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PRESENTATION

Operator

Thank you for standing by and welcome to the Billabong half year results conference call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. (Operator instructions). I would now like to hand the conference over to your first speaker today, Mr Neil Fiske, CEO. Go ahead, thank you, Mr Fiske.

Neil Fiske - *Billabong International Limited - CEO*

Good day, everyone, and thank you for joining our half year FY2016 results call. With me today is our Chief Financial Officer, Peter Myers. A short while ago we lodged a results statement and today's slide pack presentation with the ASX and posted them on our website, www.billabongbiz.com.

We will be referring to those slides throughout today's update. Today we will follow a similar agenda as our previous results call. Namely, a summary of results; an update on our key initiatives; and financial details.

We will also go into more detail on the Americas to give greater insight as to the underlying issues in the region and corrective actions we are taking. We've said from the start that this is complex, difficult turnaround; that progress would not necessarily be linear; and that there would be up and downs along the way.

There are some very positive developments to report this half amongst a mixed overall result. We've said this is a brand led turnaround and all our big three brands grew in all three regions.

Europe profitability continues to lift. Australia retail turned in a solid half. We are well into the implementation of our four major global platform initiatives. Aside from the Americas, EBITDA for the rest of the Company was collectively up year-over-year.

Results in the Americas meanwhile were impacted margin pressure due to inventories being out of balance, retail weakness and a drop in our Sector 9 skate brand. However, we are encouraged to see that our big three brands showed growth this half in the region, including the critically important specialty retail channel. We believe our margin issues are addressable, correctable and ultimately within our control.

The challenges in the half; currency, inventory, retail weakness in the Americas, are consistent with our last update in November.

Turning to results for the Group, all figures are expressed in Australian dollars, unless otherwise stated. For the half, the Company reported a net profit before tax of AUD2.1 million. After a tax expense of AUD3.7 million, net loss was AUD1.6 million.

This compares to a AUD25.7 million after tax profit in the prior year, which benefited from AUD13.5 million of significant items, including gains on asset sales. EBITDA from continuing businesses and excluding significant items declined to AUD37.2 million from AUD42.8 million on as reported basis. Revenues for the period were up 7.6% as reported and down less than 1% in constant currency.

The big three brands, Billabong, Element and RVCA, all grew during the half. External wholesale sales for the big three combined were up 3.8% globally on a constant currency basis. That figure increases to 6.8% when including the wholesale equivalent sales of our own retail.

Gross margins were down 260 basis points, adjusted for assets sales, reflecting the clearance of excess inventory in the Americas and the currency challenges in APAC in Europe. CODB as a percentage of revenue was down 160 basis points, buffering some, but not all of the margin decline.

As we go through regional results, we will use constant currency for comparability. In the Americas, EBITDA before global allocations declined to AUD12.1 million, a constant currency reduction of AUD9.2 million. Roughly half of that decline was due to lower revenue, which was down 4.8% for the period and the other half due to margin corrosion.

Gross margins for the Americas region were down 230 basis points adjusted for asset sales to last year, as we found ourselves substantially overbought in inventory and were forced to clear the excess at very low margins and with spot discounts for the trade. This inventory build-up was compounded by the West Coast ports strike, which caused lost time on the selling floor and an overhang of inventory from the spring and summer FY2015 seasons for both us and our retail partners.

At the same time, the supply chain disruption pushed us to buy fall and holiday of FY2016 earlier than we would like and without the benefit of visibility to orders. In hindsight, we simply bought too much as the market began to soften from the strong order book in spring and summer. I want to be very clear on this point. We view the margin decline in the Americas in this fiscal year as a short term aberration from the progress we have made and the path we see ahead.

As we get our inventories back in line and our buy closer to markets for our Concept to Customer initiative, we believe our margins will improve.

