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## ASX ANNOUNCEMENT

### BILLABONG INTERNATIONAL LIMITED RESULTS FOR THE HALF-YEAR TO 31 DECEMBER 2014

GOLD COAST, 26 February 2015: Billabong International Limited (“Billabong”, the “Company”, together with its subsidiaries, the “Group”) today announces its half-year financial results to 31 December 2014. All figures quoted are in Australian dollars unless otherwise stated.

#### Overview:

- The Group returns to profitability. Including significant items and discontinued businesses, Net Profit after Tax (“NPAT”) for the half-year to 31 December 2014 of \$25.7 million, compared to a loss of \$126.3 million for the previous corresponding period (“pcp”).
- Excluding significant items and discontinued businesses, EBITDA for the period was a profit of \$42.8 million and NPAT was \$13.8 million.
- European EBITDA increased \$5.1 million following ongoing restructuring.
- In the key United States wholesale channel, brand Billabong sales up 9.5% and RVCA up 5.7% on a like for like basis.
- Australian retail sales down over Christmas trading period.
- Global implementation of seven-part turnaround strategy builds momentum but remains in its early stages.

Billabong CEO Neil Fiske said: “A year into our turnaround it’s encouraging to see the Group return to profitability for the first time in three years. There remains though significant operational reform to be undertaken.

Where our effort is being concentrated we are seeing positive signs of brand growth and improved margins. In the United States, the Group’s biggest market, brand Billabong’s sales are up near double digits for the half in the wholesale market, and RVCA sales are also growing in this key market. Meanwhile, Element has experienced strong double digit growth in Europe, its largest region.

However, as expected in what is a complex global turnaround, there is not yet universal progress across our operations and these results are impacted by changes to our portfolio.”

In the twelve months prior to being sold in February 2014, the Group’s West 49 retail operation lost \$10.3 million – heavily weighted to the June half. While this year’s wholesale contribution from West 49 is lower than the equivalent wholesale earnings in the prior year, the fact that we no longer have those retail costs and losses leaves the Group in a stronger overall position.

Excluding the wholesale contribution from West 49 in both years, EBITDA for the remainder of the Group was up \$3.9 million on the pcp.\*

*\*For further detail refer page 28 of the Group’s Half Year Results Presentation dated 26 February 2015.*





Mr. Fiske said a soft lead into Christmas trading in Australia had seen retail sales in the Asia-Pacific drop by 4.5% on a comparable store basis.

“While a lack of consumer confidence in recent months has impacted on this result, it reinforces our view of the importance of a move to an omni-channel strategy both in this market and globally.

Having recently regained 100% ownership of our branded ecommerce sites in Australia and Europe, we are now able to include these important assets in our omni platform plans. We will accelerate the transformation of our retail fleet in Asia-Pacific from a brick and mortar operation into a true omni-channel model that allows customers to seamlessly shop across all channels.”

### Financial Highlights:

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

NPAT, including significant items and discontinued businesses, was \$25.7 million compared to a loss of \$126.3 million for the pcp.

Excluding significant items and discontinued businesses, NPAT was \$13.8 million for the period.

Billabong’s portfolio of assets has changed since the previous corresponding period, with the sale of Canadian retail operations West 49 in February 2014 and multi-brand ecommerce sites SurfStitch and Swell in September 2014. All three have been treated as discontinued businesses.

EBITDA from continuing businesses of \$42.8 million was down \$2.2 million on the pcp. Excluding the wholesale contribution from West 49 in both years, EBITDA for the remainder of the Group was up \$3.9 million over the same period last year.

Global revenue from continuing business of \$522.1 million was down 1.1% on the pcp on a constant currency basis.

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The Company has previously highlighted it is taking a disciplined approach to costs in the turnaround strategy. While there has been investment in new talent and capability across the business, there was an overall \$3.2 million reduction in cost of doing business for the half compared to the pcp on a constant currency basis.

