

BILLABONG INTERNATIONAL LIMITED

HALF YEAR RESULTS

26th February 2015

LAURA ENEVER

Australian Open of Surfing Champion 2015



CHIEF EXECUTIVE OFFICER

NEIL FISKE

BBILLABONG RVCA element   VONZIPPER

HONOLUA   PALMERS  TWO SEASONS 

 KUSTOM tigerlily  XCEL 

TODAY

- 1 | SUMMARY OF RESULTS
- 2 | PROGRESS ON OUR TURNAROUND
- 3 | FINANCIAL DETAILS



KEY MESSAGES

Billabong returns to profitability for the first time in three years

Excluding the wholesale contribution from West 49 in both years, EBITDA up year on year

Strategy is in place. Leadership and organisation aligned to the strategy

Restructuring progressing - but more to do

Seeing important early indicators of success - but not yet consistent across the Group

Building global platforms and transforming Billabong Group into a brand driven, omni-channel, global company

Encouraged by the strength and growth potential of our brands

OVERVIEW

“

12 months into our turnaround strategy it is encouraging to see Billabong Group return to profitability for the first time in 3 years. Though significant reform is still required.

”

Neil Fiske

Chief Executive Officer

\$522.1m*

GROUP REVENUE

\$42.8m*

GROUP EBITDA

\$25.7m

NET PROFIT AFTER TAX
(including significant items)

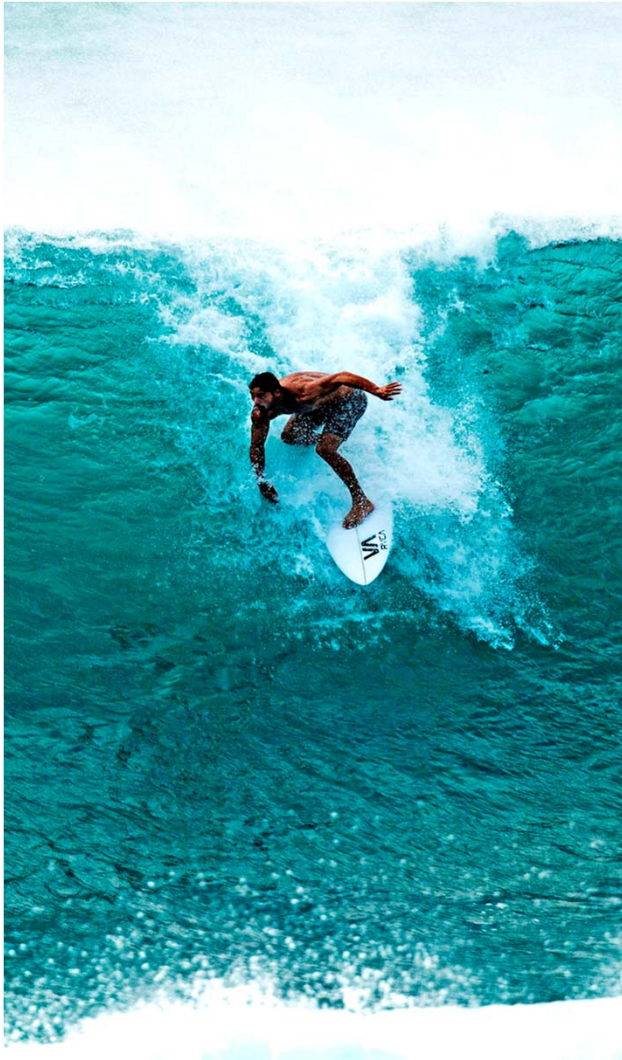
*Continuing operations excluding significant items

SUMMARY OF RESULTS

AUD millions

Continuing Businesses					Including Discontinued Businesses	
(excluding Surfstitch, Swell, West 49 and DaKine and excluding Significant Items)					(includes Surfstitch, Swell, West 49 and DaKine pre disposal - excluding Significant Items)	
	This Yr	Last Yr	% Change (as reported)	% Change (constant currency)	This Yr	Last Yr
Revenue						
Americas	196.9	195.2	0.9%	-1.3%	200.7	296.0
Asia Pacific	237.2	241.0	-1.5%	-1.0%	246.8	272.5
Europe	88.0	88.4	-0.5%	-0.8%	90.0	98.5
Total	522.1	524.6	-0.5%	-1.1%	537.5	667.0
EBITDA						
Americas	5.0	11.0	-54.2%	-55.6%	4.5	8.2
Asia Pacific	31.5	32.9	-4.3%	-4.3%	31.1	34.4
Europe	4.6	(0.5)			2.9	(3.0)
Global	1.7	1.6	7.9%	7.9%	1.7	1.6
Total	42.8	45.0	-4.9%	-5.5%	40.2	41.2