Turning to revenue, brand sales at our big three brands, which include the wholesale equivalent revenue for our own channels increased 1.6% for Billabong, 5.5% for Element and 15.3% for RVCA. However, our smaller brands in the regions declined 24.5%, which was largely driven by a sharp drop at Sector 9, our longboard skate brand. Sector 9 alone accounted for AUD2.5 million of the region's EBITDA decline.

The softness of the brand reflected what we believe is cyclical weakness in the longboard segment, as well as the sharper contraction at its largest big chain customer. North American wholesale was down 1.6% on a comparable basis, as an increase in the specialty channel was offset by a decline among the big action sports chains in the US and Canada.

Brick and mortar retail was off 13.6%. The closure of the Times Store Square represented the majority of that decline. Comp store sales fell 5.1%. Weakness in tourist related retail and hard good categories have been significant headwind for our stores.

Apparel sales have been generally flat or positive, particularly on the women's side, where we are seeing good success. The number of stores declined from 63 to 61 year-on-year. Online sales grew 32.9% and total comparable revenues grew 1.8%.

In Brazil, our business is becoming leaner and more efficient in a weak macroeconomic environment. While sales were up substantially due to soft market conditions, cost reductions offset the impact to keep EBITDA flat year-over-year.

Since our last update, we have taken additional steps in the Americas to accelerate the turnaround. First, we have revamped and streamlined the organisational structure in the region. The sales organisations for each brand now report to the global brand leader.

The Americas retail group has been moved under Billabong Global Brand President, Shannan North, who previously ran our biggest retail fleet in his prior role as head of the Asia-Pacific region. These changes better align sales in retail with the brand leadership model we have built and I'm confident that we will see positive results from the move.

Second, we have installed a new buying and inventory management process that is closely linked to our concept to customer initiative. This new process is run by regional CFO Bill Bussiere and a small team of demand planners providing strong simple oversight, standardised methods and tight controls on inventory decisions.

Now let's look at Europe where the turnaround continues to gain momentum with EBITDA growing AUD2.5 million to AUD10.4 million before global allocation. Revenues were up 4%, brand revenues including wholesale equivalent sales for our owned retail were up 1.2% for Billabong and 13.8% for Element. RVCA is growing quickly in the region, but off a small base and a lot of potential ahead of it.

Comp store sales increased 6% and total comparable direct consumer revenue increased 12.7%. Total stores decreased from 111 to 100 year-on-year. Online revenue grew from less than 1% of total revenues in the period, to 3.4% this year as we have begun to stand up our e-commerce businesses in Europe following the repatriation of our websites. We are still very underdeveloped in e-commerce however and expect that number to continue to expand as we roll out our omni channel initiative.

Gross margins in Europe decreased 350 basis points, adjusted for asset sales for the half, largely due to currency impact on product cost, as well as some inventory clearance caused by the Paris DC disruption. The Paris DC issues have since been corrected, but the delays in shipments and fewer repeat orders and an inventory backup that we needed to clear during the half.

Regarding currency pressure, given the long product lead times in the industry, it will naturally take some time for the market to adjust to new pricing and for our global sourcing initiative to be fully realised. CODB for the region was down 10.5%, excluding global overhead allocations, as we continue to build efficiencies into the operation and expect to see more to come as our global initiatives hit maturity.

In APAC, EBITDA declined AUD2.9 million before global allocation with the region offsetting more than half of the impact of the sharp decline of the Australian dollar relative to the US dollar. Revenues for the region increased 1.2%. Brand revenues, including wholesale equivalent sales for our owned retail increased 4.2% for Billabong, 2.8% for Element and 47.6% for RVCA. Although RVCA is still in its early growth lifecycle, it's showing increasing momentum through our partner retailers.

In APAC retail, total brick and mortar sales were up 2.6% as we continue to exit underperforming stores. Store count decreased from 254 to 246 year-on-year. Comp store sales were down 1%, largely due to weakness in the Japanese market, which has been impacted by a warm winter and a weak macroeconomic environment. Australia had a small positive 0.6% gain in comp store sales, led by Billabong stores at 9.1%. Total comparable direct consumer revenue for Australia increased by 3.3%.

