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PRESENTATION

Launa Inman *- Billabong International Limited - Managing Director and CEO*

(technical difficulty) year '12 results, and also to be hearing our strategy that we're going to be unfolding later on today.

To give you a sense of the agenda, we're going to begin with the results. We will not have questions and answers. We will flow straight through to the strategy presentation that will probably take about an hour to an hour and 15 minutes. Thereafter we'll be happy to answer all questions.

So, let me begin. Good morning and welcome to you all here today. For those that are joining on the teleconference and on the internet, I'm Launa Inman, Managing Director of Billabong and CEO.

We have a lot of information for you today and I want to give you plenty of opportunity to ask the questions. So as I said, we will be doing that at the end of the strategy.

So, let me now start with -- one of the things I'd like to really talk about is that since I met this organisation my perception about Billabong's brand strength and that of the suite of brands in the Group has certainly been confirmed. Billabong is a great company, served by wonderful, committed employees around the country and overseas.

There remains a lot of hard work ahead of us to return the Billabong Group to its former position and I believe it should be a great Australian brand, both here and internationally. But I am also very confident that in the future we will be able to execute the strategy that I will outline later on today.

So, actually moving onto the results. Today's results reflect further turbulent times for retail, not only in Australia but also in Europe, Canada and New Zealand and in fact there are few countries not affected by the consumer downturn. That slowdown is responsible for much of the decline in the Group's sales of 5% in constant currencies.

Also contributing to the decline was the sale of Nixon business and the implementation of our store closure program that was announced in February. I'm pleased to say that the sales decline has been somewhat offset by stronger sales growth in emerging brands, but clearly not to the level that compensated for the decline elsewhere.

This has naturally fed through the EBITDA, driven down by lower sales on the higher fixed cost base. Net profit after tax is also lower, and as Craig will address later, this was largely a function of a series of significant and exceptional items.

On a positive note, I'm pleased to report that the Billabong has made good progress on the Strategic Capital Structure Review initiatives announced in February. As you know, that review involved (1) $285 million in proceeds from the partial sale of Nixon, then the closure of 58 non-performing stores as of the 30th of June 2012 and, as I've commented upon recently, there are a further 82 non-performing stores identified for closure in the financial year of 2013, and expected cost savings of AUD30 million per annum in F13 from cost reduction initiatives undertaken in this past financial year.

Other highlights through the year included a significant improvement in working capital, both in dollar terms and as a percentage of sales, a strong increase in cash flow and a successful rights issue that strengthens Billabong's balance sheet, reflecting net debt to AUD160.9 million. Net debt is AUD94.2 million when adjusted for the net proceeds of the retail entitlement offer received after the end of the fiscal year.

As you're aware, at the time of the half year results in February, and again at the capital raising in June, we flagged there would be significant and exceptional items. These have resulted in a net cost of approximately AUD336 million, of which 99% is non-cash. Again, Craig will talk to the details of this in a few moments.

Now moving across to the regional view. Firstly to the Americas, and in particular the United States. I think it is fair to say that the Group's brands hold a very strong position in the US market, with Billabong as the leader -- particularly in the girls' business -- and RVCA leading the growth in the men's business.

When you look at retail we performed reasonably well, given we were up against some high comparisons in the prior year. But the real growth story is on -- is all about the online.

Moving to Canada, we've had a very challenging year. The Canadian economy is a little like Australia at present, but our West 49 business is not performing to our expectations. We have initiated some remedial actions into that business, and I look forward to reporting the improvements in the future.

We also have a strong business in South America. While our sales were down in Brazil, it was largely a function of changes we made to the distribution of the brands. We feel South America -- and Brazil in particular -- will return to strong growth as our key brands are well known and these countries have a tremendous surf culture.

It will be no surprise to you that Europe is the region of our greatest concern, not only to our business but really to the global economy. Brand Billabong has historically been very strong in the southern parts of Europe -- Spain, Greece and Portugal. Unfortunately those are the very countries worst affected by the devastating high unemployment and general sovereign debt issues. So there have been concerns about some of our wholesale accounts in Europe and we've been actively managing down the number of wholesalers with whom we do business.

Pleasingly our brands are competing very well. So while our indents our down for brands such as Billabong, it is still recognised as the leading youth board sport brand in Europe. That tells me that the brand is in good shape in Europe, but the macroeconomic picture is the bigger issue.

Moving to Australia. As you know, the difficulties are all about the Australian retail landscape. So while we've had sales growth in the region, trading has actually been quite subdued. But we are not sitting still. We have made significant moves in response to the changing landscape.

Key to this was the integration work undertaken in the region. This slowed operational costs in Australia in particular and has positioned the Group well into the future.

Of course you all know about the amazing success of SurfStitch, which has recently been awarded the Online Retailer of the Year title for 2012 in Australia. It is a big growth engine and it's an exciting platform that we are now taking offshore, including the launch of SurfStitch in Europe.

So that is the basic snapshot of some of the headlines for the year and brings us to the outlook for F13. I am naturally cautious about the outlook in the market, but assuming no further deterioration in trading conditions, FY13 EBITDA is currently expected to be in the range of AUD100 million to AUD110 million, in constant currency terms.

F13 results are expected to be driven by the implementation of the Strategic Capital Structure Review, additional benefits realised from the Transformation Strategy that I will speak about shortly, and recognition of Billabong's share of after tax Nixon JV profits.

So with that, I will now pass you across to Craig White for a deeper dive into the numbers. Thank you.

Craig White - ***Billabong International Limited - CFO***

Thanks Launa and good morning everyone. Thanks for joining us.

I think a reasonable starting point on any analysis of the financials is to look back to June 21st of what we said we would deliver to the market. You will recall that we provided guidance on a few different measures and we've delivered on each of these.

On EBITDA we gave you three measures and this was really designed to give you greater clarity on the overall business and help you with your modelling, given the complexity created by all the significant and exceptional items in FY12.

So the first EBITDA measure included 100% of Nixon, that is it assumes we owned the business for 100% of the year, to provide you with a like-for-like comparison, but it excluded the significant and exceptional items. We gave a range of AUD100 million to AUD135 million and we met that range.

The second measure, the adjusted EBITDA, assumes we had 100% of Nixon through the date of sale and then the Group's 48.5% share of its after tax profits thereafter, bearing in mind we'd sold or we had a partial sale of the business on the 16th of April. Again, this excludes significant and exceptional items. We gave a range of AUD120 million to AUD125 million and we landed within that range.

Then we had a third measure and for want of a better word, it's an underlying measure of EBITDA and excludes 100% of Nixon and excludes the significant and exceptional items. We had a range of AUD83 million to AUD88 million and again we landed within that range.

Moving down the page, you can see the significant gain on the partial sale of Nixon and also the cost of the significant and exceptional items which I'll talk about a little later.

On the Group's net debt, we indicated it would be around AUD100 million. When we provided this number we were talking about post the proceeds of the entitlement offer. So you can see the 30 June number and also where we landed after we received the proceeds in July from the retail side of the offer. Finally you can see the consolidated shareholders' funds of a little over AUD1 billion as at 30 June 2012.

Looking at the consolidated results financial summary, you will note the 5% decline in sales and constant currency terms. This was partly driven by the store closure program, the partial sale of Nixon and the generally challenging trading environment. The reported gross margins are lower compared to the prior year, but they've been affected by the significant and exceptional items, in particular the liquidation of inventory.

Moving down the page, you can see EBITDA has been significantly impacted by the challenging trading conditions on a higher fixed cost base.

Looking at the NPAT line, once you exclude the significant and exceptional items, the Group generated net profit after tax of AUD33.5 million in FY12.

One of the more pleasing lines on this page is the operating cashflow of AUD78.9 million. It is a strong improvement on the prior year, despite the cash costs associated with the strategic capital structure review, the costs in the range of around AUD20 million.

A significant reduction in working capital is another highlight and I'll come back to this a little later.

Looking at the Group's borrowings, they are significantly lower compared to the prior year and the Group now has modest gearing post the partial sale of Nixon and the recent entitlement offer.

I think many of you will welcome this next slide. It provides a new level of insight into the split between our wholesale and retail operations. It also gives you a view pre and post the allocation of global overheads. Just to remind you, our global overheads incorporate corporate overheads, advertising and promotion costs, central sourcing and FX gains and losses. You will see that overall the margins on wholesale are stronger than retail. While there are unlikely to be any surprises there, note that the retail margin is yet to reflect the benefit of the Strategic Capital Structure Review and in particular, the store closure program from which the benefits will flow in FY13 and beyond.

Turning now to the significant and exceptional items -- given the size of these items, it's worthwhile spending some time on this page. We previously called out the fact we would have some large significant and exceptional items in FY12. When you consider we've gone through a major transaction with the partial sale of Nixon and a Strategic Capital Structure Review that resulted in a range of outcomes, it becomes clear that FY12 has been a year of significant restructuring.

So if we look to the major items listed here, it is perhaps best to start with the significant gain on the partial sale of Nixon AUD201.4 million pre-tax.

Moving on to some of the more significant costs, the first relates to inventory clearance which gives us a clean entry point as we move into FY13 and I should just note that that number of AUD73.7 million includes probably in the order of around AUD40 million of cost taken in FY12 in clearing inventory, with the balance sitting in the provision against inventory at 30 June.

Next is the doubtful debts expense which is a reflection of the difficulties facing retailers globally especially in southern Europe. The next line relating to the termination of retail store leases, provision for non-performing retail stores and provisions for onerous contracts, is a significant cost that reflects our move to close non-performing stores and provide for onerous contracts.

The biggest item on this page is the impairment line which is a non-cash charge as you know. When undertaking impairment testing as you know, there are many assumptions to make and potential sensitivities that can be modelled. This means impairment testing is always quite subjective and judgmental and we've endeavoured to be fulsome in our disclosure of sensitivities in the financial statements.

FY12 has been a year in which the Group has incurred appropriate costs and charges to place the business in the best possible position to grow. We believe we've been conservative in our approach.

Now turning to the balance sheet -- working capital has been tightly managed in FY12 and represents a significant improvement on the prior year. It is down 8.1% as a percentage of prior 12 months' sales, from 27.8% to 19.7%, with the primary reasons for this being the acceleration of inventory clearance, collection of receivables, provisions taken as part of the Strategic Capital Structure Review and the implementation of supply chain financing arrangements in the US which have improved the terms of our payables.

The current deferred consideration balance of AUD64.3 million principally relates to decline due within the FY13 year, but also to some extent, QuietFlight, Swell and Two Seasons. The non-current deferred consideration balance of AUD67.6 million principally relates to RVCA being payable in FY16, but also to Sector 9 and SDS Jetty Surf.

Group's net debt is now significantly lower for reasons we've already discussed and gearing is now conservative.

So with that I'll now hand back to Launa for her overview of the transformation strategy and I look forward to your questions later in the session.

Launa Inman *- Billabong International Limited - Managing Director and CEO*

Craig have you got the -- and then just check this is working. Yes, okay. Alright, good morning everyone and I'm saying good morning again because I really do want to separate the results to what's happened in the past to what we're now going to be doing in the future.

I just want to say that a lot of work has gone into this presentation and I'm going to take you through what we've done and how we've clearly got to where we've decided that we are going to go and talk in detail about what the transformation's going to be.

