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PRESENTATION

Operator

Thank you for standing by and welcome to the Billabong International half year results conference call.

(Operator Instructions).

I must advise that this conference is being recorded today, Friday, 17 February, 2012.

I would now like to hand the conference over to your first speaker, CEO of Billabong International, Mr Derek O'Neill. Please go ahead Mr O'Neill.

Derek O'Neill - *Billabong International Limited - CEO*

Thank you very much, and good morning ladies and gentlemen. I'm Derek O'Neill, the CEO of Billabong, and with me today is my Chairman, Ted Kunkel, and also the Billabong CFO, Craig White.

This call is being webcast, and a transcript will be made available on billabongbiz.com as soon as we can make that happen just after this call concludes.

I do want to apologise for the delay in getting information to you this morning. I must say that the process in coming out of a trading hold was much longer than we anticipated, so getting documentation out to everybody this morning has been a much longer process than we imagined.

So the first thing I want to say is that Billabong is an iconic Australian Company. We're underpinned by recognised brands and we have very loyal people. The one thing about this Company is that it never stays still. Now Billabong has always been active in markets around the world, and is a truly global business with approximately 80% of its sales currently outside of Australia.

Sales revenues of AUD847.2 million, which are up 6.3% in constant currency terms compared to the prior corresponding period, should not mask the fact that the Company has had some real issues to deal with.

Now we recognise the need to adapt our Company in the face of what have been pretty awful economic conditions. Now, like so many others in so many sectors, we did not foresee the duration of the global downturn, the more recent challenges in Europe, and the lingering effect on us from the historically high dollar and obviously the considerable decline in discretionary spending here in Australia. Hence, today we announce a series of transformational steps in a market which necessitates strong action.

Now there's been other Australian companies reporting their results in recent days, and given that many face similar global pressures many have also taken some comparable steps. We all need to adapt and innovate in the face of economic uncertainty.

Now, arguably, the retail sector has suffered the most from the global turmoil as discretionary spending has tumbled. Now of course when markets turn positive, discretionary spending will pick up, but given the current global outlook that looks unlikely in the short term.

So the transformational steps that I announce today are the partial sale of Nixon through a highly competitive sales process realising net proceeds of approximately $285 million and valuing the business at approximately $464 million.

A review of Billabong's retail network, with a view to closing loss-making stores and stores performing below expectations. While the review remains a work in progress, it is expected that the number of store closures will fall somewhere in the range of 100 to 150 stores. Now as part of this review Billabong is targeting a range of AUD20 million to AUD30 million reduction in rent expense, and a resulting increase in the EBITDA in the range of AUD5 million to AUD10 million for financial year 2013.

Cost reduction program, which will reduce annual costs by approximately AUD30 million before the end of 2013. And a reduced dividend and fully underwritten dividend reinvestment program.

So firstly, in making these decisions I want to note the impact on people. The cost savings will come from all regions and all areas of the business including head office overheads, supply chain rationalisation, retail/corporate overheads, and streamlining of the Company's marketing expenditure.

Most of the lost jobs will be casual positions, but I recognise that some permanent jobs will also go. Now while we'll look to redeploy people wherever possible, approximately 400 full-time positions worldwide, including up to 80 in Australia, will be lost as a result of the changes we are making. However, most of the lost jobs will be casual. And the fluctuating nature of seasonal retail, as well as the timing of store closures, will determine the final number of casual positions to be lost.

But to give some context to our operations, in peak season we employ approximately 10,000 people worldwide, while in the low season that figure would be reduced by approximately 1000.

Billabong has a strong team culture from head office to stores, and it will seek to minimise the impact on affected staff through redeployment and through natural attrition.

Now while we're on the issue of jobs, I would urge the Federal Government to recognise the current pressures on retail businesses. Simply put, the cost to operate retail stores in Australia is significantly higher than is the case in other countries. Through Billabong's worldwide experience, as one of our country's largest international retailers, we can see that it is not a level playing field for Australia.

Now in relation to our stores, based on work done to date, we believe that the underperformers represent approximately 15% to 20% of our total stores. The positive EBITDA benefit of between AUD5 million to AUD10 million that the Company expects to realise from the retail store review will be felt from the next financial year.

Now the stores that are currently profitable in the Group had average EBITDA margins of 17.8% in the first half. Now these are desirable margins for any global retailer.

Other companies which have reported this week have also declared that rental costs are a major challenge in the changing Australian retail landscape. Now I echo such comments. Landlords need to appreciate the new reality of retail in Australia and be more reasonable with their rental agreements.

I also announced today that we will establish a joint venture for Nixon with Trilantic Capital Partners. Now we feel very positive about working collectively with Trilantic. They have a strong passion for Nixon and I'm excited by the combined potential that we offer the Nixon brand.

Nixon is a very good business with a strong management team, and it's been part of our network of great brands. Indeed, while focus has traditionally been on the Billabong brand, Nixon highlights how we've been a successful integrated brand in our sector and how we want to carve to increase potential brands under our ownership.

However, while Nixon has strong growth opportunities in our core board sports market, we believe the best prospects are somewhat outside of our traditional distribution model. We believe that a single vehicle, 100% focused on Nixon and suitably resourced, can deliver a strong outcome for the brand. Nixon is a global brand. We now look forward to it becoming a world-class brand.

Now under this deal, 48% of the Company will be purchased by Trilantic Capital Partners, with Billabong retaining 48%, and 4% will be bought by Nixon's management. We'll use the proceeds of approximately $285 million for this partial sale to repay debt. Through a competitive sales process run over the past five months, we've secured an outcome that, unlike other initiatives, today is in shareholders' best interests.

In a response to the uncertain operating environment, we've also addressed our dividend. We announced today that we will reduce our dividend and reintroduce a fully underwritten dividend reinvestment plan.

These collective actions (inaudible) company that is able to respond effectively to changing conditions. We want our shareholders to share in the long-term value that we can create. So I'm now going to hand over to our Chairman to make some remarks.

Ted Kunkel - *Billabong International Limited - Chairman*

Thank you, Derek. Good morning, ladies and gentlemen. I want to put into context the Billabong Board's decision to consummate the Nixon transaction in the face of the $3 per share indicative proposal received from [TPG Capital]. Put simply, the Board could not risk the future of the Company and ignore the burden at hand to explore any last minute, highly conditional, non-binding proposal that had the ability to leave the Company exposed, given the current pressures on our balance sheet.

In the current trading environment, we needed a solution that offered certainty. The Nixon transaction was the best of the available and actual alternatives, that had the highest degree of certainty. Having said that, we as a Board continue to be prepared to engage with anybody who puts forward a proposal which is in the best interests of the Company and its shareholders. Thanks to the initiatives announced today, the Company is now on a much more secure footing. I'll now hand it back to Derek. Thank you.

Derek O'Neill - *Billabong International Limited - CEO*

Okay. So thanks, Ted. Thanks everyone again on the call for your attention. So I know it's been a pretty busy week. So I'm going to hand it straight over to questions, if I could. I'll ask that questions be one, if not two at the most, so we can get everybody in.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question comes from the line of Shaun Cousins from JPMorgan. Your line is now open, please go ahead.

Shaun Cousins - *JPMorgan - Analyst*

Sorry, Derek, just to clarify regarding the transaction. Can you just sort of confirm how much debt you'll actually be reducing, given that, while you're getting some proceeds for the Nixon sale, there's actually going to be a significant amount of debt actually in the business that you'll have a I think it's 48.5% shareholding in?