We are particularly heartened by the performances of Billabong as an indicator of brand strength. Australian multi brand stores were slightly up at 0.2%. We have new leadership over the multi brand fleet and have completed the successful relocation and integration of the Group into our Burleigh Heads headquarters.

In APAC, online sales grew from 0.6% of total revenue, to 1.7% since we regained control of our websites. We are just getting started in this channel and know there is a big opportunity ahead of us. Gross margins for the APAC region were down 220 basis points adjusted for asset sales due to the impact of currency. Here again we believe that as the market adjusts to new pricing and our global sourcing initiatives take full effect, gross margin can expand again. CODB was down 1.3% for the region, excluding global allocations.

With that overview of regional performance, let me now turn to an update on our major initiative. As previously described, the essence of our seven-part strategy is to build strong global brands operating on global platforms to transform the Group from a complex regional and subscale collection of businesses, to a brand-led, simplified, truly global organisation. That transformation is well underway.

Starting with building global brands, I am pleased to see the progress of our global brand leadership approach for Billabong, Element and RVCA. Of course we have seen challenges with staff, but underneath we see brands that are getting stronger, growing market share and connecting with our core consumers.

Take Billabong, for example. According to an independent industry analysis, Billabong remains the number one brand in the core US specialty channel and has grown its US market share in the last year and in December 31, both overall and in most major categories. Although we are still the number one brand, we are not yet the number one brand in every category, which gives us room for further market share gains.

Billabong's market share gains are an important indicator of brand health and the success of our strategy in the core market with the core consumer. Everything starts with the core and we are encouraged by the growth in the specialty channel. These gains were not enough to completely offset the softness among the big action sports chains in North America.

Still, I'm convinced that if we stay focused on the core market at the top of the distribution pyramid, the other channels underneath will come around. The brand is also the number one brand in the specialty channel in Australia. These market share positions in our two big regions reflect the priority the Company places on its relationship with key wholesale accounts.

Looking at brand sales globally for Billabong, including the wholesale equivalent of our sales to owned retail, revenue grew 2.6% in constant currency during the first half, 1.6% in the Americas, 4.2% in APAC and 1.2% in Europe. Gross margins were down 200 basis points for reasons I described earlier, namely the currency movements in APAC and Europe and the margin pressures from excess inventory in the Americas. So we are nonetheless encouraged by the gain in brand sales for our largest brand.

Importantly, our team of Billabong athletes and advocates is stronger this year. We now have eight surfers on the championship tour, including new additions Jack Freestone, Ryan Callinan and Italo Ferreira from Brazil, who was named rookie of the year on the tour and then ended up ranked number seven in the world. Plus, arguably one of the best junior teams in the world, up-and-coming phenomenon Jack Robinson who won the Pipeline Invitational in December 2015, junior world champion Isabella Nichols and the number two female surfer in the world, Courtney Conlogue.

Billabong is also the title sponsor of the two marquee events on the championship tour, the Billabong Pro in Tahiti and the Billabong Pipe Masters in Hawaii. This past December, the Billabong Pipe Masters again broke all previous records for viewership and engagement. Total unique visitors were up 20% on last year's record viewers.

Element's global brand sales grew 9.1% in the first half in constant currency, 13.8% in its largest region of Europe, 5.5% in the Americas and 2.8% in APAC. Margins were down 580 basis points due to currency pressures, inventory clearance and some production issues in the Americas, which have since been corrected. We have strengthened the management team based in the US and I'm pleased to see that the brand is growing again in this critical market.

RVCA sales, meanwhile, continue to accelerate. Total brand sales grew 20.6% in constant currency during the half, 15.3% in the Americas, 47.6% in APAC and 63.1% off a small base in Europe. RVCA had proportionally the biggest mismatch of inventory to demand in the Americas and that put pressure on gross margins during the half, which were down 310 basis points in the region and 320 basis points globally.