So basically let me just give you a sense of how we're going to cover this presentation. I'm going to talk about how we've actually got to where we've got to, what is the current situation, in other words, the diagnostic on where Billabong is today. I'd then like to talk about my own personal views on the inherent value that this organisation has and it's been a very interesting three months for me as this has all unfolded. Then I want to talk about how we are going to unlock the value of these amazing brands and this amazing Company and then I'm also going to talk about how we're actually going to capture the value.

So I'm going to give you a little bit of a sense of where Billabong was and where it is today and just bear with me because it's actually been fascinating for myself finding this out as I've learnt about the organisation.

What is very evident is that Billabong has bought a number of outstanding brands and when I investigated the DNA of them and the real customer proposition, you can really appreciate how they all are working so cohesively within the board sports action market.

Billabong has changed from basically being a single brand to now a multi-brand organisation, from being an Australian to a truly international global company, from being a wholesaler to a wholesaler retailer and now also in the e-commerce field and it basically also now has these amazing brands where it's gone from just being surf and beach to also being snow and winter and urban and skate. So it's very diverse, but having said that, it also adds amazing opportunities to this Company because it's one of the few organisations that cover all those markets.

Now all I can say is when I looked at the inherent value I was so impressed with the number of brands that the organisation has bought over time. I've been impressed by the real passion of the people and for all the trials and tribulations that this Company has faced, the people are absolutely committed to getting this organisation back to what it was in the past.

So I'd like to just talk a little bit about the external challenges and also the internal challenges that this Company has faced. We all recognise that 2008 was a very difficult time, the world changed and not only were there macro-economic issues, but there was also some major structural issues that hit Billabong particularly the brand Billabong.

Firstly, you had a number of the main surf independent retailers actually shutting their doors because of the situation. PacSun which is our largest account in America started to move into their own brands and actually move away from ours and then you also had the situation of young, fast retailers like Forever 21 actually coming and basically eating into our market share. So these were all the situations that we were facing in a macro sense.

However, there were also some things that we could have done better. If you look at the situation where we decided to go into retailing, we probably could have done it in a more systematic way. Our capabilities were such that we were unable to really absorb all the retailing outlets and the new brands with one go. I think the big challenge I have found in my three months in the Company is trying to get global information. We have good information within the regions but it's difficult to get it in a total sense globally. And you well know that unless you have good global knowledge it is hard to make fast decisions.

It's also become apparent that when we went into retail we should have looked more at the network plan and I'm actually going to talk about that at a later stage. But when I did look at the business it became evident that there was a number of things that we had done in our quest to save profit. For instance, we cut our marketing budget. Well naturally that had an effect of actually reducing our sales because we weren't driving the traffic into our stores. Then we had the situation because of poor sales, we ended up with excess stock and we had to mark it down. So these have all been contributing factors to where Billabong is today and it really is a situation we need to take stock of and recognise.

Having said that, it became apparent that if we were going to really be able to do a diagnostic on this organisation and understand the situation and work out where we were going to need to go, the first thing we need to do was some customer research. We employed an organisation that has come in and has actually done a true health study on all our brands, but in particular on Billabong. The brand tracking study has been done in America, France and Australia and didn't just cover Billabong as I said it covered all the brands but also surf, skate and snow. This was in fact the first time that this research has ever been actually done.

I also recognised that we needed to have a real deep dive into the profitability of the brands, of the actual retail outlets, the supply chain and also even look at the opportunities of e-commerce. In order to do that, we bought in some really top consultants. We recognised that with the time we had we certainly needed help. I actually want to say a big thank you to all of them. So what we did is we looked at the business and really said how do we go forward on this? The interesting thing is we've started to recognise the inherent value that this Company has.

Now the first thing we did is we said actually how big is the market because that's something we need to understand. Our board sports market is over AUD15 billion worldwide. America is sitting at AUD8 billion, Europe is about AUD2 billion as is Australia and Asia, and we're not really sure of exactly how big the emerging markets are. What we do know though is that the various reports have shown that between 2009 and 2012 -- in fact the board sport industry has grown by 4% annually and it has also predicated to be growing at a fast rate to 2016. Now this is important because it actually shows us that we are in a business that has a growing market so we have great opportunities ahead of us.

When we did our research this was one of the most interesting things is that for all that people read about the difficulties that the brand and the Company Billabong have faced, what came back is that our consumers in fact consider us to be a very reputable company. You can see all the measurements of this and the most important thing was that we had a rating of 70% when it came to the quality of products that we produce but we were perceived as being a reputable company, a company that is ethical -- all those things that are very important in this age today.

So what I'd like to do now is talk about what the market research showed us because one thing that is evident no matter what our strategy is going to be, we need to be consumer-centric. It is all about the customer whether it be the wholesale customer or whether it be the end customer that we serve in the retail. If you always think of it from the point of view of the consumer we will be able to understand what they need and therefore service them accordingly.

So the first thing we did is we wanted to get some research on what is the awareness of the Billabong brand. As I said we did it in three countries and here I'm demonstrating where it is in Australia and the United States. Now just to give you a little bit of sense of how to read this what it shows you is how the knowledge of what people know about the brand. In other words, in Australia we have an awareness of 87%. Fundamentally every Australian has heard of Billabong. What the interesting fact though is in spite of the high awareness, we don't necessarily translate that into product -- into people actually purchasing it.

I just want to kind of pull out a few things for you to read and I'll have to lift this up because it's difficult. So what they say is the awareness of it. Then they consider would they wear it in the future? Have they ever bought it? Now, in Australia that's phenomenal -- nearly 50% of all Australians have bought Billabong at one time or another and then it tells you what they have bought in the last nine months. Now this is really critical because the most important thing with any brand is if you've got the awareness you can then work to actually ensure that you get it to transact into a purchase.

In the US it does have an awareness but it's under 50% and also has relatively low purchasing but at the same time this is still very good within the board sport market so it's a question of how do we unlock this value. We also had some information come in from Europe and there was a survey done of 11,000 people and what was really interesting is that the Billabong brand, and this is relevant for snow and winter, came up as the number one favourite brand. Not the most well-known -- that was Burton -- but the most favourite brand. So it's got huge equity and what we now need to do is to unlock it.

Our research here also showed us that it is clearly a youth brand. Now this was really important because when I joined the Company one of the questions I kept being asked by various people and the question was is the brand old? Is it be perceived as being a middle aged brand that's worn by middle aged people and is it tired? That is absolutely not the case. This research clearly identified that it's a youth brand, that it's one of the most loved brands within Australia and in fact if you look at it even in the United States, it's a brand that is not far behind the likes of Hollister's and Vans. So once again this reconfirms that if we can actually do things right, we can unleash the value of this particular brand.

Now we also did research on three brands that we own; RVCA, DaKine and Element. Now this is slightly different but you still read it the same way. What it demonstrates here and this is about niche markets. That though those three brands have low awareness those people that are aware of it actually convert it into a purchase. So it has high conversion. Now this is really relevant because what it clearly showed and demonstrated to us that if we were to lift the awareness of these, when people are actually aware of it they will go out and buy it and when they have bought it they've been very happy with the purchase.

So we've got two situations -- our master brand -- high awareness but poorer conversion but that can be rectified and then we've got three standout brands that are satisfying a niche market that though they have low awareness have a very good conversion rate, and this offers us marvelous opportunity.

Now any organisation that is involved with brands and retail needs to measure themselves again five pillars. We need to differentiate ourselves and the five pillars that you would look at would be price, product, convenience, service and the main pillars that every consumer would want to look at is it about product or is it about convenience. Now we recognise that from our research that in fact we were not a standout in differentiation. We had the highest awareness within the board sport market but yet for all that we weren't really differentiated.

We said we wanted to be a standout and we didn't want to compare ourselves only to the board sport market. We want to compare ourselves against top retailers and top wholesalers in the world. We actually want to be famous for something and pull away from our competitors. What we've said is our mission is going to be famous for continuously setting a new standard in the board sport through youthful lifestyle brands and experiences. Now I talk about experiences because that's going to be very important as we go along.

So having recognised what we were going to stand for and it really is going to be about youth, experiences and wonderful product, we said we needed to have an integrated system within our organisation. Many people would say well you are integrated. Yes we are a global business but we very much are driven by regions. Each region has its own nuances and we've got to expect that but at the same time we need to be customer-centric -- the customer has got to be at the heart of it. We've got to actually have our brands on one side which is all about satisfying the youth and then on the right-hand side it's about ensuring that we offer a wonderful retailing experience both within our stores and also throughout e-commerce.

Our e-commerce also encounters such things as the content that go on to them about surfing and skating and so on. But this needs to be underpinned by very careful consumer analytics. One of the things we as an organisation have is great entrepreneurs who really understand the customer in many ways but yet at the same time we've never really analysed the data to ensure that everything we do going forward has facts and is fact based so that we can make clear and concise decisions.

So in conjunction with our entrepreneurial people we are going to ensure that at all times we are constantly asking the consumer how they perceive us and what they want from us. We also recognise that for us to be able to deliver this we need to actually improve such things as our supply chain and we need to also look at the structure of within that of our organisation.

So we've decided on a number of things that we are going to approach to actually unlock the value and basically the first thing we're going to talk about are the quick wins. I know all of you are going to be saying that's what you want to hear -- what can we do immediately that can immediately unleash some money and simplify the business and I'm going to talk about that. We also recognise that the master brand is Billabong. We need to leverage it. It has phenomenal equity.

The third one is that we are going to put a lot of effort into RVCA, DaKine and Element. We are also going to reassess our retail and we are going to become more strategic in it. We are going to build a global e-commerce strategy and I'm going to talk about that more because this is a wonderful opportunity. We are going to globalise and integrate our supply chains which at the moment are more regional. As I said, we are going to have to also assess how we enable this to all happen within our organisation.

I'd like to talk a little bit about simplification, because it was quite fascinating when we got down into the depths of our styles and our customers and our suppliers, of just how many things are going on within the organisation. I think you're going to find this fascinating. We have over 25,000 styles that we produce on an annual basis. We have over 13,000 customers, and over 500 suppliers. Yet the interesting thing is, and I'm going to show you this next graph which is really fascinating, is that it is the real typical case of 20/80 Principle. 20% of our customers -- in fact, 11% of our customers -- give us over 80% of our sales, but when it comes to styles, it's a typical 20/80 Principle, as with our suppliers as well.

I think, in fact, the thing that shocked me most was that we identified that 34% of our styles give us 1% of our sales. Now, this actually offers us wonderful opportunities, and what we are going to be doing is we are going to be immediately cutting off the tail. We're going to be cutting down the number of styles by 15% this year. Depending on how that goes, we'll assess it, we'll then look to reduce it by another 15%. The beauty about this is that it not only saves costs, but enables our designers to actually focus on what we need to do. It enables us to concentrate on delivering the correct proposition to the consumer.

In our simplification, we also assessed various things in stores, our labour wages, and we clearly looked at how do we -- what should our wage bill be as a percentage of sales? It was interesting. They varied. And we actually clustered them by turnover and noticed that at times it was up to 4% difference. So it's all about rostering, then. These are the things that I'm talking about as quick wins that we need to be delivering. We, in total, believe that these quick wins alone would deliver AUD10 million.

