Conference ID: 5766811

Company: Billabong International Ltd

Leader: Derek O'Neill

Date: 21/08/2009

Derek O'Neill:

Okay thanks very much and thanks everybody for joining us today. I'll just remind everybody that a text of this will be available as soon as possible after this call on our website, billabongbiz.com for anyone that needs that text.

I'm just going to kick off things today with a quick summary of what we view as the highlights in the result and I'm going to assume that you've had a chance to review both the CEO and CFO presentation issued earlier this morning. So I'm going to consider those as read.

So it was a pretty interesting year, unprecedented global economic instability, recessions commonplace, not the least in the US which had its deepest recession in generations, a collapse in retailer confidence and consumer spending again particularly in the US, the emergence of a highly promotional retail environment and some truly incredible swings in exchange rates. So like all companies operating global businesses in a global recession, you know we certainly had some challenges and I'd like to think that we rose to them.

Just a couple of highlights, our brilliant equity remained intact due to our disciplined approach in what we viewed as a very undisciplined promotional environment. This is evidenced by our GP margins which remained amongst the strongest in year paralleled. We had strong revenue growth and cleared the $1.5 billion sales milestones for the first time. We acquired the DaKine and Sector 9 brands and they've made excellent initial contributions. We had a very strong overall performance in Europe, we continued to develop our business in Australasia and even in North America, we had constant currency sales growth.

We managed our inventory levels down in the second half in the face of a difficult trading environment and without any significant impact to our GP margins. We had ongoing structural changes with a focus on global overhead and we saw strong growth in cash flow from operating activities, good improvements in working capital and a strengthening of the balance sheet with a conservative gearing ratio of 16% at 30 June 2009.

But given we're here talking about Billabong International Ltd's first ever decline in net profit, actually, it's actually the first time that we're not here reporting a record profit, you know there's obviously a few areas that remain open to improvement. Our margin erosion in the Americas which was symptomatic of the fact that we fell short of our own sales expectations and we couldn't align costs at the same rate as the regional sales decline, it needs improving and that process began when we started to see declines in late calendar 08.

We pulled overhead out of the business primarily in retail, we've closed some stores and we've reduced our exposure to customers whose focus shifted from quality branded offerings to value propositions.

Within company-owned retail which accounts for approximately 29% of revenue, we also had a significant EBITDA margin decline. Again largely a function of the fact that we carried costs for a low level of sales. In response we've sought to realign overhead, close underperforming stores and where possible, renegotiate rental terms. Our receivables increased perhaps understandably in the tight credit environment. But we've focussed on the collection of cash and although unaudited, more than 60% of the 30 June outstanding balance had been collected by the 31st of July.

So we've looked at ways to better respond to large macro shops and we've made and we continue to make, changes to our business to ensure we retain our undeniable competitive advantage. The one thing we're not doing is counting on a significant turnaround at retail.

Now you may see this as conservative, as tempting as it is to factor in the return of the consumer, we're not better the farm on it, and we're not building inventory for it. We would need to see firm evidence of an upturn and sustained retailer confidence to return before we could bank on it. We were prepared to chase styles in some key categories and we'll look to respond as quickly as we can should demand rise. We think that retailers have finished the destocking phase, there's no doubt they're working with lower inventory levels on the floor, and there may be some opportunity to come from this.

So I state all of this, I know you guys are going to have plenty of questions, so I'm going to hand back to the moderator at Genesys and we'll begin the Q&A session.

Philip Kimber, Goldman Sachs:

Hello Derek and Craig.

Derek O'Neill:

Hi Phil.

Craig White:

Good morning Phil.

Philip Kimber:

Just a question, maybe a bit more clarity on the guidance there in terms of how conservative it was. Can I assume that you guys basically, your guidance you gave in May, so if you looked at it at the divisional level, were most things pretty well in line with what you thought or were there some areas that actually deteriorated more than you thought it made up by other areas that were better?

Derek O'Neill:

Phil look I think the answer to that one is that probably the US was even slightly worse than we anticipated in May. The fact was was that you know we anticipated at that stage about a 14% second half margin, 13.1% was an improvement from the first half, however it wasn't quite there and it was really down to just in the end, even probably slightly weaker than we expected comp store negatives in our own retail stores and continued delays from the US customer base to take product in May/June. You know a lot of it did fall more in July and August. So you know, the US ultimately was a little weaker. If the US had have delivered that 14% just to give you an idea – 14% then our operating NPAT at those previously advised currency levels would have been closer to $166 million rather than $163, so, it was just a little weaker in the US than we even expected at that point. Both Europe and Australasia were pretty much as we planned, maybe even slightly stronger in Australasia but in general just a touch of weakness more from the US.

Philip Kimber:

Okay so then when we look out you say you're not building in any sort of * 0:07:22.3, I mean to we read into that that in your own retail business, I mean I guess I'm really talking about the US here, you're expecting negative like for likes to continue? I know you made some comment that they'll improve, but I wasn't sure if that meant they'll be positive or whether they'd be negative, but lower negative.

Derek O'Neill:

Okay, well we're anticipating that you know we're still going to be stifling higher comps through to you know at least the end of September. We started seeing you know deterioration sort of late September last year and then October was ordinary, November was very ordinary and then it pretty well continued through the year.

Just to give you an understanding of how we're thinking, we're expecting that you will continue to see probably you know mid teens type like for like comps through to at least the end of September. October's a difficult one to call, but certainly you know we're expecting to probably re-base somewhat. Overall we're expecting that throughout the year we would see somewhere around you know low single digit type comps for most of our retail stores in the US and we're predicting that at this stage right through to the end of the financial year. So just slight positive comps. We'd like to think that potentially in November and December there'll be less discounting going on so we may see, you know, a small increase there as the overall dollars won't be affected so much by that discounting. We'd like to think that potentially over in the East Coast, particularly in Quiet Flight that come May and June, Florida had its wettest May I think on record and that definitely affected a lot of tourism over there. So I'd like to think that it might be a couple of slightly better positives come May and June for Quiet Flight, but overall we're continuing to think that as far as we can see, we'll just think maybe flat to slightly positive retail comps beyond October.

Philip Kimber:

Okay and then did you in the end, I know I think it was 60- was it a third of your customers hadn't placed an order back in May in the US – I can't remember the exact details, but did that all – did they all end up putting in repeats in July or August at all or did they just miss the season effectively?

Derek O'Neill:

No basically at that point when we came out in May approximately 25% had yet to place an indent when we effectively closed the indent order. Certainly sort of 3 or 4% ultimately ended up not placing any order at all and we may still get some orders from them, from what we call live accounts, but the majority ended up doing some business with us, not as much in May and June, that we would have liked, but ultimately the majority of those customers did buy in season as we were indicating that they weren't going away, but I will say that you know, as a total season we were dealing with approximately 10% less accounts than the previous year because of either credit risk or that account's no longer in business. So, you know, there was a lot of accounts just not wishing to place forward orders, buying in season, and ultimately we did business with the majority of them, but not quite as much as we would have normally expected.