Craig White - *Billabong International Limited - CFO*

Shaun, it's Craig. I'll take that one. So on the numbers we have today, we expect to reduce debt in the order of $285 million. The JV itself will be deconsolidated from the Group and will have its own gearing arrangements that will be separate to the Group.

Shaun Cousins - *JPMorgan - Analyst*

But I mean you guys will still have some exposure there. So you're kind of just sort of taking it off the balance sheet to a degree but you still have that exposure. So it's still not an issue -- sorry, pardon me, it's still not an issue that you've totally resolved.

Craig White - *Billabong International Limited - CFO*

Well no. The debt was in the JV. It's a totally separate entity. There's no recourse to the Billabong Group. It's a separate business with its own financing arrangements and I think is appropriately geared to run that business.

Shaun Cousins - *JPMorgan - Analyst*

Sorry, there's no recourse to Billabong Group, but you're a significant shareholder in this business.

Craig White - *Billabong International Limited - CFO*

That's correct.

Shaun Cousins - *JPMorgan - Analyst*

Okay. Sorry, just in regards to the -- looking at the sale of Nixon in terms of the adjusted EBITDA and adjusted EBIT, I mean, aren't you guys really selling off, to be frank, probably your best performing business just to resolve some of the financing problems that you guys have got yourselves into?

Derek O'Neill - *Billabong International Limited - CEO*

Well, Shaun, I'd put it this way. You know, I think that Nixon -- I've identified that Nixon has fantastic growth opportunities, particularly outside of the normal distribution that we have. We've had Nixon in our Group for six years. It's been a fantastic brand. We've taken the view that the brand can really operate strongly inside a single vehicle that can focus on the distribution channels like high-end department stores, the watch channel, increasingly the electronic channel with the successful Nixon headphone range. That was somewhat a little bit difficult inside our Group. Therefore, it was an attractive alternative to look for a partner that could help with that. At the same time, we still retain a very high equal share in that JV so we get a benefit further down the line. We saw that as a good all-round alternative, which also provided further certainty for our Group at the same time.

Shaun Cousins - *JPMorgan - Analyst*

Okay. Thanks for that.

Derek O'Neill - *Billabong International Limited - CEO*

Thanks, Shaun.

Operator

Your next question comes from Craig Woolford from Citigroup. Your line is now open, please go ahead.

Craig Woolford - *Citigroup - Analyst*

Good morning, Derek, Ted and Craig. Just a question about the stores and the typical lease expiry you would have on those stores.

Craig White - *Billabong International Limited - CFO*

Craig, again, I probably take you back to the full-year accounts. If you were to have a look at the notes around the lease commitments, you'll see a sort of maturity profile of the stores at that time. So we've got falling due within one year in the order of AUD100 million, greater than one year. Less than five is then the bulk of it; it's in the order of AUD300 million. Then I think beyond five is in the order of AUD55 million from memory. So that gives you some idea of the maturity of those stores.

Craig Woolford - *Citigroup - Analyst*

Okay, so I'm just trying to get a sense of the provision or the risk around provision regarding store closures.

Derek O'Neill - *Billabong International Limited - CEO*

Craig, look, the reality is that a lot of the stores that we would be looking to put on the list are probably being -- they're coming up to sort of those five-year type marks. So in a lot of cases they would be stores that have been either signed up in '06, '07 or '08, where frankly leases, particularly in the US at that time, were pretty much at different levels pre-GFC. Ultimately we would take the view that a lot of the more loss-making stores or underperforming stores would come from that time. There'd be quite a lot of those stores that would just naturally either be at the end of their lease or quite close to the end of their lease and therefore we may accelerate that slightly.

Craig Woolford - *Citigroup - Analyst*

Okay. Just lastly in terms of the Billabong brand, you said it was down mid single digits. How can we be comfortable that it's an industry issue and not a brand health issue?

Derek O'Neill - *Billabong International Limited - CEO*

Well, I mean, look, a lot of that was in Europe, just purely from, mainly from the fact that your Billabong brand continues to have the most exposure from the southern European territories. It's a strong brand in snowboarding. With the weather change, particularly probably in November in Europe, it really did struggle. It's had a pretty good year in Australia. It continues to be the top performing brand in our stores. We don't see really any problems with the health of the Billabong brand. It's performed well. But as I said, exposure to countries like Portugal and Greece and Spain, where Billabong is a much stronger brand than some of the other brands in our portfolio, just has made it a little bit challenging this half.

Craig Woolford - *Citigroup - Analyst*

Sure. Thanks.

Operator

Your next question comes from the line of Phillip Kimber from Goldman Sachs. Your line is now open, please go ahead.

Phillip Kimber - *Goldman Sachs - Analyst*

Hi guys. Just a question, you've shown up at the back, I think it's on page 3, the significant reduction in the net debt to EBITDA. I think in the past you've talked to gearing metrics from a debt covenant perspective. I was just wondering if you could comment on the impact that the transaction's expected to have on your fixed charges cover.

Craig White - *Billabong International Limited - CFO*

Look, I think Phil, in regards to that, I mean, clearly I'd say the most immediate issue that the Group was facing was to address the balance sheet from a debt cover ratio perspective. I think the Nixon transaction does that. I think in terms of the -- excuse me, just one moment -- in terms of the fixed charge cover ratio, clearly that is dependent on exiting the leases. Really, in the short-term, that has not been the issue for the Group. As we exit these stores, once the review is complete, on all the modelling that we've done and the forecasts that we've got, we would expect to remain in compliance with our covenants over the forecast period. But it will take longer, if you like, for the store closures to have an impact on improving that ratio.

Phillip Kimber - *Goldman Sachs - Analyst*

Then as a follow-on question on the cost savings, because they're obviously -- you talked to AUD30 million there. They're pretty important in terms of staying above those ratios. Can you give a little bit more detail than you have in relation to where are the key reasons they'll be coming from and what work you've done to date to sort of come up with the AUD30 million estimate?

Derek O'Neill - *Billabong International Limited - CEO*

Yeah, look, Phil, obviously I have to satisfy a number of different parties here, including my staff. So I'm not going to be providing really the absolute level of detail. We've indicate that really it will be across the business in all areas, but primarily in a few different parts. Certainly the retail part will -- with less retail stores. There'll be some absolute rationalisation in retail corporate overhead. Marketing, I think that we're indicating that we can probably do some events and even increase the profile on certain events and potentially look to avoid some others. There's definitely some supply chain rationalisation opportunities that we've seen within the Group, particularly when we look at the information flow that's now coming through from our retail business, direct consumer information that we never had before.

There'll be head office overheads pretty well right across every region as well. I think in this environment we need to be running as lean as we can. We feel confident in achieving those two levels of savings across the business over the next 12 or so months.

Phillip Kimber - *Goldman Sachs - Analyst*

Okay, thank you.

Derek O'Neill - *Billabong International Limited - CEO*

Thanks, Phil.

Operator

Your next question comes from Greg Dring from Macquarie. Your line is now open, please go ahead.

Greg Dring - *Macquarie - Analyst*

Oh yeah, good morning, guys. Derek, the partners in this joint venture, are they known to you? Have you done business in the past? I'm just curious how related or how new they are to the industry and working with you guys?

