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## TRANSCRIPTION

**Company:** Billabong International Ltd

**Title:** Billabong General Discussion

**Date:** Thursday, 4 December 2008

**Time:** 09:30am (Qld time)

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**Chair:** Mr Derek O'Neill

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[START OF TRANSCRIPT]

Derek O'Neill: Thanks everyone for joining us this morning. I will just start out by noting that we're making today's announcement in one of our usual blackout periods, but both myself and our CFO, Craig White, will make ourselves available through to the close of business tomorrow to discuss this announcement, and then we will return to our usual blackout period leading into the close of the first half.

We're providing this trading update following receipt and preliminary analysis of our late October and November sales performance, and how that feeds through into our full year expectations. You'll note, we've seen an accelerated deterioration in the US market in particular, and this has led us to moderate our full year EPS growth guidance.

To give you a greater insight into our anticipated performance, we've also departed from usual practice, and provided some new numbers in relation to sales and EBITDA growth rates, which I think you would agree are very strong numbers and show that Billabong continues to perform well in what is a very challenging environment.

Looking across our business we've seen a few stories. The first is that when we gave our last guidance at the Annual General Meeting



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in October, we felt that we were reflecting the extent of the slowdown in consumer spending and how that would flow through the balance of the year. Since then, further nervousness amongst our wholesale customer account base has led us to take a more critical view of our likely forward performance.

A marked slowdown in our repeat business, as well as the preliminary results from our own retail in November, has mirrored the nervousness and supports our new view.

The second story is that we retain a good forward order book, both in the US and Europe, and our established brands continue to perform well.

Thirdly, in our retail, we developed an overhead structure for a particular level of sales and we haven't reached that expectation. Therefore, we are now managing that overhead down and, again, that will see some margin dilution in the first half, but a rebalancing in the second half.

Finally, we're seeing some major movements in currency. While we are facing some negative impacts in regional results, such as the effects of the lower Canadian dollar to the US dollar, and the UK pound to the Euro, at a group level the lower AUD to USD in particular continues to benefit profit translation. This could lead to some further upside in our reported results, most notably in the second half.

Forecasting, as I've indicated on numerous occasions, is becoming increasingly difficult given the pace of change we've seen in world markets. At our AGM in October we flagged that we'd seen a slowdown in the US, but it was difficult to determine whether it would accelerate or stabilise, given the unprecedented economic stimulus packages crafted by US authorities.

Well, we've now seen the slowdown has actually accelerated and we are now assuming the current conditions will continue well into the second half.

You'll see in our announcement that I made reference to the impact of widespread promotional activities, and I guess some you would have a view that we should be involved in that business. At select times we do undertake inventory management measures, but not at the same levels we're currently seeing in our market and in the general apparel sector.



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Promotional activity may support short term targets but we feel it can also lead to longer term expectations from customers and pressure brand equity. We don't plan to participate in any race to the bottom in regards to pricing. We've built our brand equity over many years and we're determined to protect it. We have a compelling brand portfolio and retail offer and we continue to manage these in the interests of the long term health of the business.

Just prior to taking questions, I'll just add that we've revised our AUD/USD assumptions in particular, given the sustained strength of the USD. If it would remain at today's levels for the balance of the year, then our assumptions today may prove to be quite conservative. It's for this reason that we continue to provide currency sensitivities relative to the AUD/USD and the AUD/Euro.

I'll now invite any questions on today's announcement.

Question:

(Phil Kimber, Goldman Sachs) Good day Derek. Just a question maybe if you could clarify it a little bit for us. You've said that you're assuming the weakness will continue well into the second half, can we get a bit of colour maybe in the wholesale business, which is probably 90% of your US business, and repeats down and how much are margins being impacted, and then on the other 10% being the retail business. What are you assuming there now that profits significantly decline in that business?

Derek O'Neill:

Okay Phil, firstly let me just touch on the percentage you're talking about there. I don't have the exact percentage in front of me – in the past our retail has been closer to 20% in the US. Certainly with the acquisition of Quiet Flight it would now be in excess of 20% in the US. So there's definitely a lot more impact from retail. Probably, for us, retail is where we're feeling it a little bit more.

Our view moving into the second half is that we're expecting retail to be pretty ordinary. We talked with our wholesale customers and they're expecting certainly some of the current conditions to remain. Just to give you a bit of an idea, at some of our retail, for example, we've indicated that Hawaii continues to be tough. Just to give you some colour on that, so far at Honolulu, for example, I'm not trying to single Honolulu out, but so far we've had a decline on comps last year at Honolulu, around 21%, which gives you an idea of some of the extent of the movement.

Another one at retail, this is another limited example, is we have a footfall counter in our New York store at New York's Times Square. Just the traffic in the month of November was down 29%, for example, with a similar type decline through the till.



