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ASX ANNOUNCEMENT

BILLABONG INTERNATIONAL LIMITED ENTERS INTO A SCHEME IMPLEMENTATION DEED WITH BOARDRIDERS, INC. AND AFFIRMS GUIDANCE

GOLD COAST, 5 January 2018: Billabong International Limited (ASX:BBG) (**Billabong**) announces that it has entered into a Scheme Implementation Deed with Boardriders, Inc. (**Boardriders**) under which Boardriders has agreed to acquire all of the shares in Billabong, other than those already owned by its related entities, at a price of A$1.00 per share in cash, via a scheme of arrangement (**the Scheme**).

Boardriders is controlled by funds managed by Oaktree Capital Management, L.P.(**Oaktree**). Oaktree[1] already holds 19% of the shares in Billabong, and is one of Billabong's two senior lenders. Oaktree's shares will not be acquired under the Scheme, and Oaktree will not vote its shares on the resolutions to approve the Scheme at the Scheme meeting.

The Scheme consideration of A$1.00 per share represents an implied enterprise value (**EV**) of A$380 million.

The Billabong Directors unanimously recommend the Scheme

The Billabong Directors unanimously recommend that Billabong shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of Billabong shareholders.

Subject to those same qualifications, each Billabong Director intends to vote all the Billabong shares held or controlled by them in favour of the Scheme.

The reasons for the Directors' recommendation include the following:

- **Attractive premium**: The Scheme consideration of A$1.00 per Billabong share represents an attractive premium of:
  - 28% to Billabong's closing price of $0.78 per share on 30 November 2017, being the day prior to the disclosure that Boardriders had approached Billabong with a proposal to acquire the company[2];
  - 52% to Billabong's 1-month Volume Weighted Average Price (VWAP) of $0.66 per share up to and including 30 November 2017[2];
  - 69% to Billabong's 3-month VWAP of $0.59 per share up to and including 30 November 2017[2]; and
  - 52% to Billabong's 6-month VWAP of $0.66 per share up to and including 30 November 2017.[2]
- **Attractive acquisition multiple**: The Scheme Consideration of A$1.00 per share implies an EV/pro-forma FY17 earnings before interest tax depreciation and amortisation, excluding significant items (**EBITDA**) multiple of 7.4x[3] and an EV/pro-forma FY17 EBIT multiple of 16.6x[3], both of which are attractive and reflect the combination benefits that will flow to the new group.

[1] *Through its controlled entities.*
[2] *IRESS as at 30 November 2017 – all prices have been rounded to two decimal places.*
[3] *Assumes 198m shares on issue (being the diluted number of shares on issue taking into account any outstanding share rights that are expected to vest in the event the Scheme completes), FY17 pro-forma net debt of A$182 million and FY17 pro-forma EBITDA of A$51.1 million (adjusted for Tigerlily sale).*

- **Certainty of value and avoidance of ongoing risks and uncertainties**: In the absence of the Scheme, Billabong shareholders face ongoing risks and uncertainties associated with Billabong's business. Under the Scheme, the 100% cash consideration provides shareholders with certainty of value and the opportunity to realise their investment for cash.
- **Limited conditionality**: The Scheme is subject to limited conditions and is not subject to financing or due diligence.

Commenting on the Scheme, Billabong Chairman, Ian Pollard, said:

> "While Billabong has made significant operational progress in recent years, the Board is also mindful of the fact that, in the absence of the Scheme, Billabong shareholders face ongoing risks and uncertainties associated with the business. These include risks relating to the state of the global retail market as it affects both Billabong and its wholesale customers; the operations and project risks associated with the execution of Billabong's strategy; and risks relating to the refinancing of its debt.
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> In particular, the Board considers that it will become necessary for Billabong to materially reduce debt if it is to continue with its current strategy which, given the Company's existing high debt levels is expected to require asset sales or a dilutive equity raising. Having regard to these factors, and the fact that shareholders are being offered an attractive premium for their shares, the Board believes this offer is in the best interests of shareholders."[4]

Billabong CEO, Neil Fiske, said:

> "Billabong's brands' great strength is their authenticity and heritage. I'm confident those qualities will not simply be protected but enhanced by a new organisation that will have the scale and financial security to continue to support and build them as we enter into a new and dynamic retail environment."