Margin issues notwithstanding, we are pleased with the acceleration of the brand globally and know there is much more growth ahead of us. Under a unique balance of opposite position, RVCA appeals to a wide reach of young consumers by celebrating creativity and mixing the youth subcultures of surf, skate, art and sport. There is no other brand like it.

We have said from the start of this turnaround that we would focus first on tapping the potential of the big three brands. We are encouraged by the top line results of that effort, knowing that we need to get our margins back on target and inventories back online. Ultimately the long term growth and profitability of all our brands depends on the global platforms upon which they operate. We have described our platform initiatives in detail in prior presentations, so today I will give a shorter status update on what we call our big four, omni channel, global sourcing, pipeline and concept to customer.

First omni channel; omni channel means a lot of things to people. For us, it's about building our entire operating system around the way the consumer wants to shop, anytime, anywhere, any device, bricks and clicks, wholesale and retail and all forms of digital engagement from apps to social media. Experience shows that the more consumers engage across channels, the more they spend, in fact, two to three times as much from multichannel shoppers.

While still very underdeveloped in e-commerce today at less than 4% of total revenues, global e-commerce sales grew 66.4% even with the limitations of our current systems. We also know that for every dollar of online sales, the web can influence another multiple of that in brick and mortar retail.

Our stores today lack visibility to customer information and the lift associated with cross-channel marketing, merchandising and customer services like click-and-collect, (inaudible) shopping, loyalty, relating selling and virtual inventory fulfilment. So we see the payoff from our omni initiative not just in a tripling or more of our e-commerce revenue, but in comp store sales gains for us and our retail partners.

We have now all but completed the design phase of our new omni platform, defining detailed functional requirements and selecting best-in-breed solution providers pre-integrated with our NetSuite commerce backbone.

These solutions have to include: 1) a modern point-of-sale system with real-time customer information, cross-channel inventory visibility, and an endless aisle assortment in store; 2) an industry-leading planning and allocation system, giving us better turn, better inventory turn, fulfilment and maintain margins; 3) an advance customer loyalty and engagement capability; and 4) a leading business-to-business solution for our wholesale customers.

Having completed the omni system blueprint we are into the build phase. Our plan is to begin deploying e-commerce first, then the upgrading and integrating our retail system.

Slide 16 lays out our current implementation schedule for the omni platform. Calendar 2016 will be an exciting milestone year for us in omni. We are targeting to launch the Billabong, Element, RVCA and Surf Dive and Ski e-commerce platforms globally in the second half of this calendar year. The front-end redesigns of these websites are largely complete and are now moving into production, integration and testing.

Earlier this year we launched our first app, the Billabong Surf Report, which is available in the iTunes App Store, an early sign of the kind of digital engagement we intend to bring for our customers. Retail and business-to-business implementations will follow the e-commerce launches with implementation slated for the first half of calendar 2017 after we get through the busy Christmas trading season.

The omni project is big and transformational. We have an aggressive timeline to complete the majority of the deployment over the course of calendar years 2016 and 2016. But, as with any project of this magnitude, there are risks and unknowns, particularly when integrating with a disparate set of regional legacy information systems. We will as a matter of principle put the customer experience first and proceed only when we're fully confident or meeting or exceeding their expectations.

Our second big platform initiative is global sourcing. I'm pleased with the progress we are making here. We have revamped our Hong Kong office with new talent and brought all sourcing functions together into one global organisation under unified leadership.

The vendor base has been narrowed dramatically, making the Company more important to its strategic partners. We are consolidating our purchasing power globally.

Meanwhile, new processes and standard operating procedures are being deployed around the world and we now have true category experts working on our biggest volume areas. The identified savings potential should start materialising in the second half of this fiscal year and build over the course of FY2017 to an annualised run-rate saving of about AUD20 million by FY2018.