Philip Kimber:

And in terms of sort of, and again probably focus on the US, the forward order/repeats that you're thinking for the guidance in the fiscal 10 year, I mean are you assuming forward orders to actually move to be up on year on year throughout the course of the year and repeats to go back to normal sort of rates or to actually sit in line with more what was happening in fiscal 09 year.

Derek O'Neill:

Okay well look the current trends are, is that the holiday indent which is September October November, really what we would call here, you know, winter product, you know colder weather product – the holiday indent has followed a similar sort of pattern where roughly 25% of the retailers you know didn't place an indent forward order. Now some of them are kind of gambling that there's going to be product available and we're already seeing some product shortages in some categories, particularly where we are cutting very tight with regards to what we think are our expectations. And certainly even though it remains, you know 100 degrees Fahrenheit in the US and in a lot of space right now, we're seeing particularly with heavier cold weather product, we're going back and recutting some of those styles as we already see that some of those retailers have got it wrong. Now we can't go and recut every style and we're not going to go and chase all the demands out there, but certainly I think some retailers are beginning to find out that you know full price, right on point product right now is selling well out of the store. Customers are looking for fresh new products, innovative type products and so I think some of those retailers are trending off what was happening. I think there is beginning to be some product shortages coming, some of them have got it wrong. You know we've been talking with a lot of retailers that are, you know, come Spring, come Summer, the expectations are that you know, everybody, all companies will build a lot less inventory and they need to be very, very cognisant of their forward order profile.

I think that, I can't see the trends continuing, it's just not going to be possible that retailers in our sector can sit back and expect that, you know, not placing a forward order is going to give them the best selection in their store and I think some retailers are beginning to see that. But it's a bit early to tell if that trend is going to continue through spring/summer, I don't think so, but we'll have to see the evidence.

Phillip Kimber:

But you haven't factored that in, you're saying you just assume that those retailers don't keep ordering is that, am I reading that right?

Derek O'Neill:

At the moment we're factoring in, I mean we're seeing in Holiday you know we're expecting still those sort of mid-teens to climb through that period, you know, as I said we'll change some product, we'd like to think that we can maybe improve upon that but frankly right now that's what the retailers give us in terms of orders and some of those customers aren't ordering. That's why I'm saying we expect there may be some shortages. But our guidance is assuming you know, the sort of things that we can actually see and that forward order book gives you some idea of what we can actually see. Now the spring range, you know right now, this weekend is the first trade show of the year in Orlando, they've moved our trade show a month earlier than before and that trade show starts today. You know we'll start getting a better read on where the retailers are but we continue to educate the retailers so guys if you want the good selection of product, then you need to front up with an order.

Philip Kimber:

Okay and just lastly when you gave some of the data on you know the retail mix at the group level, I think retail margins went from 18% to 10%. Now they're a combination of your own internal wholesale and retail, but I mean when I look at it, should I assume most of the margin decrease there really relates to the retail part of the business, not your own internal wholesaling – I know the way you report it has sort of got double margin in there, but would that be the right assumption that the 18% to 10% margin decline has really come out of the retail part of the company-owned retail operations.

Craig White:

Phil it's Craig, I might just answer that one. I think you know the fact is if you think about it, whether it's third party stores or our own stores there's just been a reduction of revenue and that reduction of revenue is going to impact on the retail margin you earn as well as the amount of product that you're selling. So your overall wholesale profit is going to decline as well.

Philip Kimber:

Okay, I'm just trying to get a sense of the leverage because if the retail conditions improve I mean how quickly can those retail margins bounce back that you…

Craig White:

There's no doubt that, I mean retail of probably both, if you split wholesale and retail, retail is the part of the business where more of your cost is fixed. Now once you open the door you've got fixed costs there and we've really seen that negative leverage if you like as the revenue's dropped off. So conversely, particularly given the fact that we've trimmed overheads in retail, if retail turned then you would see the pick up for sure.

Philip Kimber:

Okay, very last one, the CIT there's been a lot of press and I know you still do some factoring, I don't know if you use those guys or whether those guys are, their financial issues are having an impact on the industry at all?

Craig White:

As far as we're concerned yes we do have a relationship with CIT, we do have some factored receivables, that level's come down dramatically over the years, but we restructured our agreement with them about a year ago frankly as we went into the crisis and essentially we retain ownership of the receivables and we pay them effectively a commission for collection of those receivables. So in factoring we're not giving them if you like security over our receivables. The only real risk we really have is any cash in transit if you like, so cash that they've collected on our behalf that they haven't paid on to us, but currently I can tell you that number is significantly less than $1 million, slightly over $0.5 million.

Derek O'Neill:

Look I will say Phil, I mean it's not a good thing for the industry, there's a number of retailers that you know, only want to be done through the factor as they may stretch the factor out and you know there's no real positives in it if that's what you mean.

Philip Kimber:

Sure, okay, thanks for that.

Silvia Spedier (Merrill Lynch:

Hi Derek, Hi Craig.

Derek O'Neill:

Hi Silvia.

Silvia Spedier:

Look just on the Australasian business, it seemed to come in a little bit below our thinking of the EBITDA level. I know you sort of mentioned in the commentary that sales were quite steady in Australia and I would have thought you would have, like most retailers here I guess, just benefited from the government stimulus and the increased confidence and the like. What was the main sort of reason behind the steep margin decline in that business?

Derek O'Neill:

Look the fact is that when you look into Australasia there's no question that we had significant contributions from areas like Japan, Northern Asia area that was, a lot of it's early sort of start up for us, but is delivering a lot of the effective growth at far lower margins, you know mid teens and maybe even lower and therefore it had an effect. I can't also underestimate that we had, our hedging policy has always been very clear. When we go out with a price list we hedge our currency risk and so once we get to May and June which is the start date for summer, we had hedging down in the mid 60s comparing to you know sort of high 80s the previous year. We had to pass on some price increases but with about a 23/24% movement in currency, we had a significant GP impact in Australasia and you know as a comparison just for those two months you know we're seeing sort of 500 basis points type GP impact just on those currency differences and that just whacked us on that line.

Certainly sales wise it wasn't too bad. I think we did benefit from the stimulus and I think that it still feels okay. Retailers also did push slightly some deliveries that would normally be in May and June, retailers around the world are actually wanting the seasonal product more actually in season. So some of the revenue we would have normally expected in May and June is probably going to sit more in July and August as well. I hope that kind of answers the question. Australia hasn't contributed too much to actual EBITDA growth for quite a while and you're seeing the leverage factor of Asia coming into it. We think that sort of the de-leverage of those margins is probably somewhat complete now in terms of when we look forward as we expected we'll be able to continue to get some of those other regional margins up, you know which was a little tough this year, but we think we can strengthen some next year.

