



**Billabong
International
Limited**

ABN 17 084 923 946



1 Billabong Place
Burleigh Heads
QLD 4220 Australia

PO Box 283
Burleigh Heads
QLD 4220 Australia

Tel: +61 7 5589 9899
Fax: +61 7 5589 9654

www.billabongbiz.com

ASX ANNOUNCEMENT

COURT ORDERS CONVENING OF SCHEME MEETING

GOLD COAST, 14 February 2018: Billabong International Limited (*Billabong*) is pleased to confirm that on 13 February 2018 the Federal Court ordered that a meeting of Billabong Shareholders (other than Excluded Shareholders, as described below) be convened to consider and, if thought fit, approve the scheme of arrangement under which a subsidiary of Boardriders, Inc. (*Boardriders*) will acquire all of the Billabong Shares (other than the Excluded Shares), 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 already holds approximately 19.3% of the Billabong Shares and is one of Billabong's two senior lenders. Oaktree's shares are "Excluded Shares" and will not be acquired under the Scheme, and Oaktree will not vote those shares on resolutions to approve the Scheme at the Scheme Meeting.

Scheme Meeting

The Scheme Meeting will be held at 10.00am (Queensland time) on 28 March 2018. If the Scheme is approved by the requisite majorities of Billabong Shareholders (other than Excluded Shareholders) at the Scheme Meeting and all other conditions precedent are satisfied or waived (where capable of waiver), Billabong intends to apply to the Court for orders approving the Scheme.

Scheme Booklet

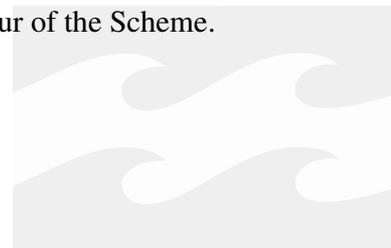
The Scheme Booklet was registered by the Australian Securities and Investments Commission today. A copy of the Scheme Booklet, which includes an Independent Expert's Report, a Notice of Scheme Meeting and a copy of the proxy form for the Scheme Meeting, is attached to this announcement and will be sent to Billabong Shareholders (other than Excluded Shareholders) on or about 19 February 2018 (and those Shareholders who have previously nominated an electronic means of notification to the Billabong Registry will receive an email where they can download the Scheme Booklet and lodge their proxy vote online). The Scheme Booklet provides Billabong Shareholders with information about the proposed acquisition of Billabong by Boardriders. Billabong Shareholders are encouraged to read the Scheme Booklet in its entirety.

Independent Expert's Report

The independent expert, Grant Samuel & Associates Pty Ltd, has concluded that the Scheme is fair and reasonable and therefore in the best interests of Shareholders, in the absence of a superior proposal.

Directors' recommendation

The Billabong Board continues to unanimously recommend that Billabong Shareholders vote in favour of the Scheme at the Scheme Meeting in the absence of a superior proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders. Subject to those same qualifications, each Director intends to vote all the Billabong Shares held or controlled by them in favour of the Scheme.





For further information contact:

Shareholders

Computershare Investor Services Pty Limited

Telephone Australia: 1300 117 907

Telephone International: +61 3 9415 4335

Website: www.billabongscheme.com.au

Media

Renee Bertuch

Cannings Corporate Communications

Telephone: +61 409 550 389

Email: rbertuch@cannings.net.au

TRACEY WOOD

COMPANY SECRETARY

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SCHEME BOOKLET

IN RELATION TO THE PROPOSED ACQUISITION OF BILLABONG INTERNATIONAL LIMITED
BY BOARDRIDERS, INC. BY WAY OF SCHEME OF ARRANGEMENT.

VOTE IN FAVOUR

Your Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Billabong Shareholders.

The Scheme Meeting is scheduled to be held at 10.00am (Queensland time) on 28 March 2018 at Billabong International Limited, Burleigh A & B Rooms, 1 Billabong Place, Burleigh Heads, Queensland.

This Scheme Booklet is important and requires your prompt attention. You should read it in its entirety, and consider its contents carefully, before deciding whether or not to vote in favour of the Scheme. If you are in any doubt about what you should do, you should consult with a financial, legal, taxation or other professional adviser.

If you have any questions in relation to this Scheme Booklet or the Scheme, please contact the Billabong Shareholder Information Line on 1300 117 907 (within Australia) or +61 3 9415 4335 (outside Australia), Monday to Friday between 8.30am to 5.30pm (Melbourne time).

This Scheme Booklet has been sent to you because you are shown in Billabong's Register as holding Billabong Shares. If you have recently sold all of your Billabong Shares, please disregard this Scheme Booklet.