Cost of goods savings of [AUD4 million to AUD5 million] in the second half of this year will help to offset some, but not all, of the margin pressure we are seeing from currency and inventory reduction. Whilst the benefits accrue immediately, a portion of the savings may be sitting in the inventory at year end.

An important part of our sourcing initiative is raising quality while ensuring social and environmental compliance among our supply chain partners. This of course becomes much easier as we narrow our vendor base to fewer, higher quality suppliers. Billabong has long audited its supply chain.

Last year in July we introduced Bureau Veritas as our independent third party compliance auditor. The social audit program is based on our code of conduct which reflects International Labor Organization standards. We are currently focused on tier 1 audits which cover our manufacturers and subcontractors and will expand the tier 2 audits of fabric mills and raw material suppliers in FY17.

By January of this year we had completed over 60 independent audits and follow-ups. While we have found no major violations of our code, we have instituted a number of corrective action plans to improve the consistency across the factory base. By June we will have completed audits on all factories of significance. On the quality front we have begun training factory auditors for their standard operating procedures while increasing our onsite presence to monitor quality assurance and on-time delivery.

Slide 17 lays out the implementation milestones for global sourcing and savings targets through the end of calendar year 2017. Concept to customer is our initiative to reduce product lead times and get closer to market.

Specifically, the Company is targeting 20% to 30% reduction in the time from order to the vendor and delivery in our DC. This will greatly reduce the amount of product bought blind without firm orders in hand, which will both lift margins through lower markdowns and gross sales through better inventory match against customer orders. These process improvements are closely linked to the changes we are making in global sourcing and supply chain planning.

Billabong, RVCA and Element have begun implementing the underlying reforms necessary to enable a faster supply chain. We expect the improvements to build continuously as each season passes as processes become more disciplined and consistent and we are able to remove buffer and non-productive time in the calendar.

Finally, an update on Project Pipeline, which is the overhaul of our global logistics and distribution network. At maturity we expect the initiative will yield AUD10 million in annualised savings and accelerate the growth in emerging countries by allowing more efficient direct shipments to our distributor partners from our consolidation centres in the Far East.

We have made some good progress on Pipeline, notably in design; in designing the optimal global network and product flows; moving towards one global freight partner with initial savings kicking in later this year; standing up the first of two consolidation centres in Asia; and aligning on one global standard for our warehouse management system versus the three different regional approaches used currently.

That said, we've taken the decision to delay the implementation timetable of the project due to a potential conflict with our omni platform implementation and the complexities of having to work on multiple ERP systems simultaneously. While are just as confident in the end benefits from the project, we do not want to put our customers or IT systems at undue risk.

Slide 18 lays out the revised implementation timeline and milestones for Project Pipeline, along with a schedule of the targeted benefit.

Over the past two years we have made big and transformational changes to the shape and direction of the Company. We have aligned the organisation to the strategy and (distorted 1:48 007) resources against biggest growth opportunities.

CODB has come down and we'll continue to benefit from gains in productivity as our initiatives reach maturity. Historically, this has largely been rationalised.

Importantly, going forward we see a substantial decline in restructuring costs as our big initiatives are now well into implementation and led by line operators within the Company. Restructuring costs over the next two years should be largely confined to the completion of Project Pipeline.

Stepping back from all the details, this is a brand-led turnaround and the big brands are growing. Our focus now is to recover our lost margin and ensure our sales gains translate fully into bottom line growth. Just over two years into our turnaround, our big brands our stronger. Our organisation is stronger.

We have line-of-sight growth opportunities around the world and we have a clear roadmap for implementing our global platform initiative. We have been hard at work and there's plenty of heavy lifting still ahead. So I'd like thank again our passionate and inspiring employees and associates around the world who live our brands every day and are 100% dedicated to the mission at hand.

With that, I'll turn it over to Pete.