Silvia Spedier:

Thanks for that. In May as well you sort of said that you'd cut I think your debtor base by around 10% due to increase in credit risk of some of your customers, namely sort of smaller specialty retailers, have you seen that worsen or improve since that update?

Derek O'Neill:

Look that was mainly in America. We haven't seen really too much change here in Australia. Craig, got any other comments there?

Craig White:

Yeah I assume Sylvia you're probably coming at it from the point of view of receivables generally?

Silvia Spedier:

Yes.

Craig White:

Yes, well I mean I think as Derek's saying we continue to manage the account base as tightly as we can. I think you can see the working capital numbers, you know receivables have grown slightly ahead of sales on a constant currency basis, and I think that's just symptomatic of the environment we're in you know, I mean it is a tighter environment from a credit perspective and we have been very focussed over the last six to 12 months on (1) ensuring we manage the account base and (2) that we collect the cash and I think you can see that partly in that comment that Derek made earlier about the fact that we've collected 60% of the, slightly in excess in fact of 60% of the receivables that were outstanding at 30 June 09 by the end of July.

Silvia Spedier:

Yes. I noticed your, I mean your cash realisation has improved markedly in the second half. I mean I feel the receivables, you know, that growth has sort of come down and you've also reduced largely the inventory overhang, but I guess how have you done that?

Derek O'Neill:

Well we work pretty hard on clearing inventory, there's a number of ways we can do that. We did indicate that you know we would be utilising wherever possible our own retail network to move a lot of that product and that's obviously been pretty successful. I don't think we really have any overhang any more. There's also in the US there are clear out opportunities that the whole apparel industry has utilised for years and years and years that we've taken advantage of in terms of any real difficult to move inventory and I think that we've been able to do all of that while we've you know, certainly held up GP margins. So we, I know there was a number of fears going back six months ago that we may have some inventory write offs and things like that but in general I think we've dealt with it pretty well and we're in a pretty good position. I expect that, it's not guidance, but I'm expecting that our inventory position as we move forward will frankly continue to tighten. That's the way I'd like to see it.

Silvia Spedier:

Yes, and lastly, I guess this is a broad question sort of on the US I mean, I guess you're talking about there's the growing expectation that retailers you know will need to restock some time soon and I guess we sort of just wonder what position I guess your business is in to leverage from such a recovery. I mean you hear a lot of mixed reports from the US just like in terms of what's the new normal now? Are people saving more, consuming less, being more frugal, you know, is there a structural shift happening in the way that retailers order? Just if you could give a couple of comments around you know do you think things will be the same as what they used to be a few years ago in terms of consumers' spend and retailer ordering?

Derek O'Neill:

Okay that's a good question. There's a couple of things happening and there's really, I'm going to say there's a bit of a change almost in the last three or four weeks. Firstly from what we've seen, back to school has certainly kicked in a little later this year in the US. The National Retail Foundation had a survey out and they've estimated that back to school this year for clothing and accessories was going to be somewhere around 12% below last year and that the back to school season was going to start somewhere around two weeks later than last year. And I think that's sort of the trend that we're seeing. The fact is that back to school really didn't feel like it started kicking in until around the last week of July. You know the last week of July, the first couple of weeks of August, you know frankly from what we've seen and talking with retailers, kind of feel maybe a touch better than what our internal expectations would have been and so that's an encouraging sign that it seems that back to school is squashing up a little bit more. You know closer to when the kids are actually back to school. So there's a bit of business going on. Of course September October just remain difficult to call because you know after the back to school, it's always a fairly sort of dead time. But what is happening is that for the first time in about 9 or 10 months is that people are actively going into store and searching out fashion forward innovative type products and we're seeing a shift away from traditional basic items like hooded fleece for example, into both lined and unlined woven shirts and jackets, plaids, we're seeing a return to sweaters. It's changing to the point where if you have the right product then price is really not the issue any more. There's a customer coming in, every retailer has got a bargain rack and so you know there's a rack over in the corner where things are 25 and 30 off and there's a customer that will walk in and look at that rack and if they can't find what they want, they'll walk out. But there's a lot of customers now virtually beginning to search out good fresh new forward product again and that's something we haven't seen for 8 or 9 months and it's just really now.

So if you have the right product then price is not really an option. You know a lot of the vertical products a lot of the C and D grade product that's frankly been regurgitated for the last seven or eight months because it hasn't sold and it's coming back out and then it hasn't sold and then it's coming back out and you know, put some in the store, a lot of that sort of the bargain end product is really not that exciting for the consumer any more. It's not enough to call it a turnaround and we'd have to see you know, sort of this sustained for a while, but we are now chasing product and we haven't really chased any product for about 8 or 9 months, we haven't really needed to because product really hasn't been the key driver, it's been more deals and whatever.

So that's refreshing to see, I'd like to think it can continue through this season. It's way too early to call, but you know, that is a good trend. It's not, I mean the foot traffic is there, people are shopping. They're not going, you know the person coming in and spending $2-300, that person's there's very few of them. You know the foot traffic is there, your actual amount of transactions is as high if not higher than before it's just you know the dollar amounts will be much lower. But you can just feel the last three or four weeks that maybe some good news is coming. But I will also say, just in terms of the way we're looking at the year, you've got to put yourself in our place here. If you look at every listed US retailer, all they have to do is forecast the quarter and if you look at them half of them are not even doing that. But the ones that are forecasting the quarter, are all saying pretty much in our sector anyway, that for this quarter, most of them which are halfway through the quarter already, are all saying, you know somewhere between sort of -5 to –low 20s type negative comps through this quarter. You know we're sitting here and trying to think, okay, well what's it going to be like next year in April May June and it's very tough to do that. So we can only go on what we know now and therefore we can't factor in a return for that consumer. As I said there are some encouraging signs, the last three or so weeks, but way too early to call it a turnaround.

Silvia Spedier:

Thanks Derek that's great.

Craig [inaudible], Citi Group:

Good morning Derek, good morning Craig.

Derek O'Neill:

Good morning Craig.

Craig White:

Good morning Craig.

Craig, Citi Group:

Could I just understand a bit better the issue that the retailer, or the risk that the retailers are really running in ordering closer to the season. How quickly will you respond or how much risk are they taking on, if you know, is the product really not going to be there for them if they choose to order much closer to the season?