Now, moving on to the brand Billabong. Before I talk about it, I really need to take you back and talk about who the customer is. Now, on this graph it's an interesting segment. We, at the moment, are positioned where we have our core customer and our very, very keen participants, whether it be in snow, surf, or skate, and that actually accounts for 19%. Now, these are the people that are passionate about the sport, do it at least once a week. But if you look at the third segment, which therefore makes our potential market 34%, these are customers that are having the same values as our core customer but don't necessarily participate in the sport on a weekly basis. However, they have the same values.

So this is all about psychographic values. It's all about understanding how they perceive themselves and what are the products they want? It is not about demographics. It is not about age. This is about values. What happens is the main core customers, that 19%, they are the image leaders. They are the trend-setters. Then your other people are the people that look up to them and say I may not be the best surfer, but I aspire to look like them, I think like them, I'm passionate about the sport like them.

So it's a very interesting graph, this, and what it does clearly demonstrate is that we can stretch the Billabong brand so that we can acquire and target 34% of this market without in any way affecting or offending our core customer. It is all about them having the same values.

Now, when it comes to the values, the things that they really focus on are product and experience, and the typical things that they actually say is they want the brand to reflect their lifestyle. I'm using their words. This is what they've actually told us. They want unique products. They want fashion that defines them. And they want to have unique experiences. They want to have adrenaline rushes. This is what the consumer has clearly told us, and this is what Billabong as a brand can deliver.

When we recognised that, we said okay, of the five pillars, we would stand for product and experience. When we also asked them what they wanted within the product, it was very clear that they wanted to retain some of the authenticity of the brand. Billabong has a phenomenal heritage, 40 years of heritage. They wanted performance, but they wanted to look cool and they wanted it to be comfortable. So these were the main attributes they were looking for. When it came to experience, they wanted it to be fun. They wanted to be able to access content. They wanted it to be available to them 24/7, whether it be in the stores, whether it be on the water or whether it even be on the web. So it was all about understanding the nuances that make these people tick.

So experience is going to be very critical to us, and that is about making a great experience within our retail outlets, but also on our online. One of the reasons we were particularly pleased when product came up as a key thing that we could focus on is because we, in fact, already have the capabilities there. We are very unusual. As an organisation, we have three design teams, both in America, Australia, and France. Now, we have cross-pollinisation, but what we need to do is we need to do it better. We need to globalise it more.

Our designers are actually really entrenched within the culture and where they are designing. They're part of the youth culture, and they have an inherent understanding of the trends that are unfolding in the particular regions. We need to make sure they talk to one another. We need to ensure that they are sharing ideas and good sellers and us capitalising on them. This is actually a fantastic opportunity, because we actually already have it.

A thing I've also spoken about, then, is the e-commerce side and the whole experience side, and it is very much also about e-retail and e-tailing, and as I say, it's not just about buying the product. It's also about the whole ability to access information regarding the sport that they are passionate about. People want to be able to go on to a Billabong site and find out when the waves are going to be up. They want to be able to go onto the site and see the actual surfing that's taking place in Tahiti. This is all about the experience. It's all about making them feel part of the tribe, and that's what we need to work on.

One of the things we also identified is that besides identifying product and experience, we in fact have got some other opportunities within our own business. Now, this particular graph shows benchmarking within our own regions, both by category and by channel. Now, we have [inaudible] to do work on this, but what I can say is this already clearly demonstrates to us that if we were even to grow various categories within our own regions, we could increase the sales substantially.

Now, I want to talk about the other brands, and when we did the research, what became very evident is that we do have some outstanding brands in this Company, and this diagram just gives you a sense of how long these brands have been with us in the Billabong stable, and also how they've grown over a period of time. We've decided that we are going to focus on Element, DaKine, and RVCA, and I've talked to you about why. It's all about the fact that they have a very good conversion, and though they don't have strong awareness, if we were to go out there and market them, we will be able to convert that into sales and therefore into profit.

Just to give you a little bit of a sense, Element is very much a skate brand. It's all about urban. It's a brand that has done well in America, we just need to refresh it. DaKine is a brand that is very much technical, has wonderful backpacks, and has in fact actually got an office of -- in Portland in the western America, and the reason being so we can draw the technical testing of it when we actually go through all the mountains and et cetera. Then finally we've got this youth brand. We've had it for a very short space of time, two years, and it's a relatively young brand, and RVCA's doing incredibly well. The people love it. Low awareness, as I've said, but great satisfaction once it's bought.

Now, I'd like to talk about our strategic channels. As you can see from 2008 to where we are today, the business has changed dramatically, particularly in Australia where basically 50% of our sales are coming from retail. The interesting thing is people are constantly saying to me should we have gone into retail? When we've analysed the information, I can clearly say yes, we should have. Have we implemented it as well as we could have? No, but we definitely made the right decision by going into retail and ensuring that we secured the channel outlets that we required in order to ensure that we were able to get our product to the consumer.

When we analysed the issues that have faced the retail, there were some stand-outs, and the most important one is the ability of the organisation to integrate the brands as they bought them. The second thing is we were not consumer- and customer-centric enough, but that is changing. In our quest to try and increase profitability, we've started to push our own family brands and without understanding whether that was right for the customer, and those are the things that we are now going to be doing.

We also hadn't really approached it in a systematic way of making sure that we did a network plan analysis of where the retail stores should be, and I'm going to cover that in a moment. Then, finally, we were a business that was very much wholesale-driven, and we were suddenly asking people now to have different skills. It really is different skills. Wholesales is about brands, it's about time in months. Retail is about days, it's about being very tactical. It's different nuances that requires different skills.

So what we've decided to do, we have decided that we are going to approach our strategy and our retail very strategically, but there are two things that we can do. We can do immediately some quick wins, and then we are going to approach our retail by looking at it over a period of two to three years. Now, the first things we're going to do that are going to instantly release value are, for instance, getting rid of the aged stock. Craig has pulled that out. We have already cleared a great deal, and we will continue to clear it. That is absolutely imperative. It will de-clutter the stores.

The second thing that is very evident is we need to utilise the front of our stores. As a retailer myself, I know the principle is that 30% of your stores in fact give you 75% of your turnover. We need to make sure we get our best-selling items up front on our tables so our customers can clearly understand what we stand for. We need to improve our visual display. We need to have a clear marketing plan so that we can tactically move and respond to events and to traffic. It is all about traffic when it comes to retailing. If you get the customer in the store and the product is right and you can keep them in the store for up to eight minutes, they are likely to buy. So it's all about getting them into it.

These are the quick wins that we've already identified. If you look at it then in the process of over the next 18 months to three years, what we've recognised is that we do need to decrease our banners. However, we are not going to do this ad hocly. What we first need to do is do some customer research. We need to understand the consumer's approach to how we are viewed, whether it be skate, surf or -- God, I've had a blank there -- skate, surf or? Sorry?

Craig White - ***Billabong International Limited - CFO***

Snow.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Snow. Sorry, couldn't remember -- had a blank there for a moment. But -- hold on a moment.

So what we need to do -- sorry, I need to take a step back from there. We need to understand what the consumer wants. We also need to understand what is the best format for that. We're going to be trialling some, and only when we've trialled them and taken the learnings will we then move on to actually roll them out. We have a number of banners, but we need to really take a handle and make sure that we sweat the assets first before we go and spend large CapEx on actually reformatting our stores.

One of the challenges we have is that we're not quite sure how the stores should look, and that's why we're trailing some. Just to give you a sense, these are a number of stores we've trialled. One that's called Amazon in New Zealand, and we've had very good results from that. You can see from there, was and now. Then we've got Surf, Dive and Ski where we've also recently refurbished that and we've had some very good results from that.

But at the same time, what we can do is we can do what we call high impact, low cost refurbishments, where you can immediately clean up the stores and actually make them more presentable to the consumer without spending a lot of money while you assess what you need to do. So that's going to be very important.

We are also going to need to analyse where we, in fact, want to be. We have to understand where our customers are shopping and then we will look to see whether we need to close any further stores or whether we should be opening some.

The final thing is we need to ensure that we have a common DNA. We have a number of Billabong stores around the world, but if you were to go into them many of them are different. We need to, yes, adapt them to the various regions. But there needs to be a common signature about the brand and about the store.

Now this is a very interesting diagram, and the reason I'm calling this out is, over time, I've spoken about the fact that we were looking at roughly another 80-odd stores to see whether we should close anymore. When we analysed the stores there are a number of them that are just losing money, or basically covering costs. But is not worth our while to close them; the lease-out costs would be too high.

Instead we need to get out there and fix them. We have bought in some retailing skills and we've got a gentleman that's joined us, called Colin Haggerty, that comes with a lot of expertise from having worked with large retailers around the world. Colin is going to be working with the regions, looking at how do we ensure that we can take these stores to the next level. It's a question about getting them to at least a neutral return on capital or, in fact, more. I really do believe that these are fixable. It's definitely not a solution to close them.

Now I'd like to talk about e-commerce. This is probably one of the most exciting opportunities we have as an organisation. Many companies feel threatened by e-commerce. We, in fact, are embracing it. We are very fortunate to have access to two pure play e-commerce businesses. We've got SurfStitch here in Australia, which is already doing AUD30 million a year, and budgeted to do AUD50 million annualised. We also have Swell, which is in United States, that is doing AUD20 million a year. Both of these are outstanding businesses. SurfStitch we are looking to take up to 51% ownership by the end of this year, and they are currently, in Europe, opening up where we are going to have the Europe SurfStitch as well.

We believe that this is our greatest opportunity and, over time, we will integrate this with our bricks and mortar.

Now I just want to kind of explain what this is all about. So we've got our two e-commerce businesses, and the beauty about them is, not only do we sell our own products through them, but we also sell about 300 other brands. That is marvelous because we get to understand what's happening and what the trends are.

But the second thing is, as well, is we can take those learnings as we actually develop our own single brands. We have recently launched our Billabong brand in the United States and already that is doing 4% of our total Billabong sales.

Now to put that into perspective, it's proven that you basically need to do 4% of your retail sales for a business to break even. So we are very comfortable with the way that is heading. Over the next two years, once we have launched our own single brands, we are going to get them onto one platform -- and that's going to be very important -- and it's an Oracle one.

So that our intention is to totally integrate, in time, our single brands as well as our pure play e-commerce, and also our bricks and mortar. What we would like, in time, is that the consumer should be able to come into our store, if they can't find the product they should be able to go online or onto their mobile whilst they're in our store, look to see what our stock levels are and either order it directly through the Billabong site or through SurfStitch. This is what we are planning to do. We are going to have a totally integrated retailing proposition for the consumer that encompasses both bricks and mortar and e-commerce.

Now for all of this to be possible, one of the things that we need to focus on is supply chain. We called in some top people to work with us because it became very evident that this is a very complex business. We needed to be benchmarked. We had ourselves benchmarked in a number of ways. We had it, as you can see, on lead times, stock levels and then cost of sales. We benchmarked ourselves not only on the average, but also the best in the market.

Now, we recognise that if we can just get to average we can unlock huge value. It's all about speed to market. It's about how do you get the product to the consumer as quickly as possible. It's about also unlocking inventory, reducing the capital that's required, turning stock that much quicker. These are all the things that we need to do.

We also recognise that we need to develop pick and pack up in Asia. At the moment we don't do that here in Australia. So there's phenomenal opportunity.

Now -- sorry, let me just go back on one more thing. There's one other thing I just want to talk about on supply chain. It's not just about the logistics; it is also about the actual sourcing. We recognise that though we are a global business we have a number of suppliers, as you saw, and a huge number of styles. We need to actually pull that together and have one major global sourcing methodology, and this will be approached through it -- through our supply chain.

