Billabong half year results conference call for half year ended 31 December 2009

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Company: Billabong

Derek O'Neill:

Ok, good morning everybody, thanks for joining us today on the call. I'll just note a couple of things that we are being audio cast live today on the web, and as always am unedited transcript of this call will be available on Billabong Biz, that's B I Z .com some time later today when we get it.

Well for those of you that attended our AGM last year, or read the addresses from that day, I don't think there'll be too many surprises in the headline numbers that we've reported today. We indicated back in October that net profit was likely to be down in the range of 10% in constant currency terms when you excluded the prior corresponding period's charge, and we've come in marginally ahead of that number. So I think there's probably a couple of stories come out of the result which I'll just quickly touch on those before handing over the call to questions.

At a consolidated level it's no surprise to see we've again been pushed around by currency. So that somewhat distorts the reported numbers. We have also tried to get a little bit more clarity in the EBITDA margin numbers by excluded the global overhead allocation, which was unusually distorted in the prior corresponding period by a foreign currency gain. So I hope those numbers help you better understand the underlying performance of the business in the region.

So if we look at the results by regions, the Americas remain challenging and the pick up we saw in our own retail late last year didn't actually flow through to the wholesale account base before the year's end. Our own retail actually had positive comparable store sales in October, so that gave us some hope that things would improve in the independent channel, but ultimately it didn't prove to be the case. Since October, our own retail comps were marginally down in November and December and more recently January was flat in our own retail. So while our own retail had some positive signs, and we began to see some stability in some of the broader wholesale account base, we have yet to see a real solid recovery take hold in the US, and some of the latest weather hasn't really helped as well, and you will also note we have called out Pacific Sunwear in the presentation, and I think it's pretty fair to say that a 50% decline in sales for them was somewhat disappointing.

Country Australia had a good result, with our products continuing to be well accepted here, it's always nice to have growth in this market, although all our indications show that business definitely became a little tougher once we started cycling government stimulus cheques from mid-December and since then January hasn't really set the world on fire either. I'm also sure you will realise that Australia's GP margins would have been under a bit of pressure from lower currency hedge rates, and we took some price increases here but it really wasn't enough to recover from the massive currency swings that we had in the previous period.

Elsewhere in the Australasian region, Asia in general was a little patchy, but continues to offer great potential, while South Africa, Japan and New Zealand were pretty much just challenging right through the whole period. Europe's been a strong region for us for quite a while now, and that remained the case in the first half. Our sell throughs were good and retailers seem more than happy with our portfolio brands. Germany was again a stand out, and while some countries were certainly tougher than others, the overall European result was particularly good considering it also suffered from a weaker euro/USD hedge rate for products delivered in the period.

Company owned retailers you will see in the presentation has now ticked past 25% of group sales. We continue to view company owned, or partner retail stores, as a sure way of getting the right product in front of the consumer and we have found that wherever we can present them with a full range of colours and sizes of styles, we can get good results and enhance the brand experience. I note our own retail margin strengthened in the period and I think this shows we are getting better at it. As I mentioned before, don't expect for retail to suddenly become a huge component of our business, but it's clear we will continue to identify opportunities to get our product to market where required.

At a consolidated level, the gross margin improvement was pleasing, our cash flow was strong, inventory was lower than 12 months ago, working capital was steady and we should start seeing better hedge rates late in this second half and into 2010/2011. So I'm definitely looking forward to that.

So overall I think we remain really well positioned within our market place. No doubt it has been the most challenging 18 months that I've seen in more than 20 years in this industry, but I'm pleased to say that we've remained disciplined and we haven't chased revenue at any cost and we remain pretty well positioned for recovery when it comes. So with that, I'm just going to hand over to questions.

Phil Kimber, Goldman Sachs:

Good day Derek and Craig,

Derek O'Neill:

Morning Phil.

Phil Kimber:

A question, sort of big picture in terms of the guidance, constant currency first half down of 10-ish, around 10% and you are sort of reconfirming the 5% in the growth for the full year, so on my count, and it's already a bit hard with the constant currency, it sounds like the second half's going to have to be up in the order of 15 to 20%, because firstly a) is that correct? And then b) could you give us some sense as to what the big drivers of that are going to be, given that it's a reasonable change from the first half momentum?

Derek O'Neill:

Phil, yes you are right. You know we do have a better second half planned. Look it's based on a number of different things, obviously you know we have an indent order book, pretty much for Australia and for Europe, well in hand. We have a better currency rate in the second half. We should have less of a GP impact for both Australia and for Europe. In general for the USA we are expecting that our retail comps will remain probably flat, the odd positive here and there. We've seen New York had a really good January for example, our Times Square stores up double digits, so there's the odd pulse here and there, but overall we are sort of flat to slightly up on comps. Our wholesale for the US ex-Pacsun, which makes it difficult to predict, Pacsun-wise, but our wholesale in general to be slightly up on last year and all of those factors including the costs out that we have got in the business should benefit.

Craig White:

I think Phil just to add to that, just bearing in mind that the Americas and Europe have their bigger half in the second half. That combined with, if you like, cycling a full six months where costs have been taken out of the business, we should see margin expansion.

Phil Kimber:

Ok, so they are the sort of big picture drivers. Maybe on the retail business, and thanks for providing those details, now that we can sort of track at the group level, and I think you've also provided sort of some commentary at the divisional level, would the margins I think for that business of have risen 60 basis points, was there a particular area that that came out of? Like did the margins for retail in the US business picked up dramatically, or are they sort of, you know, because your comps are still negative, but I'm just intrigued as to what was driving the margin expansion in the retail business?

Derek O'Neill:

Yes look I'd say that the bigger part of the share came out of the US. Margins, if you look at our retail margins, they improved in the US, they improved in Europe, primarily more so in the UK. You know, there's a couple of stores in Spain that remain pretty tough, but France was Ok, the UK was good. You know the retail in Japan was Ok margin wise, there wasn't really any significant depletion there. Retail actually came under a bit of pressure in South Africa margin wise, you know the Rand dropped back significantly in terms of purchasing against the US dollar for a period during this half, so that didn't really help, but the majority of it, out of the US.

Craig White:

In a less promotional environment where some costs have been taken out of running those stores and that's contributed to the margin expansion.

Derek O'Neill:

Phil I'll give you think number, it's just a bit of a, you know, an employee number to give you a bit of an idea, but if you look at it, if you go back 12 months ago, I mean you know we have gone up 25 stores in this period, but it's actually about 54 if you go back over 12 months ago. Our employees 12 months ago were about 5,800 and our employees at the end of December this year about 5,800 but that includes 54 more retail doors and also includes the count for Swell as well, so there has been quite a bit of work on overheads, particularly in retail.

Phil Kimber:

Ok, they are just retail employees you are talking about?

Derek O'Neill:

No, no that's full group employees but I would say that retail would be the biggest part of the change.