Derek O'Neill - *Billabong International Limited - CEO*

Oh look, they're new to our industry. Ultimately, they've been involved in consumer levels before. We've been going through a process that's taken almost about six months. You know we've had a really good rapport at the early stage. I think it's fair to say that to fit in with a brand like Nixon, the partners need to really understand the brand. That was key and we were able to luckily find a group of people that can help us drive that brand forward.

We'll have a couple of seats on the Board, sitting with Trilantic and the Nixon management Board. We'll get some independent directors. I think it's going to be a very strong balance and we think (inaudible).

Greg Dring - *Macquarie - Analyst*

Just you've given us a hint of what the EBITDA was. Could you tell us what the sales were fiscal year '11 for this brand, globally?

Derek O'Neill - *Billabong International Limited - CEO*

Look we've never split out Nixon revenues. What was it, for fiscal year '11?

Greg Dring - *Macquarie - Analyst*

Yes just the last fully reported year.

Derek O'Neill - *Billabong International Limited - CEO*

It was in the vicinity of about $125 million.

Greg Dring - *Macquarie - Analyst*

US?

Derek O'Neill - *Billabong International Limited - CEO*

That would be US, correct yes.

Greg Dring - *Macquarie - Analyst*

Yes okay.

Craig White - *Billabong International Limited - CFO*

That's about right Greg.

Greg Dring - *Macquarie - Analyst*

Okay and is this going to be an incorporated joint venture? I'm just curious about the accounting.

Craig White - *Billabong International Limited - CFO*

No, it will be de-consolidated Greg.

Greg Dring - *Macquarie - Analyst*

Okay, all right.

Craig White - *Billabong International Limited - CFO*

We've only got 48.5%.

Greg Dring - *Macquarie - Analyst*

Okay, so equity associates, that's fine.

Craig White - *Billabong International Limited - CFO*

Correct.

Greg Dring - *Macquarie - Analyst*

Okay and then just finally there's a lot of material here which you've given us. It says that the proceeds may vary of up to $45 million for tax Craig. Can you just explain that?

Craig White - *Billabong International Limited - CFO*

Yeah look I think Greg in terms of the way that the transaction's been structured, we're of the view that the net proceeds that will fall out of that transaction are $285 million. We have looked at a structure to achieve that outcome and we have discussed that structure with both the US and Australian tax authorities and are in the process of obtaining rulings from them. I think based on that we are of the view that those are the proceeds that will flow. But that process is not yet complete and hence the comment that was put in the release.

Greg Dring - *Macquarie - Analyst*

Okay well I'll circle back for more questions later, thanks.

Craig White - *Billabong International Limited - CFO*

Thanks.

Operator

(Operator Instructions). Your next question comes from the line of Grant Saligari from Credit Suisse. Your line is now open, please go ahead.

Grant Saligari - *Credit Suisse - Analyst*

Thank you and good morning. Derek and Craig I wonder as you reflect over the last 12 months, we're quite aware of very challenging external conditions. But I just wonder whether you've identified areas of operation in the business execution capability that you think on reflection wouldn't have been up to your expectations and any change in operating I guess going forward from here?

Derek O'Neill - *Billabong International Limited - CEO*

Yeah Grant I'll try a couple there. Look I think that the ferocity of the change in Europe was probably a difficult one for us to transition through. The European business has been a solid performer for about 20 years and ultimately we were still travelling quite well. I think the market for a number of years has been anticipating that Europe would just follow the US into that early recession in the financial crisis and our business held up really well.

To see particularly we get a view of the market and -- and it's not a complete view, but we get a view of the market when we look at our own comp store sales. And you see comp store sales travelling along around flat in Europe even though there was a lot of economic uncertainty; particularly from May through to August it was quite uncertain. To see comp store sales suddenly start really plummeting in November when the crisis was really becoming heightened was really challenging.

And then we had a lot of large retailers to keep a lot of product on reserve through the season, particularly snow outerwear products, that just didn't need that product. Therefore we saw comp store sales were flat, suddenly go to minus 15 and minus 20, minus 21. Then suddenly as soon as it started snowing, we started seeing it come back to flat within two weeks and then the last week of December you're seeing mid teen positives.

It was just an incredible turnaround to watch that. I think it showed us that, in a planning sense, it's always pretty difficult but you need to really be focused just on almost every day trading in your retail and try to pick those sort of trends.

Here in Australia, I don't think ultimately we could have imagined the weather cycle that we've had, particularly through Sydney and in New South Wales. But while we're not as bad as the ice-cream salesmen, it's been a very, very ordinary year for summer retail apparel companies. So probably you have your stores, you have plenty of product available, and then you see a couple of weeks. I think one of our learnings from that is that we probably need to maybe, with our supply chain -- I'm talking a little bit about supply chain rationalisation here -- but with our supply chain, just probably be a little hungrier and a little more ready to fill in rather than anticipate. I think it's fair to say we anticipated a much stronger season than what we saw, and then the -- it just didn't really come.

We've been integrating and bedding down our IT systems across our retail in Australia. Basically through October and early November it's been a little challenging just in terms of making sure that the integration goes as smooth as possible, and that affected for just a few days or a week or so in each store to probably get the right (inaudible) products, so you lose a bit of momentum there. Overall, I think just probably being a little more prepared.

We saw the US sort of really start coming out of the sort of slump they were in. Just, you know, a slow recovery which we've seen pretty well coming over about 18 months. I think we just felt that Australia was probably going to come along a little bit like that, and frankly it's just got worse. It's, you know, been a bit of a learning curve in thinking that well, you know, cycles just naturally come back at some point. You can have another whack that takes you down another notch. So all a big learning curve for us.

Grant Saligari - *Credit Suisse - Analyst*

Just a second question, if I could, on the retail changes. Could you give some overall diagnosis as to what are the issues with the 100 to 150 stores you plan to close? Is it simply a rent issue? Is it a locational issue? I guess I'm seeing just some confidence that the stores that aren't being closed aren't going to face those issues down the track.

Derek O'Neill - *Billabong International Limited - CEO*

Well, it's interesting, you know I called out 17% for the profitable stores. I can tell you now that the unprofitable stores have a negative minus 15% EBITDA margin. So the extreme is a long way apart. When you look at those loss making stores, in general I would say that in a lot of cases they are generally a slightly smaller store and therefore the amount of staff that you have in the store and the rent equation in the floor space size just in some cases is just not quite generating enough top line revenue to really effectively pay the costs for the store.

As I indicated, quite a lot of those leases were signed pre GFC and therefore they've been prohibitive. I think it's fair to say that in a lot of cases we've come through the GFC, you start to think well it's slightly improving, we'll hang on here, we'll persevere a little bit more, we'll work on it a little bit more. And then it's also fair to say that in the last year while there's been the odd good period, we've had some pretty awful months and we're just taking the view now that frankly we need to put those behind us. It's not quite as easy as just thinking, well, we close all those tomorrow and then every store runs at 70%, but it's not far off that.

I think that we've seen some shifting landscapes. I think it's fair to say, certainly in Australia, that the spending patterns have changed somewhat. The strong Australian dollar is certainly leading to people travelling a lot with money that they may be spending on sort of leisure discretionary type items, spending that overseas. There's no doubt there is a lot of business being transacted online that we are benefiting from. But also online coming in from all around the world, particularly with the tax free holiday that Australian authorities have granted to everybody to buy products from all over the world.