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So you're seeing some real acceleration there in that business in November. We're assuming – we've already taken the assumption that we expected probably negative retail comps through to the majority of the second half, and we're now taking a more bearish view on that again. I think that while I indicate that forecasting's difficult, that that's probably a closer way of looking at it.

At the wholesale level, it's a combination of just retailers wanting to make sure they've got their inventory just exactly right. We're seeing some, not a lot, but some push backs on some forward order deliveries, and that will have an effect through into the second half as well. So it's not all wholesale – I would actually say that probably more of the impact right now is actually in retail for us.

Question: (Phil Kimber, Goldman Sachs) Okay, and I'm right in assuming when you're talking, it's accelerated ... the deterioration. Are you assuming the deterioration continues to accelerate or it now sort of stays at this sort of level?

Derek O'Neill: Look we're not assuming a further deterioration. We took a view that the US election was coming up, there was plenty of talk that that might have some effect into the month of November. We really didn't see any. I would say that Thanksgiving was really so, so heavily sales orientated at the promotional level that we could only say that Thanksgiving was ordinary at best. Thanksgiving is a huge shopping weekend and it really just didn't give us a lot of confidence moving in. I think we're taking the view that December will probably be ordinary as well and I don't think there's too much blue sky second half.

We've probably got some optimism that maybe things might start to pick up in the US come maybe April, but it just remains difficult to call.

Question: (Craig Woolford, Citigroup) Morning Derek and Craig. I'm just trying to understand the guidance and where the downgrade has actually come from, with sales growth in excess of 25% and EBITDA growth of 20%, you get to only six to 10% EPS growth, there's clearly a major impact there on depreciation and perhaps interest costs. Can you explain sort of what proportions maybe coming from each of those two lines firstly?

Craig White: Craig, you're right. I think if you go from EBITDA around 20% growth; you've got higher depreciation and amortisation coming through from retail, be it some of the organic rollout of retail, as well as acquired retail, plus some depreciation and amortisation related to acquisitions.



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Then you have the interest line, and I think we're probably seeing a bigger impact on the interest line, basically just due to the increased borrowings of the group. If you actually look at the interest cost, the absolute interest expense we expect in 08/09, it's approximately double what it was in 07/08. That basically dilutes down that EBITDA growth down to the EPS guidance range that we've now revised to.

**Question:** (Craig Woolford, Citigroup) Can you provide a bit more clarity around, I guess, the outlay for acquisitions? I guess you only think about a number if you think it's commercially sensitive, but try and understand how much of the 25% sales growth coming from things like acquisitions over and above Quiet Flight and others from last year. How many stores, for example, have you acquired this year?

**Derek O'Neill:** Firstly I don't have the exact sales number, just let me give you a bit of an idea. If you delete acquisitions completely, if we hadn't made those acquisitions from May onwards, our business at an EBITDA level would be slightly positive certainly on a constant currency basis. It gives you a bit of an idea that the organic business has some slight growth, but certainly lower than we would have expected.

Certainly the sales line is no doubt boosted by the fact that those acquisitions are sitting in the US, and obviously the currency is a big part of that increase in the sales line as well. We'll release a full count up of all the stores at half year. I can say that we've recently added a small retailer in the UK, for example, which will add some numbers. There's been some organic openings certainly here in Australia. We're looking to open our big Kirra Surf store this weekend which should help a little bit along there, and there's been two others added in Australia at the same time in this half.

On the other side, we're not out frantically opening retail stores either. I think that we're currently taking a view that we're going to be somewhat selective in terms of expenditure. There are small opportunities starting to emerge. I think that we would be very selective, but probably just looking to slightly ... just look much closer at, you know, any new expenditure in retail.

**Question:** (Craig Woolford, Citigroup) Sure and just with regards to the overhead cost reductions I know that's going to be a sensitive issue, but can you give some sense of how easy it is to cut costs and what sort of areas you would be considering cutting costs to improve your costs line in the second half?

**Derek O'Neill:** Well one thing with retail is that in general you have a far higher than normal staff turnover rate in retail than what you normally do in wholesale. So, you know, we'll take a look at some of those retail



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levels of overhead and I would expect that we won't be as aggressive in some of those replacements as you get some of that turnover. It's a difficult one. You're sitting there sort of early September say and you have those expectations of where your sales should be. Then you see what most would argue would be one of the more severe slowdowns at retail that a lot of people have seen in a long time and just is difficult to unwind a lot of that in a hurry. I think that, you know, also you use some of these times to go back and have a discussion with landlords and see about working those rent deals a little bit harder. I think that there are a lot of ways that it can come and we look forward to somewhat rebalancing a lot of that come the second half.

Question: (Craig Woolford, Citigroup) Thanks for that Derek and Craig.

Operator: Next question coming from Russell Wright from Patersons. Go ahead please.