Phil Kimber:

Ok and then last one for me on the US wholesale business, I think I remember probably at your last result something like 25% of your customers hadn't placed an order, and it sounds like you were happy with forward orders, but you know can you give us a sense of whether the customers are now forward ordering, even if they are not ordering as much as maybe you'd like, but the spread of customers are starting to put in forward orders?

Derek O'Neill:

Look it's still a bit patch. I mean it actually picked up again for spring, so spring was quite Ok, but summer which is a bit of a, summer in the US is a bit of a, I don't want to call it a nothing season, but it's sort of the follow on from the main spring. As of right now we are still in *11:01 summer and will do for the next couple of weeks, but about 80% of the account base currently right now has an order in place. We'd still expect that to continue, but probably if you go back say two years ago, by this time probably 90% would have given a forward order. So there is still in the smaller seasons, maybe you know, a little bit of an apprehension to actually placing forward orders, and some customers preferring to do a little bit of business in season.

The, and I'd say that's a trend that's probably going to be there for a little while. The expectations are that we will be doing business out of all of them and it's not as abrupt as what it was say back to school, back in May last year, and we have still got a little bit to go, but you know it is just still sort of a little tougher to extract forward orders out of some customers, particularly some of the smaller ones.

Phil Kimber:

Ok that's great, thank you guys.

Grant Saligari, Credit Suisse:

Good morning.

Derek O'Neill:

Hey Grant.

Craig White:

Morning Grant.

Grant Saligari:

Yes, just a couple of things, just trying to work out the impact of the acquisitions on both the European and US businesses, because you have got a full six months of DaKine in there and also I guess the Two Seasons in the UK. It would look on just sort of rough calculations that Europe went backwards in sales terms, if those acquisitions hadn't have been in there. Could you just give some colour around that?

Craig White:

Sure Grant. Look I think really the only acquisition of any significance that's worth probably talking about is DaKine where obviously we only had three months in the prior period through until 31 December '08. So that certainly has helped the US revenue number, but in Europe what you are saying in terms of, if you took Two Seasons out Europe would have gone backwards, that certainly is not true. Look we don't split those numbers out, but Europe had a pretty strong, solid result. They also started selling DaKine late in the period, which contributed to their number and the other thing is that the actual performance of retail in the UK has improved quite significantly under Two Seasons management. So really if you are trying to sort of isolate acquisitions, I think the only one you really need to focus on is DaKine and where we basically had a full six months this year and three months in the prior year.

Grant Saligari:

Ok, thanks for that. Could I just on the, you highlighted that obviously the adverse currency impact on your buying, particularly in Australia and I guess also Europe this year, or this half, could you give some indication or quantification of how far that set you back in terms of buying dollars?

Derek O'Neill:

Yes Ok Grant, look I'm going to have a go at that and I'll just, we didn't want to put a big number out there and I will show you why. You know there's about 14 operating currencies that we have and I'm sure you can all appreciate that probably with pretty wild swings in the US dollar, the majority of our clients purchase in US dollars, it's a difficult one to estimate, but I'll give you a bit of an attempt here.

Now in both Europe and Australia it was probably where the biggest impact was felt, it was certainly in overall dollars, but it was also felt in areas like South Africa as I said, again the Rand, a lot of other territories by the product direct. Japan buys product direct, but in general Europe and Australia are the big ones.

When we look at purchases in isolation, you also have to consider that in Australia we had about 27% swings in the period from our currency hedge rates. Previously we had currency hedge rates in the high 80s and in this period we had currency hedge rates in the high 60s. So there was this significant swing and what we had to do was we took some price increases, on average in first summer we took some price increases in the vicinity of 9% on average. We pulled some of those prices back slightly for second summer, now when taking price increases in Australia we missed a couple of price points and that definitely hindered some sales in some of our early opening price categories, particularly in walk shorts, and in woven shirts, so we definitely missed some sales because of that. However, just to give you an idea, and also in Europe we took some *15:59 increases, but the currency wasn't quite as abrupt there, it still actually had an impact with the lower euro.

So if you just look at Australia and Europe, if we had have bought exactly the same amount of product at the currency from the previous year instead of the currency we ultimately ended up paying, the pre tax impact of that was $17.9 million and post tax was $12.5 million. So you can see in currency purchases alone, it was quite significant even when you just look at the two regions. As well as that you have also got 6.1 million that we've already flagged, which will be 4.3 million post tax, and also there's another 7 million post tax just in translation impact, so we didn't have a fun year with the currency.

Grant Saligari:

Yes.

Craig White:

Grant, just to be clear on that number that Derek's quoting as 17.9, that is really a theoretical calculation in isolation but doesn't take into account the offsetting impact of price increase, product mix, the fact that we bought different dollars, different number of dollars this year compared to the prior year. So it's very, very difficult to isolate the ultimate true impact, but look it was still significant.

Grant Saligari:

Yes, well it gives us an idea of the quantum materiality of that, so it's very helpful. One final one for me, and it's thinking about the US a bit longer term, seeing in overall terms of health of the independent board sports channel there, because they have been through a very rough patch, and I just wonder what the future will hold in the next two or three years in terms of opening or closing of doors, how much growth we are likely to see in that market?

Derek O'Neill:

Yes, look the US is still pretty tough, still pretty challenging. I think that the media will pick out isolated retail numbers and report them that things are returning and, but I think across the board we see sort of patchy results coming out of the US and we haven't anticipated any real recovery. The health of some of those retailers is a continual concern. Credit conditions for small businesses haven't really improved that much in the US and I can't sit here at all and say that all the accounts that we are currently dealing with will still be there in three months time. So that just remains a concern. I think that with our business I mean we have really had to focus on trying to work as closely as possible with the customers, just managing them through this environment. Working at a relationship with them.

Now there's some that we continue to elect to not deal with and we try and be pretty tight on our credit control, and it's unfortunate but we would be dealing with less customers today than what we were even six months ago, and we want to move forward with people that we think are going to be there for quite a while, and that's where we are focusing our concentration. So it just remains a continuing concern.

Grant Saligari:

Ok thanks for that, and good luck with the second half.

Derek O'Neill:

Thanks Grant.

Daniel [Broan], CLSA:

Morning guys, just a few questions here. The first one's on the management outlook for the US which appears pretty bearish. I'm trying to marry that up with the first half results. I guess we look at a few things, sales growth was Ok at a negative 6% constant currency and likely to have been positive in the second quarter. You saw GP margin improvement and you say improving retail sales which were a lead indicator for wholesale, and I guess on top of that we saw the US Fed lift its discount rate as well today, which suggests an improving outlook. So is it fair to say that the outlook statement for the US is a conservative one? Is that, I mean is it fair to look at it that way?

