Billabong International Limited

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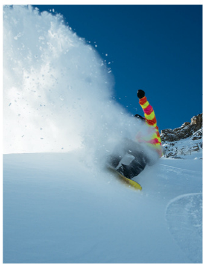

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ASX ANNOUNCEMENT

BILLABONG INTERNATIONAL LIMITED
RESULTS FOR THE FULL YEAR TO 30 JUNE 2017

AMERICAS AND EUROPE DRIVE STRONG SECOND HALF OPERATING RESULT

GOLD COAST, 30 August 2017: Billabong International Limited [ASX:BBG] (“Billabong”, the “Company”, together with its subsidiaries, the “Group”) today announces the financial results for the 12 months ended 30 June 2017 (FY17). All figures quoted are in Australian dollars unless otherwise stated.

Overview:

- Strong second half lifts FY17 Earnings Before Interest Taxation Depreciation and Amortisation excluding significant items and discontinued businesses (EBITDA) to $51.1 million up 2.8% year-on-year constant currency (cc)

- Key metrics improve second half (H2) over first half (H1); comparable gross margins up in all regions in H2 year-on-year (yoy)

- Americas leads the turnaround with full year EBITDA up 46.9% cc (yoy) before global allocations (excluding significant items and discontinued businesses)

- Operating cash flow improved by $31 million (yoy)

- Non-cash impairment of $106.5 million leads to statutory Net Loss After Tax of $77.1 million

- Net Loss Before Tax of $8.4 million (excluding significant items and discontinued businesses)

Billabong Chief Executive Officer Neil Fiske said, “At the Annual General Meeting we said we were confident that our strategy would produce a strong second half 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 the Company, and one on which we can build.

“We had three core objectives for H2: continue the turnaround 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 (CODB). 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 customers, with global social media followership up 42% year-on-year to almost 37 million.

“EBITDA for the year of $51.1 million is up 2.8% constant currency and is less than a million dollars below the guidance range that we provided in November and affirmed 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 returned 46.9% EBITDA growth cc. Europe rebounded from a soft first half to post full year EBITDA growth of 8.9% cc, 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, and up 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 have reported for any period since the recapitalisation in 2013.

"The result in the Americas, on top of a strong EBITDA lift in H1, gives us confidence that this region, often described as our greatest opportunity, has turned the corner.

"We simplified the business with the sale of Tigerlily and paid down debt. As a result Tigerlily is excluded from these results.

"Looking ahead, market conditions remain challenging, particularly in Australia, but we see opportunities for sustained earnings growth driven by further expansion in gross margins, acceleration of our direct to customer channels, strength in the Americas, growth in our RVCA brand, expanded global distribution, cost efficiencies and the ongoing benefits of our global platforms."

Financial Summary

(AUD millions)	FY17	FY16	Change	Change cc
Revenue (excluding discontinued operations)	974.7	1,069.0	-8.8%	-6.7%
EBITDA (excluding discontinued operations and significant items)	51.1	50.9	0.3%	2.8%
EBITDA (including discontinued operations and significant items)	99.3	49.8		
Net Loss Before Tax (including discontinued operations and significant items)	(67.4)	(15.9)		
Income Tax Expense (including discontinued operations and significant items)	(9.7)	(7.8)		
Net Loss After Tax (including discontinued operations and significant items)	(77.1)	(23.7)		

Total sales of $974.7 million were down 4.7% cc, excluding Tigerlily and Sector 9. However, comparable retail revenue (comparable Bricks & Mortar stores + ecommerce) was up 0.1%, and ecommerce sales overall grew 22.0% cc, excluding Tigerlily and Sector 9.

Group EBITDA of $51.1 million was up 2.8% cc and 0.3% as reported. In the second half, EBITDA of $27.2 million was up 50.1% cc and 41.1% as reported.

Inventory was down 7.5% cc (excluding Tigerlily) and gross margins improved 90bps.