Question: (Russell Wright, Patersons) Good morning gentlemen. I was wondering if I could be so bold as to ask for a breakdown of the sales growth forecast for 25% by region and if it could also be broken down into the organic sales growth and currency impact? Because otherwise it's very difficult for us to make the necessary assumptions that we have for ourselves with regard to forex? If we know you're starting point then we can make our own assumptions as to where we'll end up by the end of the year?

Derek O'Neill: Look how about we take that one onboard and take a look at it and we'll see what we are prepared to release. I just don't have that in front of us Russ. You know the fact is that in the last 24 hours we've been, you know, getting a lot of these forecasts in and once we saw that we were probably going to have to move guidance down we've done that today. I take your point and we'll see what we can do there. Our view is that we'll try to balance up what it is that you require as against, you know, disclosing what I consider to be our commercial advantage over our competitors, but I'll take it onboard if you don't mind.

Question: (Russell Wright, Patersons) Okay and similarly...

Craig White: Just one thing I would add to that is that particularly with the DaKine acquisition at the moment we've got that allocated on our own internal numbers against the North American segment and, you know, some of that belongs in Europe, but we haven't aggregated that at this stage.

Question: (Russell Wright, Patersons) Okay. With regard to the first half guidance of basically slightly negative EPS, can you give us a split



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there again between the sales component and the margin decline assuming it's predominantly the southern hemisphere?

Derek O'Neill: Well it is predominantly the southern hemisphere that makes the impact in the first half, but probably, you know, the impact to margins will be more pronounced in the US. The fact is that the Australian business is going okay. It's just not adding a lot to the top line or really the bottom line. The margin decline - you know there will be some margin decline in Australasia because primarily in the first half the majority of the growth will be coming from Japan where our business remains strong and there's also some currency benefit. However, the Japanese business continues to run on sort of high teens type margins so that will have somewhat of a dilution. The other one as well is that the South African business margins just remain under pressure while the Rand remains - well it's actually tumbled quite dramatically - but the margin pressure through the US will basically come primarily from that retail overhead as we indicated. Craig do you want to add anything there?

Craig White: No, I think you've covered it.

Question: (Russell Wright, Patersons) So there's a real - let me get this right - the reason for the negative EPS in the first half is predominantly the margin decline of the retail operations in the US is that correct?

Derek O'Neill: I would say that's the biggest impact, yeah.

Question: (Russell Wright, Patersons) Okay, alright. Thanks very much gentlemen.

Operator: Thank you. The next question coming from Grant Saligari from Credit Suisse. Go ahead please.

Question: (Grant Saligari, Credit Suisse) Good morning Derek and Craig.

Craig White: Good morning Grant.

Derek O'Neill: G'day Grant.

Question: (Grant Saligari, Credit Suisse) A question about mitigating actions you can take with managing your inventory through this period, obviously without getting into a situation where you have significant obsolescence or the need for markdowns. So at balance stage you had about \$200 million of inventory and about 600 of COGS. Can you just outline the actions you can take there?

Derek O'Neill: Well in terms of inventory, the way we build our models is that, you know, it's not a perfect science but we try and buy as close as we can



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to our forward order book. The seasons for us are very short so it's not like we're building a lot of inventory that's going to have to sit around and be sold over the next 12 or 15 months through the course of a normal season. Seasons are very short. We've already indicated, you know, a month and a half ago that we were going to take a more aggressive view on inventory moving into the second half in both Australia and Europe and even the USA in terms of making sure that we didn't have a lot of inventory around. We weren't too sure on, you know, what repeat levels would be like. We felt that, in Australia in particular, retailers were going into the season very light. We do feel that the forward orders in Australia in particular going into the second half of winter that some retailers are very light and we've made the call to retailers and said that we're going to build very little excess inventory for winter. Now the current lack of repeats which I should just say has really been, you know - I'm talking mainly the last two to three weeks in terms of repeat activity slowing down - it's not going to lead to any huge inventory build up. We're talking about potentially \$1 million to \$1.5 million in repeats missing in Australia for example. It's not a huge amount, but we believe that it shouldn't cause too much drama. We reckon that we could have inventory - whatever would happen - we could have inventory probably to a more preferred level within four to six months at the most. Here in Australia it's a nine month summer for us. With areas like Singapore and Indonesia and some other areas it's summer all year around so you shouldn't read it as any significant inventory build up through this slightly lower period.

Question:

(Grant Saligari, Credit Suisse) Okay thanks for that. A question on receivables - could you give some indication as to whether you've seen any material change in the aging profile of your receivables?