So it's not just about the logistics and about actually conveying the products to the various retailing outlets or wholesalers. It's about how do we get the best cost for the product by combining the units and identifying the best countries.

Now, having spoken all about that, I'd like to talk about the fact that we need to have a number of enablers for this organisation to work. That means that we need to have organisational design and structure. We need to relook at our IT systems. No strategy can be carried out today unless it is underpinned by good IT.

We also need to have performance measures and information that is going to be global as well as regional. We need to assess what our skill sets are going to be required, particularly for the retailing part of our business.

Then we also recognise that we need to be customer driven and innovative. So, in summary, this is the seven paths that we are going to be undertaking. These are the seven things that I've spoken about that are going to be critical to us, in fact, unlocking the value within this business.

Then what I'd like to talk about is to, in fact, put some money behind it. I want you to actually be able to understand the potential that we believe, that by addressing these seven levers, the millions that we believe can be unleashed.

I spoke about quick wins -- a minimum of AUD10 million. Leveraging the brand Billabong we believe is over AUD25 million. If we can improve the sales of DaKine, Element and RVCA, there's AUD40 million to be had, and so on.

So this clearly shows that, in fact, there is phenomenal inherent value within this organisation, and we are very comfortable to, in fact, put targets to it. We believe that these are doable for the very reason that we have done some very deep dives. There's clear data pointing to the fact that this is achievable.

So what are we going to focus on? Well the first thing we're going to do is we're going to ensure that we have very strong measurements. One of the things I've learned in life is, if you don't measure it, it doesn't get done. What we are going to ensure is that we have conformity right across the Company, and there are going to be different measurements depending on different parts of the business. These are going to be measured regularly and consistently and benchmarked.

We also recognise that, for this to work, we need to have strong leadership. Our leaders don't have to actually do the change, but they need to lead the change. We need to retain the culture but we also need to become more disciplined in our approach as we undergo our transformation.

Billabong is an organisation that has had great entrepreneurs within it, and we need to hold onto that. But there also needs to be a clear path articulated of what our expectations are and measurements done on a regular basis to ensure that the strategy actually is executed.

Then finally, it needs to be very much an integrated approach. Though we have regions, we have to work together as a team, otherwise this will never work.

One of the reasons I'm confident that the strategy will work is that this is not my strategy. This is a strategy that has been worked on for the last two months with all my direct reports and another -- and -- sorry, and other leaders within our organisation. We have worked over a two month period for about seven days in total, flat out, actually working through the strategy, understanding the information that's been put in front of us and understanding how we can do it.

So this is absolutely doable. As I said, we've based it on data and insight and we are going to continue to speak with the customers and understand what their requirements are. We are going to become a customer-analytic and customer-centric business.

We've introduced new skills already. We've got a gentleman that's joined us who's now heading up our global HR, and I've spoken about the fact that we already have a retailing head, and we have someone who's, in fact, going to be ensuring that we have our strategy clearly articulated to all our team members within our organisation. And we recognise that we need to have a proper transformation office.

So in order to develop this we need to build -- and I've spoken about the implementation of the strategy -- but we need -- so in order to make sure it all happens, we need to have people that are committed to it. We are going to have to assess the structure and also the capabilities within our organisation. First comes strategy, then comes structure and then comes people.

We will have the transformation office, as I said, where we will be -- we will be measuring the processes, and ensuring we capture the savings that we've spoken about, and ensuring that we unleash the inherent value that we've spoken about. These are all under way and are the things that we truly believe are going to happen so that we can deliver the value, and once again make sure that Billabong is the company that it should be.

So I've spoken about the pathways, simplification, the brand, DaKine, Element, RVCA, strategic retail, e-commerce and supply chain. Those are the seven things that we're going to be focusing on. We're going to be customer centric, making sure that we have innovative products and demonstrate great customer experience, and finally that we have a disciplined execution.

Thank you. We are now open to questions and answers. Do you want to come on up and we can -- now before we do that, I just want to say that we'll do it here, now, with the people that are in the room. And then we'll actually go on to people that could be listening or wanting to ask questions that are offline at the moment. Okay. Thank you.

QUESTION AND ANSWER

Shaun Cousins - ***JP Morgan - Analyst***

Hi, Launa. It's Shaun Cousins, JP Morgan. Just a question in terms of you've highlighted AUD155 million of EBITDA uplift over the next four years. What's the additional OpEx, CapEx and restructuring charges that you'll need to incur to achieve that, given that you're needing to, it appears, make a lot of investments in systems and people?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Yes, well just a couple of things and then I'm going to let Craig also talk about it on the financial side. We have put a stake in the ground on what we want to do, as we said, for F13, and we've taken into consideration what our CapEx needs to be. We recognise that the money that we've demonstrated in the slide where I've spoken about the AUD10 million on quick wins and so on. But one of the things we've done is we're fairly prudent on that.

It's not all probably going to happen at one go and we need to recognise that, but we believe that that is certainly deliverable. But in order to also do that there does need to be an element of CapEx, and we've spoken about it probably being anything between AUD50 million to AUD70 million, but that would be over a four-year period. And I just wanted to clarify that. It's not going to be all at one go, and we've actually taken that all into consideration.

Shaun Cousins - ***JP Morgan - Analyst***

Maybe -- sorry, so you don't need to hire any more people? The systems are good enough right now to do this? You've got no sort of cultural inertia that you're going to need to deal with? I mean, sorry, it just seems as though this is a dramatic change in what you're going and it looks as though you are having -- going to have to spend more money to do this even on an operating cost basis.

Craig White - ***Billabong International Limited - CFO***

Shaun, I might just comment as well. I think you've asked the question in terms of restructuring costs and so on. I think, you know, it would be fair to say that I think FY12 has been the restructure year. You know, I think in terms of clearly we've had to right-size the business. I think some tough decisions that have had to be taken, and there's been costs incurred in terms of right-sizing business from a people perspective, which is obviously a large cost to the business.

But I think what Launa's talking to is really that the incremental CapEx cost, which is on that side of around AUD80 million, which is exactly destined for the systems that you're talking about.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

That's what we've actually identified, but it would be over a four-year period. So for instance, we will be starting our supply chain probably next year, and then we're immediately going to start to do some things already. But supply chain where we see that there's a huge opportunity on that side will take longer, and that will require some CapEx expenditure.

Shaun Cousins - ***JP Morgan - Analyst***

So just to clarify, there is no uplifting OpEx that you expect?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Sorry, I can't -- sorry?

Shaun Cousins - ***JP Morgan - Analyst***

There's no uplift in operating costs that you anticipate as a result of implementing this four-year plan?

Craig White - ***Billabong International Limited - CFO***

Well, I think you need to -- the way you need to think about that, Shaun, is that all the OpEx that goes into the plan is embedded in those incremental EBITDA numbers that you're seeing in FY16.

Shaun Cousins - ***JP Morgan - Analyst***

Just a question, then, in terms of board sports. You've highlighted the market share that you believe the Billabong group has, and then the opportunities where be it in the Billabong brand or in some of the other smaller brands where you think you can improve your market share. Do you think there's anything unique about board sports as a category which actually limits the ability of the Company to gain market share, or a brand to gain market share?

Particularly considering people like to wear unique products, they don't want to all be wearing be it Nike runners, et cetera, and so intent -- as a result large companies can't really gain market share in this industry as they might be able to do, say, in the cereal category, for instance.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well no, I think what it very clearly demonstrated that with the market being AUD15 billion worth, we have been in the past predominantly focused on the core, which is about 19%. Just because people don't necessarily surf or skateboard every single week doesn't mean that they're not passionate about the sport, that they're not fascinated about it, that they don't watch it on television, or buy the magazines and follow it.

That's why we've clearly identified as all about what they called psychographic -- psychoanalytical values. It's about how they relate to the brand. It's emotional connection as opposed to very much being age driven. So that's the whole thing. It's a life style. It's not just about participating, it's about people being party to it and embracing the lifestyle, and therefore wearing the product. But they don't necessarily have to be participating it on a regular basis.

But they tend to be very healthy. They tend to be very fit, and they're fascinated by various sports. So there's huge potential there. Huge potential.

Shaun Cousins - ***JP Morgan - Analyst***

Okay. Maybe further to that, you've highlighted in one of the slides where you look at the Billabong penetration by customer and then the industry penetration by customer, and one of the areas where you lighter than the market was in department stores.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Yes.

Shaun Cousins - ***JP Morgan - Analyst***

And obviously you're in department stores be they some department stores in Europe or the United States, but is department stores a channel in which you want to grow some or all of your brands?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

We would have to assess it, and it's varied by region. For example, we are in department stores in Spain, as you know, in the Corte Ingles. We have very core doors and we actually have kind of small shop-within-shops within the various department stores. That is the channel that is most successful in these countries. It varies according to what the region is, and therefore we have to do the analysis, and we have not done that at this moment in time. That's why I wouldn't call out that we definitely say we would or we wouldn't go into department stores.

You have to understand what's happening within the various countries and what the available channels are. So we are in some certain department stores already, and we would assess whether we believe there's other opportunities.

Craig Woolford - ***Citigroup - Analyst***

Craig Walker from Citigroup. Just wanted to understand maybe a factual question to start with around the sales percentage that comes from Billabong, DaKine, RVCA and Element (inaudible) core brand? What percentage of sales would they represent?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

They probably represent between about 75% and 80% of business, and that's why we believe that that's where we should be focused on going forward. The other brands are all good brands, but we know that we can -- by focusing on those that have, as I spoke about, good conversion rates, we will be able to grow them even better if we can increase the awareness.

Craig Woolford - ***Citigroup - Analyst***

The future of the Billabong brand -- I'm interested in understanding how you expect sales to grow for that brand? One of your suppliers called out account growth -- the number of accounts you have may be a bit high with some of them being very small, some of the customer accounts being very small, so perhaps they'll be reduced. How will the Billabong brand grow on an account base, or will the customers make it much wider?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Let's just step back from that. Firstly, what it's shown is that it has good awareness, but it's not necessarily being converted into a purchase. So that's the first thing. People may be coming into stores but not necessarily buying it. So the first thing you need to do is where it already is being exposed to the consumer, you need to make sure of two things. One, that the product is right and it satisfies whatever they need it for, and secondly that the shopping experience is right, whether that be bricks and mortar or e-commerce. So that's about first righting the situation where you've already got the consumer coming in and being aware of it but not converting into a purchase. That's the first thing.

The second thing is if we want to expand on it we would have to then look at our channels and decide where we think they would be best-suited, and that's why I've said we wouldn't do anything until we've clearly understood the various markets and then worked out whether they would be suitable for the product. It's all about retaining that coolness at the same time, because they are youth brands.

Craig Woolford - ***Citigroup - Analyst***

One last question. Just a clarification on that slide about the sales mix by channel. It looks like, if I read it correctly, there's something called clear-out channel representing about 20% of sales.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

The what channel, sorry?