IMPORTANT NOTICES

Nature of this document

This Scheme Booklet provides Billabong Shareholders with information about the proposed acquisition of Billabong by Boardriders. You should review all of the information in this Scheme Booklet carefully. Section 1.1 sets out the reasons why you should vote in favour of the Scheme and section 1.3 sets out the reasons why you may wish to vote against the Scheme.

If you have sold all of your Billabong Shares, please ignore this Scheme Booklet.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 9 of this Scheme Booklet.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position or particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult with a financial, legal, taxation or other professional adviser.

Not an offer

This Scheme Booklet does not constitute or contain an offer to Billabong Shareholders, or a solicitation of an offer from Billabong Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

Regulatory information

This document is the explanatory statement for the scheme of arrangement between Billabong and the Scheme Shareholders for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as Annexure B.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Billabong Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Notice of Scheme Meeting

The Notice of Meeting is set out in Annexure D.

Billabong Shareholder's right to appear at the Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Billabong Shareholder may appear at the Second Court Hearing, expected to be held at 10:15am on 6 April 2018 at the Federal Court of Australia – New South Wales Registry, Law Courts Building, Queens Square, 184 Phillip Street, Sydney.

Any Billabong Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Billabong a notice of appearance in the prescribed form together with any affidavit that the Billabong Shareholder proposes to rely on.

Important notice associated with the Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has directed that an explanatory statement accompany the notice of meeting does not mean that the Court:

- has formed any view as to the merits of the proposed scheme or as to how members should vote (on this matter members must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as “believe”, “aim”, “expect”, “anticipate”, “intending”, “foreseeing”, “likely”, “should”, “planned”, “may”, “estimate”, “potential”, or other similar words. Similarly, statements that describe Billabong’s or Boardriders’ objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Billabong’s operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by those forward-looking statements.

The operations and financial performance of Billabong are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of Billabong and/or Boardriders. Billabong Shareholders should note that the historical financial performance of Billabong is no assurance of future financial performance of Billabong (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which Billabong operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Billabong following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Billabong believes that the views reflected in any forward-looking statements included in the Billabong Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of Billabong, Boardriders, Billabong’s officers, Boardriders’ officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

All subsequent written and oral forward-looking statements attributable to Billabong or Boardriders or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, Billabong and Boardriders do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Responsibility statement

Billabong has been solely responsible for preparing the Billabong Information. The Billabong Information concerning Billabong and the intentions, views and opinions of Billabong and the Billabong Directors contained in this Scheme Booklet has been prepared by Billabong and the Billabong Directors and is the responsibility of Billabong. Boardriders and the Boardriders Directors and officers do not assume any responsibility for the accuracy or completeness of any Billabong Information or the Independent Expert’s Report (or any information contained therein).

Boardriders has been solely responsible for preparing the Boardriders Information. The Boardriders Information concerning Boardriders and the intentions, views and opinions of Boardriders contained in this Scheme Booklet has been prepared by Boardriders and is the responsibility of Boardriders. Billabong and the Billabong Directors and officers do not assume any responsibility for the accuracy or completeness of any Boardriders Information.

Grant Samuel has prepared the Independent Expert’s Report in relation to the Scheme and takes responsibility for that report. The Independent Expert’s Report is set out in Annexure A.

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Billabong Registry. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Privacy

Billabong and Boardriders may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Billabong Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Billabong and Boardriders to conduct the Scheme Meeting and implement the Scheme. Personal information of the type described above may

be disclosed to the Billabong Registry, print and mail service providers, authorised securities brokers, Related Bodies Corporate of Billabong and Boardriders, and Billabong's and Boardriders' advisers and service providers. Billabong Shareholders have certain rights to access personal information that has been collected. Billabong Shareholders should contact the Billabong Registry in the first instance, if they wish to access their personal information. Billabong Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Date of this Scheme Booklet

This Scheme Booklet is dated 14 February 2018.

Currency and exchange

Unless otherwise stated, all dollar amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to Billabong Share trading on the ASX.

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INDICATIVE KEY DATES



INDICATIVE KEY DATES

EVENT	DATE
First Court Date	13 February 2018
Date of this Scheme Booklet	14 February 2018
Latest date and time for receipt of Proxy Forms or powers of attorney for the Scheme Meeting	10.00am (Queensland time) on 26 March 2018
Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm (Sydney time) on 26 March 2018
Scheme Meeting to be held at Billabong International Limited, Burleigh A & B Rooms, 1 Billabong Place, Burleigh Heads, Queensland	10.00am (Queensland time) on 28 March 2018
If the Scheme is approved by eligible Billabong Shareholders	
Second Court Date for approval of the Scheme	6 April 2018
Effective Date	9 April 2018
Court order lodged with ASIC and announcement to ASX	
Last day of trading in Billabong Shares – Billabong suspended from trading on ASX from close of trading	
Scheme Record Date for determining entitlements to Scheme Consideration	7.00pm (Sydney time) on 16 April 2018
Implementation Date	24 April 2018
Payment of Scheme Consideration to Scheme Shareholders	

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other regulatory authority. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and notified on Billabong's websites at <http://www.billabongbiz.com> and www.billabongscheme.com.au.