AMERICAS: Stabilising



SITUATION

- Results heavily impacted by West 49 wholesale contribution contraction
- Softness in Canada and Element
- Growth of RVCA and Billabong in the U.S. but not yet in the rest of the Americas
- Americas remain the biggest opportunity

ACTIONS

- Revamped regional management team in U.S. and Brazil
- Stacked region with talent including key global roles
- Focused on wholesale channel growth (70% of region total)

PROGRESS

- Billabong (+9.5%), RVCA (+5.7%) LFL sales up in U.S. wholesale with strong response from core surf speciality channel
- Element turning around; forward orders for Fall '15 on track to grow
- Brazil re-sized with lower cost structure and higher quality revenue base

EUROPE: Improving



SITUATION

- Return to profitability on much better margins
- Element growing
- Billabong stabilised on smaller, higher quality revenue base

ACTIONS

- Managing margins for better flow through
- Rationalising: non-profitable markets, outlet channel, overheads
- Launched 2Seasons eCommerce
- Strengthened regional brand teams for Element, Billabong, RVCA

PROGRESS

- 650 bps improvement in margins
- \$4.6m first half profit vs. prior period loss of \$0.5m
- Strong double digit growth in Element, turnaround underway at Billabong

ASIA PACIFIC: Transitioning



SITUATION

- Weak H1 retail sales, esp. in Australia multi-brand
- FX challenge to margins
- Need to transition retail into omni-channel