The Company reported a Net Loss Before Tax of $8.4 million, excluding significant items and discontinued businesses. After a predominately non-cash impairment charge of $106.5 million the Net Loss After Tax was $77.1 million.

Overview of regional results (excluding significant items)

AUD millions	FY17	FY16	% Change (as reported)	% Change (constant currency)
Revenue				
Americas	432.9	481.3	-10.1%	-7.5%
Asia Pacific	367.0	395.0	-7.1%	-8.0%
Europe	174.8	192.7	-9.3%	-1.6%
Total	**974.7**	**1069.0**	**-8.8%**	**-6.7%**
EBITDA Pre Global Allocation				
Americas	45.7	31.6	44.5%	46.9%
Asia Pacific	23.4	32.3	-27.3%	-28.3%
Europe	17.1	16.9	0.9%	8.9%
Global	(35.1)	(29.9)	-17.6%	-17.9%
Total	**51.1**	**50.9**	**0.3%**	**2.8%**
EBITDA Post Global Allocation				
Americas	29.2	17.0	71.9%	77.0%
Asia Pacific	8.5	19.4	-56.4%	-57.4%
Europe	10.4	11.0	-5.9%	5.9%
Global	3.0	3.5	-13.6%	-13.6%
Total	**51.1**	**50.9**	**0.3%**	**2.8%**

Note: Excludes significant items and Tigerlily

The strong second half results reflect the improving trends in the Group's key metrics.

Key metrics	H1	H2	FY17	H1/H2 trend
Comparable total revenue growth	(6.4%)	(3.0%)	(4.7%)	✓
Comp. store sales growth	(2.9%)	(1.7%)	(2.4%)	✓
Comp. retail sales growth including ecomm*	(1.2%)	1.7%	0.1%	✓
Gross margin change YOY (bps)	(10)	210	90	✓
CODB reduction*	4.3%	3.1%	3.7%	
EBITDA change	(24.3%)	50.1%	2.8%	✓
EBITDA ($m)	23.9	27.2	51.1	✓
Operating cash flow improvement ($m)	15.0	16.3	31.3	✓

Note: Constant currency. Excludes Tigerlily and significant items. Same comp. store set
*Excludes Sector 9

Regional summary

All figures are constant currency unless otherwise stated.

Americas

The Americas has been the top priority for the Group's turnaround and has delivered a vastly improved set of numbers, highlighted by:

- EBITDA up 46.9% prior to global allocations
- Gross margin expansion of 290bps for the year (380bps in the second half)
- Total comparable retail sales up 8.0% (excluding Sector 9); brick and mortar stores up 2.3%
- CODB down 4.9% and 7.6% as reported, adjusted for Sector 9
- Billabong and RVCA, the two biggest brands, gain market share in core specialty channel
- Ecomm most developed in the Americas – 7.4% of sales (excluding Sector 9) and growing rapidly
- Inventory down 14.0%

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 owned retail, growing ecommerce, and expanding gross margins through the Group's sourcing and concept-to-customer projects.

The market share gains achieved in the core specialty 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 an important factor in gross margin expansion in the region.

Asia-Pacific

The result in Asia-Pacific was shaped largely by two distinct factors: macro retail conditions in Australia, and some correctable brand execution issues.

The weak Australian retail market dragged on the result. Retail comparable store sales were down 5.0% and retail gross margins were behind FY16 by 210bps due to higher promotions and clearance markdowns.

Asia Pacific EBITDA before global allocations dropped $9.2 million, or 28.3%, on an 8.0% revenue decline.

In wholesale, the macro factors that pressured the retail results also impacted wholesale accounts, leading to further market consolidation, cautious buying and fewer repeat orders. In Australia, wholesale margins, however, improved substantially over the year from 70 basis points down in H1 (yoy) to 450 basis points up in H2 (yoy).