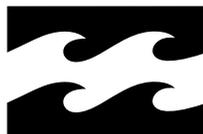
All references to time in this Scheme Booklet are references to Sydney, Australia time, unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

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LETTER FROM THE CHAIRMAN OF BILLABONG





**BILLABONG
INTERNATIONAL
LIMITED**
ABN 17 084 923 946

LETTER FROM THE CHAIRMAN OF BILLABONG

14 February 2018

Dear Fellow Shareholder,

Billabong International Limited (**Billabong**) announced on 5 January 2018 that it had entered into a Scheme Implementation Deed with Boardriders, Inc. (**Boardriders**) under which Boardriders has agreed to directly or indirectly acquire all of the Billabong Shares, other than those 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 already holds 19.30% of the Billabong Shares and is one of Billabong's two senior lenders.¹

In order for the Scheme to proceed, it must be approved by Billabong Shareholders (other than Excluded Shareholders) at the Scheme Meeting, and then by the Court. The Scheme is also subject to necessary regulatory approvals being obtained, and certain other conditions.

The purpose of this Scheme Booklet is to provide you with information about the Scheme to assist you in voting on the Scheme at the Scheme Meeting.

Directors' recommendation

Your Directors **unanimously recommend that you vote in favour of the Scheme** in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders. Subject to those same qualifications, each of your Directors 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:

- The cash consideration of A\$1.00 per share represents a significant premium to Billabong's recent historical trading prices;
- The cash consideration of A\$1.00 per share equates to an attractive acquisition multiple, which compares favourably to the multiples of key comparable listed companies and comparable precedent transactions;
- If the Scheme proceeds, Scheme Shareholders will receive certain value for their investment in Billabong, and will avoid ongoing risks and uncertainties associated with Billabong's business. These are discussed further in sections 1.1(c) and 6.3, and include risks relating to the state of the global retail market and further consolidation in the action sports sector 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 Billabong's debt;
- While Billabong has made significant operational progress in recent years, its progress towards its long term financial goals has been slower and more difficult than anticipated at the time of the 2014 recapitalisation, and its earnings growth continues to be impacted by market conditions and other factors (see sections 1.1(c) and 1.1(d)). In particular, these circumstances mean that the achievement of the Company's long term goal of double digit EBITDA margins is inherently uncertain and highly unlikely to occur in the foreseeable future;

¹ 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 Board considers that, in the absence of the Scheme, 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 a substantial equity raising, without which Billabong will need to sell significant assets and change its strategy;
- There is no guarantee that new equity could be raised without the support of the Company's three major shareholders each of whom has expressed support for the Scheme, and asset sales which would then require a new strategy and create a very uncertain future;
- The Board has considered these alternative scenarios in detail, and believes that the Scheme proposal provides a superior outcome for Billabong Shareholders (see section 1.2);
- The Scheme is subject to limited conditions and is not subject to financing or due diligence;
- Since the announcement of the Scheme, no Superior Proposal has emerged; and
- Billabong's share price may fall if the Scheme is not implemented.

In forming their view that the Scheme is in the best interests of Shareholders (other than Excluded Shareholders), your Directors considered the disadvantages of the Scheme proceeding. In particular:

- Scheme Shareholders will no longer be able to participate in any improvement in the financial performance of the Billabong business which may occur in the future; and
- the tax consequences of the Scheme, which could result in the realisation of a capital gain or a capital loss.

Voting intentions of Centerbridge and Gordon Merchant

Centerbridge Partners, L.P., through CCP II Dutch Acquisition – E, B.V., a controlled entity of Centerbridge (the **Centerbridge Shareholder**), currently holds approximately 19.30% of the shares in Billabong and has a nominee Director on the Board. The Centerbridge Shareholder intends to vote all 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 Shareholders.²

Gordon Merchant, who directly or indirectly controls the right to vote in respect of approximately 12.8% of the shares in Billabong and is a Director on the Board, has stated that he intends to 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 Shareholders.

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

Independent Expert

Your Directors appointed Grant Samuel & Associates Pty Limited as the independent expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the full underlying value of Billabong at between \$0.96 and \$1.20 per Share. The cash consideration under the Scheme of \$1.00 per Share is within this range.

A complete copy of the Independent Expert's Report is included as Annexure A to this Scheme Booklet.

² 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.

How to vote

Your vote is important and I encourage you to vote by appointing a proxy or alternatively by attending the Scheme Meeting scheduled to be held at 10.00am (Queensland time) on 28 March 2018 at Billabong International Limited, Burleigh A & B Rooms, 1 Billabong Place, Burleigh Heads, Queensland.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme and approve the Scheme.

