Start of Transcript

Operator: Thank you for standing by and welcome to the Billabong full year results conference call. All participants are in a listen-only mode.

Neil Fiske: G'day everyone and thank you for joining our FY17 results call. With me today is in our new Chief Financial Officer, Jim Howell, who I'd like to formally welcome to Billabong. Jim joined Billabong in June from Nordstrom and the depth of his experience is already proving invaluable. I'd like to thank Pete Myers for his years of outstanding service to the Company and his wise counsel in that time. The transition across to the new CFO has been seamless and I look forward to introducing Jim to a number of you over the coming weeks.

A short while ago we lodged the 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 the presentation throughout today's update. Unless otherwise stated, all figures for this release are expressed in Australian dollars, exclude significant items and are for continuing businesses only. For comparison purposes, Tigerlily has been excluded from this year's continuing business numbers and the previous year's as well. Jim will take you through the financial details in his section of the presentation, including the non-cash impairment charge.

At the annual general meeting, we said that we were confident that our strategy would produce a strong second half result and drive overall EBITDA growth for the year, despite a first half that was behind the prior period. We have achieved those ambitious goals. This result marks a turning point for our Company and one on which we can build. We had three core objectives for the second half: continue to turn around in our largest market of the Americas; expand comparable gross margins across all of our regions, a key indicator of brand health; and reduce the cost of doing business. We hit all three of those targets.

The key to our ongoing success is the relevance of our brands. We continue to strengthen the connection with our core consumers, with global social media followship up 42% year-on-year to almost 37 million people. EBITDA for the year of $51.1 million is up 2.8% constant currency and is less than $1 million below the guidance range that we provided in November and that firmed again in February, allowing for the sale of Tigerlily. If not for the widely reported weak retail conditions in Australia, we would have been well up in the range.

In the face of tough market conditions, the Americas turned in a return 46.9% EBITDA growth on constant currency before global allocations. Europe rebounded from a soft first half to post full year EBITDA growth of 8.9%. Comparable gross margins improved in every region in the second half year-on-year and operating cash flow improved substantially. These results reflect the tangible progress we are making in implementing our turnaround strategy in all regions, particularly in the Americas and Europe. The outcome validates our approach and provides a way ahead to address the performance in the Asia Pacific region where there have been challenges in the broader retail market over the past year, particularly in Australia.

This half represents the first time in three years that comparable gross margins have improved in every region year-on-year. Gross margin expansion is a key driver of our profit improvement plan and margins were up 210 basis points for the half, 380 basis points in our largest market of the Americas. In the second half, EBITDA on a constant currency basis was up 50%, by far the best growth we've had, we've reported for any period since the recapitalisation in 2013. The result in the Americas, on top of the strong EBITDA lift in H1, gives us confidence that this region, often described as our greatest opportunity, has turned a corner.

The strong second half performance shows key financial metrics are trending in the right direction. Challenges to top line revenue in the retail sector have been widely reported, but declines year-on-year are moderating and our online channel grew 22%. Comparable gross margins were up in every region in H2 on the back of our sourcing and concept to customer initiatives. Ultimately gross margins are a reflection of brand strength and we expect gross margin improvement will continue into FY18. The cost of doing business was down 3.7% constant currency for the year and inventory was managed down 7.5%.

As mentioned, EBITDA growth was strong at 50.1% for H2. We posted a $31 million improvement in operating cash flow for the year and we simplified the portfolio and paid down debt with the sale of Tigerlily for $60 million. In short, we have delivered on the key drivers of second half improvement that we called out in February, specifically turning around the Americas, improving comparable gross margins in all regions, keeping costs under control and being disciplined with inventories.

This progress in our operating performance is not reflected in our statutory loss of $77 million, which is driven by predominantly non-cash impairment charges for goodwill. Most of this impairment is an accounting adjustment for the difference between our current market capitalisation and the net assets on our balance sheet. Excluding the impairment, significant items and discontinued business, we show a net loss before tax of $8.4 million for FY17. There are many positives in this second half with trends and year overall, but we recognise the performance was uneven and we have more work to do. Overall, this is a solid result from which we can build.

Now let's look at regional performance in more detail. All figures are expressed in constant currency unless otherwise stated. First, the Americas, the Americas has been the top priority for the Group's turnaround and has delivered a vastly improved set of numbers. Full year EBITDA up 46.9% prior to global allocation; gross margin expansion of 390 basis points for the year, 380 in the second half; total comparable retail sales up 8%; brick and mortar stores up 2.3%; CODB down 4.9%. Billabong and RVCA, our two largest brands, again gained market share in the core specialty channel. E-commerce is most developed in the Americas, now at 7.4% of sales and growing rapidly. Inventory was down 14%.