Derek O'Neill:

Look there'd already be some styles Craig that you know we'd effectively, I wouldn't say we'd be sold out on but in general you know certain colours or whatever else, there'd be some product right now that retailers would struggle to get from us. In terms of being able to respond, what you need to understand is with regards to garment production, it's not as simple as just call on the factory and going "can you do another thousand more of that jacket that's going through right now". You know it depends on fabric availability, we're taking some positions on some fabric, but even still it may be you know, six seven week turnaround and therefore it's difficult for us to respond on what I call more innovative cut and sew type products. We do respond in areas like t-shirts and sweats within 2 to 3 weeks we can turn that around pretty fast, but the more intricate product has the longer lifespan. So we're actively talking with the retailers that we partner with to explain the reality. We've met with a number of retailers this week and last week both from the west coast and the east coast. We've probably met with I would say, our senior manager we met with probably, close to 10-15% of our specialty base of which that's probably you know the bigger ones, representing maybe 30-35% of our total sales in the US in the specialty side and given them an education of how it works and how we need information to go out and make our product. I think it will lead to better communication in terms of then getting us, you know the orders that we're going to require, but it's not like we can turn around on a dime. You know I would say, we need to see a sustained return before we'd respond heavily and that would probably need to be at least two to three months sort of sustained return if not longer and then you know we would probably need another couple of months at least to sort of begin to respond heavily on our side. So it's not an immediate turnaround for them.

Craig, Citi Group:

Sure so the more technical product requires a longer lead time, but would you call board shorts within that technical product category?

Derek O'Neill:

Well board shorts is one item that we make pretty much on a global basis, we've got board shorts going through virtually all the year. Obviously we change the styles quite frequently but in terms of board shorts it's something that actually would enable us to capitalise quite a bit. You've got to remember there's a new forward order season in the US every two and a half to three months, so, it's – they can get it the next time around.

Craig, Citi Group:

But it feels like that if T-shirts and board shorts are pretty quick in your response then you can respond pretty quickly to change in demand. I mean the proportion of product that's technical is actually not a huge part of your overall mix?

Derek O'Neill:

Yeah the only problem now is that you know, obviously we really don't start delivering board shorts again, you know, Hawaii's got all year around, but the next season in for board shorts is spring which is late November ship, so, but look if it was going to turn around then that spring summer period is you know, an excellent time for it to turn around because it's the winter, you know where you've got very, very technical snow jackets or things like that, that it's very difficult to get fast turnaround.

Craig, Citi Group:

Sure. With regards to your cost out initiatives, obviously you're focussed on some of the retail side of the business, is there further cost reduction programs or initiatives in place for FY10?

Derek O'Neill:

We've been utilising I think what we've learned in the US to good effect in some of the other. I would say that overhead management is continuing across the world. Just to give you an idea, one of the realities of looking at all of our overhead, and there's a lot of different lines we can look at, but since the end of December to the end of June, our global workforce declined by around 5%. Most of that through just attrition, primarily in the retail area, but, and a lot of that in the US, but just less revenue coming through the retail door, so you just need less staff. A lot of casuals in there, a lot of part-time, quite a few full-time, and as I said, it was around the world Within that as well, we are a young, we have got a young workforce, they go off and travel, they go and do different things. In general, through our management team if someone does leave we look very closely as to whether we can now share that position further within the group. We are initiating a lot of job sharing roles between brands and trying to tighten up some efficiencies between brands.

So look it is ongoing for us. You know I know that it remains a little difficult to see probably where some countries in Europe are going to end up, and I think that we continue to look at our orders now pretty much weekly and try and see what we can do to react against any trends that we may see. So it's being done, but it's ongoing.

Craig:

Sure Ok. Just turning back to the working capital and the receivables in particular, in the notes to the Accounts, it says that the receivables that are over 6 months due have increased from 11 million to 21 million. Have you got any colour as to why you remain comfortable that those receivables shouldn't be impaired?

Derek O'Neill:

I think Craig, the, you can see obviously the disclose of both the amounts which are greater than 6 months which are impaired and those which are not. I think, all I can say to you is, you know, to the earlier comment that we are in a more difficult environment, To good effect in some of the other regions. I would say that overhead management is continuing across the world. Just to give you an idea, one of the realities of looking at all of our overhead, and there's a lot of different lines we can look at, but since the end of

December to the end of June, our global workforce declined by around 5%. Most of that through just attrition, primarily in the retail area, but, and a lot of that in the US, but just less revenue coming through the retail door, so you just need less staff. A lot of casuals in there, a lot of part-time, quite a few full-time, and as I said, it was around the world Within that as well, we are a young, we have got a young workforce, they go off and travel, they go and do different things. In general, through our management team if someone does leave we look very closely as to whether we can now share that position further within the group. We are initiating a lot of job sharing roles between brands and trying to tighten up some efficiencies between brands.

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Derek O'Neill:

I think Craig, the, you can see obviously the disclose of both the amounts which are greater than 6 months which are impaired and those which are not. I think, all I can say to you is, you know, to the earlier comment that we are in a more difficult environment, credit is an issue. We have scrutinised all of those. We think that we are adequately provided with our provision of 23 million, and we are whether it's those receivables or those with ageing less than that, we are working hard to ensure that we collect them. I don’t think there’s anything that’s come out in the audit that would suggest that those receivables that you are referring to should be impaired, and I think we just need to continue to work hard to bring the cash back in.

Craig:

Sure. And your payables also rose substantially, where is that benefit coming from in terms of working capital?

Derek O’Neill:

Well I think it’s just, I think as we talked about at the half year, you know, the half year really was struck at a point where, particularly in the US where really the full force of the global financial crisis hit, and I think we saw the blow out there of inventory, I think we acknowledged at the time that frankly payables at that time were a little low. We were probably continuing to pay our suppliers when our customers weren’t paying us, as the full force of the crisis hit. I think really what we have worked very hard on over the last 6 months, is to bring each of the key lines of working capital bank into line.

So inventory definitely back under control. I think we have brought our payables back into line with where they should be, and receivables is really the only one that’s probably pushed out a little bit further than ideally we would have liked. But as I said, that’s a function of the environment that we are in and I think we will just continue to work hard to manage the account base and to collect that cash.

Craig:

Alright, and just lastly there was another note in the Accounts saying post balance state, hang on let me get it right, ‘a unilateral advanced pricing agreement was struck in Europe in terms of tax issues.’ Can you give some guidance on what your effective tax rate is likely to be for FY10?

Derek O’Neill:

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Craig:

Great. Thanks Derek, thanks Craig.

Derek O'Neill:

You're welcome.

Craig White:

Thanks.

Alexa Blake, Deutsche Bank:

Hi Derek and Craig.

Derek O'Neill:

How are you doing?

Craig White:

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Pretty good. Look just thinking about the shift towards retailers ordering in season, to me it seems likely that it could be a pretty sticky trend, even if conditions improve because it gives the retailer more flexibility and reduces their inventory risk. Can you talk through the implications of this trend for your business and how you are responding to it?