**Regional overview:**

America's revenue was down by 1.3% on a constant currency basis with a \$6.3 million fall in EBITDA on a constant currency basis in the region, impacted by the move from a retail to wholesale structure in Canada.

In the United States Billabong continued its strong growth in the key wholesale channel, with like for like sales up 9.5% for the period and RVCA seeing a 5.7% lift. In the Americas the wholesale channel accounts for the majority of revenue.

While Element sales in the Americas were down significantly for the half, forward orders for Fall in the region are on pace for growth. With the global brand structure in place the Group is beginning to see benefits, with some of the key drivers of success from Europe being introduced into the Americas.

European EBITDA was up \$5.1 million on flat revenue of \$88.0 million. Major restructuring of the business, including a withdrawal from non-profitable markets, downsizing the operation and better inventory management, has helped gross margins increase from 49.4% to 55.9% (adjusted for the effect of divestments).

European sales for Element have shown strong double digit growth for the half. The brand opened a new format store in London's Covent Garden late in 2014.

Asia-Pacific EBITDA was down \$1.4 million, driven in large part by a weak retail sales performance in Australia, including challenging trading conditions in early December. Despite the impact of the falling Australian dollar on the cost of goods sold, retail margins improved.

Tigerlily, which opened five new stores, continues its strong growth in the region with revenues and EBITDA both up double digit on the pcp.

**Turnaround update:**

Billabong today highlighted major global platform initiatives in omni-channel and supply chain to support the growth and profitability of its portfolio of brands.

"We have historically underinvested in direct to consumer platforms for our brands. Regaining full ownership of our ecommerce sites in this half allows us to implement a true omni-channel platform that will create a seamless and superior experience anywhere our consumers choose to shop. In building those platforms our approach is to build it once, build it right and leverage our global scale to lower costs while improving functionality," said Mr Fiske.

"Starting in Australia, a staged roll-out of a new direct to consumer omni-channel platform will for the first time support all customer facing channels across the Group's operations including brick and mortar retail, digital commerce, wholesale accounts and licensed stores.

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Multi-channel customers typically drive two to three times the sales of retail or ecommerce only consumers, giving us a huge opportunity to build on our leading action sports position in Australia before rolling out the strategy globally.”

Once final agreements with shortlisted suppliers are signed, the Group expects to be implementing this platform in mid calendar 2016. The platform will deliver real-time visibility for managing customer relationships and building loyalty, while improving margins and inventory turns.

“Most critically it will allow young action sports consumers to shop the way they want to shop,” said Mr Fiske.

The Group also provided an update on supply chain initiatives including:

- Implementation of cloud-based technology to track purchase orders in real time, evaluate vendor performance and better align inventory to orders.
- A restructure of the Group’s sourcing operation based in Hong Kong
- A recent two-day supplier summit outlining the Company’s plans to rationalise to a smaller group of core relationships as well as the expectations and guidelines around trading terms, performance standards and socially responsible manufacturing policies.

“The return to profitability for the Group is an encouraging signpost in the turnaround strategy and for all our team globally,” said Mr. Fiske.

“We are though little more than a year into this turnaround implementation and little more than six months into having the global leadership team in place to fully execute on it.

A number of changes, including those around supply chain, will take time to flow through to the bottom line while others such as new omni-channel platforms will have long lead times.

But we’re confident in the underlying strength of our key brands and excited about the opportunity in front of us.”

#### **Balance Sheet:**

Following the successful recapitalisation of the Group in early 2014, net debt levels have fallen to \$56.7 million at 31 December 2014. This compares to \$175.0 million at 31 December 2013 and \$74.3 million at 30 June 2014. The Group also has a liability for deferred consideration associated with an acquisition in a prior year of \$17.4 million.

The Group’s principal borrowing facility is a USD\$204 million term loan, which matures in 2018. Based on the prevailing USD/AUD exchange rate this represented AUD \$250 million as at 31 December 2014.

#### **Outlook:**

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

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

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

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

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