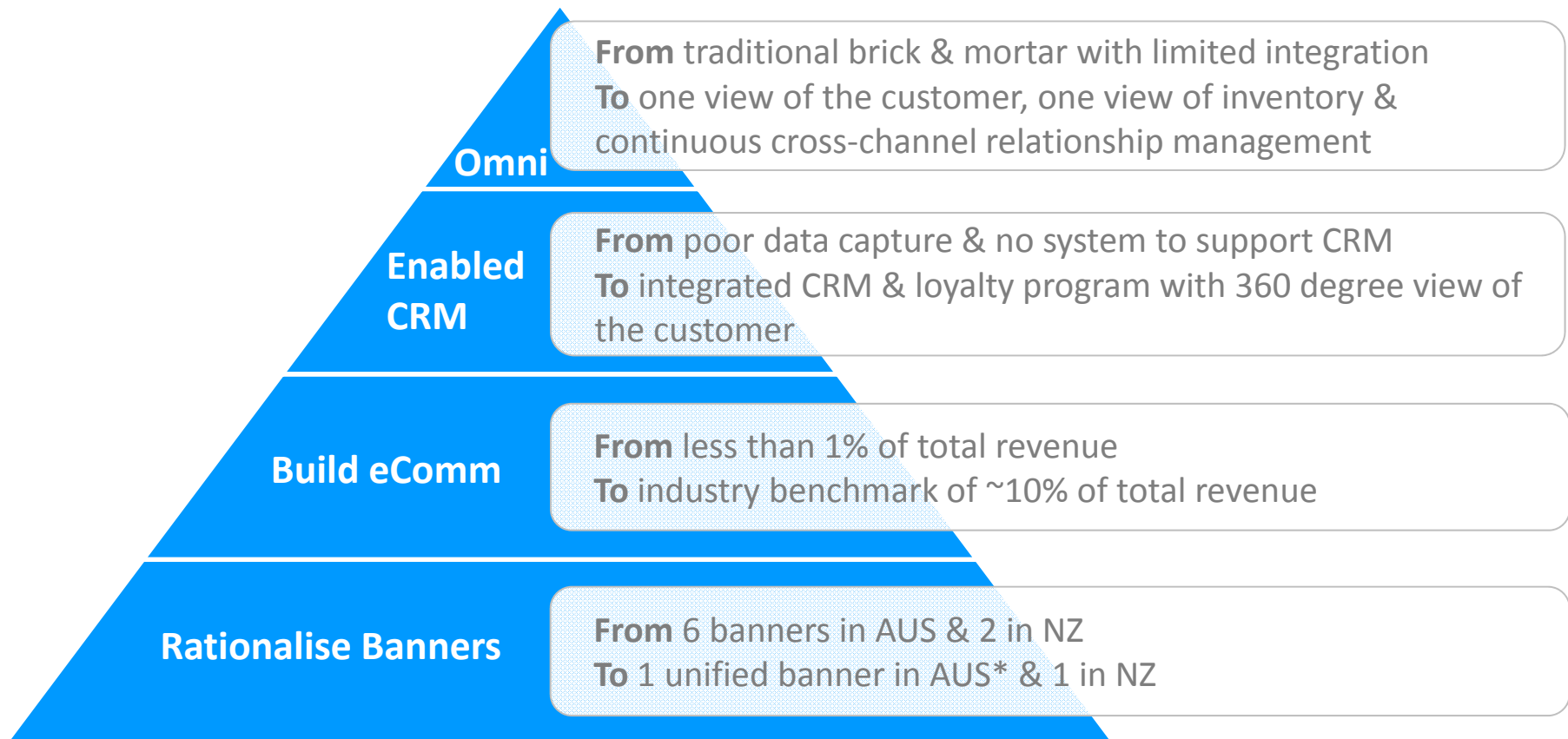
ACTIONS

- Preparing for transition to omni
- Rationalising costs and unifying banners under Surf Dive & Ski (SDS) in AUS and Amazon in NZ
- Focusing on inventory, sourcing, and merchant planning to mitigate currency impact

PROGRESS

- Billabong #1 Australian Surf brand (ASB brand of the year)
- Retail gross margins up 200 bps
- Opened 9 Billabong, 5 Tigerlily and 3 multi-brand stores
- Closed 6 non-performing stores