Peter Myers - *Billabong International Limited - CFO*

Thanks, Neil. There are a lot of moving parts in this morning's update and I'm sure people appreciate the detail that you've shared today. So I'm going to be brief to ensure there's some time for questions. So I'll concentrate on a few big issues and try and explain one or two of the complexities as well.

So for me, our big three brands are growing, our projects are progressing, our CODB is tightening, notwithstanding the inventory-related margin challenges in the Americas, which will abate in due course, and the FX headwinds in APAC and Europe, which were mostly overcome and we believe we can continue to overcome. But whilst we don't shy away from the challenges we don't want them to drown out the positives either.

So if I look at slide 21, we have a reconciliation there of the statutory result to the continuing operation result. We've included this information again to help you navigate from the statutory accounting result to the set of figures that we believe give investors the key information they want on the performance of Billabong's continue portfolio of businesses. There weren't any changes to the portfolio during the current reporting period but there were some in the prior period.

Now, to assist you to understand the prior period better, we've got a similar analysis in the back of the presentation as an appendix. One of the complexities that I do want to just focus on for a moment is the tax line where it seems odd to have a tax expense that's larger than the pre-tax profit.

Now, I won't bore you with the details of the complexities of the calculation, as accumulated losses get re-recognised in some jurisdictions, written off in other jurisdictions. Some jurisdictions pay tax on a standalone basis. I'm sure I've even bored the greatest of the tax enthusiasts on the call. The bottom line is our tax charge of AUD3.7 million meant that we recorded a small loss after tax and the cash flow shows we paid AUD1.9 million in tax.

In terms of our result summary, Neil has covered this in his presentation. I don't have much to add other than to point out that for your convenience again we've disclosed both the as-reported change, which is where the difference is based on the actual FX exchange rates that existed last year, and as well we've provided a constant currency comparison, effectively the percentage change expressed in local currency, which might give you a better measure of the operational performance. And you'll note that the differences occasioned by the FX movement are probably most significant in the Americas and particularly around the revenues.

Turning to significant items, we continue to keep the theme of complete transparency here. We've provided a lot of detail regarding this item, both here and in the accounts and in the past, but for me this has become quite an important slide. We have seen significant restructuring costs over the first couple of years of this turnaround.

We had changes to make, personnel changes; we had significant consulting work to fund. We had to speed up our reform agenda and progress on multiple fronts, and we had legacy issues to address. But you'll notice that I speak mostly in the past tense, and looking forward the only real restructuring costs that we see on the horizon, as Neil has just said, are in respect of project pipeline, the logistics rebuild. Our projects have been transitioned back to the business owners, our consultants have completed their work, our teams are settled, and this is an important step in improving our cash flow performance.

If I turn to cash flow, the actual cash flows from trading were slightly lower than last year, largely in line with the EBITDA decline. This year we had less restructuring and less payments out of provisions, so that was good, and as I just said, we expect to have even less going forward.

It's quite simple in my mind: the cash flow would have been much better had we not finished the year with materially more inventory than we expected in the Americas. I should just be clear, the inventory issue is largely isolated to North America; elsewhere we've seen some improved ageing, generally steady inventory levels. But we can still improve.

I turn to the balance sheet slide. We've shown our net debt with and without the residual deferred consideration obligations in respect of the acquisition of RVCA back in 2010, some of which was paid during the period.

On this basis, we had net debt of AUD134 million in June, and AUD153 million in December 2015, at the end of the current half year. So an increase of AUD19 million.

Most of this increase is driven by FX, in fact the FX effect on the Australian dollar value of our term loan is AUD15 million and you can also see that in the slides that we've provided. The cash flow for the half has been adversely affected by the Americas inventory issue.

We should have generated more cash in the half just gone. Obviously as we bring the inventories into line we'll get some pickup in the cash flows to what is normally our seasonally weaker June half.