Derek O'Neill:

It's not intentionally bearish, but I think it's a little cautious in the respect that retailers out there are still susceptible to a deal. The fact is that the wholesale account base just remains erratic, you have some pulses as I've indicated that we've seen in some of our own retail. The retailer will take a bit of a deal if the product's interesting and we've heard of some of our competitors already considerably off on inventory for spring products and you know, it's still got, you are still three feet of snow in Virginia Beach and some companies are already considerably promotional to selling to those retailers. So I think it's going to continue to be tough, we have factored in that probably some accounts may not be either there, or we may tighten credit by the end of the period. I think that it just remains difficult to call and the other thing that you have got to remember is that the US unemployment numbers really are, you know, a bit impact and if you look at, I had a chart the other day showing the depth of unemployment in the US, and if you get the map out and see where the unemployment is the heaviest, it's generally in areas like California and Florida where we do a significant part of our business. So until we really see it come through on that wholesale side I think we will reserve out judgement.

Daniel Broan:

Yes Ok, it's probably a good idea to be conservative I guess. Craig just one question for you, on the receivables, they seem to be up relative to constant currency sales, can you give an indication as to the ageing of that balance?

Craig White:

Yes well I think in fact just firstly on the receivables, if you look at the receivables in constant currency terms, and you look at the prior 12 month sales, receivables actually has gone up slightly less than sales growth. The receivables have gone up 1.3% and sales for the 12 months have gone up 2.6, so arguably it's actually come down slightly. Look in terms of the ageing, you know, I think the ageing, or the issues with collection of receivables is obviously closely aligned with how buoyant the geographies are, and I think therefore it's probably no surprise that North America is where probably the ageing is the area of greatest focus.

So I don't think we have seen any significant deterioration since 30 June, it's the area that obviously we are most focused on. I think back at 30 June, we talked about the fact that we'd fix the inventory issue, but were most focused on receivables. I think we are managing the account base as tightly as we can. We are holding a provision of about $20 million, and when you put all that together, I think we are comfortable that that level of provision for doubtful debt is adequate relative to the receivables book and the ageing of that book, but we continue to focus on it very closely.

Daniel Broan:

Ok, and just one last question, can you just talk about any exposure that you have to Greece and also, what's the company doing to manage its exposure in Italy and Spain, and how inventory is looking in those two regions at the moment?

Derek O'Neill:

Ok well I just visited the *24:00[ISBO] show in Germany about 10 days ago when, we actually have a distributor in Greece, so in actual fact our exposure is really only to one person. Now we have had that distributor for well over 15 years, close to 20 years actually and he does a great job. I sat down and had a good discussion with him as to how is business going, and he says that he's had some competitors disappear over this period but his business is actually pretty strong. He has got around seven or eight of his own retail stores and he says it's great, he's getting leases thrown at him that are very, very, very good rates. So he's actually quite buoyant, he's well financed, we've got no real issues there in Greece.

Spain and Italy we deal direct with those territories and we have cut a significant amount of accounts out of that business in Spain. The coastal business in Spain is quite good. The inland business in Spain is really where the challenges are, so around Barcelona, Madrid, some of the bigger places in Spain is where the issues are and Italy has definitely softened off since about March or April of last year. Look, I won't lie, Italy is a harder place to get money out of than say Australia. Traditional sporting good brands in Italy have worked on 90, even 120 days and that just seems to be the accepted practice in retail. It's a little tough but we are pretty consistent in the account base we are working with. We try and look at their balance sheets, we look and see if we are going to get paid, and we won't hesitate to walk if we need so. So our bad debts in those countries have been very low through this whole process and we are happy with that, but there's business we've elected to walk away from. A lot of those accounts are still in business, but we've elected to walk away.

Daniel Broan:

Ok, and just a feel for your inventory balances in those regions?

Derek O'Neill:

Well the inventory balance is not sitting in the actual region, it just sits within Europe in general. So one inventory balance serves the whole territory. Inventory in Australia was significantly down, inventories in the US was significantly down, inventories in Europe were up about 1% and, but it's probably one of the healthiest territories and we are quite comfortable with that.

Craig White:

And I think just to give you the same number that I just quoted for receivables, so where sales for the past 12 months grew at 2.6% constant currency, inventory has actually dropped 8.4%.

Daniel Broan:

This is in Europe:

Craig White:

No, no sorry this is total group in constant currency. So inventory has dropped 8.4% constant currency against 12 months constant currency sales growth of 2.6, and looking at it in constant currency terms obviously try and compare apples with apples, Derek said inventory's well down in the US, well down in Australia, pretty much flat in Europe, and I think to your specific point, there's no material inventory issues that we would be aware of in relation to Italy or Spain.

Daniel Broan:

Alright well thanks very much for your time, I appreciate it.

Silvia Spadea, Merrill Lynch:

Hi Derek, Craig.

Craig White:

Good morning Silvia.

Silvia Spadea:

Look just on your margins in America, I know that you've mentioned that trading still remains tough in the US specifically, but I just would have though if the reduction in overheads there you've mentioned improved GP and I guess throw in three months contribution DaKine, and then you have got South America which is growing quite strongly, I would have expected some improvement rather than it just being flat. I guess if you could just give a bit of colour around what's been the drag on the margins?

Derek O'Neill:

Look Silvia I think a lot of it has just been, yes probably slightly weaker revenue on the wholesale side than we expected. You know, I indicated PacSun there, PacSun being down sort of 50% for this period was not something that we really expected. If PacSun had have been close to our expectations, our 6.2% constant currency revenue, DaKine in the US would have been much closer to flat and probably would have put, you know, close to 100 basis points on the EBITDA margin, so ultimately that was disappointing. They pushed back some deliveries that were destined for November and December or early spring, they elected to take spring product later than normal and that hit us quite a bit. There was also just at the end we had some issues in physically getting product out of China to the US. DaKine missed a couple of million of sales right at the end on product that just didn't physically arrive till about the 3rd or 4th of January. We were freighting a lot of product, but freight as it got closer to the end of the period, freighting seemed to pick up to the US. It got a little more busy on some of the boats, some of the capacity has been reduced and certainly air freighting up until the end of December started having about a two week delay. Now in the US it's about a nine or 10 day boat trip and when it starts to back up two weeks for air freight you start having no other way of really getting your product in. So ultimately that was just a touch disappointing and just probably took the shine off where the margin could have been.

Silvia Spadea, Merrill Lynch:

And I guess just a more general question, do you think in the US that the consumer mindset has now changed more permanently as they're getting used to buying more product on discount and I guess how are you going to deal with that given your focus on brand equity and just following from that, has that focus weighed a little bit in recent times?

Derek O'Neill:

Well there's no doubt there's still quite a bit of discounting going on, but what's really been interesting, if you actually look at our retail comps is that you'd expect the outlet stores to be really really strong and they just weren't. So the outlet stores in the US through the whole period were quite negative, which comes as a bit of a surprise to us. There is some stability in that market place. It's definitely not as promotional as it was. If you go back 12 months ago it was ridiculously promotional, particularly through Thanksgiving and the Christmas period. now certainly there was still sales going on this year, but certainly you'll get information from your retail channels that December was less promotional than it was a year ago. I think that the consumer is there if you have the right product, but what is very stressing is that there's a difference going on saying now I'm retail and then at the wholesale level. If you look at the wholesale level, most of the business going on, the buyers are focused on your price point category and up to your mid price point category.