ASIA PACIFIC's TRANSITION TO OMNI



*Kirra Surf will remain

TURNAROUND STRATEGY

1 | BRAND

2 | PRODUCT

3 | MARKETING

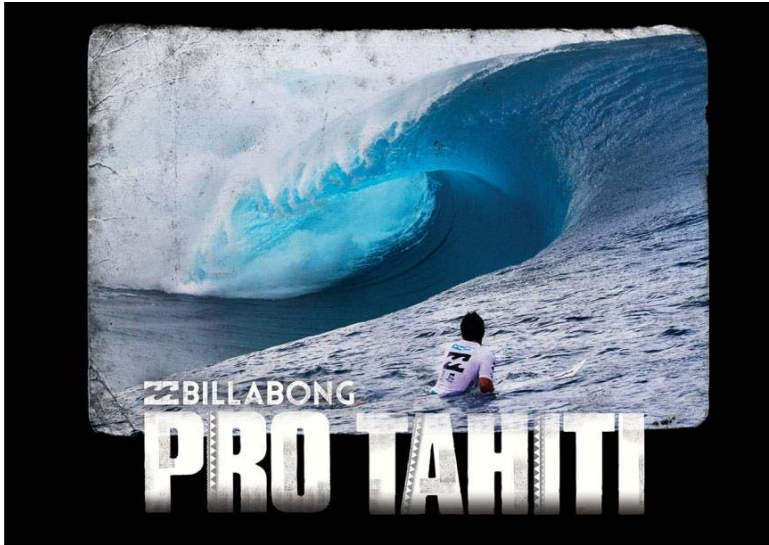
4 | OMNI-CHANNEL

5 | SUPPLY CHAIN

6 | ORGANISATION

7 | FINANCIAL DISCIPLINE

FEWER, BIGGER, BETTER: Be the best at what we do



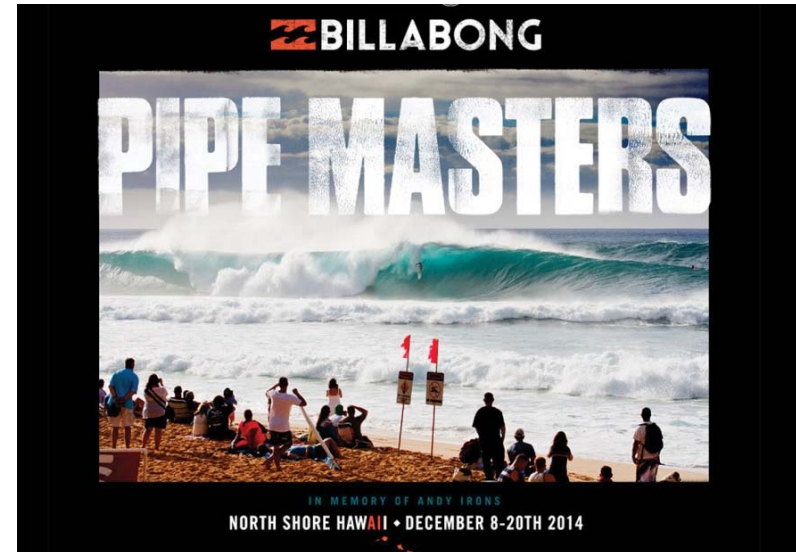
Pro Tahiti was the “best surf event ever* ”

1.9 M unique online visitors

6.1 M total views

2.2 M hours of live webcast watch

*Stab Mag Aug 25 2014



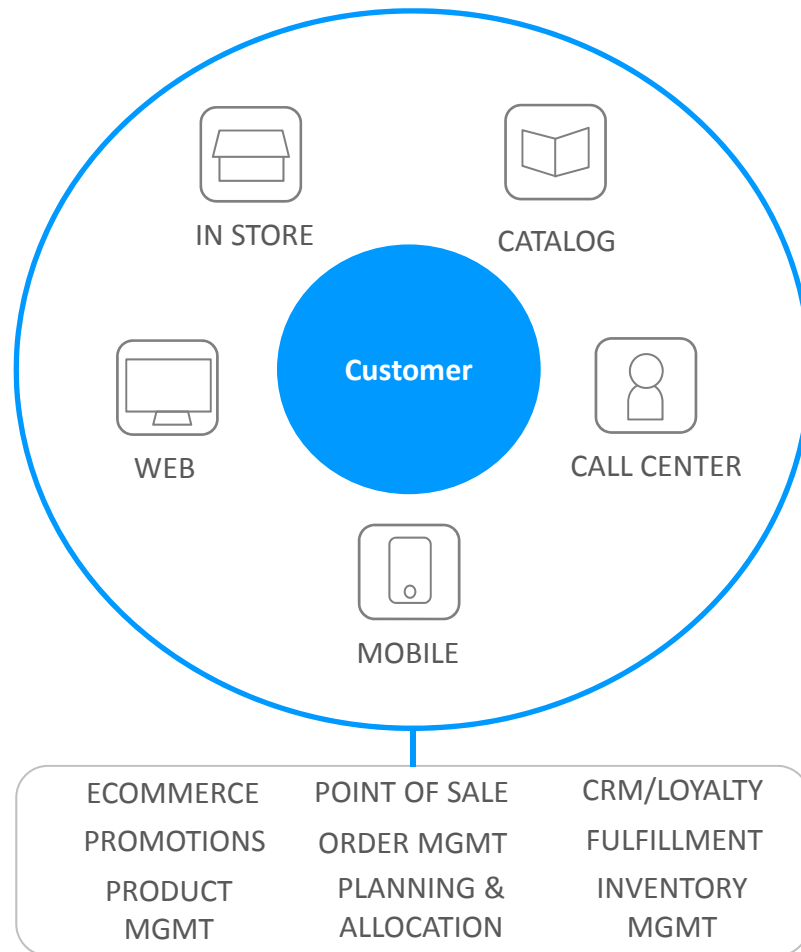
...Until Pipe

3.0 M unique online visitors

9.7 M total views

2.9 M hours of live webcast watch

OMNI-CHANNEL: PLATFORM BUILD



Omni allows customers to shop seamlessly across ALL channels

- One view of the customer across channels
- Enabled loyalty, CRM and customer segmentation
- One view of inventory and ability to deploy to its highest use (e.g. ship to/from store)
- Seamless customer experience and superior service across channels
- B2B capabilities to support wholesale channel
- Unlocking the value of the multi-channel shopper (2-3x the value) to the benefit of all channels



SUPPLY CHAIN: BUILDING OUR FOUNDATION

Platform Investments

BBG Global Supply Chain

S&OP

Concept to
Customer

Information visibility

Leading to...

- ☐ Network optimisation
- ☐ Lead time reduction
- ☐ Improved quality

Resulting in...