So when you look at the impact on an individual retail door from some of those challenges, plus a pretty weak discretionary consumer in general, it takes the shine off from those stores and we're deciding they need to go.

Grant Saligari - *Credit Suisse - Analyst*

Alright, thank you for that.

Derek O'Neill - *Billabong International Limited - CEO*

Thanks Grant.

Operator

Next question comes from the line of Nick Berry from Nomura. Your line is now open, please go ahead.

Nick Berry - *Nomura Securities - Analyst*

Morning Craig, sorry Derek, morning Craig. That's some good information on Nixon that you've given. If I do a quick back of the envelope, backing out the EBITDA, I get that the rump of the business ex-Nixon probably in about just under less than two years has declined in the order of around 70%. I would be interested to get your view on how much of that decline you think is structural versus cyclical? As you think about the elements that have driven that decline, what the outlook for those might be over the next sort of 12 to 24 months?

Derek O'Neill - *Billabong International Limited - CEO*

Look I'm not quite sure about the 70% because you have to obviously determine what the value of Nixon was at that time or what that was delivering. But look, there's no question it's been a high level of decline, so I'll just address quite a few things in there.

We've certainly seen, and particularly in Australian retail, the margins that Australian retailers were making two years ago compared to day, obviously have changed. That's absolute fact. Two years ago in our business we had a very strong European business that was improving margins, had pretty strong revenue growth. And today certainly in this six month period, significantly impacted (technical difficulty) particularly at the [GP] line and the EBITDA line with the challenges over there.

The currency I cannot underestimate that to anybody the affect of the currency on our business. Just to give you an idea, about two and a half years ago for every Euro of profit or revenue that was translated back to us here in Australia, was giving us somewhere around AUD2. Today it gives us about AUD1.23 and probably we're going to continue to see further deterioration. So just in Europe itself we've seen about a 40% decline just purely from the Euro translation and never mind the change from US dollar probably at a core sort of mid 70s level to today at anywhere from sort of 105 to 110.

I don't really believe that we're talking major structural issues. There's no question that we can continue to improve that business. I think we're looking at doing that today. I think I need to also call out just the impact that challenging conditions are also having out on just the standard wholesale customer as well, particularly in Australia where some of their business is going online.

Some of their business is going online, some of their business is going online offshore, some of their business is going on the next Qantas jet that leaves the country, and some of their business is going to people paying down their own personal debt levels as people look to be cutting back here in Australia. So quite a lot of challenges.

I think that within our industry, which is one of our direct comparisons, we're performing well inside what we do, and that is what we focus on.

Nick Berry - *Nomura Securities - Analyst*

Just a clarification question on the EBITDA saving from rent expense reduction. Would the difference between the AUD20 million to AUD30 million reduction and the AUD5 million to AUD10 million EBITDA gain, does the difference, in effect, come through in F14?

Craig White - *Billabong International Limited - CFO*

No, Nick. Look, I think the way you need to think about is that that EBITDA of a range of AUD5 million to AUD10 million is the operating results of those stores which includes the rent expense. The reason why we have included that range of AUD20 million to AUD30 million is to give you a sense of what sort of lease charges we will be looking to exit. That will have an impact on in particular if you are trying to do the fixed charge cover ratio, but the reduction of the lease charges will take place in FY13.

Nick Berry - *Nomura Securities - Analyst*

Okay. So on an annualised basis the absolute most we should bake in is that AUD10 million?

Craig White - *Billabong International Limited - CFO*

Sorry, just say that last bit again?

Nick Berry - *Nomura Securities - Analyst*

On a annualised the absolute most that we should bake in for EBITDA benefit is that AUD10 million?

Craig White - *Billabong International Limited - CFO*

Correct, in regards to the--

Nick Berry - *Nomura Securities - Analyst*

Rent reduction.

Craig White - *Billabong International Limited - CFO*

--elimination of the loss-making stores, that's correct.

Nick Berry - *Nomura Securities - Analyst*

Okay, thanks.

Craig White - *Billabong International Limited - CFO*

I mean that is obviously a separate issue to the other [cost out] initiatives other than retail stores. That's the AUD8 million to AUD10 million -- sorry, the AUD5 million to AUD10 million is separate to the AUD13 million that we have talked about in terms of cost out.

Operator

Your next question comes from the line of Michael Simotas from Deutsche Bank. Your line is now open. Please go ahead.

Michael Simotas - *Deutsche Bank - Analyst*

Good morning, guys, just a question on the brands. So Nixon is the one that is going into this structure. Were any of the other brands considered or would this structure have worked for any of the others?

Derek O'Neill - *Billabong International Limited - CEO*

Well, no, there weren't any other brands considered. But they just weren't considered, so we didn't really look to put anything else in there. I think Nixon itself was a strong brand and we had a lot of strategic reasons to do this. The primary one is that we are very focused in board sports.

Within the Board sports distribution we have, obviously, some limitations. We don't deal in that higher end department stores. We don't deal in electronics stores. We don't deal in the watch (inaudible). So Nixon is the perfect one for this JV. I mean it is not out of the -- we can always consider all options, moving forward, to do it again, so we would never rule it out. However, at this stage it is just been -- our focus has been on Nixon.

Michael Simotas - *Deutsche Bank - Analyst*

Yes, that makes sense. Then just a clarification question on some of the detail that you've given us on retail margins. I think on slide 17 there are retail margins by region. Can you just clarify, when you talk about a retail margin, does that assume that the stocks are purchased on arm's length basis at a wholesale price? Or does that include the vertical margin?

Craig White - *Billabong International Limited - CFO*

That includes the vertical margin. That is consistent with the way we have reported historically.

Derek O'Neill - *Billabong International Limited - CEO*

Well, it includes the vertical margin and the corporate retail overheads as well.

Michael Simotas - *Deutsche Bank - Analyst*

And corporate retail overheads, okay, all right. Can you just give us a rough indication of what proportion of Company owned store sales come from Nixon?

Derek O'Neill - *Billabong International Limited - CEO*

What proportion of Company owned store sales come from Nixon?

Michael Simotas - *Deutsche Bank - Analyst*

Yes.

Derek O'Neill - *Billabong International Limited - CEO*

It's - what proportion of Company owned store sales come from Nixon? It is a relatively small number. Nixon was a brand that had, probably, a higher wholesale penetration than any of our other brands, principally because it was dealing with stores like Barneys and with bigger retailers in areas like Japan et cetera, so it was already achieving some level of success outside of our channel.

I can mention that the way we look at it is that we have secured a long term supply agreement with Nixon. Therefore we have direct access to the brand where we are looking to put in bigger displays and really highlighting the brand in (inaudible) retail stores, giving it even more space. The new category expansions in areas like headphones are really new for us, so that is giving greater opportunity.

That supply chain agreement really - I think it is - the way we look at it is it is the best of both worlds. We have access to it for our retail, which is a plus. We are able to put it in a vehicle that can really drive it hard outside of what we do day to day, and not get caught up in what our business does day to day but, at the same time, realise what an incredible increase in value since we have owned that company, and therefore monetise part of that and, at the same time, retain a considerable part of that brand that can, hopefully, at some point, provide tremendous long term value to the owners of this Company.

Michael Simotas - *Deutsche Bank - Analyst*

Okay, that's great. Thank you.

Derek O'Neill - *Billabong International Limited - CEO*

Thank you.