Further information

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for your Directors' recommendation and the Independent Expert's Report. It also sets out reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety as it will assist you in making an informed decision on how to vote. I would also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your Shares.

If you require any further information, please call the Shareholder Information Line on 1300 117 907 (within Australia) or +61 3 9415 4335 (outside Australia).

Yours faithfully



Ian Pollard

Chairman

Billabong International Limited

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1. KEY CONSIDERATIONS RELEVANT TO YOUR VOTE



1 KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

1.1 Why you should vote in favour of the Scheme

The Scheme has a number of advantages and disadvantages which may affect Shareholders in different ways depending on their individual circumstances. Shareholders should seek professional advice on their particular circumstances, as appropriate.

Section 1.1 provides a summary of some of the reasons why the Billabong Board unanimously recommends Shareholders vote in favour of the Scheme. This section should be read in conjunction with section 1.2, which sets out certain alternative options to the Scheme which have been considered by the Board, and section 1.3, which sets out reasons why Shareholders may wish to vote against the Scheme.

You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting.

While the Billabong Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

Your Directors have formed the view that the Scheme is in the best interests of Billabong Shareholders for the following reasons:

- (a) **The cash consideration of A\$1.00 per Share represents a significant premium to Billabong's recent historical trading prices**

The Scheme Consideration of A\$1.00 per 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 Company³;
- 52% to Billabong's 1-month Volume Weighted Average Price (**VWAP**) of \$0.66 per Share up to and including 30 November 2017;
- 69% to Billabong's 3-month VWAP of \$0.59 per Share up to and including 30 November 2017; and
- 52% to Billabong's 6-month VWAP of \$0.66 per Share up to and including 30 November 2017.



³ IRESS as at 30 November 2017 – all prices have been rounded to two decimal places.

- (b) **The cash consideration of A\$1.00 per Share equates to an attractive acquisition multiple, which compares favourably to the multiples of key comparable listed companies and comparable precedent transactions**

The Scheme Consideration of A\$1.00 per Share implies an EV/pro-forma FY17 EBITDA multiple of 7.4x⁴ and an EV/ pro-forma FY17 EBIT multiple of 16.6x⁵, both of which are attractive relative to comparable precedent transactions (see section 4.4.2 of the Independent Expert's Report for the Independent Expert's views on this topic). Your Directors believe that, in assessing these multiples, EV/EBIT is a more relevant metric, as it demonstrates the relative capital intensity of Billabong's business, in particular given its retail operations.

- (c) **If the Scheme proceeds, Scheme Shareholders will receive certain value for their investment in Billabong, and will avoid ongoing risks and uncertainties associated with Billabong's business**

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 Billabong business. These risks are described in section 6.3, and include:

- risks relating to the state of the action sports industry and the global retail market as it affects both Billabong and its wholesale customers. This includes a rapidly changing retail environment and challenges within the action sports sector which have caused financial distress, closures and potential industry consolidation for certain participants within the sector;
- the operations and project risks associated with the execution of Billabong's strategy and the combination of the complexity and the critical importance of achieving Billabong's large scale project agenda; and
- risks relating to the refinancing of Billabong's debt (Billabong currently has approximately US\$177 million (approximately A\$224 million)⁶ of borrowings under its senior secured term loan facility provided by entities affiliated with Centerbridge and Oaktree, which is due to be repaid on maturity of the loan in September 2019⁶).

If the Scheme is approved and implemented, the Scheme removes these risks and uncertainties for Scheme Shareholders as these risks and uncertainties will be assumed by Boardriders, as the sole shareholder of Billabong following implementation of the Scheme.

- (d) **While Billabong has made significant operational progress in recent years, its progress towards its long term financial goals has been slower and more difficult than originally anticipated, and its earnings growth continues to be impacted by challenging market conditions and other external factors as outlined in sections 6.3(a) and 6.3(b)**

Billabong's progress towards its long term financial goals (such as double digit EBITDA margins) has been slower and more difficult than anticipated at the time of the recapitalisation of the Company in early calendar year 2014. Earnings growth continues to be impacted by market conditions, potential industry consolidation and other external factors including the level of the Australian dollar against the US dollar being significantly below those of late 2013, as well as being subject to the operations and project risks associated with the execution of the strategy, as stated above.

The prerequisites to Billabong's EBITDA margin improvement ambitions include revenue growth, gross margin improvement and improved efficiency in cost of doing business, to be achieved by transforming the Billabong Group from a predominately standalone regional model to an integrated global business. While Billabong has generally described these improvements as long term goals, they would need to be achieved on a sustainable basis across all brands, in all markets, and at the same time in the inherently risky fashion sector. Having regard to expected market conditions and other risk factors (see section 1.1(c) and 1.1(d)), the achievement of the Company's long term goal of double digit EBITDA margins is inherently uncertain and highly unlikely to occur in the foreseeable future.