- ☐ Cost savings
- ☐ Reduced inventory
- ☐ Stronger sales
- ☐ Improved margins

IN SUMMARY

Return to profitability reflects a stabilisation of earnings, asset values and a stronger balance sheet

We are gaining traction and seeing some leading indicators of success across our brands and key markets, although this success is not yet consistent across the Group

We are investing behind the platforms and processes to support growth

This remains a complex and difficult turnaround with long lead times

We remain confident in our brands, our people, and our future

DETAILED FINANCIALS

ALESSA QUIZON

BBILLABONG RVCA element  VONZIPPER HONOLUA  PALMER'S 25 TWO SEASONS  SunDiver  KUSTOM  Tiger Lily  XCEL  SECTOR

BILLABONG HALF YEAR RESULTS – FEB 2015

RECONCILIATION

STATUTORY RESULT TO CONTINUING OPERATIONS

Billabong - Half Year to December 14

AUD millions	Statutory Result	Included In Statutory Result			
		Significant Items	FY15 Divestments: SurfStitch, Swell *	Continuing Businesses 1H15	Continuing Businesses 1H14
Sales Revenue	537.5	-	(15.4)	522.1	524.5
EBITDA	53.7	(13.5)	2.5	42.8	45.0
Less Depreciation, Amortisation	17.3	-	(0.7)	16.7	16.7
EBIT	36.4	(13.5)	3.2	26.1	28.4
Less Finance Charges	13.4	-	0.0	13.4	
Profit Before Tax	23.0	(13.5)	3.2	12.7	
Less Tax Benefit	(1.1)	-	-	(1.1)	
Net Profit/(Loss) After Tax	24.1	(13.5)	3.2	13.8	
Less Outside Equity Interests	(1.6)	-	1.6	-	
Net Profit (Loss) After Tax Attributable to Members	25.7	(13.5)	1.6	13.8	

* Results up to 5 September 2014

- Results for the period include significant items and discontinued businesses
- Significant items include SurfStitch and Swell gain on sale, RVCA contingent consideration adjustment offset by restructuring costs
- Discontinued Businesses include SurfStitch and Swell (and West 49 and DaKine in the prior year)
- Continuing Businesses represent the current asset and portfolio base as at 31 December 2014
- All Continuing Businesses are 100% owned

RESULTS SUMMARY

AUD millions

		Continuing Businesses				Including Discontinued Businesses	
		(excluding Surfstitch, Swell, West 49 and DaKine and excluding Significant Items)				(includes Surfstitch, Swell, West 49 and DaKine pre disposal - excluding Significant Items)	
		This Yr	Last Yr	% Change (as reported)	% Change (constant currency)	This Yr	Last Yr
Revenue							
	Americas	196.9	195.2	0.9%	-1.3%	200.7	296.0
	Asia Pacific	237.2	241.0	-1.5%	-1.0%	246.8	272.5
	Europe	88.0	88.4	-0.5%	-0.8%	90.0	98.5
Total		522.1	524.6	-0.5%	-1.1%	537.5	667.0
EBITDA							
	Americas	5.0	11.0	-54.2%	-55.6%	4.5	8.2
	Asia Pacific	31.5	32.9	-4.3%	-4.3%	31.1	34.4
	Europe	4.6	(0.5)			2.9	(3.0)
	Global	1.7	1.6	7.9%	7.9%	1.7	1.6
Total		42.8	45.0	-4.9%	-5.5%	40.2	41.2

- \$522.1m in sales and \$42.8m EBITDA from continuing businesses – EBITDA is \$2.2m below the pcg
- Sale of SurfStitch and Swell completed September 2014. Sale of West 49 and DaKine completed February 2014 and July 2013 respectively
- Americas EBITDA is \$6.0m below the pcg – includes the \$6.1m lower wholesale contribution from West 49 this year
- Table assists comparison on a constant currency basis (EBITDA down 5.5% constant currency vs 4.9% as reported)
- Total Sales revenue down 0.5% (1.1% on a constant currency basis)
- Strong performance from Europe

REGIONAL PERFORMANCE - AMERICAS

- Revenue (continuing operations) was up 0.9% - or down 1.3% (constant currency)
- In the USA brands Billabong and RVCA are showing sales growth on the pcp on a like for like basis, up 9.5% and 5.7% respectively
- Result reflects weakness in the Canadian market and the Element brand
- The wholesale contribution from West 49 is down \$6.1 million year on year
- Overheads down 2.1% (constant currency)
- Sale of Swell completed September 2014