In terms of some other balance sheet observations, as we discussed previously, and as we called out again at the AGM, the FX effect on the term debt and on CapEx and interest, has moved against us in Australian dollar terms. We are not seeing the offset we expected through the translation of growing US earnings into more Australian dollars, but we should see some better balance achieved as we put the inventory issues behind us in the Americas, and the effect that that excess has had on margins and cash flows dissipates.

Let's not forget the fact that our US-based asset values -- brands such as RVCA -- are all being positively impacted in Aussie dollar terms by the lower exchange rate.

In terms of the detailed working capital numbers, this is where you see the inventory effect. December 2014 to December 2015, inventories are up in Australian dollars, AUD28 million. But some of this is the FX effect of the inventory being translated at this year's rates, around AUD0.72, AUD0.73 compared to last year's rates, around AUD0.81.

There is also as part of the increase -- represents the fact that the APAC and European inventories now are inclusive of the FX effect on their own input prices. The rest is mostly the excess inventory issue, and whilst it's hard to be precise, we estimate there's still over [AUD10 million] of inventory for us to work through in addition to what we've already dealt with in the half. Enough to be important and still put pressure on us, but manageable for sure.

In talking to investors through the year, more information in respect of the performance of our big brands has been a common theme. So you will note that in this report we've added significantly more information around brand performance, including the equivalent wholesale value of sales to our related retail channels.

Turning to outlook, the Board met yesterday and agreed the following comment in relation to events and prospects for the second half. EBITDA for January and February 2016 combined is expected to be ahead of the PCP. The result for the remaining 4 months of the financial year will be particularly influenced by the large trading month of June in North America.

Overall, the Company expects the second half to benefit from the implementation of our key initiatives and a less pronounced bias of the Group's earnings to the first half than we saw in the last financial year. So just finally before I had back to Neil, there are a couple of annexures in the deck. As we've said, we put the foreign exchange numbers in there. They're really just to help you work your way through the calculations.

So that's it from me, back to Neil for some Q&A.

Neil Fiske - *Billabong International Limited - CEO*

Thanks Pete, let's open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you very much. (Operator instructions). Daniel Wan, Deutsche Bank.

Daniel Wan - *Deutsche Bank - Analyst*

Hi guys, just a quick question from me. Finance costs were a very significant portion of EBIT. Is there an opportunity to refinance debt? Is that something that you're considering?

Peter Myers - *Billabong International Limited - CFO*

You were a little faint, but I think the question was, broadly speaking, about prospects for refinancing the debt?

Daniel Wan - *Deutsche Bank - Analyst*

Yes, because finance costs were a very significant portion of EBIT, so I think considering --

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Peter Myers - *Billabong International Limited - CFO*

Yes, so we had been considering the question of refinancing. For us, it's about making sure that we could move to something that was subject to materially better terms and conditions than that that we have.

We will continue to monitor the opportunity to do that. I think that we still see that as a little way off. The terms and conditions, obviously the pricing of the debt is, as you say, what it is, but we're satisfied with the terms and conditions of it. But we certainly will be looking for opportunities in terms of market conditions to take that step at the first sensible opportunity.

Daniel Wan - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Thank you. Sam Ticker, Citi.

Sam Ticker - *Citi - Analyst*

Hey, guys. Just wondering what's the latest you've seen in Quiksilver in the States, particularly around their discounting after emerging from Chapter 11?

Neil Fiske - *Billabong International Limited - CEO*

Sorry. Could you repeat the question? We didn't quite hear it.

Sam Ticker - *Citi - Analyst*

Yes, yes. Sure. What's the latest you've seen from Quiksilver in the States, particularly surrounding their discounting after they've emerged from bankruptcy?

Neil Fiske - *Billabong International Limited - CEO*

Well, I think it's probably fair to say that as they went through that process there's a fair amount of clean-up that they needed to do to resize that business and get their inventories in line. Yes. That -- I think there's a chunk of that still out in the market. We're not terribly focused on that.