In the face of challenging market conditions, the top line was planned conservatively and intense focus was placed on controlling inventories, streamlining the organisation, reducing costs, improving our own retail, growing e-commerce and expanding gross margins to our sourcing and concept to customer projects. Market share gains achieved in the core speciality channel by Billabong and RVCA overall and in both the men's and women's divisions, are a reflection of brand quality and resonance with consumers. This ongoing brand strength is also an important factor in gross margin expansion in the region.

A surge of momentum for brand Billabong in the Americas was particularly noteworthy this year and gives us a lot of enthusiasm going forward. Total sales in the Americas were down 3.1%, excluding Sector 9, primarily due to six fewer stores, lower sales to close-out channels and lower sales of RVCA to one of its large accounts that recently emerged from bankruptcy. However, gross margins expanded 380 basis points in the second half, bringing year-over-year improvement of 290 basis points. Regional CODB was down 4.9% excluding Sector 9. The retail channel was a big success story for the region, boosting our confidence in our direct to consumer approach and offering transferrable lessons for other geographies.

Comp store sales were up 2.3% and retail gross margins were up 380 basis points. The retail team has done a great job simplifying the merchandising, driving up our own presentation and improving the in-store execution. We put more emphasis on dual gender balance and growing the women's business. Women's apparel comps were up 12.5% while men's grew 3.5%. E-commerce was up 25.2% with a 60 basis point improvement in gross margins. Comparable retail sales, including both e-commerce and brick and mortar, were up a very strong 8%.

In the wholesale channel, revenues were down 4.6% for the year, excluding Sector 9 and 3.5% for the half. However, gross margin dollars in the wholesale channel were up 2.9% in the second half, reflecting higher quality revenue and fewer close-out channel sales. Again, it's hard to overstate the significance of this turnaround in the Americas and the value of the work done by our teams there.

Our result in Asia Pacific was shaped largely by two quite distinct factors: the broader macro retail conditions in Australia and some significant but correctable execution issues with brand Billabong. In APAC, EBITDA prior to global allocations dropped $9.2 million, or 28.3%, on an 8% decline in revenue, a 40 basis point decline in gross margin and 140 basis point deleveraging of CODB.

In Australia the weak retail market was a major drag on our result. Retail comp store sales were down 5% and retail gross margins were behind last year by 160 basis points, due to higher promotions and clearance markdowns. Beyond brick and mortar, e-commerce is still underdeveloped for us in the region at 1.9% of revenue and shared modest growth for the year at 5.1%. We see this as a big opportunity and are investing accordingly.

On the wholesale side of the business, the macro factors that pressured our retail results also impacted our wholesale account, leading to further market consolidation, cautious buying and fewer repeat orders. Wholesale revenues for the APAC region were down 15.1% for the year and 13.7% in the second half. Wholesale margins, however, improved substantially over the year from down 50 basis points in H1 to up 330 basis points in H2.

I want to be clear though that not all of the weakness can be attributed to market conditions. We had some misses in our execution that also weighed on the results, notably in brand Billabong and to a lesser extent in Element. A case in point is women's swim.

Coming off very strong results in FY16 in the region, we went back to the formula that worked in the prior year just as the market was shifting to new trends. In the US, we were on or ahead of those trends, but in Australia we were behind it. Recognising this, we quickly tested the US range in a set of our Billabong stores and got a much stronger outcome. The new assortment has now been rolled out for all stores and their early reads are encouraging.

In fashion, we're going to have misses every now and then. The key is what we learn and how we respond as a global team. One of those lessons is just how global our consumers have become, connected through social media, digital commerce, our global athletes and global events. That means trends transfer much more rapidly and fluidly across regions and given that we have strong positions in both the northern and southern hemispheres, that can be a big competitive advantage for us if we fully leverage our global brand team structures. That also means that much of the progress we made in the Americas should transfer to Australia and other parts of the world.

Taking these learnings, along with the lessons from the Americas turnaround, we have responded aggressively to the challenges and opportunities we have in APAC. Number one, we've identified and addressed our key assortment issues, although not all of that work has yet hit the market. Number two, we're taking better advantage of winning ideas from other markets and we're fully leveraging our global team. Number three, we're using our large store base and e-commerce channel for more speed to market merchandising, which in turn will help improve our wholesale business. Number four, we're staffing up behind the big growth opportunity in digital commerce and have injected new sales leadership into brand Billabong to shore up the wholesale channel. Number five, we're using Australia as the base for first deployment of our omni channel solution, which will greatly improve our competitiveness in all our channels.