Now we have some key items like some stretch board shorts that are going up towards $100 at retail in the US, so we're getting some prices that we've never achieved before, but on the other side the majority of the business would be going into the price point side and the mid price. So you've got to actually just sell more to stand still and I think that's certainly affected some of the result in this period. I don't think the customer is necessarily looking or will only buy on discount. There is a customer that will do that, but in general the retailers are only choosing to stock the price point at the mid price, whereas in our own retail, which has definitely outperformed our wholesale side in this period, in our own retail we can showcase and merchandise a product across all the price points and we're doing really well right across the board.

Silvia Spadea, Merrill Lynch:

And I guess just to Europe, you guys consider it a growth region and I guess that's the case given the lack of penetration there relative to some of your other markets. But I just noticed in constant currency terms you've got sales up 2% and earnings down 5%. And I know the earnings have been impacted by the reallocation of cost overheads and higher sourcing costs, but in recent times I sort of noticed a lack of leverage in the business and I guess I'm just trying to understand why that is or if in fact you guys agree with that observation at all?

Derek O'Neill:

It's hard to see the real impact when you've got say one of your largest regions Spain going backwards double digit and then you've got one of your strongest area also going up double digit at the same time, they kind of wipe each other out. Therefore I think it's a highlight compared to the others, I think that a lot of people were factoring in that Europe would just follow the US and be even probably more difficult. But ultimately it's a collection of about 35 countries and not all of them are healthy, but I think we're pretty well placed. Definitely the ISPO show had the biggest attendance in its history about 64,000 people, our booth, I've been to probably 15 ISPOs or more and it was the busiest I've ever seen it. So it was certainly encouraging from an industry standpoint to see a trade show so strong. And I'd like to think that it's going to continue in Europe and you'll see a bit more of the performance really emerge. The product lines there and the account base is there and the demand is there.

Craig White:

I think Silvia just to add on the margin point you're talking about, looking for operating leverage, I think we think there is more leverage there over time, but you've already got a region that if you take out the global overhead and strip out FX impacts, you've got a region running at an EBITDA margin of about 22%, which is I think high by any benchmark.

Silvia Spadea, Merrill Lynch:

And just lastly with Europe you seem to have confidence about the outlook there, sort of saying that you think it's buoyant going forward. Where do you see the growth now coming from in that region, is it more about just continuing to expand into new regions and grow your penetration or is it improvements in supply chain, just trying to pinpoint a main driver there?

Derek O'Neill:

The drivers for Europe moving forward are firstly the Billabong brand is really going very well primarily through the central European countries, so we're seeing not only Germany, but Austria, Belgium, Holland, France has had a little bit of a pick up and the UK is not too bad. But I have to call out the strength of Element in Europe. Some retailers would be buying as much even sometimes if not more Element for some of their stores and Element is a brand that is just really suited no matter where you go all over Europe. We've shown we can sell Billabong outside the beach, but certainly I've got big hugs for Element. Snow is a strong point for us for Billabong and certainly the current indent that we're in to for next winter is showing strong response to Snow. We've as a group we've got a line to not so much globalise, but certainly get a lot more stronger in winter urban outerwear you might say, so winter I think is an excellent opportunity for us.

I can’t also forget that we’re seeing we’ve had a very strong performance from Nixon in Europe and DaKine is just starting in the transition point of evolving through some of the distributors and it’s going to be an excellent add on for Europe over the next 18 months as well. So I think Europe’s going to continue to be a pretty strong region for us.

Sean Cousins, JP Morgan:

I just want to get a handle, going back to the guidance, so roughly circa 15% to 20% what you need to be doing in the second half and going through some of the comments you made to Phil’s question, it looks as though the US is not going to have phenomenal revenue growth and you're really going to have to get it out for cost. I’m just trying to put that all together, I can’t get what is fairly pessimistic outlook for Europe and actually the reiteration of guidance. I’m just not sure how much cost you're taking out to get there.

Craig White:

I think some of the main drivers are the fact that you’ve obviously got bigger halves from America and Europe second half, you’ve got a full six months where you'll be cycling a lower cost base, whereas in the first half really you are still going into the crisis, we hadn’t really started taking costs out of the business. Whereas I think you saw more of that coming through in the second half last year. And that in our numbers shows that we will see margin expansion. So whilst the revenue growth is expected to be relatively modest, the EBITDA growth should be much stronger with that margin expansion. And in a nutshell I think that’s it. If you look at, just to give you some idea on the cost side, if you exclude DaKine because obviously that distorts things a little bit with six months in this first half versus three months in the prior half, basically the North American business has taken out about US$10 million of costs. Now on a full year basis I think you'll find that number is going to be bigger. I don't have an exact forecast in front of me, but I think you'll find that number is bigger.

And that US$10 million actually on the wholesale side of the business would be slightly higher, but it’s offset a little bit by some additional retail that’s been open during the period. So I think the expectation that cost out stronger margins with modest revenue growth will be sufficient to give us what we need.

Sean Cousins, JP Morgan:

If I look at your cost base in the US, $10 million roughly looks to be about less than 5% of SVNA. $10 million relative to what some of your peers are announcing seems pretty modest in terms of the headcount that someone like a Quicksilver who have more to start with anyway, but it just looks fairly modest overall. Particularly when the most recent indication of what you guys have done is the first half 10 and that’s an EBITDA margin that is flat, when you would have received those benefits coming through. Sure it’s a smaller half, but you would have received quite a lot of those cost saving benefits in that period as well.

Derek O’Neill:

Sean I don't want to sit here and be compared to some of our competitors in how much cost we should pull out of the business. The fact is that in the USA a lot of the creativities for some of the brands sits there and there are some companies that have been running at much lower margins than us for a long period of time that arguably been running very very very fat that have a lot more to take out than us. So we’re happy and comfortable with the level of costs out of the business to the US and we don’t want to just cut costs and have a growth story based on cutting costs and then not be ready for the business we’re doing in the rest of the world. That would be very dangerous and I’d run a mile from that story.

Sean Cousins, JP Morgan:

Maybe if you can talk a little bit about just in terms of the FX benefit in Australia and Europe. You've spoke about how much that is and thanks for helping us out on getting some quantification of what that might have been done albeit difficult, but you highlighted again that you've missed some certain price points and that hurt you. so why do you think that you'll be able to get the benefits of higher currency in Australia, where I'm fairly confident that you'll see your peers try and hit lower price points to tap into a consumer that still wants fairly sharp pricing? So while you might get higher gross margins like you had in this result, your sales might come in a bit disappointing in the second half?

