



BILLABONG INTERNATIONAL LIMITED

END OF YEAR RESULTS

JACK ROBINSON
Western Australia, 2014

30th JUNE 2014



CHIEF EXECUTIVE OFFICER

NEIL FISKE

 BILLABONG RVCA element  VONZIPPER 

HONOLUA
SURF CO.


 PALMERS

25 TWO
seasons

SurfDive'n'ski*

 KUSTOM tigerlily  XCEL  sector9

TODAY

1 | SUMMARY OF RESULTS

2 | PROGRESS ON OUR TURNAROUND PLAN

3 | FINANCIAL DETAILS

OVERVIEW

“

We are encouraged by the early signs of success across our seven part strategy, recognising that much more work needs to be done and that the road ahead remains challenging. The turnaround is gaining traction.

”

Neil Fiske
Chief Executive Officer

\$1.1b*
GROUP REVENUE

\$52.5m*
GROUP EBITDA

\$233.7m
NET LOSS AFTER TAX
(including significant items)

*Continuing operations

SUMMARY OF RESULTS

AUD millions		Ex Discontinued Businesses (excluding Dakine, West 49 and Nixon & excluding Significant Items)				As Reported (incl. Dakine, West 49 and Nixon & excl. Significant Items)	
		This Yr	Last Yr	% Change	% Change (cc)*	This Yr	Last Yr
Revenue							
	Americas	442.6	450.3	-1.7%	-9.9%	538.0	636.8
	APAC	480.5	471.8	1.9%	1.1%	480.5	471.8
	Europe	196.1	180.9	8.4%	-7.5%	199.0	232.1
Total		1,119.2	1,103.0	1.5%	-5.0%	1,217.5	1,340.7
EBITDA							
	Americas	23.6	46.9	-49.7%	-54.6%	17.6	38.0
	APAC	34.6	31.9	8.2%	7.8%	34.6	31.9
	Europe	(8.5)	(10.4)	18.9%	23.7%	(8.1)	(0.1)
	Global	2.8	2.8	3.0%	3.0%	2.8	2.8
Total		52.5	71.2	-26.2%	-30.6%	46.9	72.6

* Constant currency

TURNAROUND OVERVIEW

Stabilised the business

- Strengthened the balance sheet - cornerstone investors in place
- Clear seven part turnaround strategy
- New global structure and executive team
- Cost reductions, simplified focus

Significant restructuring achieved

- Sale of West 49 and pending sale of SurfStitch and Swell
- Simplified the business including Asia, Peru and Chile
- Restructured Europe, South Africa and Brazil
- Closed 41 underperforming stores

Progress on seven point strategy with more to come

- Balance of offence and defence
- Early turnaround initiatives showing traction
- Commenced large global supply chain, DTC and merchant front end projects with multi-year payoffs
- Brand focus showing results



AMERICAS: Remains challenging



SITUATION

- Americas remains the biggest challenge and greatest opportunity
- Significantly impacted by 2013 corporate and leadership turmoil
- Canada, Brazil and bricks & mortar retail remains soft
- Inventory improvements but gross margins impacted as a result

ACTIONS

- Restructured the Americas leadership team
- Stacked region with talent including key global roles
- Implementing a wholesale win back program
- Invested aggressively behind brand Billabong (people and process)
- Element rebuilding underway
- Instituting tight controls on costs
- Aggressively managing our inventories and buying process

PROGRESS

- Billabong growth in forward orders
- RVCA re-accelerating
- Improved inventory turns (from 3.7 to 4.2)
- Growth in monobrand eComm revenue in the US of 27%
- Overheads down

ASIA PACIFIC: Growing



SITUATION

- Revenue and earnings accelerate in the 2nd half
- All key metrics up except for gross margin
- Gross margin largely impacted by FX

ACTIONS

- Lead market for a number of key turnaround initiatives
- Piloted big three distortion in retail
- Improving store operations (labour, rent reductions & store closures)
- Consolidating the multi-brand banners under Surf Dive and Ski
- Opened new stores
- Invested in growing Tigerlily
- Restructured South Africa and Asia