Continuing Business (AUD)	1H15 \$m	1H14 \$m	Reported Change %	Constant Currency Change %
Sales	196.9	195.2	0.9%	(1.3%)
Gross Profit	97.5	105.9	(7.9%)	(9.8%)
Gross Margin	49.5%	54.3%		
Gross Margin adjusted for divestments *	48.8%	49.3%		
Overheads (net of other income)	86.5	86.5	(0.1%)	(2.1%)
Global Allocation	6.0	8.3	(28.3%)	(28.9%)
EBITDA	5.0	11.0	(54.2%)	(55.6%)
EBITDA Margin	2.6%	5.7%		
	1H15	1H14		
Comp Store Sales %	(3.5%)	(5.2%)		
Store Count (Number)	68	173		
As Reported (AUD) including Significant Items	1H15 \$m	1H14 \$m	Reported Change %	Constant Currency Change %
Sales	200.7	296.0	(32.2%)	(32.8%)
EBITDA	8.4	(16.8)	150.1%	151.7%
EBITDA Margin	4.2%	(5.7%)		

* Gross Margin adjusted for divestments adjusts for retained wholesale gross profit from sales to disposed retail operations – no corresponding prior year external revenue

REGIONAL PERFORMANCE - EUROPE

- Revenue (continuing operations) was down 0.5% - or down 0.8% (constant currency)
- Gross Margin improvement of 650 basis points (when adjusted for the SurfStitch Europe divestment) driven by focus on key accounts and territories and contracting the customer set to reduce low margin customers
- Element strong double digit growth in external wholesale sales
- Sale of SurfStitch Europe completed September 2014

Continuing Business (AUD)	1H15 \$m	1H14 \$m	Reported Change %	Constant Currency Change %
Sales	87.9	88.4	(0.5%)	(0.8%)
Gross Profit	50.2	43.3	15.9%	15.3%
Gross Margin	57.0%	49.0%		
Gross Margin adjusted for divestments *	55.9%	49.4%		
Overheads (net of other income)	42.9	41.0	4.6%	4.0%
Global Allocation	2.7	2.8	(3.5%)	(4.2%)
EBITDA	4.6	(0.5)	1032.1%	954.0%
EBITDA Margin	5.2%	(0.6%)		
	1H15	1H14		
Comp Store Sales %	(0.4%)	7.1%		
Store Count (Number)	111	112		

As Reported (AUD) including Significant Items	1H15 \$m	1H14 \$m	Reported Change %	Constant Currency Change %
Sales	90.0	98.5	(8.7%)	(8.9%)
EBITDA	26.7	(7.8)	440.6%	436.5%
EBITDA Margin	29.7%	(8.0%)		

* Gross Margin adjusted for divestments adjusts for retained wholesale gross profit from sales to disposed retail operations – no corresponding prior year external revenue

REGIONAL PERFORMANCE – ASIA PACIFIC

- Revenue (continuing operations) was down 1.5% - or down 1.0% (constant currency)
- Sales performance reflects weak comparable store sales trading in Australia
- Gross Margin improved through better inventory management offset by lower hedge rates on imported product due to AUD decline
- Tigerlily performing strongly in Australia
- Overall EBITDA down 4.3% (constant currency)
- Sale of SurfStitch Australia completed September 2014

Continuing Business (AUD)	1H15 \$m	1H14 \$m	Reported Change %	Constant Currency Change %
Sales	237.2	241.0	(1.5%)	(1.0%)
Gross Profit	139.2	141.5	(1.6%)	(1.2%)
Gross Margin	58.7%	58.7%		
Gross Margin adjusted for divestments *	58.4%	57.7%		
Overheads (net of other income)	100.3	100.9	(0.6%)	0.1%
Global Allocation	7.3	7.7	(4.3%)	(5.0%)
EBITDA	31.5	32.9	(4.3%)	(4.3%)
EBITDA Margin	13.3%	13.7%		
	1H15	1H14		
Comp Store Sales %	(4.5%)	0.4%		
Store Count (Number)	254	252		
As Reported (AUD) including Significant Items	1H15 \$m	1H14 \$m	Reported Change %	Constant Currency Change %
Sales	246.8	272.5	(9.4%)	(9.0%)
EBITDA	16.9	16.4	3.3%	3.4%
EBITDA Margin	6.9%	6.0%		