Derek O'Neill:

Again we have indents in hand, come late May and June we'll begin to deliver product for first summer 2010 that will even have higher exchange rates again. We're out on the road at the moment with a price list for first summer and I'm not going to educate our competition on where our pricing is, but it has come down from where it was first summer last year. Retailers that we've spoken to we've been able to give them some better margins, what we call mega margins on certain products. And I know that some retailers are focusing on some of those. So far our indications are that our pricing is about right and we've traded some of that back that we'll get from better currency and some of the tariff reductions, but we're able to pull some of that gap back that we've seen disappear this year.

Look I think that the strength of our brands are there, if some competitors come out and want to give all their margins away in price, well good luck to them. I think that some of our competition frankly probably need the margin probably even more than us, so we'll just have to wait and see how it plays out. I think that the market is always going to have its volatility and we’ll have to see how it goes, but certainly we’re able to get back and hit some of those price points again, which is refreshing.

Sean Cousins, JP Morgan:

On to retail, obviously now exceeding 25% of sales, when do you think you'll see retail EBITDA margins no longer be a drag on group EBITDA margins? Or will that never happen again?

Derek O’Neill:

It’s not that far from actual group margins at the moment, but it’s been pretty close in the past. I think one year it actually even exceeded it. I’d like to think that by the end of the year it’ll be even closer again. It’s probably not feasible to think that it could be above for any long period of time, but certainly we’re working hard to try and show everybody that we can operate retail efficiently.

Sean Cousins, JP Morgan:

And have you made any management changes? Wholesalers think they can retail, retailers think they can wholesale and often times those skills are very different. Have you guys introduced any head of retail in the US or actually built management capabilities in that area?

Derek O’Neill:

Yes we’ve built management capabilities in that area, yes we’ve had a lot of different management training. No we do not have a single head of retail in the US to speak of, although there is one person that effectively, I don't want to say oversees it, but the person we go to. They're separate banners and they have different parts, they're in different parts of the US. Some are single brand operations, some are multi brand operations, some are smaller floor plans to large floor plans. I don't see the need to go to a retail emperor you might say.

Sean Cousins, JP Morgan:

Just in terms of the global overhead, Craig can you maybe walk us through that in terms of is this going to, given the movement in currencies this year, is this going to mean your margins going forward are more volatile, did it actually act as a positive to any of the regions? Can you maybe walk through why there is this decision to change please?

Craig White:

Well we're not changing the allocation methodology I guess, we're just explaining it and giving you probably more detail, so you can actually see what's happening at the segment level. First of all let me make a couple of points up front. First thing is at a group level the FX impact is $6.1 million pre tax and bear in mind that the majority of that relates to the six month period ended 31 December 2008, so it's actually the prior corresponding period that's probably creating the most distortion. So moving forward I think I don't know what's going to happen with FX rates, but let's assume that FX rates don't change dramatically from half year ended 31 December 2009 for the moment, then I think you'd see less distortion. At the segment level there was a much bigger FX gain in the prior corresponding period and it's that gain that when you allocate it as part of this global overhead cost bucket across the different segments that causes the most distortion and that's why we've stripped out the global allocation and stripped out any other FX gains or losses in the segment result to give you the underlying segment margin. So as I said I think it's the prior year that's really causing the most distortion and all we're trying to do is show you what the cleaner underlying margin looks like.

Sean Cousins, JP Morgan:

If we're looking at the US, the US margins didn't really move that much. So doesn't really matter whether it's 30 or 10 <inaudible>.

Craig White:

They improved .4%.

Sean Cousins, JP Morgan:

Yeah but that's where you had a period where it was significant operating deleverage, a lot of challenges in that period. And in this six month period where you've taken a lot of costs out there was no benefit that got here, but it didn't get negatively impacted relative to the PCP here.

Craig White:

No and Derek's talked about how tough it was in wholesale through some larger accounts, notwithstanding so we had revenue decline. Stronger growth margins helped recover some of that, overhead savings helped recover some of that. The net wash up of all of that was a .4% improvement in the margin. Frankly in the circumstances it's not a great result, but it's not a bad result in the circumstances and we'd like to think as we go forward that we'll continue to see that margin expand back particularly if and when there is a recovery in the consumer.

Derek O'Neill:

And Sean that last little close to $10 million revenue that didn't happen would have been a nice little help there.

Sean Cousins, JP Morgan:

And just in terms of the mix shift in Australasia, can you just remind us how important Australia is within that division and how I guess we see ongoing mix shift to lower margin countries that some of them have their own challenges, but South Africa, New Zealand, Asia, Japan, are they 40% of sales now or are they a little bit more?

Derek O'Neill:

Basically if you go back to this period a year ago, the combined part of non Australia for Australasia was just under 40%. With the growth we've had in Australia and the tough times in Japan and South Africa and New Zealand in this period, actually Australia is closer to 65% of the region, so about 35% contribution from the others. But I'd like to think that some of those countries can have a bit of a turnaround over the next 12 to 18 months, so ultimately I'd expect to see Australia begin to slightly decline as a percentage of Australasia over time.

Sean Cousins, JP Morgan:

And hence you suffer a margin compression impact just because you get a big shift working against you.

Derek O'Neill:

Yeah that's ultimately going to happen yeah.

Craig White:

Although Sean remember the percents Derek is talking about are obviously at the revenue line. Australia has relatively strong EBITDA margins, so it's a much greater share of the total. We've talked about the negative purchasing impact from the currency in terms of the impact on product purchases. So hopefully as that turns around and we're hedged first summer, you'd like to think that that EBITDA margin in Australia might strengthen and that might offset some of the regional mix towards lower margin territories.

Craig Woolford, Citigroup:

Can I just clarify the retail strategy? You alluded to it on the previous question. Is there a particular path that you want to take in terms of either country and also the type and store format? You've got different banners, etc, can you just clarify where you sit on the retail strategy now?

Derek O'Neill:

As indicated it's definitely a way to get good product in front of the consumer and we'll take a lot of steps where we can where we think it's under baked to do that. Country wise you've still got the biggest concentration of retail to wholesale in New Zealand where it's well up in the high 70s, Japan in to the 50s. Europe and USA are probably just in those low 20s type area. Other than the airport stores and some company stores up here around South East Queensland there's not that many in Australia. Brazil, South America now have about 15, 16 stores down there. Generally the philosophy remains the same in that we just don't want to see tonnes and tonnes of standalone Billabong stores. Multi brand stores give us the option to showcase all the brands that we have and also we deal with some of our competitors as well. We want to create a pretty interesting environment for the customer and sometimes we just need some other brands to do that and we're quite happy to sell those.

The end customer generally doesn't know that we own some of those stores and a single brand store on a lot of different street corners can become a little monotonous. So strategy remains really the same, I think that there's still plenty of opportunities in Europe. Most of the business we're doing in Asia is through our own retail stores and we'll definitely continue with that path. I'm not saying it's going to get to 50% or even 40% of the business, but 30% at some point is not out of the question and I think you can see that that's certainly not out of the question. Overall we're relatively happy with how retail is performing, but we can always improve it.