Over the last few weeks, as I've been in stores in Australia, I've seen some good signs of progress. Billabong early reads for the new season underway are better. Element is stronger, coming off a very successful floorset, celebrating its 25 anniversary. For RVCA, we had tested bigger and more complete presentations of the brand in our own retail and have seen strong results, confirming the growth potential we see for the brand. Australian comp store sales are up slightly in the first two months of the fiscal year. We still have work to do and it will take some time for the changes we see first in our retail to flow through to the entire business, particularly on the wholesale side, but I am encouraged by the early indicators and confident in our plan.

In Europe, we delivered our fourth consecutive year of improvement in EBITDA. The region achieved a strong second half after a slower start of the year with the later arrival of colder weather, with EBITDA prior to corporate allocations up 70% for the half and 8.9% for the year. Sales were down 1.6% for the year, but up 2.8% in the second half. Note that the FY16 results included a reclassification of certain costs from CODB into COG. On a comparable basis, gross margins were up 60 basis points in the second half and 40 basis points for the full year.

The UK market overall struggled after the Brexit decision and was a drag on comparable store sales which were down 2.5%. However, excluding the UK, retail comps in Europe were up 0.4% for the year. E-commerce performed strongly, growing 27.5% and now accounts for 4% of total sales, although here too we believe there's plenty of opportunity. Total comparable retail sales for the region were positive 0.4%. Wholesale revenue was up in H2 by 4.6% with the year down 2.4% overall. Europe has been a good story for us over the last four years, with sustained growth in EBITDA and expansion of operating profit margins. The team is focused on controlling what they can and executing with discipline. Their success is reflected in improved quality of revenue, building our big three brands and leveraging our global platforms.

A core part of our strategy is deepening our relationships with our consumers. That means being able to respond to however they want to shop. Our stated focus on improving e-commerce produced a very solid sales increase of 22% and 31% growth in EBITDA in constant currency. Yet we believe we can improve on that result and grow even faster as our global initiatives come on line and our e-commerce business if firing in all regions. While e-commerce is 7.4% of sales in the Americas, the segment is underdeveloped in APAC and Europe is growing quickly but it's still underpenetrated. Importantly, our operating margins in this channel have been very good and substantially accretive to the overall business. Going forward, we see e-commerce as a sizeable growth opportunity, short and long term, that will become even stronger as we fully implement our omni-channel strategy.

Turning to brands, we see both strength and opportunity in our results. Consumer engagement is helping and growing across the globe. Our brands, athletes and advocates have collectively almost 37 million social media follows, up 42% year-over-year. Our opportunity lies in delivering more consistency across the regions through our global brand insight. Looking at brand Billabong, wholesale equivalent sales - that is, sales to wholesale customers and owned retail channels - were up 1% for the half. This was a marked improvement over H1 and we ended the year down 3.4%.

In the Americas, our largest wholesale region, Billabong turned in a very strong second half with our wholesale equivalent sales up 8.7%, leading to a lift of 3.2% for the year. Here we again saw Billabong widen its number one share position in the core speciality channel in the US in both men's and women's. These gains were not only in our key categories of board shorts and swim, but also in brand logo categories like t-shirts and hats which is a great reflection of the increasing brand strength in the market. Billabong women's had a standout year in the Americas. Strong growth, big market share gains and a sweep of the most important annual industry awards; Brand of the Year, Swim Brand of the Year and Marketing Campaign of the Year for A Bikini Kinda Life.

The momentum in the US is translating to Europe as well, where the Billabong brand was up 6.4% for the half and 1.2% for the year. While Europe shares much of the assortment and marketing from the US, the region leads our outerwear [development]. One of our successful launches this year was a cold-weather line called Adventure Division. This line extends Billabong's reach into colder territories and our sales into the winter months. We see it as one of several growth drivers for the brand going forward.

As I've mentioned, the biggest challenge for brand Billabong is APAC. This is more of an aberration from last year's success than a permanent or long-term setback. Wholesale equivalent sales were [off] 13.8% for the year. We have confronted head on our misses in assortment, retail execution and sales, and corrective actions are well underway. Billabong remains a powerful brand in Australia with a rich heritage. Based on the early indicators we're seeing in our owned retail, I'm confident these course corrections will get us back on track.

