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ASX ANNOUNCEMENT

BILLABONG INTERNATIONAL LIMITED
RESULTS FOR THE HALF-YEAR TO 31 DECEMBER 2016

BILLABONG AFFIRMS GUIDANCE AFTER TIGERLILY SALE

GOLD COAST, 24 February 2017: Billabong International Limited [ASX:BBG] ("Billabong", the "Company", together with its subsidiaries, the "Group") today announces the financial results for the six months ended 31 December 2016. All figures quoted are in Australian dollars unless otherwise stated.

Overview:

- Consistent with the update to shareholders at the Annual General Meeting (AGM) on 22 November 2016, first half trading was behind the prior corresponding period (pcp). Total Group sales of $508.3 million were down 9.5% year-on-year, and down 7.6% on a constant currency (cc) basis. When the sale of the Sector 9 business is taken into account, revenue was down 5.8% cc.
- Gross margins flat overall; up in Americas, down in APAC.
- Cost of Doing Business (CODB) down 3.9% cc (excluding Sector 9).
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) adjusted for significant items was $29.3 million, down 21.1% as reported and 20.9% cc. EBITDA up 159% cc in Americas but weak retail conditions in Asia-Pacific and Europe weighed on the result.
- Net Loss After Tax of $16.1 million.
- Comparable inventory down 9.0% cc across the Group, driven by the Americas.
- Improved cash flow and better EBITDA conversion.
- Simplified portfolio with agreement to sell Tigerlily; proceeds to pay down debt.
- EBITDA guidance affirmed after adjusting for Tigerlily sale.

Billabong Chief Executive Officer Neil Fiske said, "This result is consistent with the update to shareholders at the Annual General Meeting in November, namely that the first half would be substantially down but that we would see a lift in the second half such that we expect full year EBITDA will be ahead of the prior period on a comparable basis.

"With yesterday's announcement regarding the sale of Tigerlily, we're simplifying our portfolio and paying down debt. We're seeing a strong profit lift in the Americas and our key initiatives are set to deliver substantial margin improvements. On that basis we affirm our FY17 EBITDA guidance, adjusting for Tigerlily.

"There are three key aspects to the first half result that give us confidence going into the remainder of the year. First, there is a strong profit lift in the Americas as we enter its seasonally bigger second half. Gross margins in the region were up 170 basis points overall year-on-year. Inventory was much improved, CODB was down and EBITDA more than doubled.

"Next, we are seeing forward gross margins improving in every region, as the benefits begin to flow from our global sourcing and concept to customer initiatives. Leaner inventories and the absence of any further currency pressures that have impacted recent results in Asia-Pacific and Europe also give us confidence.

"Lastly, we are getting costs out and simplifying our business. CODB was down nearly 4% on a comparable basis for the first half."

Tigerlily Sale

The sale of Tigerlily for $60 million announced on 23 February 2017 is consistent with the Group's strategy to simplify its portfolio. The business was initially acquired in 2007 for $5.8 million.

Financial Summary

AUD millions	1H17	1H16	Change	Change cc
Revenue	508.3	561.9	-9.5%	-7.6%
EBITDA (excluding significant items)	29.3	37.2	-21.1%	-20.9%
EBITDA (including significant items)	18.8	35.2		
Net (Loss)/Profit Before Tax (including signifcant items)	(12.2)	2.1		
Income tax expense (including significant items)	3.9	3.7		
Net Loss After Tax (including significant items)	(16.1)	(1.6)		

Note: First half financials include Tigerlily trading

Total sales of $508.3 million were down 5.8% cc, taking the sale of Sector 9 into account.

Group EBITDA excluding significant items of $29.3 million was down 21.1% as reported and 20.9% cc.

Overall, gross margins were flat to the prior period.

A net statutory loss of $16.1 million was recorded compared with a loss of $1.6 million in the pcp. Restructuring and significant items after tax were $9.5 million higher in this half than the previous half, much of which was non-cash in the period.

Cash conversion for the half was materially better than the pcp. The net of receipts from customers, less payments to suppliers, nearly doubled from $22.8 million to $44.2 million.