Derek O'Neill:

Look I wouldn't call it material, but we're definitely starting to see retailers somewhat struggle a little bit. I think that our view is that we remain prepared to support the retailers wherever we can but we have indicated today that some of our forward expectations are related to just probably a little more conservative management of our receivables. In some cases we've taken a close look at the probable health of some of our account base and elected to actually withdraw some forward orders ourselves. Our view is that we are going to place an exceptionally close eye on receivables and, as I said, we're going to support retailers where we can, but there will be limits to that to the extent that we can go to. We're not a bank at the end of the day.



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- Question: (Grant Saligari, Credit Suisse) Can you remember a similar period and any indications of what happened with the, you know, retailer debtors during that period?
- Derek O'Neill: Oh, look, frankly no. I think that, you know, these are somewhat extraordinary circumstances. I think that we've got the management team in place to manage around the current situation, but frankly no we've never seen somewhat of a slowdown at a global level like this. We're not that old.
- Question: (Grant Saligari, Credit Suisse) Yeah it's quite synchronised. It's quite unusual. Just a question - a final question - just around your borrowings and I understand you have a multi-currency borrowing facility. I would just like to understand how protected you are for some of the currency movements we've seen there and whether there could be any surprises in terms of the interest line there?
- Craig White: Well firstly in terms of how exposed we are to the currency Grant I think one thing I'd say there is we announced at the AGM that we had converted the \$600 million Australian dollar syndicated facility which is not an actual - I'll just clarify that - it's not the actual amount of debt drawn down, that's the facility limit. So we converted that to a US capped multi-currency facility at about \$534 million US. So given that, you know, 65/70 per cent of our borrowings are in US, we've essentially removed, if you like, that currency translation exposure. I think in terms of the actual interest exposure, you know, we obviously have agreed margins under that facility which is a two and three year facility. Base rates have been coming down so I'd say if you actually look at the coupon it overall really hasn't moved a lot. We do have - you would have seen from our last full year accounts we've got one major swap in place for \$160 million US. So, you know, I think from an actual interest rate sensitivity point of view, I would say there's limited exposure and I'd say from a currency point of view there's also limited exposure. I think we're pretty well covered.
- Question: (Grant Saligari, Credit Suisse) If I understand that swap correctly, you're paying fixed at somewhere around 3.5 to 3.9 and receive variable. Is that how that works?
- Craig White: That's correct.
- Question: (Grant Saligari, Credit Suisse) Okay. Alright thanks for that.
- Operator: Thank you. Next question coming from Penny Hart from Merrill Lynch. Go ahead please.



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Question: (Penny Hart, Merrill Lynch) Thanks. Hi Derek and Craig. Just wondering what are your current expectations for the Australian market - I mean you've said today things have been okay or subdued. Now are you factoring any sort of deterioration in the Australian market given we appear to be, you know, six months or so behind the US?

Derek O'Neill: Yeah look that's a good question. I think that we've taken a view that we're looking at our forward order book. As we said we think that some retailers are a bit light. We've also taken the view that we're not going to build a lot of excess inventory and some retailers may be a little exposed. Arguably, you know, we're moving into a winter period and it's a small period for us. We would think that probably any turnaround would not be reflected in any of our sort of numbers until probably more for the summer which starts from probably June, but really in store doesn't really start until sort of August. So our view is that regardless of stimulus packages or whatever else we're going to take a pretty subdued view here in Australia for that period. I think that you guys study the general market more than us so probably would get a broader view, but that's the way we're kind of looking at our business in Australia.

Question: (Penny Hart, Merrill Lynch) Yeah it's interesting - I mean people sort of saying they're concerned around the Feb/March trading period once you get through Christmas, so, you know, pushing it out past that makes sense. I guess following on from that also - I mean we're just trying to get a sense of what your revision today really factors in. Moving to Europe where conditions, you know, are looking to be getting worse, you said that things have slightly eased there; do you think you're being slightly optimistic to assume that things won't deteriorate further in Europe?

Derek O'Neill: Oh look the unknowns are definitely always out there, but look I've just spent a week in Europe last week at our Billabong Europe winter brand release. I'll give you an indication - I spent a week in America the week before I was at our office and then also at the DaKine North American range release. I definitely didn't feel that some of the pessimism that really you feel in just talking with the average US person is quite as bad in Europe. I know that there's plenty of information and whatever to link the two, but from what I saw and I spoke at length with people from many, many, many countries at our sales meeting and there was quite a bit of optimism. Really the three key areas that, you know, are somewhat soft for us remain Spain, England and Italy as well. I'd probably put Italy behind those two, but Italy is somewhat more difficult. But they're calling recessions in Germany, but we've still got a strong business in Germany and



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we're expecting strong business. Central Europe's going very well, Scandinavia's going well and Eastern Europe's just really remaining strong. There's evidence to call the two in line, but inside our business I think we'll still have a reasonable European result, just somewhat weaker than probably what we first expected.