Craig Woolford, Citigroup:

Now with 18 months under our belt and post the GFC, if you step back from the industry and just understand how it's shaping in the US, do you have less visibility fundamentally or structurally about US demand and do you see inventory cycles shortening for the surf wear industry?

Derek O'Neill:

The answer to the first one is that yeah there's no question visibility is lower. Before you probably booked in 15% growth each year and you'd be very disappointed if your team told you anything different. So visibility wise it's certainly a lot different. Product cycles we've been operating in that US market in our industry in probably the shortest cycle out of anybody. We come out at the traditional time with our range, but a number of our competitors over the last four to five years have moved even earlier and tried to get budget out of the retailer before us. We're comfortable with where we are, we have a much shorter cycle in that US market, it means we take a little more inventory risk no doubt. But if you have efficient outlet stores and even use your own retail smartly, you can deal with that and I think we've done a good job there. The cycles with our own retailer, we are beginning to drop product into our own retail even faster than the wholesale channel. We are beginning to on certain key styles, whether it's board shorts or whatever, build product that may go into our own retail before even the wholesale consumer sees it in an indent process. But we're beginning to utilise our own retail to test product a lot more and we're just becoming a little more focused in that shortening of the whole supply side.

Craig Woolford, Citigroup:

So you think the current inventory cycle, I guess it's now settled a bit, but this can persist, because the surf wear industry would be a little bit unusual compared to some other retail categories in terms of long forward order nature of the market.

Derek O'Neill:

You can do it two ways. You can either make all your product and go around and say ok we've got X amount of product I can deliver you next week and there's some very small fashion brands that do that and the customers basically leave a budget for product. Or you can do it the way we do it right now and the customer basically places a forward order and they know exactly what their buy is and they're pretty much ensured of getting delivery. If you move to the very far cycle, then every one of your retail customers needs to be completely aware that they're going to leave some space for you. And when we talk to a lot of our retail customers, that's somewhat fraught with danger for them, because then the first thing they say is how do we know you're going to have enough product for us and how do we know you're going to have the right product. And what happens if we lead the space and you don't have any product? So that's a tough one for them.

If you look at the week quoted big retail brands out there, they don't have a buyer to get past, they just decide what they're going to make and they put it in their own stores and therefore they could have a very short cycle. We start looking at some of our own retail stores and it would only be a very small percentage of the business right now, but we are looking more and more at some of our own retail stores where we can looking at touching on a more vertical model. And not having that delay with going out and having an eight week ordering pattern and then go away and ordering product, we'll just go straight to retail.

Craig Woolford, Citigroup:

Just on the cost savings that are being talked about, I think you said it was just over $10 million Craig, was that it would have had a $5 million contribution, the first half 10, is that the way to interpret it and it could be bigger in the second half?

Craig White:

So just to be clear that US$10 million I quoted excluded DaKine and was North America only for the first half.

Craig Woolford, Citigroup:

And was that primarily staffing costs or were there other initiatives?

Craig White:

I think it was across the board. I think we wouldn’t break it down any further than that Craig.

Craig Woolford, Citigroup:

And the other question on working capital, obviously your inventory has been well managed, but the surprising this is that creditors actually fell by a larger amount. Is that a change in the way you're working with your creditors or the demand from your creditors?

Craig White:

No I don't think so, maybe we were just a little nicer at Christmas time, but no nothing fundamentally has changed. Look there’s various things that swing around there, but obviously at balance date we probably haven’t, in terms of the numbers, payables aren’t funding working capital quite as efficiently as perhaps they have in the past.

Richard Barwick, Morgan Stanley:

We’ve talked obviously quite a bit about the headwind that our currency meant for gross profit during this half. Can we talk a little bit about the tailwind that’s going to provide you given the hedging that you’ve just put in place, the first summer for Australia and winter for Europe?

Derek O’Neill:

So are you talking 2010/11 there is that correct?

Richard Barwick, Morgan Stanley:

Yeah well my understanding is that the hedging that you just put in place probably through January will be the first summer product for FY11 in Australia and the winter product for Europe.

Derek O’Neill:

So to give you an idea of where the currencies are and I don’t always want to do this, but I understand in a sense of you guys need to understand it, so I’ll give you the currency rates. If you look at the currency rates for first summer in the period just gone, for Australia we were booking around 67, 68 cents and moving forward for first summer next year we're at around 90 cents. So a significant difference there. If you look at Europe we were currency wise let me just dig that out.

Craig White:

The low 130s.

Derek O'Neill:

That's right the low 130s and we haven't changed the policy, we just book basically when we release the price list, but we were lucky enough that when that price list was issued for winter, that that currency was able to be booked at 150. So there are some benefits moving into the first period. Now there are some slight price reductions that offset part of that and there is some margin that would definitely get into the retailers in Australia to keep them nice and happy and so there'll be some trade off, but it'll definitely be better than what we've seen in this period.

Richard Barwick, Morgan Stanley:

So when you referred to in the text or the presentation I think you made some comment about effectively the cost of goods, currency related starting to be a tail wind late in this second half.

Derek O'Neill:

Look if you go back about three years ago summer ship dates in Australia would start really in May and more now the summer ship dates really for Australia are really pushed back. We've seen around the world; it did happen a little bit in this half in the US too, some customers just wanting the actual product, when the weather suited for the product, which meant some deliveries tipped into January. But in Australia we're seeing more and more customers wanting the product really July, August, September rather than that earlier period. But those early deliveries will benefit in this period from that kick in the currency.

Richard Barwick, Morgan Stanley:

Are you able to give us a bit of sense across the growth rates across the different brands?

Derek O'Neill:

Probably the biggest impact overall in the US for example was probably the Billabong brand. I don't want to really single them out, it was probably the toughest. If you look at the competitive landscape, you go right back to July 1st and think about what it was like right then. Super promotional, struggling to get a lot of forward orders in place, forward orders were lower. You look at a brand like Nixon, it just didn't get affected that much, so the competition is not really as strong, it's not like there's six other companies with similar watches dropping them by 40%. Billabong really was the one that got affected the most and it certainly had an impact on Element as well in the US. Both of those brands as well really the key brands impact *2.40 and so they got affected by that. I would say that strongest brands through the period were Nixon had certainly a good time particularly in Europe. Definitely we began to see Von Zipper did quite well, there was Sector 9 also held its ground quite well and began to pick up some international business. So that was pretty pleasing. It's only in a couple of countries, but Tigerlily was very very interesting in terms of growth, but definitely probably Billabong and Element were the most impacted.

Richard Barwick, Morgan Stanley:

And we obviously talked about the percentage of sales that retail represents and it's gone through that 25% mark, do you see an upper limit to what you think is optimal?