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Ok. Some of your other peers who are known sort of for their tough line on pricing like Abercrombie, have recently capitulated and started discounting. I guess if current US trading conditions continue is there a point at which you give up and discount to at least hold your market share?

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Look we haven't considered it. It's not, you know on our discussion point right now. It's very interesting in that, you know, I will just give you a bit of a stat, if you take the US market, you know we have always been known for our business being in primarily the independent specialty channel. You know we have seen continued declines from our biggest customer PacSun in this year. If you look at PacSun, which declined approximately 30% sales with us for the year, if you look at, if I eliminate PacSun from the equation and just take our normal specialty account base, you know while it was tough with brands like Von Zipper or others that deal with almost, most of the business it just an at once business, and therefore some of those people it didn't matter whether their sunglass case was a little empty when they were trying to get their working capital down, but if you look to Billabong and Element, Billabong and Element brands in the US declined, Billabong around 9 or 10%, Element about 12 once you stripped out PacSun. Now if you look at most, certainly you can't see a lot of the independent retailers, but I can tell you now that most of them had a pretty tough time over this year, and saw similar saw of negative comp declines that most of the listed retailers saw. You know we think we held up pretty well in the specialty channel and ultimately the end, when we talk with those retailers, they tell us that actually we probably gained a little bit of market share at the expense of our competitors.

So you know, overall I think we are doing pretty well. I don't see any retailers coming to us and frankly, wanting us to suddenly heavily discount product. It just doesn't seem to be where our account base wants us to be. You know they applaud our process for not effectively selling ourselves out. I mean anyone can sell a dollar for 50 cents, and we have seen that all year, but our discipline on that side, the brands know that we continue to invest in, I'm sorry the retailers know we are continuing to invest in our brands, and we get a lot of positives with that.

So we certainly don't at the moment have any plans, I mean if it got worse again, then you know we may reconsider. It's not like we are dinosaurs and we are just going to keep that forever, but we will play it as we see it, but at the moment we don't see any need to.

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Ok, and when you are managing more and more brands, how good is your visibility of what's happening inside of each of them and their individual outlooks?

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That's a good question. I think that you know we all try and operate under similar sort of policies. As I indicated, some of the brands are a lot more at once business. It's like Nixon for example, will have a good run up to Christmas as a lot of those items are suitable for gifts, but a lot of that is sort of a count and fill. There's a watch cabinet that's got spaces for 80 watches, sometimes the retailer can think 'well if I can just space those watches out a little bit and 60 will be fine', but you know, some brands have been hit a little harder.

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Good morning. Just one question of clarification and then just a couple of more medium term questions. Just on the retail, company and retail disclosure with the margins, could you just clarify whether the production costing assumption is at arm's length wholesale, or at manufacturer costs? Manufacturer price?

Derek O'Neill:

Well basically Grant I think what you are looking at, the way we look at it is on a full vertical margin. So that margin includes both the wholesale and the retail margin.

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Ok, and what's the capital employed in company and retail at the moment?

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Derek O'Neill:

Yes sure. If you take the Billabong brand, and I think this is sort of a bit of a worldwide one, the reality is that the unprecedented level of aggressive discounting that we saw, and in particular with regards to, you know, everybody basically clearing out inventory into the channel. The Billabong brand got affected far more than anything else and the main reason for that is that it has a lot more large competitors and when a large competitor gets sideways on inventory, then suddenly there's a lot of inventory comes out in the channel, and there's still, I mean it's not over yet, there's still competitors with seemingly large amounts of inventory coming out in the channel. So that effects the Billabong brand more than somebody maybe like Element, where the competition for Element is probably a little smaller, and therefore there's not so much a flow of inventory, and it doesn't quite affect someone like Nixon, who virtually you know kind of almost, I don't want to say dominates its category, but kind of dominates its category and although it sits along, and therefore is someone else has got, you know if a flood of wallets is coming through, well it doesn't really matter.

The, if you look in Europe, Billabong brand certainly had and has over in Europe a couple of also large competitors that at various times needed to get very aggressive on moving inventory as well, and so the Billabong brand was

credit is an issue. We have scrutinised all of those. We think that we are adequately provided with our provision of 23 million, and we are whether it's those receivables or those with ageing less than that, we are working hard to ensure that we collect them. I don't think there's anything that's come out in the audit that would suggest that those receivables that you are referring to should be impaired, and I think we just need to continue to work hard to bring the cash back in.

Craig:

Sure. And your payables also rose substantially, where is that benefit coming from in terms of working capital?

Derek O'Neill:

Well I think it's just, I think as we talked about at the half year, you know, the half year really was struck at a point where, particularly in the US where really the full force of the global financial crisis hit, and I think we saw the blow out there of inventory, I think we acknowledged at the time that frankly payables at that time were a little low. We were probably continuing to pay our suppliers when our customers weren't paying us, as the full force of the crisis hit. I think really what we have worked very hard on over the last 6 months, is to bring each of the key lines of working capital bank into line.

So inventory definitely back under control. I think we have brought our payables back into line with where they should be, and receivables is really the only one that's probably pushed out a little bit further than ideally we would have liked. But as I said, that's a function of the environment that we are in and I think we will just continue to work hard to manage the account base and to collect that cash.

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The, if you look in Europe, Billabong brand certainly had and has over in Europe a couple of also large competitors that at various times needed to get very aggressive on moving inventory as well, and so the Billabong brand was, had some effect nowhere near to the level of discounting or ultimate in the USA, but Billabong did have some effect over there. We still see the Billabong brand as having amazing growth opportunities over in the Europe, as it still seems to be, you know, under-baked and under-developed, but as far as just the wholesale specialty account base goes, the Billabong brand in Europe is pretty well next to next in size really with the United States.

So the Billabong brand has had good penetration, we think that it's got a lot more to go, but when we look at something like Element, Element's, even though it's, we have been doing Element in Europe since, well 2002 and even prior to our position there was some skateboards being imported into Europe, it still feels like a new, young, fresh brand and it's got amazing growth potential. Nixon is covering fantastic ground, Von Zipper is just fun and exciting and the Europeans are really locking onto it. I have said in the past that I think that Europe has the potential to be our largest area, and I still think that's possible today. It will be a long way down the track, but I still believe that the company is on a pretty good growth trajectory in Europe.

Grant Saligari:

And what are your thoughts on capital expenditure to be able to achieve that type of growth path?

Derek O'Neill:

Look as far as capital expenditure goes, I mean obviously we have got a bit more fire-power there after our capital raising, but at the moment I think we are very concentrated on the existing business that we have. We see a lot of opportunity particularly with DaKine, in terms of folding a lot of that into the European business and there's a number of countries coming online, direct sales, Germany being one of the bigger ones, and Italy and Spain later this calendar year, so into 2010. Our focus at the moment is pretty much on our existing portfolio, that's where we are.