Question: (Penny Hart, Merrill Lynch) Just so I understand I guess, in the US it does appear there a bit of the deterioration, I guess, has come from the promotional activities of others in the industry. Do you need to see an improvement in that promotional activity, a more rational kind of behaviour for you to reach your own forecast in the US?

Derek O'Neill: Look, I think that Thanksgiving promotional activity was very strong, but I was in malls a week before Thanksgiving, and everyone was on heavy sale well before Thanksgiving. It just got much deeper once you got into Thanksgiving. Some of that sale activity is unsustainable, so if that was going to continue at those sort of levels, eventually that would have to stop. I mean, people would struggle to remain in business, and so I'm not expecting what we saw to be an ongoing eventual trend, because it's unsustainable.

Question: (Ben Gilbert, UBS) Just a first question. I know you said that you guys obviously aren't in the habit of generally sort of discounting aggressively. But can we assume that you guys have still been discounting quite aggressively across your own retail stores?

Derek O'Neill: No, around the Thanksgiving weekend at some of our retail in the US for a day or two we were say 20% off, but pretty limited to right at that Thanksgiving. In that mall environment it's pretty difficult during that weekend to stand still, but there's 20 or 50% off in other stores and buy one get 17 free, and that obviously is a bit of an exaggeration. But it was very, very promotional. We just weren't that aggressive and we don't expect to be really that aggressive either. Here in Australia, like beachculture, we haven't really been promotional and we have no intention to be either. We always take decisions in the long term interest, not so much a short term.

Question: (Ben Gilbert, UBS) So you are seeing many actually unprofitable stores out there at the moment, has that really come to roost in the last – given the sharp deterioration we've seen?

Derek O'Neill: What, you mean our stores?

Question: (Ben Gilbert, UBS) Have you got many loss making stores out there?

Derek O'Neill: Look, I'm sure that there's quite a few that don't show healthy numbers in October and November, but I'm not sure that necessarily that two months makes a lifetime. We have indicated that sort of the sales expectations that we had, that our overhead in those stores has to come back down a bit, and we're looking to manage that through.



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Like any retailer, you ask any retailer and I'm sure they'd have some leases they'd like to get out of, and we're really no different. But we have some real strong highlight stores too, but overall I just think we just needed to flag October and November weren't that flash.

I will just say though, if none of you have been to the US and you just look at Australia in retail, it's difficult to understand quite the impact that is going on through that market over there. There's no question it's just very, very, very different than what we see here in Australia.

Question: (Ben Gilbert, UBS) Just finally, just in terms of the penetration, I suppose your suite of brands, are you seeing maybe sort of some of the bigger customers or some of the customers shying away from Billabong a bit more, because there's not the scope to discount as much and maybe the margins are a little bit thinner?

Derek O'Neill: Look, I'll repeat, certainly at the moment I would say we are somewhat affected by some of the discounting that's going on, I mean it's interesting too. I mean, we have some company owned multi-brand retail stores and we deal with some of our competitors, and I've got say, I mean there's some terrific deals out there and we've taken advantage of some of that too. But certainly at the wholesale level we firmly believe that we continue to take market share, certainly retailers remain pretty comfortable with our whole business portfolio and our whole brand portfolio and we seem to be somewhat of a – I think one of the stronger companies in our industry right now.

I can't underestimate within our industry how well we're doing, and I think that's going to put us in a very good position once the consumer really returns in that US market. I think we're going to come out of this period in a much stronger position than we were than when we went into it.

Question: (Ben Gilbert, UBS) Are you still seeing a bit of consolidation at the retail level just on that point, with say maybe some of the smaller sort of \$20-40 million turnover brands that are falling to the wayside?

Derek O'Neill: Well I'm not sure they're about to fall to the wayside, but I mean I've had some evidence from certain retailers in the US and some here as well that they are certainly being a lot more selective in the amount of brands that they buy from. I think that some consolidation in a difficult market is only going to be a natural occurrence. Retailers want to be assured they're going to be delivered on time, that the support is going to be there, and I think that we offer all those sort of things. But I think some consolidation at brand level on the retail floor space is going to be natural.



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Question: (Greg Dring, Macquarie Capital) A not so good morning gentleman. Just a couple of quick points. Derek or Craig, is your effective interest rate going to be higher in fiscal year '09 than '08?

Craig White: The overall coupon rate Greg?

Question: (Greg Dring, Macquarie Capital) Yeah.

Craig White: Look, to be honest I don't have that number in front of me. My sense is what I would say to you is you've got – we've refinanced facilities so the margin that we're paying into that facility is higher than what we are, but the actual base rates that we're paying that margin on has been coming down, and we've obviously got a mix of currencies. What I would say to you is that the overriding driver of the increase of interest expense is the actual level of borrowings, not the interest, the coupon interest rate. My sense the coupon interest rate is probably relatively stable.

Question: (Greg Dring, Macquarie Capital) Okay. Well can I be more specific. What's the average level of debt going to be across the year, net debt?