Craig Woolford - ***Citigroup - Analyst***

Clear-out, or close-out, sorry.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Okay, let me speak on that. That is based on the United States and is very different from what it is here today. You have what they call reputable outlets there, like TJ Max and Russell's and so on, that all retailers use, whether they be Ralph Lauren, Donna Karen or so on, and they use them to push through excess merchandise. You will see in that particular case that they are looking a little higher than we would like it, but we know that and we're looking to actually reduce that slightly. But that is a result of merchandise, when we've been overstocked, that we've had to clear excess inventory that we've pushed through it. It also is because you have, in America as well, you do have where stock can be taken into various countries in South America, like Mexico or so on. You can also use those there.

Craig Woolford - ***Citigroup - Analyst***

So to finish up, at a higher level the Company's looking for AUD155 million of EBITDA upside from the FY13 base, from what I understand. So you're looking at close to AUD60 million of EBITDA. I'm trying to get a sense of what sales you use to back that EBITDA increase, because on the current sales basing of 18% EBITDA margin business, does that seem realistic or does it make you uncomfortable compared with other peers in the board sports industry, or the broader standard (inaudible) industry?

Launa Inman *- Billabong International Limited - Managing Director and CEO*

Well, Craig, I think the first thing we need to first look at what our retail stores are doing. If you look at that, we've been having comp-negative stores, particularly in some of our retail outlets here in Australia and so on, and where we have been selling and we've been up in sales, the margin hasn't been there. That's well-known, and that's where we've been pushing out extra stock, particularly where we've been closing stores where we've had to clear the merchandise.

If we step back from that, the first thing we need to do is get rid of this aged inventory, and we've talked about that. We have already cleared a great deal of it, but there's some more to go. The moment we do that, we will release capital, we will tidy up stores so there will be better stock turns, and also our margins will improve, because you won't be trying to offload the merchandise at lower margins.

So it doesn't just need to be driven by sales. It's also about how we actually operate the business and how we buy fewer styles but greater quantity. That also enables you to get better costs. We need to be looking at where we're going to source the product. If we get the volume, we can move out of China into Bangladesh. These are all the things that we need to be looking at when it comes to supply chain.

It's not just about sales. It's also about all the back of half-costs and those type of things that all contribute to the actual product.

Craig White *- Billabong International Limited - CFO*

Maybe if I could just add to that. I think if you look at -- you can see this in the detailed financial statements if you have a look at the impairment note. Essentially, if you look at the next four years, what you should expect to see is reasonably modest revenue growth, but real margin expansion as we get leverage through improvements in the supply chain and so on, and there's a lot of information I think we've provided on that note in terms of the sensitivities and the sort of margins we're expecting, but even on the base of that note we're protecting forward EBITDA margins at 11.4% on the basis of our financial statements in FY16 which I think is fairly modest. So, you know, reasonably modest revenue growth with margin expansion is I think the way the P&L will look.

Launa Inman *- Billabong International Limited - Managing Director and CEO*

Craig we don't really see the economic environment changing that much. So I mean we're not looking for suddenly large [constant] growth because we don't believe that's going to happen. So we're assuming fairly status quo with regards to Europe store being problematic and so on.

Phil Kimber *- Goldman Sachs - Analyst*

Hi, Launa and Craig, Phil Kimber from Goldman Sachs. Just one on the e-commerce business. I think it's 4% of sales, Group sales, about?

Launa Inman *- Billabong International Limited - Managing Director and CEO*

What I said is that the Billabong sales on the Billabong site in the US are equivalent to 4% of the Billabong sales within America.

Phil Kimber *- Goldman Sachs - Analyst*

Okay but if I add SurfStitch and Swell you get 3%-ish maybe 4%. So I guess what I'm looking at is that's a reasonable driver of your incremental EBITDA over the next four years. I think you put a number of about AUD20 million on it.

Launa Inman *- Billabong International Limited - Managing Director and CEO*

Mm-hm.

Phil Kimber - ***Goldman Sachs - Analyst***

I just want to get a sense of how you think (a) is that profitable now; then secondly, how we should think about the incremental margins on that because I suspect, you know, if you continue to grow at the rate you're growing there's significant incremental sales and I'm just trying to understand how conservative that AUD20 million profit number might be with e-commerce?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well I think it is conservative and I think that's the beauty about our business that we have at the moment. I mean it really has been a benefit to have Swell and SurfStitch as part of the stable of the Billabong brand and the fact that we're now also developing our own mono-brands, in other words Billabong DaKine and so on, will further enable the consumer to be able to access that product at anytime and anywhere. So it's all about that whole convenience factor. So the moment they can get the merchandise provided the product is right -- and that's what we're going to be focusing on -- and if they can purchase it, we will be able to in fact improve the sales and therefore the margins as well.

When I called out that 4% as in that tends to be the turning point, that is the norm that once you get to 4% of your bricks and mortar sales -- and that's if you were just a pure retailer and you weren't a pure e-commerce seller -- that would tend to be where the breakeven point becomes and then anything thereafter you start to make a profit because you know initially when you start with your bricks and mortar you lose money.

Phil Kimber - ***Goldman Sachs - Analyst***

Okay, so it sounds like you'll sort of breakeven-ish (multiple speakers)

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

We would start to breakeven pretty rapidly because it's already starting to contribute to nearly being 4% of the US Billabong sales.

Phil Kimber - ***Goldman Sachs - Analyst***

Then may a question on retail. I know you showed -- and thank you for the slide -- providing some more detail on retail and wholesale. I know it's not how the accounting standards want it, but I'm wondering if you've done the exercise as a third party business -- so ignore the margin that you're getting in wholesale -- is that a profitable business to again give us some sense that, you know, there's a lot of upside in the pure retailing part of the business? I'm just wondering, I mean on my count it's probably losing money on a standalone third party arm's length basis at the moment.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well I think -- sorry, go ahead. But I'll -- go ahead.

Craig White - ***Billabong International Limited - CFO***

Yes I was just going to say, maybe I'll lead off with that one and Launa can comment, but I think yes we do look at that standalone measure for retail internally. I think overall if you look across the Group right now, particularly prior to the closure of the additional 82 stores that we've identified, I think on a pure standalone retail basis I think you'd find that would be breakeven slightly negative.

Just a couple of comments I'd make on that though -- clearly with the store closure program we would expect that to become positive and I think the other thing is that, you know, having standalone retail is not as a profitable business or even a breakeven business is not probably unusual I think particularly in the US market where a lot of the retailers are vertical by nature. That's just the way the market has gone and you need to be vertical in order to make money.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

That's what I was going to say. You cannot -- I would say there's very few retailers today that could be entirely, you know, standalone without doing any vertical. That's why you've got the likes of PacSun and them moving into their own brands because they need to capture that margin.

Phil Kimber - ***Goldman Sachs - Analyst***

Maybe one last one on the result. You gave some constant currency [inaudible] rates and the Americas was negative. I just wondered how much of the Nixon going out for the last and a half months impacted some of those second half results?

Craig White - ***Billabong International Limited - CFO***

I think again let me comment. Are you talking second half there Phil?

Phil Kimber - ***Goldman Sachs - Analyst***

Yes or even if you just give us a sort of full year impact. Obviously selling Nixon will have an impact on the regional division's growth.

Craig White - ***Billabong International Limited - CFO***

Sure. Look I think there's no question that selling Nixon in the middle of April would have impacted the second half. Bear in mind though that Nixon is quite a seasonal business; it does a lot of the sales for the year in November/December. It's a gift item and there is a skew there and I think we've talked about that in previous results announcements.

So certainly not having Nixon for the last two and a half months would have impacted the second half, but if you're talking specifically the North American market in the second half, I think there are a number of other factors that have impacted that result. Launa's called out the fact that Canada is soft in both wholesale and retail. That market again, as Launa pointed out, feels very much like Australian. The consumers are very, very cautious.

There's quite a lot of restructuring we've done of the distribution channel in South America and particularly Brazil and as you know we've got new management in that region and that certainly hurt the second half.

PacSun continues to be a drag and bear in mind PacSun itself announced a fairly significantly store closure program of several hundred stores and obviously that's impacting us as well as all other suppliers.

So there are a number of fairly significant factors that have probably impacted that second half, plus the fact that the point around the clear out channel -- the one thing the US has which most of the other markets don't have is a well-developed clear out channel with the Ross, the Marshalls, Tj Maxx.

The US has been able to clear excess inventory quicker than the other regions and you probably saw more of that in the second half of FY11 than you did in FY12 because the US was onto the inventory clearance process for us earlier than Australia and Europe and Australia and Europe have found it a little tougher because our clearance channel doesn't exist.

Greg Dring - ***Macquarie Securities - Analyst***

Hi Launa, Greg Dring from Macquarie (inaudible). Could you define what makes a store loss making, and [what of] your closures? So you're closing 58. Is it because they're just not trading well now because they've been bad for a long time and you've been carrying them for a long time or poor location? I'm just sort of figuring out wondering how you chose these stores.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

We looked at what the profitability was and we did look at whether there was going to be store cannibalisation which might have meant that it's never going to improve anyway because the market's not there to be had. So there were a number of factors that were looked at and that's why I speak about one of the things going forward is that we need to be very strategic in our retail network. So we're not going to look to open new stores over the next few years. I mean there will be a few, but that's not going to be our objective. What we want to do is first select the assets that we have and then clearly work out what our new store format is going to be and under what banner and then we would go forward to still have retail.

So the ones that we have closed were ones that we genuinely didn't feel were going to be able to be turned around, whether it be because of just poor sales, poor location or the refurbishments weren't going to justify it. There were a number of reasons.

Greg Dring - ***Macquarie Securities - Analyst***

Secondly, how does current and expected new term trading performance affect the calculations of deferred payments for the acquisitions that you called out by the current and non-current [payments]?

Craig White - ***Billabong International Limited - CFO***

Greg I might take that one. Clearly, you know, the weaker trading environment has impacted the expected deferred consideration payments and in fact you can see on the significant exceptional item schedule that I put up earlier there's actually a credit item to the P&L of AUD22 million and basically what that represents is an expectation of a lower future payment and because of the way the acquisition accounting works, they like us to go through the P&L.

So basically we have reduced our expectations of what the deferred consideration payments should be for brands like DaKine, RVCA and a couple of the others.

Greg Dring - ***Macquarie Securities - Analyst***

Finally, Launa your customers have been telling us for years that, you know, a typical core board sports store might have 10% of its customers as participants and the rest have attracted the lifestyle of -- attracted to the fashion and I would have thought Billabong would have been run to meet those expectations for years. So in other words you've been selling to a lot of non-participants for a long time. I'm just wondering how your study identifying a 34% market gap would be any different to the market you've been addressing -- your predecessors have been addressing?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

I think what the research has also shown us and I think this is what you need to recognise, it's not just about the segment market, it's also about have we been able to satisfy them. When Billabong started in 1970s it was unique, it was one of the first to market and it had phenomenal heritage and great performance. It was a differentiated product.

What our research has clearly shown us is that, as I said, we have good awareness and we have the best awareness of the brand, but there's no particular outstanding label within the board sport market.

Now we have those skills; we just need to make sure that we focus once again on what made this Company great and that was product. It is all about the product and it's about ensuring that you understand what the consumers want and as I said earlier on, the thing that is quite unique is that we have design teams around the world that are tapped into the youth market and actually can really understand the trends and the culture that are emanating from wherever they are. What we now need to do is to use that information better.

So it is about product, I mean it's very important and we know who the customers are. We know that they like the brand. Now we've got to convert them to buying the brand.