⁴ Assumes 198,079,110 Shares on issue in the event that the Scheme is implemented, FY17 pro-forma net debt of A\$182 million (which, as set out in section 4.3, includes Billabong's term loan, other debt facilities and cash (net of restricted cash), adjusted for contingent payments) and FY17 pro-forma EBITDA of A\$51.1 million and FY17 pro-forma EBIT of A\$22.9 million (adjusted for Tigerlily sale).

⁵ Based on a AUD/USD exchange rate of \$0.79, being the last practicable exchange rate before the lodgement of this Scheme Booklet.

⁶ Unless the Centerbridge/Oaktree Senior Secured Term Loan has been refinanced, the BAML ABL Facility must be repaid in March 2019, being six months prior to the maturity date of the Centerbridge/Oaktree Senior Secured Term Loan. If any principal or interest outstanding under the BAML ABL Facility cannot be repaid or outstanding letter of credit cash collateralised or otherwise discharged on maturity of that facility, then this would result in a cross-default under the Centerbridge/Oaktree Senior Secured Term Loan, resulting in all amounts outstanding under that facility also becoming due and payable at that time.

Further, the continuing retail trend away from brick and mortar stores in favour of the e-commerce channel means that developing Billabong's capability in this regard is key to its success. While Billabong is making every effort to improve its competitiveness, leading retailers and several of Billabong's competitors are further advanced in this transformation. There is a risk that the growth from Billabong's digital commerce initiative will not, especially in the short term, outweigh declines in its traditional retail and wholesale markets.

In light of the challenges noted above, the Company has recently provided earnings guidance indicating that FY18 EBITDA (excluding significant items) is expected to be in a range between A\$51.1 million and A\$54 million, subject to reasonable trading conditions and currency markets remaining relatively stable⁷. This will be the third consecutive year in which market conditions and challenges described earlier have countered the operational progress achieved within the business.

Looking ahead to FY19, it is difficult to provide an outlook having regard to the likely changes to the strategy if the Scheme does not proceed. However, even if Billabong is not forced to change its existing strategy, the Company would be expecting revenues to reflect a continuation of the current subdued conditions with some growth expected from E-comm and Billabong and RVCA market share gains. However, downside risk remains, especially in brick and mortar retail. The most significant driver of the Company's earnings targets for FY19 is EBITDA margin expansion in keeping with the operational improvement targets previously outlined. In this regard, the Company is targeting EBITDA margin expansion of approximately 0.5% to 1% in FY19 compared to FY18, although there is no guarantee such margin expansion will be achieved⁸.

- (e) **If the Scheme does not proceed, Billabong will need 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 a substantial equity raising or significant asset or brand sales**

In order to continue to execute on its strategy, Billabong will need to continue to invest in systems and equipment, operating capability and restructuring over the next few years. The Board considers that, in order to fund this further investment, it will become necessary for Billabong to materially reduce its debt to a level where Billabong can fund the investment out of earnings, after servicing the interest on the debt. The ability to do this needs to be considered in the context of Billabong's existing high debt levels, and the fact that its senior term debt matures in September 2019⁹.

At the Company's Annual General Meeting last November, Shareholders were advised that the consideration of options relating to the maturing debt facilities was a priority for the Board. The Board and its advisers have, in considering these refinancing options and more recently in determining whether the Boardriders Scheme proposal is in the best interests of Billabong Shareholders, spent a significant amount of time exploring various alternatives which would enable Billabong to reduce its debt to the level necessary to enable the existing debt to be refinanced and to fund Billabong's ongoing strategy. The main alternatives considered were (i) an equity raising; and/or (ii) asset or brand sales. These alternatives, and the reasons why your Directors believe that they represent a less favorable outcome for Billabong Shareholders than that provided by the Boardriders Scheme proposal, are discussed further in section 1.2 below.

- (f) **The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders, in the absence of a Superior Proposal**

Your Directors appointed Grant Samuel & Associates Pty Limited as the independent expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the full underlying value of Billabong at between \$0.96 and \$1.20 per Share. The cash consideration of \$1.00 per Share is within this range.

A complete copy of the Independent Expert's Report is included as Annexure A to this Scheme Booklet.

⁷ See Billabong's ASX announcement dated 5 January 2018.

⁸ This is a target and is not a forecast. Actual results will be subject to, amongst other things, reasonable trading conditions and currency markets remaining relatively stable, and other counter-veiling market or macro-economic factors. Actual full FY19 results will not be known for more than 16 months.