In terms of consumer engagement, Billabong's social media followership grew 44% year-over-year, at 18 million for the brand and its athletes. E-commerce is most developed in this brand and was up 28% year-on-year. Billabong opened nine new Company stores in FY17 and we are pleased with how these stores are trading. Most recently we opened two new stores in Hawaii, one licensed and one Company-owned, both of which are substantially outpacing our expectations. We see opportunities for more mono-brand Billabong stores around the world, either owned by us or with local partners.

For RVCA the trends we reported on at the half largely carried through the year. Americas was down in wholesale equivalent sales, 8.1%, driven by lower close-out channel sales and one large retailer mentioned earlier. Excluding those two factors, RVCA sales would have been up low-single digits year-on-year. In our core specialty accounts, the brand saw a 5% growth on a like-for-like basis and another strong gain in market share for both men's and women's. In APAC, wholesale equivalent sales were up a strong 8.8% and the brand was named Men's Brand of the Year for the Australian surf industry. An investment in the European RVCA team delivered an 11.5% gain in revenue.

We continue to see RVCA as a brand with big growth potential. On every dimension of what we call the growth cube - channels, geographies and categories - there is ample opportunity; men's, women's kid's, RVCA Sport, accessories, APAC, Europe, Brazil, direct-to-consumer. The biggest challenge for RVCA is to prioritise all of these opportunities. RVCA has built a strong foundation for growth by being disciplined. In the year ahead we will invest more in people, marketing and inventory to ensure that we capitalise on this potential.

This last year we tested an approach to accelerating growth in one of our flagship stores, Kirra Surf on the Gold Coast of Australia. We were trying to find the upper limit on the brand's growth by remerchandising the RVCA section, filling 0in stock and telling the complete brand story. It worked. Sale were up 27.4% in the second half and the brand outperformed its inventory investment. In some categories like RVCA Sport we simply couldn't stay in stock. Consumer engagement for RVCA continues to surge, with social media followership up 48% year-over-year to 6.5 million. E-commerce accelerated in the second half to be up 26%.

For Element, FY17 was a year of leadership change and transition. Wholesale equivalent sales were down 10.7% for the year. Europe, Element's biggest region, was down 4.8% on the year. Most of the decline in Europe, however, was driven by fewer close-out channel sales and tighter distribution, as well as some substitution of Billabong in some of our owned retail. Gross margin dollars in the wholesale channel were actually well ahead of last year on a much stronger wholesale margin rate.

The Americas was down 15% for the year, while APAC was down 20.5% on a small base. At the half year, we announced a new global GM for Element. Along with that change, we have revamped the management team in the Americas and the structure in APAC. The changes have been necessary and good for the long term, but clearly disruptive short term. The team has worked hard and there are some positive signs. In Australia, our most recent Element floorset and our owned retail performed above expectations, with strong comps, sell through and inventory turn.

Much of the positive changes in assortment have happened in the last six months, showing our improving agility in retail and putting the brand on a better trajectory. In the Americas, we brought in new talent to lead Element sales and marketing. We are also strengthening our men's design and graphic art capabilities so that we can better adapt the global range developed out of Europe to meet local needs.

At a brand level, Element's global social media followership remains strong at 12.4 million for the brand and its athletes and advocates. One of our great assets is the diversity and depth of the Element skate team. It's one of the best in the industry, including number one skate competitor in the world, Nyjah Huston, and rising starts like Tom Schaar and Mason Silva who've been making headlines with impressive contest wins.

Work undertaken on global platforms has underpinned much of the Group's operational improvements. Global sourcing and concept-to-customer, which have been key focal points of the Group's turnaround strategy, helped deliver strong improvements in gross margins. This momentum should continue into FY18 with further margin improvement. A third initiative focused on reducing the global logistics and distribution costs by $10 million per annum at maturity is now well into implementation.

The Group closed its Canadian warehouse, [stood up] consolidation centres in Asia, transitioned to a third-part logistics provider in the US, and developed plans for further distribution centre rationalisation to be rolled out in the next two years.

Today though I want to focus on our omni-channel platform. The omni initiative remains at the heart of the Group's customer engagement focus. Good progress has been made on a number of key initiatives, such as deploying a new digital business-to-business system and a more advanced merchandising and planning allocation system for retail.

Today I'm pleased to announce the steps we've taken to overcome the implementation issues called out at the half, specifically the appointment of new industry-leading partners to accelerate our progress in e-commerce, retail point-of-sale and customer relationship management. For legal reasons, at this time it is not appropriate for us to disclose the detail of the circumstances that gave rise to the termination of the contract with one of our omni service providers. We selected our new partners based on one overriding principle, delivering the best possible omni-channel experience for our customers with certainty and speed.