Greg Dring - ***Macquarie Securities - Analyst***

Sorry and just one last one. Did you survey value perception and what do your customers think of the price points to your product?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

We weren't -- you know, it was really very interesting. In France we were perceived to be more in the higher end. In America we were mid-tier and in Australia we were mid to higher end. So it's interesting; we were positioned differently according to the market.

Now these are all the things that we need to take into consideration. So the brand is at a different stage of its lifecycle in various regions. So we need to understand that and say what does that mean.

Michael Simotas - ***Deutsche Bank - Analyst***

It's Michael Simotas from Deutsche Bank. We've had some feedback from the industry that Billabong sales through the independent channel in the US were performing quite well until the June quarter when perhaps one or two of the other core brands started to pick up the market share. Could you just comment on what you've seen through your visibility of the channel and then maybe through Billabong's company-owned US retail stores what you've seen from the core Billabong brand sales versus some of the competing brands.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Alright I'll talk a little bit about the retail first. It's been varying, we've got a number of banners and first West 49 is not performing to our expectations and that's more in Canada and that does have a number of our house brands.

When it comes to some of our brands within our retail within America, our east coast is performing better than our west coast and what we need to understand is that because we're not having the right mix for the consumer, are the price points not right or is it because of the product? Those are the things that we're actually looking at. That's what I'm going to kind of put under retail as such.

But if you actually look at the product, we're feeling pretty confident going forward into the beginning of this season that we're starting to see some signs that are starting to pick up. I know it's interesting. You're probably referring to -- are you referring to the ActionWatch --

Michael Simotas - ***Deutsche Bank - Analyst***

Yes, that's right.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Okay. The ActionWatch one. I don't have all the information in front of me. But what I do know is that we were clearly identified as the number one brand in the board sports area for girls, the Billabong brand, and that we were fighting it out with Quicksilver and Vulcan for kind of first place in the menswear side. So I would have to say that that kind of doesn't -- that kind of reputes that as such, if that's what you're speaking about.

Michael Simotas - ***Deutsche Bank - Analyst***

Yes. I think the absolute performance was strong and has been strong for a while, but the momentum I guess of one or two of the competitors seemed to ramp up relative to the core Billabong brand in the fourth quarter. I was just wondering if you've seen that through your customers more broadly in the wholesale channel and then also through the Company retail stores, whether those trends have been reflected, giving you also sell Quicksilver and Vulcan?

Launa Inman *- Billabong International Limited - Managing Director and CEO*

No. We haven't really seen that. But that doesn't actually mean it won't -- can still play out. As I said, what our own research showed us though is that there's big opportunity because we're not converting it at the pace that we should.

Michael Simotas *- Deutsche Bank - Analyst*

Okay, great. Then maybe a semi-related question. The comp store sales in the US retail business are just over 1%, seems to be well below some of the listed peers. So you can look at companies like Buckle, Zumiez, Tilly's et cetera. Can you talk about what you think the drivers of that are and perhaps what you've spoken about today that may go some way to addressing that shortfall?

Launa Inman *- Billabong International Limited - Managing Director and CEO*

I genuinely believe that some of the issues are that we're not offering a good retailing experience. I really do. I mean, I feel that at times, when you go into some of the stores, we're over assorted. We're not necessarily standing for a category and really saying we believe in a model we're going to be famous for.

So these are things that can be easily fixed. One of the things that, as a retailer, one really needs to make sure is that you don't have a plethora of styles and end up buying the same units of every single style. So these are the things that we as an organisation need to say, okay, how do we do this? We need to have table lines. We need to get behind key items that we believe in, make sure the window's reflect a lifestyle that we're trying to demonstrate. These are all things that, as a retailer, we can quickly fix. I do believe that those are some of the issues.

Michael Simotas *- Deutsche Bank - Analyst*

Okay. Just one final one. There's the obvious motive to push the sales mix towards Billabong's own brand. Do you think that's been the right approach? Or do you think perhaps the push there has been a little bit too aggressive?

Launa Inman *- Billabong International Limited - Managing Director and CEO*

I would say we needed to have a clear understanding in each case regarding the banner of who the customer is. Therefore, at times, we could have done it. Even if we haven't over-pushed the family brand, we may not have got the mix right. That's why I spoke about the fact that we need to do very clear research on who the consumer is regarding specific brands and understand what their requirements are.

For example, even if -- for example, in West 49, they have responded to the family brands. But one of the things that is evident is we need to ensure that we have some better price points for them because the consumer there tends to be young. It's very skate-driven as well and they're quite price and value conscious. So it's also about changing the mix within the brands that we're putting in, making sure that we have some of the opening price points as opposed to maybe having them more middle or higher price points.

So those are the things that can be fixed quite easily. So it's not necessarily that the product's wrong. It might be that the mix is wrong. Does that --

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Michael Simotas *- Deutsche Bank - Analyst*

Thank you very much.

Craig White *- Billabong International Limited - CFO*

Michael, I might just add to that as well. When you look at the whole product, as well as investment and store equation, both in terms of the advertising promotion spend and the CapEx spend, I think there's --

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

[A number of] factors.

Craig White - ***Billabong International Limited - CFO***

The environment that we've been in has meant that A&P, as Launa talked to, has been reduced, CapEx has probably been constrained. I think the forward plans that we're looking at basically anticipate increased lift in A&P, CapEx against stores to match with probably the product offer.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Can I just add to that? I think this is really critical. As I mentioned in my presentation, one of the things that the Company did in the quest to kind of retain the profits in the short-term they've gone and cut back on marketing. You need to look at marketing in both ways. You need to look at the whole marketing, in other words the marketing that creates a brand awareness. But then you also need to separate it and you need to have retail marketing. They need to be two separate budgets.

Retail budgeting is all about ensuring that, once the customer is aware of the product, they need to therefore be directed as to where they can buy it. Retail marketing is very much more tactical. It's traffic-driving, et cetera. It's got different mechanisms and different pulls as to why it needs to be done. So one of the things we've clearly recognised is that we need to put more money into A&P. But we need to understand how best it can be spent. It needs to be both wholesale and retail. They don't -- they should be managed completely separately.

That's one of the things for West 49. When we've been trying to get a handle as to why it's not been performing to our expectations, besides the economy and those things we've talked about, one of the issues is that it's a very promotionally driven business. I'm not just talking about price. I'm talking about a lot of promotions were done to drive the traffic. So now we've recognised that. So we're creating a very clear promotional plan, particularly now to try and take the upside for the holidays that are coming and now in Canada and Christmas.

So those are the things about having looked at the business and tried to do an assessment on what are the issues. It may not always be product. It could be simply that we're not driving the traffic in because we've stopped advertising to the extent that we used to.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

Launa, it's Andrew McLennan from CommBank Equities. You mentioned that there's some significant increase to be made on stock terms. From my understanding, the stock terms you're comparing against is broader fashion (inaudible) rather than specific. Do you think there's going to be a problem, a structural issue that retailers or brands face with this low stock turns because of the difference in season?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well a season isn't really relevant to -- I mean each region has its own -- let me say that. Each region responds accordingly to whatever the weather is. So in other words, we can have a stock turn of four here within Australia quite easily. One of the issues that we've got a low stock turn at the moment is because we've got too much stock and we haven't cleared it all. Therefore, it's not moving. So we've provided for it. We've already moved a great deal. But we need to sell down some more.

The moment you can clear your aged inventory you can increase your stock turn. The product that's gone in recently is actually doing well. But we've got stock that is not performing and that is old stock and that's what pulling down the stock turn.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

We're hearing from the industry that -- and you've alluded to this -- that the discount channel isn't working that effectively in Australia. Have you tried to -- and possibly because we've got so much stock -- but have you tried using the online channel in Australia to clear inventory?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

We've done that. One of the things we're looking at is how do we manage this over-stocking situation? We recognise that Australia is relatively a small market. So we need to deal with that very carefully. But we are looking at where we could, if need be, ship it to other particular places which would not affect the brand because we are very conscious of not damaging the brand. We've got the awareness. We now need to ensure that we get the conversion.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

Yes. I've noticed the Billabong brand itself is not terribly discounted from other brands on the (inaudible). So you're actually shipping products offshore (inaudible).

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well you know the interesting reason one of the -- there's so much discounting even on our e-commerce is because our competitors have been in a similar situation. Most of the board sport industry have actually got too much stock at the moment and everyone's trying to clear it.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

Just to confirm, you had that showing the sales by channel. Was that specifically just the sales in the US?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

That was for the US, yes.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

Sales for the US only. So that 20% or so of sales that went through the clear-out channel is just within the US.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Mmm. That's, as I called out to you, that's because we've had too much stock in the end. That's not going to be the norm. We will be pulling back from that. Those are the things we needed to look at. You have to understand where we're at, do the diagnostic and say, is that where we want to be? No, we don't. Now, if you were to look at in a year's time, it would look very different.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

So 5% would be something more typical.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

It varies. I can't comment on what the perfect amount is for the board sport industry. But it could be anything up to 10% I would say. We'll probably look at that. They are a proper recognised channel. I mean, they're a very successful channel within the US market. Also they tend to be in locations that we're not necessarily in. So people are accessing it through a different methodology. They've been more in the kind of mid-west or various places as well. So it's not just about the outlets. It's also about where they are in fact are positioned.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

Launa, just in relation to the leases. You've got in this presentation that you'll be reviewing over 2013 leases. Is that where the provision came from in FY12? Or is there -- you're flagging that there's actually more to come essentially?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

One of the things that, when we did this analysis, we -- as I said to you, we took -- we clustered our stores by turnover. One of the things we were trying to assess is where are the workable levers? The first one is always wages. It became evident that there's about AUD4.1 million we can save alone in wages if we just pull down some that are what we believe are high in comparison to other stores that are doing similar turnover. So that's the first thing.

The second thing we looked at, we also tried to assess then the rent as what they are as a percentage of sales. We haven't start that work yet of going back to some of the landlords. But we do believe that there is some potential there. That is one of the things that we're going to be looking at is to be looking at the rent versus our sales. I mean, ideally, you've just got to increase the sales and then everything comes down. But we know it's not as simple as that. So we have called out that we are going to look at how do we improve our property costs as well.

Craig White - ***Billabong International Limited - CFO***

Andrew, I might -- do you mind if I just add there. So to be clear, we've closed 58 stores at 30 June. There's another 82 to close. That's a total of 140. That was part of what was flagged really back at the half-year result. But there's no -- whilst Launa's talking about the review that will be ongoing, right now there's no plan to close additional stores on top of that 140.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Yes. That's -- what I'm talking about does not -- it doesn't count those 140 stores.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

Okay. Finally from me, you provided, I think on slide 9, the clusters of various stores by sales and showing the EBITDA margins. It looked like the average is going to equate to the 9% you had in the financial count. So I was just wondering why is there a difference there? I think it looks visually around about 15% was the average EBITDA margin for those retail stores.

Craig White - ***Billabong International Limited - CFO***

Maybe, Andrew, can I take that one offline with you afterwards.

Andrew McLennan - ***Commonwealth Bank Equities - analyst***

Yes.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Can we, yes, look at that one offline?

Grant Saligari - ***Credit Suisse - Analyst***

Launa?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Yes.

Grant Saligari - ***Credit Suisse - Analyst***

Grant Saligari, Credit Suisse. Just a couple of clarifications from me, if I could. The AUD58 million in the lease termination over its lease expenses, what's the provisional release you expect in fiscal '13 for that?