Operator

Your next question comes from the line of Ben Gilbert from UBS. Your line is now open. Please go ahead.

Ben Gilbert - *UBS - Analyst*

Good morning, guys. Just the first question, just on Nixon, and just the conditions, whether the deal is conditional at all. And specifically whether, with respect to subject to due diligence, if you guys can cancel the deal if you want to, if there is any break fees payable, and also if there is any exit plan down the track?

Craig White - *Billabong International Limited - CFO*

Yes, Ben. I mean there are always the customary closing conditions that you have in any transaction, but the financing is committed, due diligence is all complete. There are a couple of anti-trust approvals that have to be obtained in different parts of the world, but we don't expect any issues there.

Ben Gilbert - *UBS - Analyst*

In terms of any exit plan down the track, has there been an arrangement around there will be an exit in five or 10 years or you guys could buy the business, the other half back in five or 10 years or anything like that?

Derek O'Neill - *Billabong International Limited - CEO*

Look, we have some opportunities in there to participate further down the line, but I think we are looking at it that we will take it as it comes. I think that we take a long term view. In that long term view it will be difficult to specify exactly what we should do today. We want to be flexible in pretty much all the options we have in front of us.

Ben Gilbert - *UBS - Analyst*

Great. Just the second one - could you just talk a little bit about how you are seeing the forward order book across the regions for the next half? I'm just trying to get an idea as to the trends in earnings, whether you are still seeing deterioration or seeing any improvements out there?

Derek O'Neill - *Billabong International Limited - CEO*

Okay, well look, yes, I will talk about this a bit. What you have to remember is that I think forward order book, one, is slightly is probably slightly less relevant than it probably has been in the past because of the percentage of retail that we have across the business at the moment, both online and bricks and mortar retail, just under 50% of the Group, 48% of the Group, and in some countries - like here in Australia - it is around 70%.

So we start talking about the forward order book for a much smaller part of the market than we have. I think that if you do the math wholesale in Australia now, as part of the Group, is in the vicinity of 6% or 7% of the entire business. So the forward order book assumption can somewhat distort, probably, what is happening around the world.

Just to give you some colour on it, the forward order book position in the US we have out right now to really just before back to school, so for the period really up to May. Currently, our forward order book for our wholesale customer base -- and I'll just pass Pacific Sunwear for a moment -- but for the balance of our account base in the USA is low double digits, which we see as a strong book at this stage. Pacific Sunwear have publicly stated that they are in the process of reducing the amount of stores, so our expectations in PacSun, overall, is that that business will continue to decrease.

I will just say that in the first half PacSun business was considerably soft. In actual fact, in the first half, I will add that PacSun was not our largest customer in the USA. However, the forward order book position in the US was certainly quite reasonable and I think it puts us in a good position in a market that has actually been quite promotional. Particularly over the last two months it seems that sort of Thanksgiving sales started and it was very promotional right through December. January also remains relatively promotional as well.

The Australian forward order book is [we're just taking] summer right now. It is fair to say that most retailers have been a little tentative, but we are still in the process of really showing the line. We don't really get a lot of (inaudible) for quite a few weeks. I don't think too many retailers in this environment are prepared to suddenly write 20% or 30% more orders than they've seen through this summer because this summer has been pretty awful for some.

I think it is fair to say that there are quite a few wholesale accounts in this country under pressure with the costs to (inaudible) and that's got some -- that will have some impact, I think essentially over the next six months. That is difficult to quantify.

Europe is the country that is probably a little bit challenging in the forward orders. It is fair to say that this winter for retailers in Europe has probably been the worst. Certainly, I have been involved, both directly and indirectly, with that European business for just over 20 years now and this winter has been the worst for apparel that I've ever seen. It (inaudible) cold at all until quite late into December and the majority of the larger retailers had already gone heavily on sales.

The good news is that through this very cold period we have had over the last three weeks they have been able to clear a lot of their excess winter inventory. But I think pretty much disastrous type margins because at the end of the season that clearance has been pretty brutal.

Our expectations in the forward order book that we currently are showing winter the (inaudible) trade show in Munich was about 10 days ago. While retailers themselves are quite upbeat, you can see that they are under a lot of pressure and our expectations on forward order book in Europe I think would be -- I would be very surprised if they weren't down to the low double digits, just off the back of the winter that we have just had.

With a bit of luck they may be getting it a little bit short. I think we will be ready to provide product in season. We will be looking through this (inaudible) supply chain rationalisation to align our supply base to try to fill in retailers if the season is a lot better than the one we have just seen, which as I said was pretty awful.

Ben Gilbert - *UBS - Analyst*

Great. Thanks, guys.

Derek O'Neill - *Billabong International Limited - CEO*

Thanks.

Operator

Our next question comes from the line of Tom Kierath from Morgan Stanley, please go ahead.

Tom Kierath - *Morgan Stanley - Analyst*

Yes, morning. Just a question on I guess your retail stores and are we now in a phase where you're going to close retail stores and I guess given the pickle that you've got yourselves in with operating leases?

Derek O'Neill - *Billabong International Limited - CEO*

Sorry, close?

Tom Kierath - *Morgan Stanley - Analyst*

Well --

Derek O'Neill - *Billabong International Limited - CEO*

We're indicating that we're closing stores.

Tom Kierath - *Morgan Stanley - Analyst*

But I mean the strategy over the last few years has to been to rollout stores. I mean are you moving into a phase now where there will be a lot less retail and, I guess, a lot more online sales is where I'm coming from.

Craig White - *Billabong International Limited - CFO*

Tom, I think maybe just if I could make a comment. I think Derek referred earlier to the fact that if you take - you know if you exclude a lot of the underperforming stores the underlying EBITDA margin in our retail is strong at 17.5% in the first half.

So you know what we're looking to do, and it's obvious that the review is not complete, but what we're looking to do is you know eliminate those underperforming stores.

Derek O'Neill - *Billabong International Limited - CEO*

Just as far as online goes, I mean you know it is fair to say that one of the ways we're looking at the business now a little more, is that you know what are the areas that will give us the best return on investment rather than can we spread the investment over all regions and all brands and all categories.

If we look at online, for example, we've been taking a pretty considerable investment, you know even in this half we've just announced, with regards to the launch of SurfStitch in Europe. We believe that you know this is going to be a fantastic opportunity that's going to go live. I'd like to think it will go live before the end of this half. But we're preparing to have a very large business in Europe with SurfStitch.

It's fair to say that our online business has continued to be the highlight growth area for the Company. Online sales in this last half were up close to 60%, in Australia much closer to 100%. The profitability that's starting to flow through from the leverage effect that you get when online grows; it's starting to come through.

I can tell you now that the profitability for online this half was up over 300% from the same half a year ago. And these margins that are being achieved are now quite accretive to the Group margins, and you know some of those businesses that we have are leading in our sector.

And I've indicated a desire in the past to have really the global board sports store and we're rapidly getting there as we're beginning to really expand outside of our core online markets in Australia and the USA.

Tom Kierath - *Morgan Stanley - Analyst*

And just whereabouts are you at, sorry, with SurfStitch in Europe? Could you just give a bit more detail on that?

Derek O'Neill - *Billabong International Limited - CEO*

Yes. We've been operational in online in Europe for quite awhile through our Two Seasons retail operation in the UK. It's primarily dealing with the UK audience and it's been doing quite well. But we needed to really operate a multi-language, multi-territory online site in Europe.