It's important to bear in mind that omni is not just e-commerce. It's the ability of our customers to shop the way they want to shop, in stores and online, retail and wholesale, across all channels with richness of content and personal experience. The value of omni is the integration of previously unconnected parts of the retail system. Three things are critical in that integration. Number one, to develop a single view of the customer that incorporates all available data across channels. Number two, to market to and service that customer on a one-to-one basis based on their unique data. Number three, to be able to deploy inventory on demand to its highest and best use.

Rather than rely on one solution provider, the new approach utilises the best off-the-shelf software solutions for each of the major components, and proven system integrators to bring those building blocks together. Each of our major partners is a leader in their field, but importantly they've worked together extensively on these types of implementations. Our solution design is cloud-based and scalable to countries and distribution partners around the world; principles which are fundamental to our strategy. I also want to emphasise that much of the work that we've done to date, for example the website designs, middleware to our regional ERPs, and detailed [functional] requirements will be part of the new solution cutting down significantly on implementation time.

Between the experience base of our partners, the advancement of the technology and the work already done we are moving quickly into deployment. For example, Surf Dive 'n' Ski is scheduled to be up and running on the new platform by the end of this calendar year.

More broadly we see the new solution lowering implementation risk and improving the certainty of delivery to the balance of the project. We believe the Omni program can be completed materially close to its original range of budget expectations.

Before turning it over to Jim I want to pause a moment, step back from the detail and reflect on the results we delivered this second half. A 50% improvement in EBITDA in constant currency, a 210 basis point expansion of gross margin, better operating cash flow and in the face of tough retail conditions particularly in Australia we came in very close to our guidance range.

Looking ahead, market conditions remain challenging. But we see opportunities for sustained earnings growth driven by further expansion in gross margins, acceleration of our direct to consumer channel, strength in the Americas, growth in RVCA, expanded global distribution, cost efficiencies and the ongoing benefits of our global platforms. Yes we've still got work to do in evening out our performance. But our success has put us in considerably better shape for the year and years ahead.

None of this success could have been achieved without the dedication and talent of our incredible teams across all our brands and regions. I thank them for their ongoing passion, creativity and tireless commitment.

Jim, it's over to you.

Jim Howell: Thank you Neil. I'm very happy to be here and to join this great team of people committed to building these incredible brands. This is the first time I've had the opportunity to speak to this group of our stakeholders, so a bit of brief background on me.

I was most recently at Nordstrom, joining just before the GFC. My 10 years there was a great learning experience as Nordstrom is a clear leader in, among other things, customer service and Omni-channel retailing. There has been a lot of change and challenges in North American retail in recent years. So the strong result in Half 2 for the Group is particularly pleasing. I look forward to speaking to a number of you over the coming days. I also want to take this opportunity to thank Pete Myers for investing so much of his time to help me transition into this role. I will keep my remarks short to allow for any questions you may have.

My portion of the prepared remarks will focus on the annual operating results, which as Neil outlined were highlighted by a tremendous result in the Americas, another solid performance in Europe partially offset by challenging market conditions in Australia. Given the strength of our brands and the success we are having with our global platforms we are confident that we can overcome our issues in Asia Pacific and execute on our strategy.

We are committed to providing a great product and a great experience to our customers against the backdrop of a rapidly evolving retail landscape where customer expectations are changing rapidly.

There are a few items that I want to take you through in a bit more detail with respect to our operating results, our cash flow generation, balance sheet and lastly how we are planning the business for 2018.

First a bit of housekeeping. As usual there are a number of changes in the portfolio and other issues which require us to bridge from the statutory results to the trading results from continuing operations. We consider - and I am sure everybody would agree - that the continuing operations numbers are the most important, namely, the performance of the businesses we have in the portfolio today.

There are impairment charges, other significant items and the sale of Tigerlily all of which are included in the statutory numbers but which are either not included in the operating results or else are not a recurring part of the continuing businesses. In particular since we reported our half year results we sold Tigerlily in April 2017 for $60 million recognising a gain on the sale of approximately $48 million.

This was part of our continuing strategy to simplify the business. We used the proceeds to pay down debt. But the sale complicates the result somewhat. Tigerlily is treated as a discontinued operation which means in addition to the gain on sale being included in significant items, we have excluded the Tigerlily trading from our continuing business results for both years presented.