PROGRESS

- Billabong, RVCA, Tigerlily sales all up. Element increasing slightly
- Accelerating big three sales through our channels of distribution
- Lift in store level profitability (up 320 bps)
- Growth in bricks & mortar comp store sales of 1.3% (2.3% in 2nd half)
- Overheads down

EUROPE: Stabilised



SITUATION

- Stabilised earnings after years of decline
- Region profitable before global allocations and SurfStitch

ACTIONS

- Focused on quality customers and quality markets
- Store operations improvement (rent reductions and store closures)
- Resized the business for profitability
- Moved smaller brands to a distributor model
- Launching London Element store

PROGRESS

- Gross margin improvement in 2nd half (up 530 bps)
- Improving profitability
- Lift in store level profitability (up 140 bps)
- Growth in bricks & mortar comp store sales of 5.9% (4.4% in 2nd half)
- Overheads down

TURNAROUND STRATEGY

1 | BRAND

2 | PRODUCT

3 | MARKETING

4 | OMNI - CHANNEL

5 | SUPPLY CHAIN

6 | ORGANISATION

7 | FINANCIAL DISCIPLINE

1. BRAND

- Re-orienting the company toward building strong global brands that are locally responsive
- Appointed three global brand leaders
- Re-signed founders
- Global brand structures for Billabong, RVCA, Element
- New brand process, guiding documents, clarity in brand positioning
- Focus on the authentic core
- Go to market and operating autonomy for smaller brands



Shannan North
Global Billabong



Bill Bettencourt
Global RVCA



Frank Voit
Global Element

2. PRODUCT

Merchant front end:

- Invested in top talent in merchandising and design
- Adopted more strategic assortment planning
- Narrowed assortment focus on fewer, bigger, better styles (SKUs down 20%+ from wave 1)
- Set clear category strategies for each brand – best at, win at, compete at
- Implementing design and merchandise to fixture
- Improving buying and demand planning
- Driving assortment productivity KPIs (e.g., style productivity, adoption rates, sell through etc.)

Concept to customer: faster, more flexible, closer to market



Billabong completes near sweep of SIBA Industry Awards in Australia, named Men's and Women's Brand of the Year along with awards for marketing and product innovation

3. MARKETING

- Go to market calendars for the major brands and regions: merchandise, sales, marketing behind the big stories
- Mix shift to digital and CRM
- Increased marketing against the big three brands
- Improved roster of athletes and advocates
- Revamped advertising campaigns

12.8 million
social media followers
for the big three brands
growing **25%** in the
last six months globally



Billabong - 'A Bikini Kinda Life'



Billabong - 'Life's Better in Boardshorts'



RVCA - 'Balance of Opposites'

4. OMNI-CHANNEL

Online

- Pending sale of SurfStitch and Swell
- Regaining control of branded eComm sites
- Freed up capital to invest in our own platform
- New head of DTC platform Kadima Longi

Restructured retail fleet

- Sold West 49
- Closed 41 underperforming stores
- Store level profitability improvement of 210 bps
- New store designs for Billabong, RVCA and Element
- Piloted brand distortion in multi-brand
- Consolidating the Australian multi-brand banners under Surf Dive and Ski

Wholesale win-back strategy

- Stronger sales teams
- Increased trade marketing support
- Product segmentation by channel and account type



5. SUPPLY CHAIN

Transformation of Asian sourcing operation

Quick wins on key programs (cost, quality and speed)

Multi-year effort to capture \$20-30m long term profit opportunity achieved through:

- Increased global visibility
- Fewer, better vendors
- In house expertise in key categories
- “Should cost” and counter sourcing
- Capacity planning
- Upstream fabric development and positioning
- Diversifying out of China
- Redesign of global logistics and distribution network
- Orientation toward speed to market

KEY HIRES



Jeff Streader
Chief Operating Officer

Randy Royce
VP Global Supply Chain

Kitty Ho
VP Global Sourcing

6. ORGANISATION

- Aligned brands, regional and global functions to the strategy
- Executive Leadership Team (ELT) in place
- 63 key leadership hires and promotions below the ELT
- New talent and capability self funded through headcount reductions and productivity gains elsewhere
- Developing company wide KPIs and performance management
- Restructuring in Europe, South Africa and Brazil
- Focus on brand culture (e.g, Element brand environment)