You know SurfStitch has, here in Australia, a fantastic service business, Momento delivery, free delivery. You know you basically get your order in, press the send button, and your order is pretty well being packed within 10 minutes of that order being received online.

We're looking to introduce the same high levels of service into SurfStitch Europe. And you know a part of the team has already gone over to Europe to establish that business. And you know we've got all the key brands lined up and we're excited about the opportunity. We know from experience that particularly in the Central European territories and in the Eastern European territories that you know the online sales are strong.

And we believe that there is a great opportunity to take that strong service leadership, that SurfStitch is known for, into the European market and eventually even outside the European market as we you know start to map the world online.

Tom Kierath - *Morgan Stanley - Analyst*

Great, thanks. Thanks very much.

Derek O'Neill - *Billabong International Limited - CEO*

Thank you.

Operator

Your next question is from Silvia Spadea from Merrill Lynch. Your line is now open, please go ahead.

Silvia Spadea - *Merrill Lynch - Analyst*

Hi Derek, hi Craig.

Derek O'Neill - *Billabong International Limited - CEO*

Morning.

Silvia Spadea - *Merrill Lynch - Analyst*

Just firstly, just a clarification question, what timeframe were you looking at to close 100 to 150 stores? And that AUD5 million to AUD10 million that you're talking about in FY13, how many stores does that assume have actually closed in that period?

Derek O'Neill - *Billabong International Limited - CEO*

Yeah, look Silvia, I mean that review is really ongoing. But I would probably put it to you this way, if a store in North America ultimately you know there's - well you've got two real options really. There's at the end of the lease expiry where it's got three months to go do you need to actually accelerate it? Or you've got another situation where you're going to go and negotiate your way out with the landlord.

I think it's fair to say that you know there are months that you would prefer to probably close the store and there are months where you'd prefer to have it open. You know I think that the important back to school months of July and August, for example, in the US would be strong. And I think that here in Australia you know the November/December/January period would also be the key months, whereas the other months of the years are less - they're slow.

That is really ongoing. But you know between getting to the actual end of the existing lease, and then negotiating out of, that's really the two different ways of looking at it.

Craig White - *Billabong International Limited - CFO*

But Silvia I think for the purposes of the way that you perhaps think about the numbers. You know I think the EBITDA benefits as a result of those closures - and I go back to what I said earlier - are expected to deliver in the range of AUD5 to AUD10 million of EBITDA in FY13.

Craig White - *Billabong International Limited - CFO*

So that's the annual number for FY13 and we'd expect to take you know in the order of AUD20 million to AUD30 million of these charges out of the FY13 P&L.

Silvia Spadea - *Merrill Lynch - Analyst*

Sure. So these - I mean when you talk about the AUD5 to AUD10 million, so it's not just - you're not just talking about, I guess, the rent benefit. Because not all the stores are obviously loss-making, are they? So I would have thought even if some are underperforming they're still making some profit, maybe not to the required return of capital that you're (technical difficulty) forward.

Craig White - *Billabong International Limited - CFO*

Yes, so the way - I think this probably goes back to the previous question - but to be clear, the way to think about it is that AUD5 million to AUD10 million EBITDA benefits we expect to get in FY13 includes the cost of rent of those stores. That's effectively the total estimated EBITDA that we're currently losing, if you like, --

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Silvia Spadea - *Merrill Lynch - Analyst*

Okay.

Craig White - *Billabong International Limited - CFO*

-- across that 100 - 150 stores that will not be there in FY13, okay?

The 25 - sorry, the AUD20 million to AUD30 million of lease costs is something that you need to think about when you're really looking to calculate a fixed charge cover ratio, that's basically the reason we've provided that range.

Silvia Spadea - *Merrill Lynch - Analyst*

Mm. Okay, sure.

Craig White - *Billabong International Limited - CFO*

Okay?

Silvia Spadea - *Merrill Lynch - Analyst*

Just on the cost side, I know you guys noted in I think it was in the December update you'd already taken out significant costs in the business in recent years.

So apart from cutting headcount, I'm just concerned that cost-outs in other areas may end up doing more harm than good in your underlying business, say for instance if you're slashing marketing or something to that effect. I know you don't want to be too specific around where you're taking the costs out, but we're just trying to get a sense of just that main area that you're targeting.

Derek O'Neill - *Billabong International Limited - CEO*

Well Silvia we've always tried to you know align our marketing spend with revenue. I think it's fair to say you know that the Group revenue moving forward, ex-Nixon and ex you know those retail stores, will be smaller than what we've had in some of the other years.

I think a way we're looking at it is we've just got to spend smarter with regards to marketing, and a little more focus, and I think we can achieve some good results. I think within our sector there are you know some companies that I would say would spend far less than us, but you know are getting some pretty solid impact out of a lot of things that they do, and you know we take note of some of that.

But I will say you know the reality is that the business model is changing. You know the online business is growing and obviously will be getting some further investment. The supply chain rationalisation for really more of servicing retail is real and that's what we need to do. And the wholesale, you know I'd like to think wholesale can you know begin to pick up in Europe and Australia you know over the next couple of years, but that remains to be seen. You know it's quite challenging for some of those. So we just need to be mindful of the fact that you know you can't necessarily carry overheads just on the expectation that you know things are going to one day improve, and that's really the sort of approach that we're taking.

Silvia Spadea - *Merrill Lynch - Analyst*

Sure. Just a last one from me. Just a more general question. You said 100% of the funds raised from the Nixon sale that's going to be used to pay down your debt. I guess there's no question that that will provide you with a short term reprieve with respect to your balance sheet issues.

But, in my mind, it doesn't really do much to address the fact that - you know to improve your current structural issues or stem the current deterioration in your earnings. I guess I'm just wondering how confident you are that the initiatives that you've outlined today are going to be enough to permanently fix that balance sheet issue, so that we don't have this problem a year down the track. Thanks.

Craig White - *Billabong International Limited - CFO*

Silvia, Derek might want to comment. But I think you know at the end of the day what we're laying out is a range of initiatives that collectively, as a management team across the business, you know there's a level of confidence that will be delivered. And you know we've obviously put together, off the back off that, a set of forecasts and based on those numbers we think that this is you know a fix and that we don't have some of the issues that you're alluding to.

Derek O'Neill - *Billabong International Limited - CEO*

And Silvia I did want to highlight that within that some of our brands obviously have you know performed well. I think that, as I said, we will you know be putting investment in where - you know where it's probably going to give us the better return rather than what I call you know a more distributed evenly approach, which you know in some respects hasn't quite worked for certain levels of that expenditure.

So you know we believe that these initiatives will you know enable us to move you know to somewhat of a growth trajectory again you know in the future, as you know we're just not going to be persevering with some of the areas that are just not bringing in a return.

Craig White - *Billabong International Limited - CFO*

And I think, at the end of the day, you know we wouldn't have actually given you hard numbers, or at least ranges of numbers based on preliminary work done, if there wasn't a degree of confidence that we're actually going to deliver them.

Operator

Your next question comes from the line of Daniel Broeren from the Royal Bank of Scotland. Your line is now open, please go ahead.

Daniel Broeren - *Royal Bank of Scotland - Analyst*

Morning guys, just a couple of questions. Trilantic is arguably a short term holder of Nixon, so just what agreements have you come to in relation to their exit? Does Billabong have any first rights there?