Craig White:

And I think, I mean apart from the wholesale side of the business Grant, there's obviously a lot of focus on trying to improve those margins in retail and get them back to where they are, and that doesn't require more capex to do that. So I think that there's a lot more that we can do with what we have got. In terms of just, whilst we are on capex, there hasn't really been any change in the underlying life of maintenance capex within the business, I'd say it's always run historically around 1½ to 2% of sales and I would suggest that it's going to stay in that order of magnitude if you are looking for a number.

Grant Saligari:

Alright, well thanks for that. Good luck with the year.

Derek O'Neill:

Thanks.

Craig White:

Thanks.

Greg [Tring]: Macquarie:

Thanks, good morning guys. Can we go to the brand story? I am just trying to understand in wholesale maybe on a global basis, which brands few in terms of size and value and which ones didn't?

Derek O'Neill:

Let me just fish that out for you. I have got it here, just hang on for a sec. Ok, on a global basis that's going to give me regional, have we got a consolidated here Craig? There we go, Ok. I will tell you now, in terms of growth, Billabong brand was slightly positive versus prior year. Element was up in the mid-teens, VZ went backwards about mid-single digit, Kustom was mid-single digit negative, but performed, we changed management about 12 months ago and Kustom actually had a great last three months and we think it's on a whole new curve. Nixon had a solid double-digit growth around the world. Tigerlily off a very low base had well up over 100% growth and Xcel having rolled out Xcel into a couple of the European territories as well and focusing on international distribution, Xcel had a growth probably in terms, in excess of 50%. DaKine came on board, DaKine had a great year. I think DaKine really was a standout, but I don't have a growth for the previous year, as it wasn't part of our company, but that gives you a bit of an idea on the brand story.

Greg Dring:

Thanks, that's constant currency wholesale channel only?

Derek O'Neill:

No, that's as reported sorry.

Greg Dring:

As reported? Ok, so you have changed.

Derek O'Neill:

Yes.

Greg Dring:

With income on retail what percentage of sales within retail would be third party brands?

Derek O'Neill:

Well you know there's a number of different banners and Quiet Flight for example would have quite a lot of third party brands. There's some multi-brand stores that we have, Two Seasons, Quiet Flight and some others that the percentages would be somewhere from sort of 30 to 50%. If you go across to Beachworks you are getting sort of more, somewhere sort of 50 to 70%, Amazon in New Zealand somewhere around sort of 70%, and pretty much all the other banners would be close to 100%.

Greg Dring:

Can we just revisit *06:10[Indent], I wonder if I could ask you a specific question? You have got visibility into Holiday in the US and the Americas now, if you look at, and I am looking for an index, if you look at your expected Indent sales in Holiday in Americas for '09, what's the index around the actual Indent sales, not total sales in '08?

Derek O'Neill:

Ok, so on a like for like basis from those clients that are placed in Indent, you would say that it is trending somewhere around -15, maybe even slightly worse than that.

Greg Dring:

Sorry down 15?

Derek O'Neill:

Yes.

Greg Dring:

Ok, cool. Yes one of the …

Derek O'Neill:

Greg can I just say, when they took Holiday a year ago, that was prior to GST, so they were all still feeling good.

Greg Dring:

Yes, yes, got it, got it. The, yes one of the exciting aspects of the Billabong story is the product, country combinations that are still out there and it's the wide space, you know we use that term loosely. If you are having a lot of trouble seeing beyond Holiday, just in the Americas and obviously the other regions have different names, how can you be so comfortable that the wide space opportunities are still there?

Derek O'Neill:

Well I have a longer visibility into Australia and Europe than the US. The, if I look in some of those other, smaller regions, I mean there's some small regions that you know the brands are at a fairly new point where I think we will get growth regardless. I mean, the Element brand in Europe for example, I mean I would disappointed if they came to me with a 5 year plan that didn't have, you know, double-digit sort of compound type growth in it. So, there's still areas where the brands are just getting hit on at a very early stage, so there's still quite a bit of confidence in a lot of respects.

I love to say that there's a new group of 12 or 13 year olds every year come into our brand, but so, I might sound a little confident there but you know, whenever we go into some of these new territories, we see sort of very strong growth in the first 5 or 6 years. You know we think there's great opportunities for DaKine in the long term, it's just a very strong brand in a couple of countries, we think we can make it strong in 25 or 30 countries for example.

Greg Dring:

Just to get back to this issue about ordering in season, obviously there's competitors our there who do fast fashion, is there any impediment to you revisiting the way you run your business to introduce more seasons than you have got, or speed up the fashions so that you can compete with the behaviours, sorry meet the behaviours of the retails that actually do want to move to a fast fashion model?

Derek O'Neill:

Look that's a great question. I think that the environment over the last 12 months starts to open up a lot of different questions, and the last 9 months I think we have been dealing with, the cards have been dealt as far as economies and everything goes, and at some point there will be another consumer cycle come in. I think that strategically inside the company, we are beginning to think about when this new consumer cycle comes in, how do we want to look? And very early days on some of those discussions, but already some pretty, pretty left field things start coming out of those. So, and I think if you look at some of those fast fashion retailers, there's definitely ideas there that could be gleaned, but I am not giving anything away there. It's, I mean there's certainly nothing yet, even close to being defined as a strategy, but it's a great time for new ideas and I think that we would like to think that there's lots of things that we can learn from certain operators. I mean, the environment over the last 10, 15 years has changed quite a lot especially when you look at that fast fashion side and the ability to react and there could be some opportunity there. I am not flagging anything, but we had this business model that was excellent for a long time, we got a bit of a slack due to various conditions, and I think that now is the perfect time, all our fundamentals are intact, we have very creative people intact in our businesses and brands are strong. I expect over the next 12 months, 2 years, you know we may start trying to get inventive and for the return of the consumer cycle.

Greg Dring:

Thanks guys.

Derek O'Neill:

Thanks.

Craig White:

Thanks.

Richard Barwick, Morgan Stanley:

Hi Derek, hi Craig.

Derek O'Neill:

Hi Richard.

Craig White:

Good morning Richard.

Richard Barwick:

You have talked about it in terms of the number of outlets your products are distributed through as being pretty steady at 10,000 over the last few years, is that a number that's changed as a result of the, what we have seen over the last 12 months?

Derek O'Neill:

Yes Richard, I have actually come into this call this morning and I thought 'gee, I wish I had done a count.' Look it definitely would have changed. I have said 10,000 doors, not 10,000 accounts. It definitely would have changed, I mean you know as I said 10% of the accounts in the US from a year ago we are either not dealing with, or they don't exist and I would like to think that's probably stable now, but we are not, we are not running those retail stores, so it remains out of our hands.

I don't have an estimate, but there's probably less. But then again I mean, in areas like Brazil and other parts of South America, we would have increased over the last couple of years as new areas come on track, but I might try and do, get a number and get it out to everybody at some point.

