they happily declare to the world, whether that be for surf, skate, music or art. And while fashion is fleeting, community is timeless. That is as much true for the people who wear our brands as it is for us, the people who create, nourish and live them.

Before our Chair resumes with the rest of the meeting, here is an insight into RVCA, a brand that is winning followers around the world.

**TRACEY WOOD**

COMPANY SECRETARY