Tigerlily generated sales of $28 million and EBITDA of $6.6 million in fiscal 2016. From the beginning of fiscal 2017 to the date of the sale in April 2017, Tigerlily generated sales of $26 million and EBITDA of $6.3 million. To repeat, these results are excluded from comparisons we make about our continuing operations in our financial statements for this release. So to provide a bridge between the EBITDA of $51.1 million which is ahead of the comparable as reported number for last year of $50.9 million and our statutory loss of $77.1 million, we have included a slide in our materials outlining this.

This slide sets out clearly the 3 key items that bridge our operating results to the statutory results. The first is impairment charges of $106 million which I will talk to in a moment. The second is $42 million of other significant items that include the $48 million gain on sale of Tigerlily. The third is the exclusion of Tigerlily trading up to the date of sale, $6.3 million in EBITDA and $5.5 million in EBIT.

You can see this EBITDA identified clearly on slide 24. In respect of last year you can see the $6.6 million on slide 30 in the appendices.

Before moving into the results themselves it might be worth reinforcing a point that Neil made earlier, that guidance that we gave back in November did not change at the time we updated the market with the sale of Tigerlily. We simply extracted the Tigerlily earnings that were included in the original guidance. Accordingly it is the November guidance for the continuing businesses that we have all but hit today despite some very challenging and widely reported retail market weakness in Australian retail.

Some of our comparative comments and slides also reference the exclusion of the impact of Sector 9 which was part of the Americas region in 2016. Sector 9 was sold at the beginning of the fiscal year 2017. It was not afforded treatment as discontinued operations. The effect is set forth on the Americas slide, which is slide 8.

Our results include non-cash impairment charges of $94 million relating to goodwill and brands. The vast majority of this accounting charge was recognised in response to impairment indicators arising from the difference between the Company's share price and the carrying value of the Group's net assets rather than specific valuation issues related to any particular brand.

In addition we previously announced in July the impairment related to our Omni-channel project of approximately $12 million. Apart from Tigerlily and impairment charges other pre-tax significant items totalled $5.9 million and are primarily related to restructuring activities as we continue to simplify and improve our business model. More detail is provided in the notes to our financial statements.

You will also notice in the detail of our accounts that as part of these continuous improvement efforts we took an adjustment to align our inventory record keeping in the USA with the rest of the group. As a result of that effort we restated the FY15 balance sheet to adjust working capital balances by $6.4 million. Let me be clear. This does not have any implications for the EBITDA we reported for FY16.

Our operating cash flow improved to $9 million in 2017 as compared to a cash outflow of $22 million in 2016. This was driven by improvements in working capital and good discipline around inventories even as we faced top line challenges. As Neil mentioned earlier comparable gross margins improved across all regions in Half 2. That is due to the focus and commitment by all of our teams to manage our highest returning asset, inventory.

Cash outflow for significant items and lower onerous lease charges were collectively $9 million, which was $12 million lower than last year, underpinning the cash conversion improvements we are making. We continue to invest in the business but you will note that CapEx is down year over year. Much of that is driven by lower spend in 2017 related to the Omni project as we slow parts of the project to address implementation delays.

Going forward we expect Omni to re-accelerate which will bring our total CapEx across all categories to approximately $30 million to $35 million a year for the next two years before it reverts to a level in the $20 million to $25 million range.

Net debt is down 20% year over year to $149 million as we pay down our term loan by $55 million with the proceeds from the sale of Tigerlily. Our liquidity defined as cash and availability under the ABL is approximately $140 million at 30 June, 2017 versus $150 million last year.

Looking forward to the 2018 financial year the composition of the earnings will continue to be weighted towards Asia Pacific and retail in the first half and towards Americas and Europe in the second half. In FY18 the Group expects to show further progress in the Americas and Europe although the circumstances that have impacted the Asia Pacific performance in FY17 are expected to continue to weigh on trading in that region especially in the first half.

Overall the Group expects FY18 EBITDA, excluding significant items, to exceed FY17 EBITDA of $51.1 million subject to reasonable trading conditions and currency markets remaining relatively stable. Given the increasing proportion of earnings represented by the Americas and Europe the earnings profile for FY18 is expected to be similar to FY17 with the first half EBITDA below the prior corresponding period and all the growth biased towards the second half.

That concludes my prepared remarks. I will turn it back over to Neil to close.

Neil Fiske: Thanks Jim. We'll open the lines up now for questions.

Operator: Thank you. If you wish to ask a question please press star then 1 on your telephone and wait for your name to be announced. If you wish to cancel your request please press star then 2. If you are on a speakerphone please pick up the handset to ask your question. Your first question comes from Craig Woolford from Citigroup. Please go ahead.