Overview of regional results (excluding significant items)

AUD millions	1H17 (excluding Significant Items)			
	This Yr	Last Yr	% Change (as reported)	% Change (constant currency)
Revenue				
Americas	192.1	219.9	-12.7%	-9.5%
Asia Pacific	231.3	243.9	-5.2%	-6.7%
Europe	84.9	98.1	-13.4%	-5.9%
Total	**508.3**	**561.9**	**-9.5%**	**-7.6%**
EBITDA Pre Global Allocation				
Americas	10.3	4.1	152.2%	159.1%
Asia Pacific	28.9	36.2	-20.3%	-21.7%
Europe	6.8	10.4	-33.9%	-29.3%
Global	(16.7)	(13.5)	-23.9%	-23.9%
Total	**29.3**	**37.2**	**-21.1%**	**-20.9%**
EBITDA Post Global Allocation				
Americas	3.4	(1.9)	278.5%	269.0%
Asia Pacific	20.6	29.6	-30.5%	-32.0%
Europe	3.8	7.7	-50.6%	-45.9%
Global	1.5	1.8	-13.5%	-13.5%
Total	**29.3**	**37.2**	**-21.1%**	**-20.9%**

The local nature of retail markets was apparent in trading through the first half of the year, with differing sales patterns across the Group's three regions.

Americas

The standout result was in the Americas, where EBITDA before global allocations more than doubled to $10.3 million (up $6.2 million or 152%), with earnings momentum extending into the second half on the back of margin growth of 170 basis points and lower costs.

After a slow first quarter, sales and margins improved in the second quarter. Sales were down overall for the half, reflecting the effect of the sale of Sector 9, some store closures and a fall in orders from a large United States retailer which was in Chapter 11 for a part of the period. However, comparable direct-to-consumer revenue (including ecommerce and bricks and mortar stores) was up 5.8% cc to $57.9 million for the half. Revenue from ecommerce grew 22.7% in the half, driven by a 41.5% pcp gain from Brand Billabong in North America, and now accounts for 8.3% of total sales for the region.

Inventories and costs were tightly managed during the period, with comparable inventory down 11.1% cc.

Asia-Pacific

The overall retail market in Asia-Pacific faced significant challenges in the first half; however, the Company continued to show share gains in the core specialty surf channel.

The Group's update at the AGM detailed the weakness in APAC sales to October and this flowed on to impact wholesale repeat orders in the second quarter. Retail trading improved in November and December with comparable store sales slightly positive in December although down 3.7% for the half. Amidst all of this, RVCA grew again with wholesale equivalent revenue (including sales to owned retail) up 14% cc.

Australian dollar fluctuations against the US dollar impacted gross margins by about 170 basis points, representing a $4 million increase in cost of goods compared to the pcp. A promotional retail environment also put pressure on margins. However, benefits from sourcing improvements are beginning to flow and as a result margins were down 130 basis points overall. The impact of the group's hedging program means that there will be no year-on-year foreign exchange-related margin pressure in the second half.

Ecommerce grew 17.7% to $4.9 million for the half, accounting for 2.1% of total sales. When compared with the penetration being achieved in the Americas, this channel represents a considerable upside opportunity.

Europe

After a period of improvement in Europe, trading moderated in the first half following the late arrival of cooler weather and macro factors such as Brexit.

The European pattern of trading was the opposite of that in the Americas, with a solid first quarter followed by a softer second quarter due to weaker demand in winter-weight categories.

Comparable direct-to-consumer revenue was up 1.3% cc, with a slight dip in bricks and mortar sales being more than offset by a 44.4% increase in constant currency ecommerce revenue. Ecommerce now represents 4.6% of total sales for the region.

Platform initiatives

The Group provided an update on its global platform initiatives:

1. **Global sourcing**

   Global sourcing is starting to generate the gross margin expansion that underpins the Group's long run goal of a business with double digit EBITDA margins. While some of that benefit has flowed through in the first half and has helped offset currency headwinds, the gains should accelerate markedly in the second half and lift product margins across the globe.