Derek O'Neill:

It's probably going to depend on what happens with the wholesale account base. In some respects it's still a very fragmented industry and a lot of industries as you know certainly here in Australia and in the US have changed. I think it's going to continue to evolve and that will mean that most likely we'll need to try to match consumer demand. We've taken steps in the online side now that I think are pretty interesting and we're building a bit of a base there. We like the fact that we can tell a story with retail and it's somewhat difficult in some cases to tell that story at wholesale if the buyer is completely focused on margin or their own vertical house brand product. It's just somewhat difficult to tell a story and we'd like the story to be told every time the consumer sees our product and it's not always the case. I'm not going to say there's an upper limit, but don't get scared by that, it's just going to be where we see the opportunity as we go forward.

Richard Barwick, Morgan Stanley:

And presumably if you've got a scenario where if there's temporary wholesale weakness then you could get an outcome where company owned retail is a little bit high temporarily perhaps.

Derek O'Neill:

Yeah look I think it'll continue to build, but one of the impacts obviously is that with the retail doing better than the wholesale, that's somewhat lifted it in profile somewhat within the business in general, but overall I think it'll probably continue to play a pretty important part moving forward.

Greg Dring, Macquarie:

A couple of questions, indent as a percentage of sales this period historically you were doing 70s and 80s. How did that mix move this half?

Derek O'Neill:

Certainly in the US I've indicated some numbers, it's been down, there's a lot more business going on in at once, and it's pretty difficult to get the retailers to open, they're open to buys right up to us. Sometimes at the moment the retailers are electing in particular in the US to run inventory quite low on the floor and not fill in. I think it's still too early to see where the pattern is going to go, but I don't think it's going to be back to where it was. I think that we're all just having to accept that we're going to have to do more business in season.

Greg Dring, Macquarie:

And just on that theme, Charlotte and I have been rabbitting on about fashion and some of the competitors are addressing it in their public forums as well. You've tried to call that earlier that I think you said you're happy with where you are with the four seasons in the US, is that the correct interpretation of your position?

Derek O'Neill:

Yeah pretty much. Look we're not going to move to 12 seasons if that's what you mean. The fact is that we will have product, it might not be seasonal so much in our own retail. We might have some product ready that we think is we might sample up some product that's looking pretty good, we might go out and just drop X amount in every store. And that's where we may move to, but we would have to align in our account base thousands of accounts to shift all at once and I'm not sure that that would be really feasible.

Greg Dring, Macquarie:

I guess where I was going, how small can commercial orders be for your business model?

Derek O'Neill:

There's certain accounts that don't make sense to deal with frankly and we look at some of those things, but I don't think we really have a sort of a limit. If retailers are prepared to back us, one of the things that we've been doing a little bit in the US and in Australia is some partner stores. And in the partner stores effectively we are somewhat controlling the floor space you might say and we will be prepared to deliver X amount of product and keep it full all through the whole period. So it is starting to happen to a certain extent that you've really got to have a pretty good relationship with the retailer. You don't want to do that and then find in six month's time that they just are running off, because someone else offers them a deal somewhere, it has to be a pretty fixed arrangement.

Greg Dring, Macquarie:

If Billabong is the index of 100 for brand distribution around the world, have you made material changes to the distribution of the other brands in the last six months? So have the smaller brands added more countries or regions?

Derek O'Neill:

There is a bit of a shift going on with DaKine and DaKine in this period will transfer in a number of countries into direct sales in Europe. So that has been a bit of a shift away from some of the distributors. Sector 9 has taken a few steps to broaden outside of the USA and we've been seeing some success there. In terms of overall distribution within a region, that really hasn't changed at all, we haven't looked to go outside of the existing distribution. But one of the things that has happened is that with the acquisition of Sector 9 and with the acquisition of DaKine, they've come with their own account base as well, which has meant that certainly with DaKine for example there's a whole lot of new opportunities for some of the brands. We may not elect to walk in some of those doors, particularly some of the more outdoor orientated doors with all brands, but Nixon could do that and Von Zipper could do that. So we're just in the process; when we acquire a brand we don't want to just walk in and just whack everything with a big stick and say ok we're doing it our way now, however we're just looking to cross reference some of the other account opportunities to see where the other business opportunities are for some of the other brands. So it's evolving slightly.

Greg Dring, Macquarie:

Have you filled out anymore wide space, and I guess by that I'm referring to product and brand? You've got such a large country product category matrix that it's hard for us to monitor it, but have you done anything in the last six months in that space?

Derek O'Neill:

Are you talking about widening the brands in terms of category?

Greg Dring, Macquarie:

So obviously some brands aren't in all of the categories and customers. I'm just wondering if you've made any new moves, so has Von Zipper gone into another element of apparel I don't know?

Derek O'Neill:

Von Zipper is very strong in apparel in Australia. If any of you go to any of the music festivals you'll see a lot of Von Zipper walking around, a lot of Von Zipper Ts. So we're having some success. I'm not sure really in terms of expansion. What I would point out though is that we've definitely increased the winter offer for Element and in particular in heavy jackets; I'm not talking about that you could go and snowboard in, but you can wear in really cold climates. And we're also stepping that up with Billabong. The ownership of Two Seasons, Two Seasons are a very good winter retailer in the UK and they've shown us that clearly there's opportunities in product. We did a lot of special make ups for Two Seasons through this winter period that have been very successful and we're following a lot of those into the general line in Europe. And we recently had a sales meeting out here in Australia and a number of international managers were here for that meeting and we showed some of those European products in countries like Japan and

Argentina and some other countries that get pretty cold at times. There was a lot of excitement for some of the new winter development type products that we're having. And we've got Billabong stores in areas like Chicago now that demand those type of winter products, so we think there's actually a bit of opportunity. I don't want to call it outdoor, but I want to say it's products you can wear when it's cold. I was in Prague 10 days ago and it was minus three degrees and I did retail for a day and a half and I can tell you now I was very thankful that our new super lightweight down jacket was in my bag at that time, because frankly you needed it, I could see first hand what the opportunity was in front of us.

Greg Dring, Macquarie:

And last one from me, has the business cycle caused a permanent dislocation or movement of price point structure in some key categories? So have opening price points moved down in boardies and shorts and dresses and equally has that cascaded all of the price points above down?

Derek O'Neill:

As I indicated certainly the opening price points, it's super important and I don't think that in the past that we ultimately would have placed enough importance on them. Look we have first time in a long time we do have a $39.95 retail board short in the US, so we would have been $44.95 previously, so we do have a basic that we're buying amongst a lot of our regions, so we're able to get the volume runs to do that price point. There's been a little bit of it, I wouldn't say that prices have stepped down really that much, but the odd opening price point in the category is there.

Alexi Baker, Deutsche Bank:

I promise I have only two questions. The feedback from the trade has been that Hurley are talking up their plans to be the top surf brand within five years. Given the funding and infrastructure that they have access to through Nike, that could presumably prove quite disruptive to the market. How are you responding to that threat?

Derek O’Neill:

We like competition. I think we’ve always had bigger competitors and we think that Hurley’s introduction into this market is frankly quite refreshing. They are able to invest into the market where some others haven’t been able to and we think it’s good for the whole industry, so we don’t have a problem with it at all.