Craig Woolford: (Citigroup, Analyst) Hi Neil. Hi Jim. Just wanted to ask a question firstly about the Asia Pacific region. You called out obviously a difficult year in FY17 but you did say that comparable store sales were up slightly in the first 2 months yet on the outlook statement you seem still quite concerned that there will be a drag in the Asia Pacific segment. So can you just explain what is likely to drag down the Asia Pacific segment for first half 2018?

Neil Fiske: Sure, so I'd point out a couple things on that, Craig. One, the things that I've seen in stores over the last five weeks or so they've been in market have been encouraging early signs to me, but I would call them early signs and by no means are we out of the woods. July and August, well are better - for still small months, really transitional months between seasons.

So, I take some encouragement from the summer categories that are hitting in stores and seem to be getting a response. But I put all of that in the context of a kind of macro retail environment that still exists in the region. I think we have to just be realistic about the fact that it's going to take a little while for our assortment changes to flow all the way through our retail first, and then onto wholesale.

As we do that we're still going to be facing some headwinds from the consumer and from retail traffic over the course of the half, and of course the big months of November and December are ahead of us. That's really where the half is going to be made.

I think we're prudently cautious about what Australia holds for us still. Now, what I would say is I think in this kind of environment it's good to be prudent, it's good to be practical, it's good to be cautious so we don't get too much inventory. We don't over assort the stores or fill them up with too much product.

But the fact that it's going to take a little bit of time for our changes to flow through doesn't in any way take away from our confidence in our ability to turn around APAC just as we did the Americas.

I think if you go back a little bit more than a year you'll recall we said there was a hell of a retail storm in the Americas. We focussed on our executed, we focussed on our strategy, we buckled down, and through this year we came through it pretty well. I think we'll do the same thing in APAC.

Craig Woolford: (Citigroup, Analyst) Because in the slide there, you've got second half comparable gross margins that were up in Asia Pacific, should that sort of improvement flow through in the first half of 2018? Obviously, it depends on external comparative conditions, but it looks like you raised prices on your currency purchase level, purchase rates would have been better in the second half, and maybe that flows through to first half 2018.

Neil Fiske: I think the sourcing and concept to customer initiatives are paying dividends in every region, including Australia. We're seeing that lift in margin. We're always mindful that in a very promotional retail environment that can also drag on margins as well.

We're going to have to see how this half trades and how we perform. Hopefully we can keep our inventories clean and markdowns limited. But I think that's the thing that we've got to watch out for and keep an eye on.

Craig Woolford: (Citigroup, Analyst) Thank you. The progress on your four global platforms. You did mention that the figure in the second half as an overall group gross margins were up 210 basis points. How much of that increase came from the initiatives across the global platform?

Neil Fiske: I'd say all of it pretty much. There are two there that are important and I should just explain that I think again. One is the global sourcing initiative that has gone really quite well, and I'm very pleased with the progress we've made there.

There's still a little bit of that benefit to come and it's still flowing through our inventories and we'll build over the course of the next year, and a little bit in the year after. So, that's one global platform.

The other is what we call concept to customer which is really kind of putting a merchant front end on the business and making sure that we get our pricing right, our margin architecture right, and focus our assortments so that whatever gains we can get in initial gross margins we can hang on to in [final] margin.

So, it's really both of those initiatives that on the merchant front end product development side through concept to customer and global sourcing that kind of has lifted our margins, and again I think it's really important to underscore that we see opportunity for further margin expansion in the year ahead. Indeed, in the years ahead.

Craig Woolford: (Citigroup, Analyst) Yes, because one comment that's come out in your presentation today was reduced sales from [close] out channels. What proportion of business now is close out? Or what was the year-on-year delta in reducing exposure to the close out channel?

Neil Fiske: So, we don't officially publish those numbers. What I will say is that reduction in close out sales have been significant. Clearly that's helped our margins a little bit, but really, I'd say it's much more driven by global sourcing and concept to customer.

The other thing I'd say on the close out channel is we don't treat it as a channel for distribution that we make a lot of product to sell through. It's truly a clearance channel for us. I think the reduction in sales there speak to the better position that our inventories have been over the last year.

Craig Woolford: (Citigroup, Analyst) The last one is a tricky area around tax. Actually, think about your effective tax rate in FY18.

Jim Howell: Yes, I think our tax is somewhat complicated by a bit of our history in terms of the ability to utilise operating losses that we generate. I think that you're going to see this similar sort of accounting treatment that you have there, but we're not going to get through benefit from some of that.

I think our cash taxes are in the $3 million to $5 million range. We're really focussed on the cash taxes more so than the accounting treatment, and we would see the cash taxes in that same range.