2. **Global logistics — "Pipeline"**

   The Pipeline initiative is on schedule, with cost savings at maturity to reach $10 million annually. The Group is in the process of shutting down its Canadian warehouse, and has established consolidation centres in the Far East which will allow product to be shipped directly to large customers, stores and distributor partners, bypassing the time and cost of regional warehousing for a significant portion of volume. Pilot testing of this direct ship model is underway.

3. **Concept to Customer**

   This program aims to improve product speed to market, increase inventory turns and expand gross margins. Style productivity is trending up double digits, with ‘quick strike’ capabilities improving within each core brand. The brand teams are working closely with Global Sourcing to translate better product development into reduced vendor lead times.

4. **Emerging markets**

   Significant advances have been made in building distribution into new markets, with five new distributor agreements in progress, agreements for 27 new licensed retail stores in Asia, and agreements for 20 more being negotiated elsewhere, to be opened over the next five years. This represents a capital-light expansion into these territories. These initiatives and more like them will become meaningful revenue contributors in coming periods.

5. **Omni**

   The Company advises that while several of the Omni-channel project tracks are moving forward as scheduled, implementation issues with one of the software vendors have delayed the launch of new ecommerce and retail point of sale systems. The Company is in ongoing discussions with that vendor to address the issues.

   New systems implementations are otherwise progressing in business-to-business, retail planning and allocation, consumer engagement and database marketing with a range of other solution providers.

   A new business unit has been established, Digital Commerce and Customer Experience, to accelerate the Group’s digital strategy. Stacy Reece, who formerly ran Billabong Global Ecommerce and Swell, has been promoted to the newly created post of Senior Vice President Digital Commerce and Customer Experience, reporting to CEO Neil Fiske. Stacy will partner closely with new Chief Information Officer Chris Conrad to drive the digital agenda.

   The Group’s big three brands together with their athletes and advocates now have a social media following of more than 34 million, up 33% on the pcp. A principal objective of the new Digital Commerce business unit is to tap the rich potential of this broad global consumer demand, driving sales across all channels including key wholesale partners.

Debt and Financing

Upon completion, the net proceeds from the sale of Tigerlily will be used to repay debt and reduce annual interest costs by approximately $7 million. The sale is consistent with the Group’s strategy to simplify the business, and is an important step towards positioning the Group for a refinancing of its Term Loan, as is delivering on the expected EBITDA improvements in the second half. Net Debt at 31 December 2016 was $186.1 million compared to $185.2 million at 30 June 2016, notwithstanding that the change in foreign exchange rates added around $10 million to the balance in Australian dollar terms.

Dividend

No dividend has been declared.

Outlook

The expected improvement in the underlying EBITDA for the second half of the 2017 financial year continues to be based on line-of-sight improvements from the Group's key initiatives, in particular:

- comparable gross margins in the second half of the financial year which are expected to be up in all regions on the strength of sourcing and merchandising initiatives;
- costs and inventories, which are in better shape heading into the second half;
- the turnaround in the Americas, which contributes proportionally more to the second half result; and
- the impact of the group's hedging program which means there will be no year-on-year foreign exchange-related margin pressure in the second half.

The Group's previous guidance of EBITDA in the $60-65 million range for the 2017 financial year needs to be updated for the sale of Tigerlily which will be treated as a discontinued operation in the 2017 full year results. This treatment is expected to reduce the Group's continuing business EBITDA reported for the 2017 financial year by approximately $8 million, which represents Tigerlily's full twelve month EBITDA contribution to the Group.

Accordingly, the Group affirms the 2017 financial year EBITDA guidance provided at the AGM in November, but for the adjustment to exclude Tigerlily EBITDA for the year. This equates to an updated EBITDA range for continuing operations for the 2017 financial year of $52-57 million (excluding significant items).

The Group continues to have a significant bias of second half earnings to the month of June in the Americas. Performance in this period is key to delivering on the Group's full year expectations.

Of course, the Group's full year expectation is subject to reasonable trading conditions and currency markets remaining relatively stable. Whilst exchange rate movements in relation to cost of goods is hedged for the balance of the 2017 financial year, the rate at which foreign earnings are translated into Group EBITDA will depend on the prevailing rates at the time.

— Ends —

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