⁹ Unless the Centerbridge/Oaktree Senior Secured Term Loan has been refinanced, the BAML ABL Facility must be repaid in March 2019, being six months prior to the maturity date of the Centerbridge/Oaktree Senior Secured Term Loan. If any principal or interest outstanding under the BAML ABL Facility cannot be repaid or outstanding letter of credit cash collateralised or otherwise discharged on maturity of that facility, then this would result in a cross-default under the Centerbridge/Oaktree Senior Secured Term Loan, resulting in all amounts outstanding under that facility also becoming due and payable at that time.

(g) **Since the announcement of the indicative, non-binding proposal, no Superior Proposal has emerged**

Since the announcement of the indicative, non-binding proposal from Boardriders by Billabong to the ASX on 1 December 2017 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and your Directors are not aware, as at the date of this Scheme Booklet, of any Superior Proposal that is likely to emerge.

(h) **Billabong's share price may fall if the Scheme is not implemented**

If the Scheme is not implemented, Billabong's Shares will remain quoted on the ASX and will continue to be subject to market volatility. If the Scheme is not implemented, the price at which Billabong Shares trade may fall, including to a price that is significantly below the cash consideration of A\$1.00 per Billabong Share. The closing share price on 30 November 2017, being the day prior to the announcement that Boardriders had approached Billabong with a proposal to acquire the Company, was A\$0.78 per Billabong Share. Refer to section 1.1(a) above for the VWAP of Billabong Shares over the 1, 3 and 6 month periods up to and including 30 November 2017.

(i) **You will not incur any brokerage charges on the transfer of your Billabong Shares if the Scheme proceeds**

You will not incur brokerage on the transfer of your Billabong Shares to Boardriders pursuant to the Scheme. If you sell your Billabong Shares on ASX (rather than disposing of them via the Scheme), you may incur brokerage charges (and, potentially, GST on those charges).

1.2 Other alternative scenarios considered by the Board

In considering the Boardriders Scheme proposal, the Board also considered the issues associated with Billabong continuing as an independent entity with its existing strategy (i.e. if the Boardriders Scheme proposal did not proceed).

As stated above, the Board considers that for Billabong to continue as an independent entity with its existing strategy, it will become necessary for Billabong to not only extend the maturity of its debt, but to materially reduce its debt. The Board and its advisers spent a significant amount of time exploring various alternatives which would enable Billabong to reduce its debt to the level necessary to enable the existing debt to be refinanced and to fund Billabong's ongoing strategy. The main alternatives considered were (i) an equity raising; and/or (ii) further asset or brand sales, although asset sales would require a change in Billabong's existing strategy and create significant uncertainty (see below). The issues with these alternative scenarios, and why the Board believes that they provide less favourable outcomes for Billabong Shareholders than the Boardriders Scheme proposal, are as follows:

(a) **Refinancing with an equity raising**

- The Board considers that a substantial equity raising would be required in order to reduce debt to a level appropriate for the current strategy, and to enable the remaining debt to be refinanced in current debt markets (which are difficult for companies with extensive retail operations such as Billabong). The Board believes this is likely to require a greater than a one for one entitlement offer (and as such would need to be renounceable), which would require existing Billabong Shareholders to subscribe for more Shares than they currently hold.
- Factors which support the need for a substantial equity raising include:
 - * The appropriate target leverage for the Group. The Billabong Board considers that, in the long term, a target of virtually zero net debt is more appropriate for the Billabong business (particularly having regard to the significant fixed rental obligations arising from Billabong's retail stores), and that this is more in line with Billabong's listed peers. However, even if Billabong's gross debt was only to be reduced to two times its FY17 EBITDA (before significant items) of A\$51.1 million, this would still require an equity raising of more than A\$100 million;
 - * The working capital requirements of the Group. The Company's business is seasonal, with seasonal working capital requirements. While Billabong has traditionally reported significant cash balances at reporting date, there is no material ability to use the cash on the balance sheet to permanently reduce gross debt for two reasons: firstly, that cash is required to fund working requirements, which peak at various times throughout the year; and secondly, the use of that cash is otherwise restricted¹⁰;

¹⁰ For example, where the cash needs to be held to secure credit arrangements; or is in trusts; or is held in jurisdictions where the repatriation of the cash is subject to exchange controls.

* Billabong's likely future earnings available to service its debt commitments and fund the investment required to continue with its strategy. As stated in section 1.1(d) above, Billabong's earnings growth continues to be impacted by challenging market conditions and other external factors. The Company has recently provided earnings guidance indicating that FY18 EBITDA (excluding significant items) is expected to be in a range between A\$51.1 million and A\$54 million, subject to reasonable trading conditions and currency markets remaining relatively stable¹¹. This will be the third consecutive year in which market conditions and headwinds described earlier have countered the operational progress achieved within the business. Even in the event that Billabong were to achieve its FY19 earnings goals outlined in section 1.1(d), after servicing its debt, free cash flow would still be required to fund investment in systems and equipment, operating capability and restructuring¹².