* Gross Margin adjusted for divestments adjusts for retained wholesale gross profit from sales to disposed retail operations – no corresponding prior year external revenue

SIGNIFICANT ITEMS

As Reported (AUD)	1H15 \$m	1H14 \$m
Significant Items - Income Items		
SurfStitch and Swell gain on sale, net of transaction costs	13.7	-
Gain from adjustment to contingent consideration	9.7	-
Term debt repayment foreign exchange derivative impact	-	7.2
	23.4	7.2
Significant Items - Expense Items		
Net realisable value shortfall expense on inventory	2.0	2.4
Turnaround strategy and other restructuring costs	5.8	6.6
Redundancy costs	1.1	2.6
RVCA compensation expense	1.1	-
SurfStitch option fair value adjustment, compensation and other expense	-	1.0
Borrowing costs	-	35.3
South American sales tax provision/restructuring	-	4.1
West 49 transaction costs	-	1.9
Fair value adjustment to assets held for sale	-	17.7
DaKine loss on sale including transaction costs	-	1.2
Total pre tax income / (expense) significant items	13.4	(65.6)
Income tax benefit	-	(67.0)
Total after tax significant and exceptional income / (expense) items	13.4	(132.6)

BALANCE SHEET, GEARING AND INTEREST

- Working capital at \$147.4 million represents 13.8% of the prior twelve months' sales (excluding West 49, SurfStitch and Swell external sales) stated at half-year end exchange rates, being 1.1% higher compared to the pcp of 12.7% (excluding DaKine North America and Europe wholesale external sales)
- Net debt down from \$175.0 million (December 2013) to \$56.7 million. Gross debt 31 December 2014 \$251.9 million (excludes deferred consideration of \$17.4 million) however AUD increases term debt in AUD terms by \$34 million since June
- The decrease in net interest expense from \$19.2 million to \$13.4 million reflects lower term loan following the C/O Placement and Rights issue in the second half of FY14
- Term loan at balance date US\$203.8 million at 11.9%

As Reported (AUD)	Dec-14 \$m	Jun-14 \$m	Dec-13 \$m	Reported Change %	
				Jun-14	Dec-13
Working capital					
Receivables	143.9	153.9	142.8	(6.5%)	0.7%
Inventory	189.3	180.2	229.0	5.1%	(17.3%)
Creditors	185.8	183.9	201.4	1.1%	(7.7%)
Working capital	147.4	150.2	170.4	(1.9%)	(13.5%)

As Reported (AUD)	Dec-14 \$m	Jun-14 \$m	Dec-13 \$m	Reported Change %	
				Jun-14	Dec-13
Debt levels					
Gross debt	251.9	219.4	441.6	14.8%	(43.0%)
Net debt	56.7	74.3	175.0	(23.6%)	(67.6%)

As Reported (AUD)	1H15 \$m	1H14 \$m
Net interest expense	13.4	19.2

CASH FLOW

- Net receipts and payments of \$25.4 million is lower than the pcg partly due to the divestments and timing of cash generation in a retail vs wholesale business
- Financing costs of \$14.9 million in the current period have reduced significantly on the pcg as the prior year included the impact of the costs of the refinancing
- Cash inflow from investing activities of \$26.2 million includes the proceeds from the sale of SurfStitch and Swell
- Capex remained flat at \$12.3 million compared to \$12.6 million in the pcg

As Reported (AUD)	1H15 \$m	1H14 \$m	Change %
Receipts from customers (inclusive of GST)	601.9	772.4	
Payments to suppliers and employees (inclusive of GST)	(576.5)	(724.8)	
	25.4	47.6	(46.6%)
Other income	2.7	3.4	
Finance costs	(14.9)	(68.9)	
Income taxes (refunded)/paid	0.5	(9.4)	
Net cash inflow/(outflow) from operating activities	13.7	(27.3)	(150.2%)
Cash flows from investing activities			
Payments for purchase of subsidiaries and businesses, net of cash acquired	-	(17.7)	
Payments for property, plant and equipment	(10.6)	(7.7)	
Payments for intangible assets (including software)	(1.7)	(4.9)	
Proceeds from sale of business, net of cash divested and transaction costs	38.4	82.3	
Proceeds from sale of property, plant and equipment	0.1	0.1	
Net cash inflow from investing activities	26.2	52.1	
Cash flows from financing activities			
Net repayments of borrowings	-	123.2	
Net cash inflow from financing activities	-	123.2	
Net Movement in Cash Held	39.9	148.0	



OUTLOOK

The return to profit for the Group reflects a stabilisation of earnings and asset values underpinned by a significantly stronger balance sheet and capital structure.