With regard to brand performance, the Company noted some fashion misses and execution issues, notably with brand Billabong. For example, in women's swimwear the region recorded a very strong result in FY16. The same assortment formula that worked in the prior year was repeated for the start of FY17, just as the market was shifting to new trends. The U.S. assortment was on or ahead of those trends, but Australia lagged. The U.S. range was quickly tested in a set of Billabong stores in Australia and produced a stronger outcome. The new assortment has now been rolled out to all stores. With consumers increasingly connected globally through social media and digital commerce, the Company sees an opportunity to capitalise on trends moving more quickly across markets. CEO Neil Fiske said, "Early reads on the new seasonal assortment were encouraging."

Europe

The region delivered its fourth consecutive year of EBITDA growth, up 8.9% for the year before global allocations, on the back of a strong second half. Sales were down 1.6% for the year, but up 2.8% in the second half. On a comparable basis, gross margins were up 60bps in the second half and 40bps 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.

Ecommerce performed strongly, growing 27.5% and now accounts for 4% of total sales, which represents an ongoing opportunity for further growth. Total comparable retail sales for the region were up 0.4%.

Wholesale revenue was up in H2 by 4.6%, with the year down 2.4% overall.

Europe's sustained year-on-year improvements reflect a disciplined approach to strategy, improved quality of revenue, concentration on the big three brands, and leveraging of global platforms.

Brands

The big three brands of Billabong, RVCA and Element continue to expand their consumer engagement, with global social media followership for the Group's brands, athletes and ambassadors up 42% yoy to 36.9 million. This growing cohort of fans and consumers demonstrates a strong endorsement for the qualities represented by the brands, and positions them well for ongoing market success.

In 2017 the Group's brands were recognised by the leading surf industry awards in the United States (SIMA) and Australia (SBIA). Major awards included:

United States:

- Billabong: Women's Marketing Campaign of the Year
- Billabong: Women's Apparel Brand of the Year
- Billabong: Women's Swim Brand of the Year

Australia:

- RVCA: Men's Brand of the Year
- Billabong: Men's Marketing Campaign of the Year
- Billabong: Women's Marketing Campaign of the Year
- Billabong: Women's Brand of the Year

Platform initiatives

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 improvements.

A third initiative, focused on reducing 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 party logistics provider in the US and developed plans for further distribution centre rationalisation to be rolled out in the next two years.

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 planning and allocation system for retail.

New industry-leading partners have been appointed to accelerate progress in ecommerce, retail point of sale, and customer relationship management.

The selection of the new partners was based on one overriding principle – delivering the best possible Omni channel experience for customers with certainty and speed.

The Company emphasised that Omni was not just ecommerce, but the ability for customers to shop the way they wanted to shop – in stores and online, retail and wholesale, across all channels with richness of content and a personalised experience. The value of an Omni platform is in the integration of previously unconnected parts of the retail system.

Rather than rely on one provider for that solution, the Company outlined an approach that utilises the best off-the-shelf software solution for each of the major components, and proven system integrators to bring those building blocks together. Each of the major partners is a leader in their field, but importantly they have worked together extensively on similar implementations. The solution design is cloud-based and scalable to countries and distribution partners around the world.

Between the experience base of these partners, the advancement of the technology, and the work already done, the Group expects to move quickly into deployment. For example, Surf Dive 'n' Ski is scheduled to be operational by the end of this calendar year.

More broadly, the new solution is expected to lower implementation risk and improve certainty of delivery for the balance of the project. The Group believes the Omni program can be completed materially close to its original range of budget expectations.

Balance sheet

The results include impairment charges of $106 million which are predominately non-cash. Of this, $94 million relates to goodwill and brands, with the balance being the previously announced $11.7 million impairment relating to the Omni channel project.

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.

The Group's net debt has declined from $185 million at June 2016 to $148.6 million in June 2017. The proceeds from the Tigerlily sale were used to pay down debt, and the Company's operating cash flows improved on the prior year.

Dividend

No dividend has been declared.

Outlook

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 the Americas and Europe in the second half. In FY18 the Group expects to show further progress in the Americas and Europe, although 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.

— Ends —

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