Craig White - ***Billabong International Limited - CFO***

I might take that one, Grant. So first of all, just to be clear, there are probably 3 main components in that number of AUD58 million. Firstly, in regards to there's 2 main provisions for retail stores. So either there are stores that we've decided to close. They might have another two years to go on the lease and we're actually providing for future lease payment. Then alternatively there might be stores that for example the lease will terminate in seven months but it's a loss making store and we're actually providing for those losses. So that's what the accounting standard requires us to do. So within that AUD58 million are those two components. In addition to that there is a fairly significant provision for onerous contracts that are all tied up with the Nixon transaction.

I might just comment on that because those onerous or the provisions for the onerous contracts almost need to be thought of against the Nixon gain on sale because what happened effectively when we were negotiating the Nixon agreement, the announcement to close stores happened after those negotiations were happening. There is a supply agreement in place in regards to the purchases that we will make from the Nixon JV to put through our own retail stores. So there are some onerous contracts there that we have provided for as part of that AUD58 million and that's a reasonably significant number. So does that answer your question?

Grant Saligari - ***Credit Suisse - Analyst***

Well partly -- actually that's quite helpful but in terms of the P&L impact in fiscal '13 what would the approximate [provision of the lease be]?

Craig White - ***Billabong International Limited - CFO***

I guess in total you'd have to pull out firstly the Nixon portion which is in the order of I guess I'm going to say that's about AUD15 million out of that AUD58 million and then you would have to -- and not all of the rest of that will be released through FY13. Some of it will even be beyond FY13. But ultimately probably the more important thing is that there will be a matching. In a perfect world there will be no expense reported in FY13 because there will be an equal and offsetting charge on the other side. That's why the provision is being set up at 30 June 2012.

Unidentified Participant

On the specific doubtful debt of AUD33 million -- sorry if you've answered this elsewhere in the forum but could you expand on what that is?

Craig White - ***Billabong International Limited - CFO***

On the doubtful debt provision?

Unidentified Participant

Yes.

Craig White - ***Billabong International Limited - CFO***

So the doubtful debt provision is sitting at around AUD40 million at the end of FY12.

Unidentified Participant

Sorry you've got a specific doubtful debt expense under significant items of AUD32.9 million.

Craig White - ***Billabong International Limited - CFO***

That's the expense through the P&L in the year but if you just look at the provision from 30 June 2011 to 30 June 2012 it's gone from around AUD20 million to AUD40 million. Okay.

Unidentified Participant

Yes.

Craig White - ***Billabong International Limited - CFO***

That basically relates to the -- or the provision has been increased as I said to provide for some of those doubtful debts particularly in southern Europe. Some of the larger items in there relate to -- we have a Greek distributor -- we've made some provisions there, South America; I referenced some of the changes to distribution there and we've provided against some receivables in that market. So those would be a couple of the bigger ones and then more just generally across southern Europe.

Unidentified Participant

I'd just be interested generally and final one from me -- are chains such as West 49, large banner chain -- how close is that to your definition of strategic retail? What are your thoughts on where that fits in that definition?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well what we're doing is we have closed some of those stores as you're aware the ones that were severely loss making. Sot the stores that we've got now we've actually just had the gentleman that's heading up our global retailing has actually just spent a week in Canada looking both at West 49 and then other stores [in New Zealand] and so on that we have.

We've done a diagnostic and in the last week I think there's as I said there's a couple of key things -- one of it is that we haven't necessarily got the customer proposition right but we believe we can fix that. Some of them are looking a little tired and therefore we need to look at whether we do a total refurbishment or whether we do a high impact low cost on them. We'll be assessing on where they're situated as in location. But in total they're actually -- it's a good brand, it's a well-known chain, it's predominantly boys wear and it's very much a skate business but quite value driven.

So it's really about understanding it. So is it strategic? What I can say is that we probably wouldn't look to open more stores in Canada we've got enough relative to the population. Where we would be looking to open up stores once we have done a proper network plan and I really do want to stress that this is key -- we would probably be underweight in the United States. But we wouldn't be doing anything until we have clearly assessed who the customer is, where they want to shop and then we would open up accordingly.

Unidentified Participant

Thank you.

Nick Berry - ***Nomura - Analyst***

Hi Launa, Nick Berry from Nomura down the back on your right -- down the back on your right there.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Sorry -- I'm sorry I was looking at someone else. Hi yes.

Nick Berry - ***Nomura - Analyst***

Yes no problem. My first question is on the AUD155 million incremental EBITDA. As I look at the strategic imperatives that you've set out in terms of delivering those --and thank you for the individual breakdown on the profit contribution. If I look at the first one quick wins I'd probably say that's mostly likely cost out. If I look at number six on globalised and integrated supply chain that's probably mostly cost out and then just qualitatively the others sound primarily sales led. My question is how much of that AUD155 million incremental EBITDA can you deliver independent of what the sales line does over the next four years?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

I couldn't tell you that exactly but what I can tell you is they're related to both costs and also as we said earlier on even if we don't increase the sales we believe that there is upside in margin because of not having to mark down stock to clear it if we get proper inventory planning under and markdowns under control when it comes to retail. Also just about ensuring that when we deliver to our wholesalers that we do better planning. One of the key things that we have identified is that we need to have good planning systems within our business. It's a difficult question to exactly answer that.

Nick Berry - ***Nomura - Analyst***

I mean it's part of the process you must have gone through -- you called out a couple of examples like the AUD4.1 million in labour cost savings.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

That's right.

Nick Berry - ***Nomura - Analyst***

What proportion of that AUD155 million is that you can stick a pin on the wall today and say this is a dollar figure in terms of cost output no matter what I can deliver over the next four years?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

I actually cannot answer that at the moment. I don't have that information in front of you but we have as you say we've clearly worked through it item by item to actually work out what it's going to be but it is not highly based on having huge sales growth.

Nick Berry - ***Nomura - Analyst***

Thanks. My second question is on the F'13 guidance -- the AUD100 million to AUD110 million -- you've got the base of AUD84 million adding back AUD6 million actual in terms of cost-out (inaudible) savings. The AUD30 million other costs out that's an annualised benefit isn't it? I think the actual contribution in F'13 will be close to the AUD20 million. Is that correct?

Craig White - ***Billabong International Limited - CFO***

No that's not right Nick. So the AUD30 million is actually an FY13 number. We can expect to realise AUD30 million in FY13 plus the AUD6 million which not so much cost-out but just the elimination of the loss making stores. So you're correct to think of it in terms of AUD84 million plus AUD30 million plus AUD6 million less something to bring you back to that AUD100 million to AUD110 million.

Nick Berry - ***Nomura - Analyst***

Then within the transformation strategy benefits that you expect to realise in F'13 is there going to be much of an incremental benefit? So for example the AUD10 million in quick wins -- should we be looking for that to come through in F'13?

Craig White - ***Billabong International Limited - CFO***

Broadly I would say about half of it.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Half of it.

Nick Berry - ***Nomura - Analyst***

Okay so that probably gives you about a decline in the underlying business of F'13 and something in the order of 15% to 25% is that about right?

Craig White - ***Billabong International Limited - CFO***

Yes I think just when we answered it about half of that AUD10 million is going to come through in FY13. The plan is to basically reinvest that back into the business to drive growth predominantly into AP. So don't think of it as an incremental AUD5 million, it's actually neutral from a guidance point of view.

Nick Berry - ***Nomura - Analyst***

Okay and then when we go from -- if we've got that underlying decline in the business factored into F'13, when we then go into F'14 what's your base assumption for what the underlying business performance does (inaudible) the transformation strategy?

Craig White - ***Billabong International Limited - CFO***

Well I think that AUD100 million to AUD110 million guidance range for FY13 is about what you should think about as the base. I think in finishing FY12, we've tried to frankly clean things up using a conservative but appropriate position and that AUD100 million to AUD110 million is about the base you should think about going into FY14.

Nick Berry - ***Nomura - Analyst***

Final question just a housing keeping one -- D&A is probably going to move around quite a bit from F'12 into F'13 because of the store closures -- could you give us a bit of guidance on where you expect that land for F'13 please?

Craig White - ***Billabong International Limited - CFO***

You're getting quite specific now Nick but look I think what I would say to you is I think it's true that there will be some reduction in D&A through store closure however there is going to be greater investment into -- Launa's alluded to things like IT systems and you're going to see that depreciation coming through so I wouldn't be looking for big savings in the D&A line.

Nick Berry - ***Nomura - Analyst***

Thanks guys.

Unidentified Participant

Launa it's Craig (inaudible) here from UBS. Just a question on strategy and particularly around the pricing because Billabong and your brands historically had a sort of premium pricing position but the discussion around addressing that greater market [move or] getting some sales back from (inaudible) implies to me that pricing premium is going to go and maybe you're going to have to start dropping prices in the Billabong products or increasing the breadth of price points and [more weighted lower end]. Is that correct thinking?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Look we're very conscious that we need to address price harmonisation. As the world becomes more global and people are going to be able to access it through e-commerce there is going to be an element of that. But we've already dropped our prices in some cases particularly in Australia as you know because we've been clearing stock and we've called up the fact that we've had a contraction on margin.

It's really more about making sure that whatever the product is it is actually offering the consumer value for money. It's never going to be a bottom end brand -- that's not what we are out to do. It is either a mid-tier brand as it's recognised in the United States or it tends to be mid-tier to better tier within Australia and Europe. That's its positioning. What we just need to ensure is that it's appropriate for the product that we actually are offering at its value and also then benchmark us against our competitors.

Unidentified Participant

Okay so when we're sort of talking about the AUD150 million value accumulative benefits over the next few years on relatively new top line growth it doesn't imply sort of quite significant accelerations in real growth to the prices that are coming back?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Sorry it doesn't imply?

Unidentified Participant

It doesn't imply significant volume growth [at the expenses].

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

No it doesn't no because this is going to be -- the product is going to be very much focused on differentiation, performance, all those types of things. As I said it's not going to be at the bottom price point but it's not going to be exorbitant either. We know where we've got to pitch it. It's where it's pitched now but it's a question about making sure that it is the right product.

Unidentified Participant

Just a final one for me probably separate to the strategy and results but just on the whole private equity situations happening at the moment. (Inaudible) have been reporting [pressures] and delays as to the access to the non-exclusive sort of due diligence period. Can you give us any update on what's happening there with respect to the due diligence and then also any interest from other parties that are coming in?

Launa Inman *- Billabong International Limited - Managing Director and CEO*

Well look I don't really want to comment on it. What I can say is that we have signed all the documentation with PPG and really I'd just like to leave it at that.

Craig White *- Billabong International Limited - CFO*

That's in regards to the confidentiality agreement.

Thomas Kierath *- Morgan Stanley - Analyst*

Hi it's Tom Kierath from Morgan Stanley. Can you just run through the performance of the brand? I think usually you say which ones have performed better and worse during the last 12 months.

Launa Inman *- Billabong International Limited - Managing Director and CEO*

Billabong has been our weakest performer if you look at it year-on-year and we've called out why. The one that's really been a standout has been RVCA that's a small brand as I've said and we've only had it two years and it's very much a youth brand but it's got a very good projector, particularly in the United States. It's still to really have brand awareness in Europe and Australia but we believe that that is possible. DaKine has been good in Europe. It's actually had good sales there but it's been flat in the US and in Australia -- and when I say Australia I mean Australasia -- it's been okay but that just kind of gives you a chance of where we are at.