Derek O'Neill - *Billabong International Limited - CEO*

Look I'm not sure about the first - sorry, I'm not sure about short term aspect, as probably that's really their choice. I think that you know we've all gone into it with a longer term view to building it up.

I think that you know within the agreement - while not wanting to disclose really what they've been able to put in place - I think you know that we've all designed it to maintain a fair level of flexibility you know through and at the other end as well which you can imagine is probably in the best interest of everybody.

Daniel Broeren - *Royal Bank of Scotland - Analyst*

So there are no rights there for either party, first rights?

Derek O'Neill - *Billabong International Limited - CEO*

There is obviously rights for either party, but we had the ability to do a lot of things at the end. But I wouldn't say necessarily they're obligatory type rights. As I said we're all retaining quite a bit of flexibility. If we were in a position at the end to formulate that you know it would be a fantastic opportunity for (inaudible) to come back in the Group and I think we'd take those decisions at that time. We have all the flexibility to enable us to do that, at the end if we so desire.

Craig White - *Billabong International Limited - CFO*

Or alternatively if we wanted to exit we could do that too.

Daniel Broeren - *Royal Bank of Scotland - Analyst*

Okay. Craig, just on the receivables balance it's flat on the first half last year which seemed a pretty good result in light of what's happened with trading. Can you just talk about how the European customers fit into that overall outcome that they've obviously been under a bit of pressure?

Craig White - *Billabong International Limited - CFO*

Yes well look I think first of all I'd say that your observation about receivables being flat and a relatively good result I think is reflected in the strong operating cashflow that you see in the cashflow statement. I think specifically in regards to receivables in Europe, I think the theme is fairly consistent. Southern European countries are probably slower payers than those in the northern part of Europe. To be honest I think that's been historically true, Spain, Italy and nothing's really changed there.

But I think there have been -- there has been real focus across all regions in the business to manage the working capital balances and go hard on receivables. Manage payables, we're obviously working through inventory. We've always talked about the fact that the reduction in inventory is more a full year, FY12 target. But I think despite the challenging conditions the efforts are being made to reduce the inventory balances.

Daniel Broeren - *Royal Bank of Scotland - Analyst*

Okay and just one clarification, Derek. You mentioned earlier that the forward orders in the Americas were up low double digit excluding PacSun, can you just clarify what they are when you include PacSun?

Derek O'Neill - *Billabong International Limited - CEO*

Well PacSun at the moment are doing a lot more what I'd call at once type business dealing with some of these reductions of stores. Therefore it's a lot more for us probably printables and closer to the season business. Look I think overall our estimations for PacSun would be that for the whole year they'll be down, but not a long way short of last year. So without wanting to fix a number that we'd be happy with, you should look at bit probably flat to maybe 15% down on last year, which would probably be in line with penetration in the stores, but just a lower amount of stores.

Daniel Broeren - *Royal Bank of Scotland - Analyst*

Okay, thanks for that.

Derek O'Neill - *Billabong International Limited - CEO*

Thank you.

Operator

Your next question comes from the line of Shaun Cousins from JP Morgan. Your line is now open, please go ahead.

Shaun Cousins - *JPMorgan - Analyst*

Thanks very much guys. Just a question in regards to the impact of your debt issues on your operations. We've heard some suppliers have had trouble getting credit insurance against you guys as retailers in Europe. There have also been some concerns by some brands that sell to you that they've been, payments from Billabong as a retailer has been late and hence they're a little less inclined to sell to you. So if you just talk a little bit about how your capital structure issues have impacted your operations?

Derek O'Neill - *Billabong International Limited - CEO*

Shaun, we haven't heard that at all, I've no idea where you get that from.

Shaun Cousins - *JPMorgan - Analyst*

Okay. Just in terms, further to the answer you gave to Grant's question about things where some of the environment moved around quite a bit. Can you just talk a bit about where you are on systems in terms of whether or not you still have visibility on revenue and GP? Like revenue on a weekly basis that gets sent to you as opposed to sort of real time like most retailers do or -- and GP on a monthly basis? Do you think if you had invested more in systems you'd actually be able to be better positioned to deal with what was a very, you know, challenging and sort of volatile trading environment? And when you will start to invest in those systems to get that visibility?

Derek O'Neill - *Billabong International Limited - CEO*

Look, Shaun, I'd pointed out at the December release the sort of level of data that I get weekly on retail. Certainly I get comp stores, total stores, stores to budget. I get related party sales. I get it pretty worldwide on my desk every Tuesday morning. We get, you know GPs are a little longer than that, but we try and get pretty well and understanding of where the GPs are going weekly, they're consolidated at the end of the month.

We are you know just -- and I know this has been one for you for a while, Shaun, we have been integrating IT systems you know at the back of our operation. The US is on the one system. Australia now is on the one system. In fact we had literally through acquisitions around four systems that are now all integrated onto one. So the level of information as I've said is extensive. It gives us the sort of foresight that we hadn't had in the past and that has been building over the last year and a half in particular at quite and a reasonable level of investment.

So, you know frankly, the best systems in the world I think would not help any Australian retailer in this environment, particularly over the last couple of months with regards to weather. You know when your core temperature for the whole month is averaging around 22 or 23 degrees in your largest territory in the country it's just not inviting to go to the beach. I can tell you now that -- just to give you some comp store information. The business in -- when we came out in December and said how poor the last couple of weeks in November and the first couple of weeks of December were in Australia and Europe, we saw significant turnaround.

Australia had a fantastic 10 to 12 day period right after Boxing Day and that was very, very strong. We've seen that Australians did keep their spending subdued until Boxing Day and then they were ready to go. We've seen in Europe, you know while we saw those minus 20s in the first week of December last weeks of November we've been seeing hot 10s and hot 15s in the month of January in Europe. In the USA when we indicated in December that we had minus 4 and minus 6, we ended up finishing the whole month at plus 3.5.

In the USA for the month of January we've had around plus 4.5, plus 5 at a positive level in our store comps in the USA. Australia has remained challenging through the month of January primarily driven again by what has just been a still ordinary continuation of weather. Primarily in and around New South Wales with quite a lot of rain in a lot of other territories. I can tell you now that the first two weeks of February in Australia have probably some of the strongest couple of weeks we've seen in Australian retail for quite a while.

We're actually having a pretty good week in Sydney with -- particularly around the Manly area with the Australian Open that we're doing out in Manly. So you know we do get the level of visibility that we have, Shaun. But at the end of the day there was -- it was just a struggle for a while to get people to open their wallets.

Shaun Cousins - *JPMorgan - Analyst*

Thanks very much.

Operator

Your next question comes from the line of Andrew McLennan from Commonwealth Bank. Your line is now open, please go ahead.

Andrew McLennan - *Commonwealth Bank of Australia - Analyst*

Good morning everyone, just a quick question. Your retail margins for stores open more than two years was 14.6% and that's higher than the overall average of 12.5%. So it kind of conflicts with your comments around store closures and the fact that most of the stores that need closing will be at end of lease. So can you just confirm that these store closures - - sorry whether or not they'll include some lease obligations needing to be written up?

Derek O'Neill - *Billabong International Limited - CEO*

Yes, look what you're looking at there is that if you look at stores open two years or longer, basically you've got a period there where all of the acquired stores are not included in that calculation, so particularly in Australia. If you look in this half, I mean it's well known that July and August and even into September we were still in clear out mode from the end of Winter, particularly with more the vertical product or the home grown product that was in those stores, SDS and others when we acquired them latterly in the latter part of 2010. So the margins coming into the half were a little bit ordinary in the first place. But you're looking at it from a -- you don't have the acquired stores. So that is that difference in there.