7. FINANCIAL DISCIPLINE

- Indirect cost reduction program to fund marketing war chest (overheads down \$22.6m)
- Inventory and working capital management
- Rationalising global IT costs and systems
- Turnaround office to drive results and accountability
- Initiated financial reform (e.g., standardisation across regions and enhanced reporting)
- “Pay as you go” approach



BILLABONG RVCA element VONZIPPER

HONOLUA

PALMERS

ES TWO SEASONS

Sunbirenski*

KUSTOM

tigerlily

XCEL

SECTOR

IN SUMMARY...

Results are consistent with our half year statement

- Majority of earnings achieved in seasonally stronger 1st half
- Americas remains challenging
- Asia Pacific is growing and profitable
- Europe stabilised

Turnaround has traction

- Strengthened balance sheet - cornerstone investors in place
- Aligned the organisation to the strategy
- Leadership team in place to drive execution
- Restructured operations and sold non-strategic assets
- Seeing early results from our key initiatives across the seven part strategy

We are laying the foundation to allow for growth and profitability in the years ahead

DETAILED FINANCIALS



RECONCILIATION STATUTORY RESULT TO CONTINUING OPERATIONS

Billabong - Full Year to June 14

AUD millions	Statutory Result	Included In Statutory Result			Pro Forma for post Y/E Asset Sales	
		Significant Items	Discontinued Businesses	Continuing Businesses June 30	Exclude SurfStitch/Swell	Pro-forma 2014 (ex SurfStitch/Swell)
Sales Revenue	1,217.5		98.3	1,119.2	97.7	1,021.5
EBITDA	(52.3)	(99.2)	(5.6)	52.5	(7.8)	60.3
Less Depreciation, Amortisation, Impairments & Fair Value Adjustment	86.6	47.0	1.9	37.7	3.2	34.5
EBIT	(138.9)	(146.2)	(7.5)	14.8	(11.1)	25.9
Less Finance Charges	34.2		0.1	34.1		
Profit Before Tax	(173.1)	(146.2)	(7.6)	(19.3)		
Less Tax Expense/(Credit)	66.8	73.3	(7.8)	1.3		
Net Profit/(Loss) After Tax	(239.9)	(219.5)	0.2	(20.6)		
Less Outside Equity Interests	(6.2)	-	-	(6.2)		
Net Profit (Loss) After Tax Attributable to Members	(233.7)	(219.5)	0.2	(14.4)		

- Results for the period include significant items and discontinued businesses
- Significant items include refinancing, restructuring, impairment, fair value adjustments and non cash tax asset write offs and adjustments
- Discontinued Businesses include West 49 and DaKine
- Continuing Businesses is the current asset and portfolio base as at 30 June 2014 (including SurfStitch and Swell)
- Proforma 2014 excludes SurfStitch and Swell (announced FY15 divestments)


RESULTS SUMMARY


AUD millions		Ex Discontinued Businesses (excl Dakine, West 49, Nixon and excl Significant Items)				As Reported (incl Dakine, West 49, Nixon and excl Significant Items)	
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Revenue							
	Americas	442.6	450.3	-1.7%	-9.9%	538.0	636.8
	Asia Pacific	480.5	471.8	1.9%	1.1%	480.5	471.8
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Total		1,119.2	1,103.0	1.5%	-5.0%	1,217.5	1,340.7
EBITDA							
	Americas	23.6	46.9	-49.7%	-54.6%	17.6	38.0
	Asia Pacific	34.6	31.9	8.2%	7.8%	34.6	31.9
	Europe	(8.5)	(10.4)	18.9%	23.7%	(8.1)	(0.1)
	Global	2.8	2.8	3.0%	3.0%	2.8	2.8
Total		52.5	71.2	-26.2%	-30.6%	46.9	72.6