- Given the highly concentrated nature of the Billabong share register, the equity raising would be highly reliant on support from Billabong's existing major shareholders and would require significant additional capital to be invested in the Company. For any Shareholders who do not subscribe, existing Shareholders would need to cover the resulting shortfall in the raising, or new investors would need to be found. It should be noted that Oaktree, one of Billabong's largest shareholders, controls Boardriders. Further, the Centerbridge Shareholder and Gordon Merchant, through their presence or representation on the Billabong Board, have been involved in the Board's consideration of such a potential equity raising, and have decided to support the Boardriders Scheme proposal in the terms set out above. Therefore, support from these three major shareholders (which together comprise 51% of Billabong's existing issued shares) for such an equity raising, in preference to the Boardriders Scheme proposal, cannot be guaranteed.
- Even if other existing shareholders or new investors could be found to underwrite such an issue, an equity raising of the size needed is expected to require a substantial discount to the theoretical ex rights price, and would be highly dilutive for those shareholders who cannot, or decide not to, take up their entitlement.
- The Board has considered this alternative of an equity raising in detail, and, having regard to all of the factors outlined above, believes that the Boardriders Scheme proposal provides a superior outcome for Billabong Shareholders.

(b) **Sale of assets**

- Alternatively, significant further asset or brand disposals would be required in order to reduce debt to a level which would enable the debt to be refinanced in current debt markets. A sale of one of Billabong's major brands would not necessarily repay in full the outstanding Centerbridge/Oaktree Senior Secured Term Loan. Such a sale would also require consent of the lenders under the Centerbridge/Oaktree Senior Secured Term Loan¹³.
- The sale of one of the Company's three major brands would also mean that the scale of the remaining business would not be viable to allow the Company to fulfil its strategy of building global brands on global platforms.
- The Board has considered this alternative of further asset sales in detail, and, having regard to the factors outlined above, believes that the Boardriders Scheme proposal provides a superior outcome for Billabong Shareholders.

The Board also notes therefore, that in the absence of the Boardriders Scheme proposal, and if Billabong was not able to achieve the equity raising referred to above, Billabong would likely need to undertake the following:

- the significant asset or brand sales referred to above;
- materially change its strategy of building global brands on global platforms; and
- deliver a new strategy focused on cost reduction and with a more regional approach to brands.

¹¹ See Billabong's ASX announcement dated 5 January 2018.

¹² This is a target and is not a forecast. Actual results will be subject to, amongst other things, reasonable trading conditions and currency markets remaining relatively stable, and other counter-veiling market or macro-economic factors. Actual full FY19 results will not be known for more than 16 months.

¹³ Under the Centerbridge/Oaktree Senior Secured Term Loan Agreement, lender consent to the sale of RVCA, Element and related assets cannot be unreasonably withheld. Whether it would be reasonable to withhold consent may depend on whether any balance of the Centerbridge/Oaktree Senior Secured Term Loan owing, after using proceeds of asset sales to pay down the loan, is able to be refinanced.

In the view of the Billabong Board, any such alternative strategy and associated asset sales would be sub-optimal and would be unlikely to produce a more favorable outcome for Billabong Shareholders than the Boardriders Scheme proposal and potentially a materially worse outcome as the financial viability of such an alternative strategy is uncertain.

1.3 Why you may wish to vote against the Scheme

Although the Scheme is recommended unanimously by your Directors and the Independent Expert has concluded that the Scheme is in the best interests of Billabong Shareholders in the absence of a Superior Proposal, factors which may lead you to consider voting against the Scheme include the following:

(a) **You may disagree with the Billabong Directors' unanimous recommendation and the Independent Expert's conclusion**

Despite the view of your Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Billabong Shareholders or not in your individual interest.

(b) **You will not be able to participate in any improvement in the financial performance of the Billabong business which may occur in the future**

If the Scheme is approved and implemented, you will cease to be a Billabong Shareholder. As such, you will no longer be able to participate in any improvement in the financial performance of the Billabong business which may occur in the future, or the future prospects of Billabong's ongoing business, including any benefits that may result from being a Billabong Shareholder. However, there is no guarantee as to Billabong's future performance, as with all investments in listed securities.

(c) **You may wish to maintain your investment profile**

You may wish to maintain your investment in Billabong in order to have an investment in a publicly listed company with the specific characteristics of Billabong in terms of industry, operational and profile, size, capital structure and potential dividend stream.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Billabong Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of Billabong and they may incur transaction costs in undertaking any new investment.

(d) **The tax consequences of the Scheme for you may not suit your financial position**

Implementation of the Scheme may trigger taxation consequences for Billabong Shareholders, such as the realisation of a capital gain or a capital loss. A general guide to the taxation implications of the Scheme is set out in section 7. This guide is expressed in general terms only and Billabong Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

(e) **You may consider that there is potential for a Superior Proposal to be made in the foreseeable future**

It is possible that, if Billabong were to continue as an independent listed entity, a corporate control proposal for Billabong could materialise in the future, such as a takeover bid with a higher price. Implementation of the Scheme will mean that Billabong Shareholders will not receive the benefit of any such proposal.