Craig White: Greg, that's not a number that I've either got or I think that we would disclose right now.

Derek O'Neill: Greg, can I just indicate normally when we come to a half year or full year result there's six weeks of work go into probably trying to provide every number that we can. Effectively we've had a forecast review over the last 24 hours and realised we had a problem, and that's why we've approached the market today. So we just don't always have everything right in front of us at this point, so I hope you can understand that.

Question: (Greg Dring, Macquarie Capital) You know we appreciate operating with minimal numbers, but for your interest to double, that's taken me a little bit by surprise. You didn't comment on the cost of borrowing when you actually restructured your net facilities from one currency to a multi-currency. So it just seems to me it's either we're estimating the average borrowings across the period too low, or we're underestimating the effective rate. And I was just trying to draw out from you which was more likely, and it sounds like it's the effective rate so I'm happy to move on. Is there any volume growth in the business, I think you said slightly, I mean is it slightly above 5%.

Craig White: What I'm saying to you is that I think you said that you think the interest rates – there's an increase in the interest rate which is driving the increase in the interest expense, and I'm suggesting that's not the case. I'm actually saying to you it's the actual borrowing level, which is funding acquisitions, the working capital etc, which has driven the overall lift in the interest expense.



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One thing I will say is I mean, I think anybody refinancing in this environment, we refinanced it effectively in June early July, and I think anybody rolling out of those old facilities would be paying a higher margin. What I do know is that the margin that we are paying under those facilities is significantly below where – I think it was very competitive at the time and I think it's significantly below where the market is today.

Question: (Greg Dring, Macquarie Capital) Okay got it. So Derek, the slight growth in your business on a constant currency basis is slightly less than 5%?

Derek O'Neill: In those terms, yeah.

Question: (Greg Dring, Macquarie Capital) You've got good visibility, I just wanted to ask you about the seasons, so from memory – because I'm out of the office and don't have my notes – you've got four selling seasons in the US and I think you've got three in Australia, and I can't remember how many, maybe two in Europe. So the visibility you've got at the moment takes you through to sort of roughly where next year and at the end of which season for each region.

Derek O'Neill: Okay. So we've got forward orders in the US currently through to the end of February. We've got forward orders in Australia through to the end of April, and we've got forward orders in Europe through to around the middle of May. Now one of the things we did indicate at the AGM is that we would have – we had some hedging risk for both May and June for unhedged purchases for both Australia and Europe. I have taken into consideration now these new type of currencies that we have, and that's also led to some part of today's dilution.

Question: (Greg Dring, Macquarie Capital) Okay. So are indents still 70 or 80% of the business, or have they assumed a much larger percentage now that repeats are down?

Derek O'Neill: Look, it's definitely starting to come up a little bit, there's no question about that. As repeats are just a little softer, then I'd say it's just a natural curve upwards. And we're looking at it that we'll take our inventory levels closer to the order book, rather than what would be normalised repeats that we would have expected. Look, don't forget that when we buy a little closer to the order book, I mean it means there's still some product left over. It's a textile business and you can't order one of an item and you have to buy in cut ratios. The fact is that there will always be product for someone to buy, it just may not be the product that they necessarily would like to repeat on this specific style. But within a category there's always 15 or 20 items in the category, so if they need shirts there's shirts there, it just may not be the styles they actively would like.



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Question: (Greg Dring, Macquarie Capital) You gave some commentary just on a couple of selective retail outlets, but I guess the areas I'm really interested in are performance in Florida and California. Can you comment on what's happening in each of those two distinct regions?

Derek O'Neill: Yeah, look, I mean California has definitely slowed up. I would say that Southern California probably from September has got tougher. We've indicated in the past that certainly through the subprime impacts earlier in the year that both Florida and California were relatively strong for us, and more of a problem was Hawaii. Certainly the inland markets in California have got a lot tougher, and we've seen the impact of that. Florida was quite good in July and August but September was a little subdued, certainly in October, and the preliminary top line sales numbers we had for November have showed that Florida is now quite tough as well.

Question: (Greg Dring, Macquarie Capital) Okay. And does tough mean no growth?

Derek O'Neill: For those months yeah. I mean, in terms of comps, the only comps that we can do is our own retail. Yeah, I mean look, really you look at the month of November and if we look at all our retail banners in the US, so that's Honolulu, that's Quiet Flight, it's all the Billabong stores, the standalone Billabong stores in all, we had negative comps in every banner for the month of November. In the majority double digit negative comps as well for the month of November, and that obviously includes Thanksgiving.

Question: (Greg Dring, Macquarie Capital) Okay. And are sort of skate, snow and surf all performing similarly in terms of rates of decline or flat or steady or growth?