* Constant Currency


- 🚧 \$1.1b in sales and \$52.5m EBITDA from continuing businesses – EBITDA is \$18.6m below the pcg
- 🚧 Americas \$23.3m EBITDA below the pcg
- 🚧 Table assists comparison on a constant currency basis – differences are significant
- 🚧 Total Sales revenue nominally up 1.5% - but down 5.0% on a constant currency basis
- 🚧 Growth from Australia and improved performance from Europe


REGIONAL PERFORMANCE - AMERICAS


 Operational instability prior to C/O Consortium refinancing transaction process

 Revenue (continuing operations) was down 1.7% - or 9.9% (constant currency)

 Result reflects weakness in the Canadian market, US Bricks and Mortar & South America

 Peru and Chile were restructured in November and December 2013 – distributor appointed

 Overheads down 4.7% (constant currency)

 Sale of West 49 completed February 2014

As Reported (AUD) including Significant Items	FY14 \$m	FY13 \$m	Reported Change %	Constant Currency Change %
Sales	538.0	636.8	(15.5%)	(22.1%)
EBITDA	(49.0)	19.5	(350.9%)	(305.9%)
EBITDA Margin	(9.1%)	3.1%		

Continuing Business (AUD)	FY14 \$m	FY13 \$m	Reported Change %	Constant Currency Change %
Sales	442.6	450.3	(1.7%)	(9.9%)
Gross Profit	221.5	238.6	(7.2%)	(14.9%)
Gross Margin	50.0%	53.0%		
Overheads (net of other income)	180.9	173.2	4.4%	(4.7%)
Global Allocation	17.1	18.5	(7.7%)	(7.9%)
EBITDA	23.6	46.9	(49.7%)	(54.6%)
EBITDA Margin	5.3%	10.4%		

	FY14	FY13
Comp Store Sales %	(3.3%)	(3.0%)
Store Count (Number)	69	200

REGIONAL PERFORMANCE - ASIA PACIFIC

Sales performance reflects:

- Store closure program
- Exit of some of the smaller Asian territories
- Restructuring in South Africa

Gross Margin impacted by FX and margin declines in SurfStitch

Overheads reduced 4.6% (constant currency) including store operations and the exit from some of the smaller Asian territories

Tigerlily performing strongly in Australia

Simplification and cost out drives EBITDA growth

Overall EBITDA up 7.8% (constant currency)

As Reported (AUD) including Significant Items	FY14 \$m	FY13 \$m	Reported Change %	Constant Currency Change %
Sales	480.5	471.8	1.9%	1.1%
EBITDA	14.6	4.4	(234.5%)	221.0%
EBITDA Margin	3.0%	0.9%		

Continuing Business (AUD)	FY14 \$m	FY13 \$m	Reported Change %	Constant Currency Change %
Sales	480.5	471.8	1.9%	1.1%
Gross Profit	261.8	266.0	(1.6%)	(2.3%)
Gross Margin	54.5%	56.4%		
Overheads (net of other income)	212.0	220.4	(3.8%)	(4.6%)
Global Allocation	15.2	13.7	11.3%	11.1%
EBITDA	34.6	31.9	8.2%	7.8%
EBITDA Margin	7.2%	6.8%		

	FY14	FY13
Comp Store Sales %	1.3%	(4.9%)
Store Count (Number)	244	249

REGIONAL PERFORMANCE - EUROPE

- European macro environment remains difficult
- Sales (continuing businesses) grew \$15.2m (8.4%) but down 7.5% (constant currency)
- Gross Margin improvement of 230 basis points driven by less closeout activity
- Overheads down 5.1% in constant currency terms
- RVCA growing strongly albeit off a low base
- Results were impacted by the start up losses of SurfStitch Europe (which the Group consolidates but in which it has only a 51% interest) - EBITDA impact of \$7.4m in 2014. SurfStitch is an announced divestment for FY15

As Reported (AUD) including Significant Items	FY14 \$m	FY13 \$m	Reported Change %	Constant Currency Change %
Sales	199.0	232.1	(14.2%)	(26.7%)
EBITDA	(20.8)	(25.1)	17.2%	(18.3%)
EBITDA Margin	(10.4%)	(10.8%)		