Sector 9 is a great little brand as well. We've got some really good brands but those are our four key brands. Element is very good, particularly in the United Kingdom, where we have second -- we have Two Seasons, which is a chain of stores but they are kind of in the Midlands almost and very much skate driven and that's in fact the key brand within those stores and we've started to see a bit of upside on our retail there, especially as the economy has fired a bit with the Olympics, et cetera.

Thomas Kierath *- Morgan Stanley - Analyst*

It sounds like you're trying to simplify the business a bit. It probably got too complex there for a while. What happens with those kind of brands outside the top four or five?

Launa Inman *- Billabong International Limited - Managing Director and CEO*

We are still going to be running them. What we are assessing though is whether there's some of them -- and you actually will see that in the notes -- where we're not going to necessarily do them in every region. What we did though is we said we have to prioritise the brands. I mean, we've got 12, where do we believe our best efforts should be placed and where should we be putting our advertising but the other brands are good but they are areas that we might -- for instance Tigerlily we're not going to be running in the United States but it's a very good brand here in Australia.

So it's about also understanding where the brand is best suited for the various regions and what will be the effort required to really grow them and we can't do it all at one go and we're aware of that.

Thomas Kierath - ***Morgan Stanley - Analyst***

Lastly, just on online it sounds like you've got a multibrand offering through SurfStitch and Swell and then you're doing sales say through billabong.com. Who runs that? Will the SurfStitch guys run that or will you run that? I'm just trying to understand exactly how it works?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

They will be -- we will be working in conjunction with SurfStitch. So we kind of work together on that.

Thomas Kierath - ***Morgan Stanley - Analyst***

Thanks.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Is that the last question? Is there any more on the telephone? Okay.

Operator

Your first question from the telephone comes from the line of Charlie Green from Hunter Green. Please go ahead.

Charlie Green - ***Shareholder - Hunter Green***

Thanks. Apart from feeling like I'm leaving (inaudible) I just wonder if you could expand on your answer a couple of seconds ago why you can't talk about the TPG stuff? As a shareholder I'd be interested to know what the legal governance or tactical reasons are that sit behind your non-disclosure today. As a shareholder it's the single key attitude that's driving my decision making about the Company and you haven't touched on it and you haven't told us why you haven't touched on it.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

No, what I did say is that we have done the final signing with the letter of confidentiality with TPG but I just said I wasn't going to talk any further about it.

Charlie Green - ***Shareholder - Hunter Green***

So, why not? Like I still -- I don't -- what -- are there tactical reasons why you're not talking about it? Has TPG said you can't talk about it which seems an incredible amount of power for a potential purchaser to have?

Craig White - ***Billabong International Limited - CFO***

Charlie, I might just comment there. You know I think there's obviously been public disclosure of the bid and Launa has alluded to the fact the confidentiality agreement has been signed and--

Charlie Green - ***Shareholder - Hunter Green***

Yes that was three or four weeks ago, Craig. You said you'd comment again in several weeks. It's been several weeks.

Craig White - ***Billabong International Limited - CFO***

No, but I'm just saying that the confidentiality agreement has been signed, due diligence has started and the process is running. There's not really anything else to add at this point. I don't think it's that we're not wanting to comment, it's just that there's really nothing to add.

Charlie Green - ***Shareholder - Hunter Green***

Okay, well I'm--

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

The due diligence has commenced. Perhaps that's what you're -- perhaps I wasn't clear on that. It has commenced.

Charlie Green - ***Shareholder - Hunter Green***

Okay, well I'll leave others to follow that up but it also seems -- I mean, Craig you might be better to confirm this, you were around I guess, but after all this heavy lifting by 2016 you'll get back to where you were in 2005, 11 years later in terms of EBITDA? Is that right?

Craig White - ***Billabong International Limited - CFO***

Charlie, I think the guidance that we're providing both in terms of FY13 and some of the targets that we're aiming for in FY16 have been constructed I guess based on the world we live in today. We've had a GFC in 2007 and 2008 and I don't think there's too many businesses that haven't been affected by that and I think the guidance that we've provided is constructed on our best view of what we believe the business will deliver over the next four years.

Charlie Green - ***Shareholder - Hunter Green***

Okay.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Could I just add one thing? I think we have to recognize it's a very different model. I mean, in 2005 it was predominantly wholesale, today we are wholesale, retail and e-commerce. With this whole globalisation it's a different world with different margins, et cetera and different cost structure. So I think that one can't really compare it because it's not the same business.

Charlie Green - ***Shareholder - Hunter Green***

Yes, okay. Anyway it seems (inaudible) that anyone is going to have a look. Thanks.

Operator

Your next question comes from the line of Silvia Spadea from Merrill Lynch. Please go ahead.

Silvia Spadea - ***Merrill Lynch - Analyst***

Hi, Launa. Hi, Craig.

Craig White - ***Billabong International Limited - CFO***

Morning.

Silvia Spadea - ***Merrill Lynch - Analyst***

Just a few questions from me, if I can. Firstly I was just interested in your comment around the brand Billabong being a youth brand because when I look at, I think it was slide 12, there looks like there's just as much preference for the brand for 30 to 44 year olds and 45 plus year olds as there is for under 21 year olds. So I was just a bit confused as to I guess who is actually your target core customer for this brand and if you're going to refocus your efforts on that target group do you risk losing sales by alienating your other customers?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Okay. Let me just talk about that. Firstly it actually is definitely a youth brand. We took the information over three countries and cut it six ways. We talked with -- we interviewed over 3000 people, we interviewed other participants as well as people that are in different segments. So there's absolutely no dispute that it is a youth brand and in fact it is a teen brand within the core parts that we spoke about, that 6%. We don't really want to talk about age because as I said it's more about psychoanalytical values that they have as opposed to demographics and age but if you were to look at the age we would probably say it would extend from 14 to 29 years of age. That would be where we would actually be looking to pitch it.

We know that customers right up to 45 years old are buying it and of course that is their prerogative but where we would actually be looking to pitch it and to make sure that the product is designed appropriately would be predominantly from 14 to 29.

Silvia Spadea - ***Merrill Lynch - Analyst***

Okay and I guess you talk to the Billabong brand being the weakest performer this year. Would you mainly attribute that into the Australian market?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

No, it's probably been across the board. It would have been across the board.

Silvia Spadea - ***Merrill Lynch - Analyst***

Just also I guess over the past few years you've had significant falls in your wholesale business, so I think you had around 30% again this year and a large part of that has been due to a shrinking account base. I think I saw somewhere you have around 13,000 wholesale doors at the moment. Do you expect that number to be further reduced going forward? I'm just trying to get a feel for how far along you are, I guess, in that process and if we are probably going to see continued increase in doubtful debts from these accounts?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well we've certainly provided sufficiently for debts. We are keeping a very close eye on some of our accounts which might be problematic, so we're very conscious of that and one of the things we're trying to do with that very large customer base to try and preserve it but at the same time simplify it, and one of the things we're looking to do is to have more of our customers actually go B to B, in other words the smaller customers would be able to actually go online and order the product and therefore in fact kind of do it straight by credit card. That would be very beneficial in many senses. That would give them access to us at any time they wanted but also it would ensure that we were getting payment.

We have to really watch it. The US is, we believe, starting to turn around. So hopefully if we get any more companies getting into trouble hopefully they will be at a minimum. Australia I think we've still got to see what happens but we are keeping a very close eye on it.

Silvia Spadea - ***Merrill Lynch - Analyst***

Okay. Just a question to Craig actually, on my calculation, this is a balance sheet question, using your FY13 guided numbers your fixed charge cover ratio still seems quite low to me, around 1.7 or 1.8 times and then your interest cover is 2.6. I guess especially if there's a further deterioration in your business are you comfortable at those sorts of levels?

Craig White - ***Billabong International Limited - CFO***

Sylvia, I think based on the numbers you are quoting the short answer is yes. As you know we renegotiated the covenant package with our banking syndicate as part of the -- around the time of the capital raise and even on the numbers you're talking about I don't believe there's an issue.

Silvia Spadea - ***Merrill Lynch - Analyst***

At 1.8 times?

Craig White - ***Billabong International Limited - CFO***

Correct.

Silvia Spadea - ***Merrill Lynch - Analyst***

Okay and have you seen any improvement in the differential, I guess between your soft turns and your payables? I think last time you said your soft turns were around 3 to 4 times and your payables 12. Has there been any improvement in that?

Craig White - ***Billabong International Limited - CFO***

Well I think there's obviously two sides to that equation. You can see that we've cleared a lot of inventory over the period of FY12 and you can see that in the charge that was taken and obviously we've taken a further provision at 30 June for any inventory we haven't cleared and that predominantly sits in Europe and Australia, perhaps not surprisingly and I alluded earlier to the fact that the US got on to clearing its stock through the well-developed off price channel in that market where you can clear product without affecting your core brand.

So the expectation is that we will continue to shift some of the surplus products from Europe and Australia to the US and there is certainly appetite within that off price channel within the US to take that product. So I think there is still further work to be done but I think we feel we're adequately provisioned and have a plan in place to clear that surplus stock but turn is certainly improving. I think in terms of payables, I touched on this in my part of the presentation, where there are a number of things that we've done to better structure our payables. So I referenced the fact that we've got some supplier financing arrangements in place in the US.

Specifically what that's allowing suppliers to do is to receive cash earlier using a discount rate base of our cost of capital but allowing us to pay later. So it's just there's a financial efficiency there which benefits both parties and therefore our payables are -- we're managing those better as well.

Silvia Spadea - ***Merrill Lynch - Analyst***

Okay, thanks.

Operator

Your final question comes from the line of James O'Brien from Credit Suisse. Please go ahead.

James O'Brien - ***Credit Suisse - Analyst***

Hi, guys. Just a couple of questions relating to the regional performances. It looks as though Europe broadly and Canada specifically were quite soft. I'm wondering if you're undertaking any measures to improve those areas beyond what you're already doing across the Group?

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

Well I think the most important thing is with 49 we need to really try and get those retail stores firing again. So that's what we've already commenced. With regards to Europe there's a lot of work been going on there. I mean we have had 25% of our accounts closed over the last year or last 18 months. So we are very conscious of not just endeavouring to make sales for the sake of it so that we don't incur any further bad losses or anything.

So we are managing to the best of our ability, we are also looking at whether there are other emerging markets that we could benefit from but the thing that I would really like to say is that we first need to get our house in order, [sweep] the assets that we have before we actually then look to go out of there.

James O'Brien - ***Credit Suisse - Analyst***

Thank you. One final question. I'm wondering if it's possible for you to break out the retail versus wholesale EBITDA split across the geographic segments.

Craig White - ***Billabong International Limited - CFO***

Look, I think that's something that we haven't provided at this stage. I think that we've already frankly gone to a much greater level of disclosure than we've ever gone before, showing the wholesale/retail splits both pre-and post-Global costs. We've benchmarked ourselves against some others in our industry and I think the level of disclosure that we now have is frankly greater and more open, so we wouldn't be proposing to go down to the regional level.

James O'Brien - ***Credit Suisse - Analyst***

Okay, I appreciate that. Thank you.

Launa Inman - ***Billabong International Limited - Managing Director and CEO***

All right. Well, thank you very much indeed everyone, and thank you for coming and listening to our strategy. Thank you.