Craig Woolford: (Citigroup, Analyst) Thanks Jim.

Operator: Thank you. Your next question comes from Tim Kent from Kent Investment Partners. Please go ahead.

Tim Kent: (Kent Investment Partners, Analyst) Neil, Jim. Good result. My question is regarding around the debt refinancing. In November, you touched upon that you were looking to refinance on the back of a strong second half. Can you give any guidance or information on where that's at?

Neil Fiske: Hi Tim. Thanks for the question. It's still very much in our sights and on our agenda. I think the way we've thought about this is putting in place a series of building blocks that will get us in a position to do that. Tigerlily was part of that. Renegotiating and procuring the new ABL was part of that. We've done those two things.

Improving our cash conversation from EBITDA to cash, which has really shown some pretty remarkable improvement over the last three years, and that's improved our operating cashflow. As you know, at the end of the day, this is about cash and cash generation.

So, keeping that focus on cash and cash conversion has been good. Margins are one of the building blocks, gross margins as well as operating margins, but as you know the beauty of gross margin expansion is it flows all the way through to the bottom line. So, seeing the improvement in gross margins that we called out at the AGM, and being able to deliver on that I think was a really important building block.

Frankly, delivering the number for this half was a really important building block as well. So, I think we're taking some very important strides down that path. We're actively working on this, thinking about it, and we'll keep the investors in the market up-to-date on our progress. But it's certainly a priority for us Tim.

Tim Kent: (Kent Investment Partners, Analyst) Thanks. One last question. With your retail footprint in Australia, are you comfortable with where that's at? Is there likely to be any changes over the next 12 months with that footprint?

Neil Fiske: Yes, there will be. There's still some, I would say, wind down of some of our marginal stores. You may recall that a number of years back we took some provisions for onerous leases. We've been winding those off steadily over the number of years. Our portfolio is in pretty good shape, but we're still going to trim it back, I would say probably 10 in APAC. Maybe 10 to 15 would be about the range that we would close this year.

Tim Kent: (Kent Investment Partners, Analyst) Yep. Your online experience was good. I've used it a few times and it works well, so well done on that.

Neil Fiske: Well, look I think we have huge opportunity there. I'm excited about what we're going to be able to do with the new platform. You think about this region at 1.5% of our sales in ecommerce and it could be 10% or 15% very easily. It's exciting to think about the growth that we've got from that.

I mean my experience, and Jim can comment on this as well from his Nordstrom day, is when you get all your channels working, and you get that view of the customer behaviour across channels, you not only get the lift in ecommerce but you get the lift in your stores as well, and you start to unlock the value of the multichannel shopper that's typically worth two and a half to three times the value of a single channel shopper.

So, Omni is going to pay us dividends, not only in ecommerce, but it's really going to help our stores as well.

Jim Howell: Yes, I mean I think what we've seen, at least what I've seen in my experience, and what we believe to be true, is that customers like to shop in both channels. They don't sort of think about one versus the other. I think it depends on the mood they're in, what they're looking for, and the time that they have. So, our ability to service them however they want to shop, whenever they want to shop, it does pay dividends because it creates a better connection with the customer and they do tend to spend more. So, it's a win win for them and a win win for us.

Tim Kent: (Kent Investments, Analyst) Yes, and you've done a good job with the younger, I suppose, you're now seen as being pretty cool talking to young surfers and a lot, you've definitely done a great job positioning the brand.

You can sense the momentum when they do talk about how it's the only brand they think they'd wear. Obviously other people wear other brands, but you've definitely turned the corner from what I'm hearing, and what people are I suppose doing.

You know probably three years ago you sort of weren't so cool for the young people, but the way you market it, and your Instagram, and the people you're sponsoring I think you're doing a good job, so well done.

Neil Fiske: So, I think there are a couple of pieces to that. One is the investment we made in our junior team which, as you know, is really as strong as it's ever been. I always look at it wherever your junior team is, how strong it is, that's where you're going to be in a couple years. So, that investment in youth and the future has been great for us. I think it is starting to pay dividends.

The other place you see it is in social media, because as you all know kids are digital natives, and that's where you see the interaction of the brand first. The fact that our social media is growing as fast as it is with the kind of engagement and likes, and interaction that we're getting is really encouraging.

Tim Kent: (Kent Investment Partners, Analyst) Yes, well done.

Operator: Thank you. There are no further questions at this time. I will now hand back for closing remarks.

Neil Fiske: Thank you all for listening in on our conference call, and we look forward to discussions with many of you over the coming weeks.

End of Transcript