But you know I should also identify - - we've actually got pretty strong margins that retail in Asia now. We've been adding stores in Asia for quite a while and it's a real growth territory for us. The Asian stores are delivering solid margins but also it's a fact that when you open any store it takes a while to get the margin up. We've indicated in the past that margins of stores open two years or longer are much higher than stores open for 12 months or longer, or stores open for 12 months or less. So that's also part of why that equation is also just a little bit out.

Andrew McLennan - *Commonwealth Bank of Australia - Analyst*

Yes, now it's pretty clear the conditions in Australia have been particularly woeful and certainly worse than anyone would have predicted given the way the consumer conditions et cetera. But it just makes you wonder whether you were careful enough with due diligence when acquiring these assets. Because the losses, as you've just said are obviously coming through the acquired businesses as opposed to the heritage stores. Is that correct? Also are there likely to be any writedown of these assets such as the acquired retail assets or potentially brands?

Derek O'Neill - *Billabong International Limited - CEO*

Look, I'm not sure your calculation is correct there. As I indicated quite a lot of the loss-making stores are stores that a lease is coming up after sort of 5 years. So that's not quite the assumption. The fact is that you know we have some fantastic retail assets that have been acquired over the last couple of years and the crowds outside will tell you that. You know talk to any retailer, you know if you acquire a chain of 40 doors or 100 doors within there are some leases that they've been into that you take on that are part of those leases you would like to get out of if you could.

Now in some cases you might wait till the end of set lease, in other cases you may accelerate it. I think that within the retail assets that we've added, there are some of those. We've indicated in here that it was 49 had an EBITDA margin of around 12.5%. I can tell you now there are some of those 49 stores that we would exit tomorrow if we could within there. But obviously with an EBITDA margin of 12.5% there's also some really well and strong performing stores in there as well across the Group.

I think we just need to weed through the ones that we've taken on a lease and it hasn't really worked out of our own accord. We've got some stores in Australian airports that I think it's fair to say that sort of travel in Australian airports has changed somewhat. Certainly some domestic travel has probably been a little bit challenged recently. Ultimately we've made some errors, I'll put my hand up to that, no question. In the sense of some of the leases that we've had, but I think by identifying that, if we don't have those loss-making stores any more then we have a very strong EBITDA margin and that's ultimately where we're going, then we can operate very profitably at a retail level.

Andrew McLennan - *Commonwealth Bank of Australia - Analyst*

So you've indicated you'll be closing 15% to 20% of your stores over time. Is that going to be skewed towards Australia?

Derek O'Neill - *Billabong International Limited - CEO*

Well look I'll put it this way. Yes we've closed about 30 stores in the last half and no-one even really noticed. We basically have always evolved out of some leases that get to the end of the cycle and just are not economical to renew or the landlord for whatever reason, doesn't want to play the game and we elect to go.

So it's (inaudible) somewhat moving a little faster than before. But within that we are, just within that, looking at these stores -- as far as Australia goes, the viewpoint is that it's probably, it's still under review but I would say 25 or 30 potentially over the next 14, 15 months. But it's not a really hard and fast fixed number.

Andrew McLennan - *Commonwealth Bank of Australia - Analyst*

Okay and just turning the conversation to Nixon, if I can, how did you arrive at that multiple? I've just noticed the recent comps in this space, Volcom Timberland, at sort of the 12 times EBITDA. Even your West 49 acquisition was above 10 times EBITDA. So how did you arrive at that multiple and are you happy with it?

Derek O'Neill - *Billabong International Limited - CEO*

Well I think we're very happy with it. I think we've achieved a good fair multiple. I think the way you need to look at it is it's going into a joint venture that we're going to be an equal partner in that joint venture. While it probably doesn't reflect 100% sales control premium, it reflects a great balance of putting it into a vehicle that we're a significant part of but at the same time monetising a tremendous part of the value of that brand, and that's been a great benefit for us.

It was a very competitive process, so you know, it's not a throw away multiple. We believe that it's quite strong. I think that it might be a little cute to say this, but we looked at the value of that, the value of Nixon as a whole, I said it might be a little cute, but I will make note that it was slightly ahead of the entire market capitalisation of the Company, obviously before the debt, when we went into the trading halt.

So I think that we've managed to find a good balance between having a good value for that brand, getting access to that brand into the future for our retail network and also helping deal with some other situations we've had.

Craig White - *Billabong International Limited - CFO*

I think Andrew, just to maybe add to Derek's point as well, you've got to remember at the end of the day we're retaining nearly 50% interest in this joint venture. So we're both, you know our joint venture partner's got about 48% of the transaction. So it's not as though it's been a whole company sale and I think it's important to recognise that in the multiple it's been paid.

Andrew McLennan - *Commonwealth Bank of Australia - Analyst*

Sure.

Derek O'Neill - *Billabong International Limited - CEO*

Sorry Andrew, have you got one more.

Andrew McLennan - *Commonwealth Bank of Australia - Analyst*

Yeah, no I was just following on. So when you acquired Nixon like the other brands you mentioned, it was going to be very powerful adding it onto the Billabong distribution platform. So now that it's shifting off, has there been much integration that needs to be undone?

Derek O'Neill - *Billabong International Limited - CEO*

(Inaudible) brand that it hasn't really sat inside our head office in the USA, had its own identity. I think we've always tried to have brands have their own separate identity particularly in sales, design and marketing, and we've definitely achieved that.

I don't think the customers for Nixon really think that they've been really that much (inaudible). It's a little more integrated in some of the other smaller regions around the world but time will push those (inaudible).

The supply agreement for us was really important. It was really key. We obviously believe that Nixon is a fantastic brand and we're going to get the benefit of it but we're no longer going to be in control of selling it out in the wholesale marketplace. But we really, through the access to our retail and retaining ownership, our level of ownership in the JV, we feel we've got the best of both worlds.

Listen I'm just going to say we've got time for one more question as we need to try and wrap up.

Operator

Our final question comes from Craig Woolford from Citigroup. Your line is now open. Please go ahead.

Craig Woolford - *Citigroup - Analyst*

Hi Derek. I don't know whether Ted's still there but I just wanted to understand why the Board declared a dividend and then charged to fully underwrite it?

Ted Kunkel - *Billabong International Limited - Chairman*

That's a good question. Basically the Board wish to keep faith with those shareholders who have a shareholding in the Company and they rely on dividend. The fully underwritten aspect of it was just to make sure that the cash leakage out of the Company did not take place.

Craig Woolford - *Citigroup - Analyst*

Okay, thank you.

Derek O'Neill - *Billabong International Limited - CEO*

Everybody, I just want to say thanks everyone for the time today. I'm going to particularly acknowledge the enormous efforts of those who have done the Nixon deal within the Company and on the Trilantic side.

Now that we feel that we've absolutely delivered the best available option to give stability to the Company and we've also taken significant transformational steps with regard to cost. Now we're operating under some challenging conditions as do many companies but we've really stood up and recognised the challenges and we've taken action.

So again, thanks for today and I look forward to catching up with you all pretty soon. Thank you.

Operator

That does conclude our conference for today. Thank you all for your participation. You may all disconnect.