Voting intentions of Centerbridge and Gordon Merchant

Centerbridge Partners L.P., through a controlled entity (the **Centerbridge Shareholder**), currently holds approximately 19.2% of the shares in Billabong. The Centerbridge Shareholder intends to vote all Billabong shares held by it in favour of the Scheme, in the absence of a competing proposal which, in the sole opinion of the Centerbridge Shareholder, is a superior proposal, and subject to the independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of Billabong shareholders.[5]

Gordon Merchant, a Director of Billabong, who through his controlled entities holds approximately 12.8% of the shares in Billabong, has also stated that his intention is to vote in favour of the Scheme in the absence of a superior proposal and subject to the

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[4] *Billabong has US$172 million of senior debt under a secured loan facility provided by entities associated with Oaktree and Centerbridge Partners, L.P **(Centerbridge),** which is due to be repaid in September 2019.*

[5] *The Centerbridge Shareholder has advised that it has no present intention to sell any Billabong shares it holds prior to the Scheme Meeting, but reserves the right to do so.*

independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of Billabong shareholders.

The Centerbridge Shareholder and Gordon Merchant's controlled entities together currently control approximately 39% of the shares eligible to vote on the Scheme.

Scheme Implementation Deed

The Scheme Implementation Deed (a copy of which is attached to this announcement) is subject to a number of conditions including the requisite Billabong shareholder and Court approvals; no material adverse change**,** prescribed occurrence or breach of warranty in relation to Billabong; as well as the approval from relevant competition authorities and Australia's Foreign Investment Review Board.

The Scheme Implementation Deed also contains customary exclusivity provisions, including no-shop, no-talk and no due diligence restrictions on Billabong. The deed also requires Billabong to pay a $1.6 million break fee in certain circumstances, including where any Billabong Director withdraws their recommendation in favour of the Scheme or supports a Competing Proposal.

Independent Expert

Billabong has appointed Grant Samuel as the independent expert to prepare a report opining on whether the Scheme is in the best interests of Billabong shareholders. The independent expert's report will be included in the Scheme Booklet to be sent to Billabong shareholders.

Indicative timetable and next steps

Shareholders do not need to take any action at the present time. A Scheme Booklet containing information relating to the Scheme, the independent expert's report on whether the Scheme is in the best interests of Billabong's shareholders, the reasons for the Billabong Directors' unanimous recommendation in favour of the Scheme, and details of the Scheme meeting, is expected to be sent to Billabong shareholders in February 2018. Billabong shareholders will be given the opportunity to vote on the Scheme at a Scheme meeting expected to be held in March 2018.

Subject to the conditions of the Scheme being satisfied, the Scheme is expected to be implemented in April 2018. These dates are indicative and subject to change.

Billabong has appointed Goldman Sachs as its financial advisor and Allens as its legal advisor.

Outlook

The Company today reaffirms the guidance provided at its Annual General Meeting that it expects the Group's FY18 EBITDA (excluding significant items) to exceed the prior year, and provides a trading update.

Retail conditions remain challenging in a number of markets, but the Company's results during the important holiday trading period were generally in line with, albeit at the lower end of, the Company's expectations. The Group continues to have a significant bias of second half earnings to the month of June in the Americas and trading in that month remains key to achieving the Group's full year expectations.

The Company today confirms that it expects the Group's FY18 EBITDA (excluding significant items) to be in a range between last year's EBITDA of $51.1 million and $54 million, subject to reasonable trading conditions and currency markets remaining relatively stable.

As previously noted, given the increasing proportion of earnings represented by the Americas and Europe, the earnings profile for FY18 is expected to be similar to FY17, with the first half EBITDA below the prior corresponding period and all the growth biased towards the second half.

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