Richard Barwick:

That would be good. I think it would be useful to see just a breakdown of doors by region. That would be great.

Derek O'Neill:

Yes look, I mean by region with 100 or so countries, I mean some of the doors that don't, you go to an area like Czechoslovakia and that's done through a distributor. Whether the distributor wants to be that forward with that information is another thing, but on the other side, yes I will, we will try and get something together.

Richard Barwick:

Ok, that would be good. Just thinking about the shop in shops, what size are these stores, or shop in shops relative to the average company owned store? I guess in terms of sales si where I am coming from.

Derek O'Neill:

Ok. Typically floor space wise would be somewhere from…

It's in terms of sales where I'm coming from.

Derek O'Neill:

Ok typically floor space wise would be somewhere from 50 square metres to about 120 square metres. Shopping shops are generally partner type stores, we don't own the space, effectively it'll be some sort of arrangement as it's in a bigger retailer we might pay the staff for example, but the fixturing is just wheel in wheel out type thing, it's not that capital intensive. But it'll be hard to give you a revenue number, but usually they're well worth doing, they have an excellent return, but they're not like going to put in a freestanding 250 square metre store that might be $1 million or more of revenue.

Craig White:

I think on the capex side, one thing that clearly makes them attractive is that really all we're paying for is the fittings in that space, so much lower capex proposition with as Derek is saying the relative size of the space the sales are high.

Speaker:

And you just pay some sort of concession fee to the retailer?

Derek O'Neill:

I hate using the word concession, but effectively yes it's divvied up you might say in terms of it's not a straight out rent deal, but there's some sort of agreement you might say.

Speaker:

I haven't heard you talk about shopping shops for a while, I know there's always been some in Europe. Why the switch now into this sort of distribution?

Derek O'Neill:

Well if you look in somewhere like Spain for example, the Spanish economy has been hit so hard, you've just seen in a lot of places where the independent has just closed the door and therefore in some of those medium sized city locations you might have been doing some business in another retailer, but in a lot of cases now you move up, that might be the only retailer in that area and you move up to a shopping shop. So Spain is one area, Thailand is another area, areas where a lot of your competitors, board sports competitors are sold in a bigger retail store, be that an upmarket department store or whatever. And if that's where you have to sell your product, because there's just no other retailer and unlikely to be one, then we'd prefer to have a shop in shopping shop concept, where we can tell the story of our brand rather than just sit in a general clothing rack.

Speaker:

Understand, and do you disclose all your acquisitions in the accounts, looking at note 35?

Craig White:

The short answer to that is yes. The material acquisitions, so for the past year *3.02 falls into that category is disclosed separately, but the other smaller ones are grouped together.

Speaker:

I'm just thinking about the increase in store numbers just during the second half, would have been all organic then?

Craig White:

In the second half that would be a true statement.

Derek O'Neill:

Correct yes.

Speaker:

So I'm just thinking also about the comment you made earlier Craig on the maintenance capex, 1.5% to 2% of sales. How do you keep that at that 1.5% to 2% when presumably there's a bit more maintenance required as you own more and more company owned stores?

Craig White:

Well obviously you're getting revenue out of those stores, so I'm talking percentage terms. If you use say 2% I'm thinking when I talk maintenance capex as well I'm probably thinking more of the routine capex business would incur as opposed to refurb of stores. So if you add the refurb of the stores in there as well it might be a little bit higher.

Speaker:

And last question, just thinking you've spoken quite a bit about preserving brand equity. Can you talk in a bit more detail what that actually means? Ultimately are you saying consumers view your brands more favourably now compared to your competitor brands, because you haven't discounted prices much?

Derek O'Neill:

I think that's a reasonable assumption. I don't think selling cheap is necessarily a great thing for brand authenticity. So I think that's a reasonable assumption, I'm not trying to be critical of anybody else there, but I think we didn't lose our heads through the middle of it.

Speaker:

But how can you be confident that you do actually have that? There is a difference now between Billabong brands and competitor brands. It makes sense to say that, but can you quote any research amongst consumers or what have you to actually justify the claim?

Derek O'Neill:

No I can’t really amongst consumers, but our first customer is the retailer, certainly in the wholesale side, so we get feedback from the retailer, but that’s probably as far as it goes. I don't have any real thing. There’s a number of different surveys that do happen here in Australia that we feature very highly on, a lot of our brands, but we normally take surveys with a grain of salt.

Sean Cousins, JP Morgan:

Just in terms of Australasia, can you just talk about how the mix shifts effectively non Australian operations is going in terms of what is it circa, 60% of sales that are Australia or is it a little less than that? I guess where we’ve come from, just in that we look at the margin compression that’s gone over say 05 that peak period, a lot of the product country mix changes, so if we can get an idea of where that’s gone please?

Derek O’Neill:

Ok Sean I’ll try and give you that. Australia will be somewhere around, Craig is that nearly 60% just under?

Craig White:

Yeah if you look at just country Australia on its own, it would be just under 60% of the Australasia region.

Derek O’Neill:

Japan is around so between 12% to 15%.

Sean Cousins, JP Morgan:

And that includes the Japanese retail obviously?

Derek O’Neill:

Yeah actually Japan, New Zealand and South Africa are all very close. So somewhere around 12% each and then Asia we’ve grouped Asia together, Singapore and others basically it would be around about 5%.

Sean Cousins, JP Morgan:

And you made the point earlier in the call that you think margins have bottomed there, is that effectively assuming that you actually get margin expansion in some of those other countries that have lower margins just through operating leverage and that will be sufficient to offset the mix shift away from Australia, which is your highest margin country?

Derek O'Neill:

Yes basically yes.

Sean Cousins, JP Morgan:

Just in terms of your obviously structural change or the risk of that coming through has been discussed a lot, do you think you've got the capability in your supply chain at the moment to increasingly do be it just in time, have you got too wide a range to do that and what do you think it could take and how quickly could you tweak your business model to deal with a potential structural change?

Derek O'Neill:

Well I'm not saying we're anywhere close to just in time. I think as I said to Greg earlier there's a number of things that are potentially available in terms of moving forward, but it would take us a while to get there and they're only just ideas at the moment. But a couple of things happening is that we have got I think a little more alignment as we go forward. Certainly we're getting a little more alignment in terms of global unified production and what I mean by that is that a number of categories are quite global for us being wetsuits, most of the board shorts, some of the accessories. There's some opportunities for us in areas like Ts and fleece moving forward. I think that we're having constant supply chain discussions as to how we can improve on a lot of those. I think as part of those, the fastest to market is always going to be best off and therefore part of those discussions, the speed of the market is a big part of it.

I don’t think our supply chain is cumbersome in any way and it enables us to have world class margins that most people would kill for. I think though that as we move forward we understand that we need to continue to improve it and that’s the basis of the current ongoing discussions.