We have our own issues that we're quite focused on right now, but I think that's the natural consequence of going through a process that they've gone through. There will be a little bit of a clean-up to do as they sort of right size that business and get it on track. But it's not -- for us, it's not a big issue that's standing in the way of our making progress.

Sam Ticker - *Citi - Analyst*

Sure. Look, quite a broad question here, but you've got plenty of opportunities across your business to take out costs and improve margins as you turn around the Company. You've already discussed quite of few of these in your presentation today, but in order to help us maybe focus on the top three opportunities in terms of materiality, which are the ones we should focus on?

Neil Fiske - *Billabong International Limited - CEO*

So I think there's a broad theme in this result around margin recovery. That's the single biggest opportunity. We don't need to grow sales any more than we do in order to deliver a substantial improvement in profitability, when we get our margins in line and to where we think they should be.

As Pete and I have both said, the -- so our underlying causes of that are different and require different responses, currency being the driver and APAC in Europe and inventory being a driver in the Americas. Inventory is something -- you know, it takes a little while to get under control. We expect to be back in line by the end of the year and I believe margins will lift after that.

So certainly inventory management, inventory control as a short term tactical thing we're very, very focused on. Then underlying the margin improvement in all regions and for all our big brands are those two other big initiatives that are global in scope. Our global sourcing initiative and our Concept to Customer.

Those are quite closely linked and then our turnaround blueprint, they play a very large role in expanding margins over time.

Sam Ticker - *Citi - Analyst*

Right.

Peter Myers - *Billabong International Limited - CFO*

Sorry. The only thing I'd add to that, Neil, is that I think the performance in terms of CODB is interesting in this result. So I think as the percentage of revenue, it's come down from around about 46.7% in my calc to about 45.1%.

That's notwithstanding that we found some room in that to lift slightly the percentage of revenue that is spent on A&P -- sorry -- advertising and promotion. So I think that's really consistent with messages that we'd given to the market before. That we would -- we did see opportunities to rebalance some spend in favour of A&P, but we wouldn't do so until we could see it coming out of the CODB line.

Sam Ticker - *Citi - Analyst*

Right.

Neil Fiske - *Billabong International Limited - CEO*

I would just -- maybe just add one more thing to that, which is as we're getting into the implementation of our global platform initiatives, I continue to be very excited about the kind of productivity and efficiency gains we can get from running the Company as a global company versus an aggregation of three regions. You know, we have today I think something like nine different ERP systems around the world. That's expensive to maintain and implement and make change to.

When eventually we move to one platform, those costs will come down. A similar story in warehouse management systems where we've got three different approaches in three different regions. We've got three different labour scheduling systems in our stores around the world.

So there's really, I think, an opportunity to rationalise those costs on the one hand, but at the same time, there's lot more state of the art capability, where it delivers the biggest return for our business.

Sam Ticker - *Citi - Analyst*

Sure. Then just finally on the outlook, you mentioned that the second half is going to be influenced by June 2016 in North America. Are you able to put that into context in terms of size? Maybe, on average, what does June represent of the second half of North America?

Peter Myers - *Billabong International Limited - CFO*

It's quite substantial. I would describe it as slightly substantial than the retail trading period represents in the first half, particularly in Asia-Pacific, but it's a similar kind of concentration.

Sam Ticker - *Citi - Analyst*

Are you able to put any percentages around that?

Peter Myers - *Billabong International Limited - CFO*

Not -- I -- not really. I don't think that would be--

Sam Ticker - *Citi - Analyst*

Okay. Sure. Thanks for answering the questions. Cheers.

Operator

Thank you. (Operator instructions). Thank you. We are showing no further questions at this stage. I will hand back to Mr Fiske for any closing remarks.

Neil Fiske - *Billabong International Limited - CEO*

Thanks, Operator. I think that concludes the remarks and again I would like to thank our employees and associates all around the world who make this a very special Company to work for.

Operator

Thank you very much. That does conclude our conference call for today. Thank you all for participating. You may now disconnect your lines.