This stability positions Billabong to pursue the strategies that are required to deliver consistent growth in our operating earnings. Achieving that requires further long-term operational reform and investment in the brands, funded by cost efficiencies across the business.

This year, the second half earnings will benefit from the fact that from February we will be cycling the West 49 business on a comparable wholesale basis and as such very little of contraction in contribution from West 49 will carry over to the result, however the Group faces the complexity of the contrary impacts of a lower Australian dollar. While benefiting from the conversion of our US dollar earnings into a higher AUD equivalent, the Group is exposed to higher costs to import products into markets such as Australia. In addition a long-running industrial dispute at major Californian ports, while heading for resolution, still has the potential to slow the flow of new product and disrupt what is positive momentum in the US market.

Overall the Group anticipates the December half will, this year, continue to be weighted as the strongest contributor to the Group's overall EBITDA, although more consistent improvements in the North American wholesale earnings will over time, reduce that bias.



ANNEXURE

CHRISTIAN LOW

BILLABONG **RVCA** **element** **VONZIPPER** **HONOLUA** **M&P PALMERS** **25** **DVD SEASONS** **Sam Dineen Ski** **KUSTOM** **tigerlily** **XCEL** **SECFOR**

BILLABONG HALF YEAR RESULTS – FEB 2015

RECONCILIATION – STATUTORY RESULT TO CONTINUING OPERATIONS – PRIOR PERIOD

Billabong - Half Year to December 13

AUD millions	Statutory Result	Included In Statutory Result				Continuing Businesses 1H14
		Significant Items	Statutory Result Excluding Significant Items	FY14 Divestments: West 49, DaKine	FY15 Divestments: SurfStitch, Swell	
Sales Revenue	667.0		667.0	(90.1)	(52.3)	524.5
EBITDA	(6.7)	47.9	41.2	1.2 *	2.7 *	45.0
Less Depreciation, Amortisation & Fair Value						
Adjustment	37.7	(17.7)	20.0	(1.9)	(1.4)	16.7
EBIT	(44.4)	65.6	21.2	3.1	4.1	28.4
Less Finance Charges	19.2	-	19.2			
Profit Before Tax	(63.7)	65.6	2.0			
Less Tax Expense	64.7	(67.0)	(2.3)			
Net Profit/(Loss) After Tax	(128.3)	132.6	4.3			
Less Outside Equity Interests	(2.0)	-	(2.0)			
Net Profit (Loss) After Tax Attributable to Members	(126.3)	132.6	6.3			

* EBITDA Losses added back

WEST 49 ANALYSIS

- Following the sale of West 49 in February 2014, the Group needs \$3.4m in Wholesale Gross Profit from West 49 related business to maintain the overall pre-transaction EBITDA
- In addition the sale materially simplifies the Group's operations, reduces fixed costs and better aligns with the turnaround strategy
- For the six months ended 31 December 2014 the post sale Wholesale Gross Profit was \$2.0m – materially lower than the \$8.1m in the half year ended 31 December 2013 as noted in the table below

West 49 Analysis	January - June 2013 \$m	July - December 2013 \$m	January - December 2013 \$m
Previous completed 12 month period prior to the sale in February 2014			
Retail Profit/(Loss) (excluded from continuing operations in pcg)	(9.3)	(1.0)	(10.3)
Wholesale Gross Profit (included in continuing operations in pcg)	5.6	8.1	13.7
Combined Wholesale/Retail	(3.7)	7.1	3.4

FOREIGN EXCHANGE

- To assist users 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

	USD	EUR
1H15 Half Year Average	0.8903	0.6911
1H14 Half Year Average	0.9218	0.6864

Spot / Period End Rates

	USD	EUR
Dec-14	0.8146	0.6691
Jun-14	0.9420	0.6906
Dec-13	0.8873	0.6406



DISCLAIMER

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