Sean Cousins, JP Morgan:

Is this a function of Billabong being best in class among action sports brands, but still actually a lot of work to be a Polo, Ralph Lauren or be it some of the sporting brands in terms of the supply chains that they have in terms of the improvements there? How do you look at your competitor set and do you see opportunities to improve relative to those broader apparel brands?

Derek O’Neill:

Just understand that anybody in the wholesale business works on lead times and things like that, because you need to get product, the retailers need to see the product and order it. Nobody is buying 100% of their product lines on speculation that the retailer may need it. So a lot of the just in time brands you're talking about are vertical retailers and therefore if you were going to move to just in time, then you choose what products are going to go in those four walls. So it’s a shift, but we have a lot of our own retail stores and there may be opportunities for us to increase some lines to get them to market faster. I’m not flagging anything and it wouldn’t be an overnight change, but I think we’re constantly looking to improve all levels of our performance and that would be a part of the discussion.

Sean Cousins, JP Morgan:

In regards to Europe, can you just talk a little bit about the outlook there? The macro is obviously quite challenging. I think at an earlier call you indicated that 10% of your accounts in Spain are now closed. When does slowing sales, operating deleverage start to derail what has been your best performing division?

Derek O'Neill:

Everything I see tells me that the second half of 2010 may just be, I don't want to say tougher, but there's clearly some retailer caution coming through in some of the forward orders. Some of the retailers are more than happy to continue to give you a decent forward order and some of the others are like we don't know what's coming, so we'd rather pull it back 5%. And therefore it's really the first time we've seen that and I think it's been based on the fact that the winter that we're currently in and we've virtually diluted, there's still some deliveries to go on, but in Europe right now the stores are full of winter product. That's been based on when they took the indent the winter that they were in at that time, it was actually a pretty good winter, it got cold at the right times and there was a lot of snow right through the season. So I think a lot of it was based from that.

I think this summer has proved to be reasonable, it hasn't been fantastic. In some places the weather hasn't really helped. The UK and those of you who follow the cricket would have seen a lot of the rain that was in the UK in some of those earlier matches. Overall it's been ok and I think some of that is probably leading us to think that the second half might be I don't know, I'm not going to say soft, but I'm not sure that there's a really strong growth yet available in the second half in Europe. So I think we've somewhat tempered our expectations slightly there. Can I just remind everybody that I didn't give a time at the beginning and I know some of you may still have some questions, we do need to be off this call by 12 o'clock, so in five minutes time, so maybe I'll ask for one last question.

Ben Gilbert, UBS:

Just two quick questions, wondering if you could quantify a bit more around the cost base in terms of what you've done in ripping costs out of the US retail side, ie: I suppose if you've seen *14.17 down 20, 25 what sort of magnitude of costs you've been able to take up?

Derek O'Neill:

Well overall in the US we did indicate back in February that we were looking to pull in the vicinity of around seven million of costs out. If you exclude the fact that we had a whole six months of decline and 12 months earlier we didn't, certainly from where we were at that position, certainly from the end of December to the end of June we did manage to achieve pretty much that number. And a lot of that came out of retail, there was some minor rent reductions we were able to get, but I've got to say that was very tough and didn't quite lead to the adjustments we would have liked. Landlords play pretty tough. They won't give you a deal on that store, but they've got there others just like it that they're prepared to give it to you at half price. And we weren't really taking a lot of those.

So overall we got most of those costs out. Ultimately though we just didn't end up with the final revenue and therefore the final absolute GP dollars that we would have liked, just with some softness more through that May, June period more than we expected.

Ben Gilbert, UBS:

So I suppose looking into next year, given you've taken the costs out and if we think sales just based on your expectations, you'd expect some reasonably significant lifts in the margin I suppose if that magnitude is 250 type bps you're talking about previously in the year, is that still reasonable?

Derek O’Neill:

Look in general that’s the sort of thing we’d like to think we can get. Obviously it’ll depend a lot upon ultimate revenues and ultimate GP dollars that get matched against those, but yeah that’s the sort of expectations we’d like to think we can get.

Ben Gilbert, UBS:

And on the wholesale side globally you mentioned *16.16 a lot of stuff out of bulk * in retail, have you taken a lot of costs out of the wholesale side and I suppose looking forward say 12, 18 months time when and if we see things recover, do you think you’d rebase the cost base now and maybe peak mid cycle margins are going to be highest?

Derek O’Neill:

I’ll just remind everybody, we don’t have furnaces to shut down when the market slows, we don’t have planes to park and stewards to remove or whatever, the fact is that the production line is variable, a lot of the sales costs are variable. And ultimately we are, our intangibles are people and our creative content is pretty important to us. Therefore we have to be obviously careful with it and most of the reductions in the wholesale side have been primarily from attrition where people want to go away and do something else, maybe stop work for a little while or go back to school or go and travel or go to a competitor, whatever. In a lot of cases most of it has just been through that type of attrition where we just haven’t filled it and we’ve shared it across. There has been the odd performance managed change, but that would have happened in most cases anyway. I think that we’ve just had a, I wouldn’t call an absolute hiring freeze, but hiring freeze if you want to put it that way.

Ben Gilbert, UBS:

And just on the debt and the re-if you guys have done for the tranche one, how should we think about your financing costs looking into next year?

Craig White:

Well I think Ben it's obviously a fairly complex mix of things feeding in there. You've got the refinance of tranche A, certainly the margins on that facility are higher than what they were under the old pricing. We don't disclose that exact number, but certainly there has been a lift. I guess offsetting that you've got to take into account the fact that we've obviously done the equity raising and with that paid down a significant amount of debt. So I think we will be looking to I guess manage those facilities in the most cost effective way that we possibly can and that is relying on facilities that are available to us at the lowest margin and only draw on those facilities that have higher margins as and when we need to.

Ben Gilbert, UBS:

So would you expect your cost of debt, given margin and base rates starting to pick up, would you expect modest increases in your cost of debt this year, in the implied cost of debt?

Craig White:

Are you talking about in absolute dollar terms?

Ben Gilbert, UBS:

No in terms of the rate terms, of percentage rate.

Craig White:

I think that if you were to look at the percentage on a weighted average basis, then it would have to go up relative to prior year, but obviously we've got a lot less debt and therefore the overall interest cost will be substantially lower than it was this year.

Ben Gilbert, UBS:

Sure and as you said I suppose you're paying off your higher margin debt earlier.

Craig White:

Absolutely.

Derek O’Neill:

Alright we’re just pretty well spot on 12 o’clock, I’d like to thank everybody for joining us and I hope you got a lot out of that. Both Craig and I will be available at various times over the next three months until we go into the next black out period and we’ll look forward to talking to a lot of you on an individual basis, thanks very much.

END OF TRANSCRIPT