Derek O'Neill: Look, our information is that snow is going to be a little tough this year. We're not heavily exposed to snow in the US market as it's only a fairly – a relatively small percentage of our winter business in the USA. It has been quite mild in the Pacific North West through to probably 10 days ago, and that hasn't helped. And I would imagine that snow this year is going to be a very discretionary type activity. I will say, however, that Europe has got very cold in the last 10 days and most of the resorts have opened anywhere two to three weeks ahead of schedule, so that's fantastic. We've seen already very early activity in snow apparel for us, and it's a much weightier part of our business over there. So I think that we've got a lot more optimism for snow in Europe right now. Certainly those mountains opening, that's probably four or five years since they've opened so early so that's already a pretty good sign.



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- Question: (Greg Dring, Macquarie Capital) And just a final one from me. Craig, the sensitivities that you give, the plus 0.6, is that on the fiscal year '08 reported, the translation sensitivity?
- Craig White: No, that's on the forecast that we're now providing for fiscal '08-09.
- Question: (Greg Dring, Macquarie Capital) Okay. And also confirming that that is just a translation, it's got nothing to do with transactions, those numbers you're giving us?
- Craig White: Correct.
- Question: (Shaun Cousins, JP Morgan) Thanks, good morning guys. Sorry, just a question regarding the costs, those are the overhead costs. Sorry, a lot of your second half '09 earnings growth and to be frank the earnings growth for fiscal '09 is predicated on you being able to cut these costs. Can you just provide us with a little bit more detail exactly where you can cut these costs? Sorry, I know Craig asked it before, but that seems extraordinarily important for us to get confidence that you can actually offset the margin decline.
- Derek O'Neill: Look definitely, you know, there's - the costs in retail would be related to I think people and you know, there's no doubt that's a big part of your overall retail overheads. As we indicated, we'll look to have some discussions with landlords, but I think the majority of it is that if the sales are lower you'd probably, as I said, as you have staff turnover, you'd look very closely as to whether they need to be replaced.
- I think that what you also have to understand is that you start to get what I call the benefit of the acquisition starting to come through. DaKine's performing very well and there's very little profit that it delivers in this first half, it's about to come in the second half. We're seeing, as well, some cost decreases at the supply line. We're actually starting to see prices starting to come down at the factory level, which is more an affect later in the second half. We're also starting to see immediate reductions in freight, they're definitely going to be a plus into the second half.
- I think it's, while retail's a big part of it Shaun, I think there's a combination of other things as well and that will definitely help the second half.
- Craig White: I think probably Shaun I would just add is, I mean I think each of the regional general managers have been working hard this year to date to tailor the business and the overhead levels to the level that we need in this sort of environment and I think you'll probably start seeing some of the benefit of that flowing through the second half that we're not seeing in the first half.



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Question: (Shaun Cousins, JP Morgan) Okay, alright. Sorry just, are you guys going to reduce your marketing spend? I mean if we think about what your costs are, you guys have got your retail businesses but across the rest of your COGS, a lot of it's going to be marketing. I assume you can't cut any athlete's sponsorship, or maybe you can, but I mean are you looking to sponsor less in terms of advertising - sorry spend less in advertising? Sorry, I just want to get a bit more colour on this.

Derek O'Neil: Oh look Shaun I mean our advertising basically remains in line with sales, so the fact is that if the sales don't reach the expectations that we expect, then what will happen is that the marketing will be adjusted accordingly. There's a lot of different things we do in marketing. I would say that some of our focus in marketing is, over the last two years, has been driven more and more to what we can do to support the retailer in store in terms of promotional posters, different programmes we may be doing.

We feel there's an opportunity to talk to the consumer right at the point of sale. We don't think that we've been increasing dramatically our overall athlete spend or our overall event spend over the last few years and we're not anticipating that that's going to be dramatically increasing either. But certainly I would say the print advertising has been somewhat a little in decline for us for quite a while as we've been moving more and more across into digital content. A lot of that is very effective and not too expensive. We're expecting to concentrate on that digital side more and more as we move through.

I hope I've answered your question. Again, we're clearly not cutting our percentages. We generally try and run at a group level somewhere between 4% to 5% and I have absolutely no intention of changing that, certainly at this stage.

Question: (Shaun Cousins, JP Morgan) Okay, thanks. Sorry, just in terms of the acquisitions, is it fair to assume that all the acquisitions are generating EBITDA margins lower than your underlying business?

Craig White: Yes.

Question: (Shaun Cousins, JP Morgan) So you've got a drag there that's going to persist for some time or is that - I mean part of it, is something like a decline just a very short term thing until like a first half, or even on a second half, will a decline drag down you group EBITDA margins?