Continuing Business (AUD)	FY14 \$m	FY13 \$m	Reported Change %	Constant Currency Change %
Sales	196.1	180.9	8.4%	(7.5%)
Gross Profit	94.2	82.8	13.8%	(3.1%)
Gross Margin	48.0%	45.7%		
Overheads (net of other income)	96.3	86.5	11.4%	(5.1%)
Global Allocation	6.3	6.7	(6.2%)	(6.4%)
EBITDA	(8.5)	(10.4)	18.9%	23.7%
EBITDA Margin	(4.3%)	(5.8%)		


	FY14	FY13
Comp Store Sales %	5.9%	(0.9%)
Store Count (Number)	111	113

SIGNIFICANT ITEMS


As Reported (AUD)	FY14 \$m	FY13 \$m
Significant items		
Impairment of intangibles	29.3	604.3
Impairment of property, plant and equipment	-	32.6
Impairment of investment accounted for using the equity method	-	129.6
Net realisable value shortfall expense on inventory realised	13.6	25.9
Specific doubtful debts expense	(1.3)	6.1
SurfStitch option fair value adjustment, compensation and other expense	(4.3)	12.3
Potential control or refinancing proposal costs and transformation	20.8	25.0
Borrowing costs	42.1	5.1
Adjustment to onerous supply agreement provision	-	3.5
Term debt repayment foreign exchange derivative impact	(4.2)	-
Foreign currency translation reserve reclassified to income statement	(0.7)	(13.8)
(Gain)/Loss from adjustment to contingent consideration	5.9	(0.8)
South American sales tax provision/restructuring	5.3	-
Redundancy costs	7.2	9.6
RVCA compensation expense	4.5	-
West 49 loss on sale including transaction costs	10.1	-
Fair value adjustment to assets held for sale	17.7	-
DaKine loss on sale including transaction costs	1.2	-
Other significant items	(1.0)	1.7
Total pre tax significant items	146.2	841.0


Significant items include refinancing, restructuring, impairment charges, fair value adjustment on reclassification of West 49 as held for sale during the year

BALANCE SHEET, GEARING AND INTEREST

 Working capital 13.6% of the prior twelve months' sales (excluding DaKine wholesale external sales) – 3.3% lower than the pcg of 16.9%

 Net debt down from \$206.6 million to \$74.3 million since June 2013. Gross debt 30 June 2014 \$219.4 million (excludes deferred consideration of \$23.6 million)

 Interest increased to \$34.2 million. Includes interest on the term loan facility which was reduced from US\$360 million to US\$203.8 million following the completion of the C/O Placement and the 2014 Rights issue in February and March 2014 respectively

 Term loan at balance date US\$204 million at 11.9%

	Jun-14	Jun-13	Reported
As Reported (AUD)	\$m	\$m	Change %

Working capital

Receivables	153.9	204.4	(24.7%)
Inventory	180.2	266.8	(32.5%)
Creditors	183.9	229.5	(19.9%)
Working capital	150.2	241.7	(37.9%)





	Jun-14	Jun-13	Reported
As Reported (AUD)	\$m	\$m	Change %

Gearing levels

Gross debt	219.4	320.5	(31.5%)
Net debt	74.3	206.6	(64.0%)

	FY14	FY13
As Reported (AUD)	\$m	\$m
Net interest expense	34.2	12.4


CASH FLOW

-  Net receipts and payments of \$22.5 million includes \$50 million of cash outflow re significant items
-  Refinancing costs of \$92.3 million in the current period including approximately \$55 million of significant items not expected to recur
-  Cash outflow from operating activities \$76.6 million includes borrowing costs and tax
-  Capex reduced from \$40.1 million to \$24.9 million and re-focused to key customer facing initiatives