Alexi Baker, Deutsche Bank:

And can you just talk a little bit more about the online strategy? To what extent does online present an incremental growth opportunity versus cannibalising your existing wholesale sales base and maybe just how big you think Swell and SurfStitch can ultimately be in their respective regions?

Derek O’Neill:

I’m not sure I’ve really got an estimate on how big they can be, because I think there’s various surveys going around to strengthen online shopping and whatever and what it can be. We see online shopping becoming more and more; well we’ve known for a long time it’s a way to not only showcase your brand, but if kids are going to be online and shopping we have to be there and ultimately will it affect some of the bricks and mortar stores? I think in some territories that’s already happening, but it’s not for us to sit here and say well you know we’re just going to be out of that channel to stand by the traditional account base, because it’s already happening, it’s already going on. We need to absolutely embrace it, we have a number of brands that have been selling direct, Nixon, Sector 9, there’s Von Zipper’s gone direct. There’s a whole lot of reasons why we need to be there and we’re going to be there. I don't think it’s that important to the bricks and mortar guys ultimately who owns those sites, the fact is that they are there, they do exist and a lot of bricks and mortar guys are online.

I think that if you're able to I don't want to say control the channel, but certainly we want to make sure our products are presented well and if you look online today that's not always the case. So just like there's different experiences at retail, we want to give different experiences at the online channels as well all around the world. I think that Swell and SurfStitch both do a pretty good job and we're super excited to be aligned with them. And we've found from talking with those companies there's some excellent people inside, both of those operations and our view was that we'd rather have them working for us than somebody else. And that was much preferable than just going out and doing it from scratch.

Alexi Baker, Deutsche Bank:

Can you have a guess at what percentage of the surf wear market is online in the US and in Australia currently?

Derek O'Neill:

Well if you start counting just what I call the online surf shops, then I'd say it's a very small percentage. In terms of what's sold I would imagine it's well less than 5%. Certainly in Australia it would be, but it's not out of the question that project out five years and online could represent, I'd like to think online could get close to maybe 10% of our sales globally.

Ben Gilbert, UBS:

Just in terms of the systems side across the company and retail, you've obviously rolled up quite a few chains over the last five or ten years. Just what you've done in terms of consolidating systems and how you see all the point of sale and whether as you keep getting bigger you're going to need to put through a big upgrade or consolidate the systems or anything like that?

Craig White:

I think there’s been a number of initiatives that are continually going on across the business on both the financial side as well as the broader operational side. On the financial side we implemented Hyperion across the world across the world a couple of years ago and that has enabled us to aggregate data from the different systems that we have down at the region level in a consistent format. In the retail operations around the world where we’ve acquired businesses or started in greenfield, we’re effectively moving to consistent systems across the whole region. So for example Australasia is very close to having one platform, same in Europe and the US. It’s not the same the world over, but the big regions are consistent within the region. We have a product life cycle management system, which is really providing the, it’s an enabling platform to allow the world or the different regions to work better together in terms of seeing what product and designs everybody is working on and ultimately that would be integrated with suppliers. So it will provide a much more seamless platform for us to be able to develop and produce product. So those are some of the initiatives that are going on, but I think the point I’d stress is they're continually evolving and to enable the business to operate and increasingly in a consistent fashion so that we do have like systems wherever it makes sense. I don’t think we’re sitting here today saying we want a one size fits all system. I think the pain and cost involved with putting that in relative to benefit we’d get out, we just don’t perceive as being there right now.

Ben Gilbert, UBS:

So there’s no intention to consolidate one system globally or anything like that?

Derek O’Neill:

Not in the short term.

Craig White:

Not in the short term no.

Ben Gilbert, UBS:

And just finally on the *21.20 that are coming through over the next couple of years, if you look through the next year I suppose we're going to have Nixon which is potentially going to be quite substantial, is that going to be $60 million, $65 million plus?

Craig White:

Was that the question in terms of the deferred consideration?

Ben Gilbert, UBS:

Yes.

Craig White:

Well we've got that disclosed in the accounts. For Nixon basically the earn out on that will be determined at the end of this calendar year and then paid in the first half of next year, so it would be first around March, April 2011. That amount we've quantified at around $50 million. The other big one probably just call out is DaKine, again that's been disclosed. Part of the deferred consideration is on the balance sheet, part of it is disclosed in the contingent liability note in the full year. Those numbers haven't changed since the full year, so in terms of that component on the balance sheet it's around $35 million, which is what we assess the minimum guaranteed payment will be, provided certain conditions are met. But we've said in the contingent liability note that there could be an additional $70 million to pay on top of that in the event that all the results play out the way they are currently projected to, so those would probably be the big ones.

Charlotte Lang, Macquarie:

I was wondering if you could comment a bit on category performance, so how you're seeing boys going compared to girls or products are doing well, etc?

Derek O’Neill:

I think that without wanting to be too hard on the girls, girls has probably been a little tougher over this period for a number of reasons. Firstly I think that if you look in most regions around the world, it’s been a strange time for fashion and while we’re not really totally a fashion driven company, I like to look at ourselves as more the lifestyle fashion in the girls side. It has been a little tougher. There’s been a lot going on in girls and no single stand out type of look really anywhere, which is quite strange and bizarre in a sense that normally there’s a path that you can pick and you can follow it quite strongly. There’s been a little bit of movement, denim shorts, short denim shorts have been pretty interesting, Ts, a lot of art on Ts has been pretty important for girls, but overall just a bit of a lack of direction. And if you go out and have a look and see what teen girls in particular are wearing, they're wearing a lot of different stuff. So you throw a lot of darts and some of them hit the board and some of them don’t, so it’s just probably been a little tougher in girls. And I would also say there’s no doubt it’s a little more competitive, particularly in that US market for girls right now, so some of the surf shop retailers probably not quite giving girls the space that they might have given a few years back. Boys as a category for us is really quite small and I think we haven’t really put a lot of energy into it over the last few years and I think in these times mums are pretty price conscious and we struggle to compete in boys on price, so that hasn’t really been that great. Wetsuits has been a very strong category for us, I think that right now we have some unbelievable wetsuits, the Billabong wetsuits guys have been doing a great job, Excel’s done really well, getting good penetration, so wetsuits has been good. Surfing hardware I think a lot more guys into water, I think with the lack of overtime and maybe unemployment even, you're just seeing a lot more guys in the water mid week, so surfing hardware has been pretty strong. Accessories we’ve obviously seen a good pick up with DaKine and so DaKine I think is teaching us broadly across our group even what's possible in accessories and I called out Nixon with watches has been pretty strong too. That’s probably about it.

We’ve run out of time and we’ve run out of calls, so I’m going to thank everybody for joining us. As I said the transcript will be available later this afternoon on billabongbiz.com, I look forward to talking with you all at various times over the next few months now that we’re out of black out and so thanks very much and talk to you soon.

END OF TRANSCRIPT