Derek O'Neil: Without trying to be unkind to the DaKine guys, because we love those guys, the fact is that yes it will be, you know, it does operate at a slightly lower margin that at the group level. So it will pull it down. We've showed in the past that over a fairly short period of



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time, 18 months/two years or a bit longer, we can get those margins up to group level and that's an expectation with DaKine too and we're all working towards that. But effectively in this period we've got October to December and then we've got December through to end of June and it just will have an impact.

Most of the product has, for the period, certainly for the first three or four months has been sold on a forward order basis, well before we owned the company, and we look at closely at it now we're going through the supply chain and how we can support that. We're looking at how the product's sold right around the world and how we can improve margins within that business.

So a lot of those, as a margin story, it really won't be starting to flow through until probably '09 or '10 and maybe even slightly later than that.

Craig White:

But just one additional comment would be that margins aside, the actual business of DaKine is performing strongly in this environment and probably slightly ahead of our own expectations originally.

Question:

(Shaun Cousins, JP Morgan) We spoke a bit about, you spoke about freight coming down and obviously the costs out of China coming down, when are you starting to see costs going up on a sourcing basis in Australia and Europe and when's that going to impact margins in those regions?

Derek O'Neill:

Look I mean we're yet to release a price list for those two regions. So I think there's still some discussions. I will indicate, however, that with the current rates of currency and we're yet to hedge, we're taking some assumptions now in this that are considerably lower than a year ago, but we get hedged, the fact is that we expect that while there are some decreases coming through in the supply chain side, we will have to take some price increases, both here in Australia and in Europe and that would start to be more in-store from, say, June onwards.

Question:

(Shaun Cousins, JP Morgan) So I mean that's something that's going to put your '10 risk earnings at some risk. Either you don't get the - either you get the volumes lower, or you have to eat some of the currency benefits and wear some of that pain yourself.

Derek O'Neill:

Look Shaun, I believe that unless someone can find the magical sourcing solution, the fact is that when you have the majority of our competitors or the majority of apparel in general in Australia, for example, would be produced outside of this country and virtually everybody's going to be facing some form of pricing discussion. Now there may be some people that don't take price and that is a decision that some may take. I would have to think that the fact is



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that if you're facing an overall increase, then you virtually have to take price.

Now I don't see it as us alone and there has been a real apparel deflation for probably 10 or 15 years in real terms. I've said for a while we're probably likely to see the end of that and probably by June or July next year that's going to be the case. Now anybody that really buys on a spot rate is probably already facing that dilemma today. Our hedging policy is such that we hedge forward. But we just have - we'll have that coming from June.

I don't necessarily see it as significant risks to the margin. I would imagine there's a number of things within our business that we can do. We look very closely at the design, we look very closely at the value add proposition that we can put onto the garment, we'll look at a lot of those sort of things and price will be part of it. But I'm not anticipating a lot of margin impact. There may be some, but I'm not sure that I would say it puts our whole '09/10 year at risk.

Craig White:

The other thing I would add to that is if you think about the currency translation, I mean if you look at the Australian dollar to the US dollar, for example, year to date from say 1 July through to 30 November, you're looking at an average rate of around 80 cents. The current rate it's at today will see continued translation benefit coming into '09/10 from that. So there's a lot of things playing in that whole effects area and I think it's difficult to conclude at this stage exactly what the shape the P&L will look like overall.

Question:

(Shaun Cousins, JP Morgan) The third point, just in regards to what you're seeing in the US where there's a lot of discounting going on and that's impacted sales, I guess a few points on that, (1) does that suggest the market share gains that you've made are coming to an end or is this just temporary, and secondly, does it indicate that consumers are willing to move away from premium brands?

Derek O'Neill:

Look I think the first one is, you know, market share gains probably are difficult when, if there's a lot of, let's call it heaving discounting, going on. But again, the fundamentals of business are that you make your product for X and you try and sell it for a lot more than X and try and not spend too much through the middle. The discounting that's going on, I would argue, in the long term, is unsustainable. So I would have to think that environment is going to change at some point, or to be honest the market share opportunities for us are going to become even bigger because there may not be some of our competitors around.

The fact is that we think it's an uneven playing surface while the discounting goes on, we're just not going to participate and we'll have to tough it out. But I don't see it as being sustainable in the



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long term and therefore I expect that market opportunities, market share opportunities will begin their upward trend again at some point, not too distant future.

Craig White: I think particularly you marry that sort of discounting behaviour with the difficulty of raising finance in that market and you've really got a double whammy, I think as Derek's saying. It's just not going to be sustainable in the medium to long term.

Question: (Shaun Cousins, JP Morgan) Thank you.

Craig: Okay.

Derek O'Neill: Okay, look that's the end of the call. I'd like to thank everybody, some good questions. Obviously not an easy announcement for us today, but in the interests of continuous disclosure, we've come out and presented that. I look forward to any other discussions offline, otherwise we look forward to our half year presentation. Thanks very much.

[END OF TRANSCRIPT]