As Reported (AUD)	FY14 \$m	FY13 \$m	Change %
Receipts from customers (inclusive of GST)	1,356.9	1,477.1	
Payments to suppliers and employees (inclusive of GST)	(1,334.4)	(1,450.6)	
	22.5	26.5	(15.1%)
Other income	5.5	5.2	
Finance costs	(92.3)	(20.5)	
Income taxes (refunded)/paid	(12.3)	0.6	
Net cash (outflow)/inflow from operating activities	(76.6)	11.9	(743.7%)
Cash flows from investing activities			
Payments for purchase of subsidiaries and businesses, net of cash acquired	(41.6)	(69.7)	
Payments for property, plant and equipment	(15.9)	(23.2)	
Payments for intangible assets	(9.0)	(16.9)	
Proceeds from sale of business, net of cash divested and transaction costs	83.9	-	
Proceeds from sale of property, plant and equipment	0.2	1.1	
Net cash inflow/(outflow) from investing activities	17.6	(108.7)	
Cash flows from financing activities			
Proceeds from issues of shares	182.1	66.8	
Payments for treasury shares held by employee share plan trusts	-	(2.7)	
Net repayments of borrowings	(88.1)	(176.4)	
Dividends paid	-	-	
Net cash inflow/(outflow) from financing activities	94.0	(112.4)	
Net Movement in Cash Held	35.0	(209.2)	









DEPRECIATION, AMORTISATION, IMPAIRMENT, FAIR VALUE ADJUSTMENT

As Reported (AUD)	FY14 \$m	FY13 \$m	Reported Change %	Constant Currency Change %
Depreciation	27.5	34.9	(21.2%)	(26.3%)
Amortisation	9.8	7.0	39.8%	30.5%
Amortisation of Borrowing Costs	2.3	3.6	(34.5%)	(34.5%)
Impairment	29.3	766.5	(96.2%)	(96.2%)
Fair value adjustment on reclassification of West 49 as held for sale during the year	17.7	0.0	100.0%	100.0%

 Depreciation expense decreased 21.2% - reduction in property, plant and equipment, retail store closure program, asset write downs and the sale of DaKine and West 49

 Fair value adjustment to assets held for sale relates to West 49

TAX

-  Income tax expense for the year ended 30 June 2014 \$66.8 million despite pre-tax loss of \$173.1m
-  Includes writing off the majority of remaining deferred tax assets \$45.2m
-  Consistent with the half-year 31 December 2013 accounts there was a restatement to tax effect accounting for brand intangible assets. Details of which are as follows:
 -  At 30 June 2012 the carrying value of brands held by the Group were impaired.
 -  The associated deferred tax liability of \$45m should have been de-recognised and accordingly the 2012 financial statements require restatement.
 -  The effect is to reduce the deferred tax liability and increase retained earnings.
 -  There has been no cash flow impact associated with the restatement for 2012 or any subsequent period, nor has there been any income statement impact on any reporting periods subsequent to 30 June 2012.
 -  Relevant historical balance sheet comparisons have been restated in the accompanying financial statements.

FY15 TRADING TO DATE

Trading to date in FY15 largely reflects the same themes as have been experienced throughout FY14. Australia and Europe continue to trade satisfactorily. In the Americas we continue to confront difficult conditions but our forward orders for Billabong and RVCA are ahead of last year and our comp store sales in the US, whilst still below last year, have improved relative to the most recent half. As we move through FY15 we are confident we will begin to see the impact of our turnaround strategy in the results but it is not possible at this time to quantify the extent of such impact.

ANNEXURE



RECONCILIATION - STATUTORY RESULT TO CONTINUING OPERATIONS - PRIOR PERIOD

Billabong - Full Year to June 13

AUD millions	Statutory Result	Included In Statutory Result		
		Significant Items	Discontinued Businesses	Continuing Businesses June 30
Sales Revenue	1,340.6		237.7	1,102.9
EBITDA	(1.9)	(74.5)	1.5	71.1
Less Depreciation, Amortisation, Impairments & Fair Value Adjustment	812.0	766.5	5.2	40.3
Share of net loss after-tax of associate	(5.0)	-	-	(5.0)
EBIT	(818.9)	(841.0)	(3.7)	25.9
Less Finance Charges	12.4	-		
Profit Before Tax	(831.3)	(841.0)		
Less Tax Expense/(Credit)	31.7	26.2		
Net Profit/(Loss) After Tax	(863.0)	(867.2)		
Less Outside Equity Interests	(3.5)	-		
Net Profit (Loss) After Tax Attributable to Members	(859.5)	(867.2)		

Discontinued Businesses include West 49, DaKine and Nixon

DISCLAIMER

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