Since the announcement of the indicative, non-binding proposal from Boardriders by Billabong to the ASX on 1 December 2017 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Billabong Directors are not aware of any superior or any alternative proposal that is likely to emerge.

The Scheme Implementation Deed prohibits Billabong from soliciting a Competing Proposal. However, Billabong is permitted to respond to any Competing Proposal should the Billabong Directors determine that failing to do so would likely constitute a breach of their fiduciary or statutory duties (and after having obtained written advice from Billabong's external legal and, if appropriate, financial advisers). Further details of the key terms of the Scheme Implementation Deed are provided in section 8.3.

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2. FREQUENTLY ASKED QUESTIONS



2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	MORE INFORMATION
What is the Scheme?	<p>The Scheme is a scheme of arrangement, which is a statutory procedure that is commonly used to enable one company to acquire another company.</p> <p>The Scheme is between Billabong and Scheme Shareholders and will effect the acquisition of Billabong by Boardriders.</p> <p>If the Scheme is approved and implemented, Scheme Shareholders will receive a cash payment equal to A\$1.00 per Share in relation to the transfer of the Billabong Shares to Boardriders.</p>	<p>Section 3 contains an overview of the Scheme and a copy of the Scheme is contained in Annexure B.</p>
What do the Billabong Directors recommend and how do they intend to vote?	<p>Your 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.</p> <p>Each Billabong Director who holds Billabong Shares intends to vote all Billabong Shares held or controlled by them in favour of the Scheme subject to the same qualifications.</p>	<p>Section 1.1 provides a summary of the reasons why the Billabong Directors consider that Billabong Shareholders should vote in favour of the Scheme.</p> <p>Section 1.2 provides a summary of certain alternative options to the Scheme which have been considered by the Board.</p> <p>Section 1.3 provides a summary of some of the reasons why Shareholders may wish to vote against the Scheme.</p>
What is the opinion of the Independent Expert?	<p>The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Billabong Shareholders, in the absence of a Superior Proposal.</p>	<p>A copy of the Independent Expert's Report is contained in Annexure A.</p>

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QUESTION	ANSWER	MORE INFORMATION
<p>What is Centerbridge's and Oaktree's involvement in the Transaction?</p>	<p>Under the Scheme, all of the Shares in Billabong, other than those held by the Oaktree Shareholder, will be acquired by Boardriders, which is controlled by Oaktree.</p> <p>Centerbridge has no interest whatsoever in Boardriders. Centerbridge is not part of the Boardriders proposal to acquire Billabong, nor is Centerbridge acting in concert with Oaktree or Boardriders in connection with the proposal.</p> <p>Centerbridge has decided that its commercial interests are better served by selling its shares in Billabong at the price being offered to all Scheme Shareholders of \$1.00 per share, as compared to continuing to hold its investment in Billabong.</p> <p>Affiliates of Centerbridge and Oaktree are currently senior secured lenders to Billabong. Boardriders proposes to put in place new debt facilities to fund the Transaction and the ongoing operations of the merged Boardriders/Billabong entity post-implementation of the Scheme. As a condition to such debt facilities, the lenders require that the debt obligations owing to the Centerbridge Lender under the Centerbridge/Oaktree Senior Secured Term Loan Agreement are repaid or otherwise discharged. To ensure this condition precedent can be satisfied, and subject to the Scheme proceeding, Boardriders has agreed to put Billabong in sufficient funds to repay amounts outstanding (including principal and interest) under the Centerbridge/Oaktree Senior Secured Term Loan Agreement which have not otherwise been discharged on the Implementation Date.</p> <p>Consistent with Centerbridge having no involvement in the Boardriders proposal to acquire Billabong nor any involvement in the conduct of the business of the merged Boardriders/Billabong entity post-implementation of the Scheme, the existing Equity Funding Deed (which was entered into in connection with the 2014 recapitalisation transaction and grants certain rights to Centerbridge and Oaktree in respect of Billabong) will be terminated (for nil consideration) with effect from implementation of the Scheme. Similarly, the Centerbridge Options will be cancelled (for nil consideration) on the Implementation Date.</p>	<p>Section 3.4 provides a summary of Centerbridge's and Oaktree's involvement in the Transaction and section 3.5 describes the proposed arrangements to discharge the outstanding debt under the Centerbridge/Oaktree Senior Secured Term Loan. Sections 3.6 and 3.7 address the cancellation of the Centerbridge Options and the termination of the Equity Funding Deed, respectively.</p>
<p>How do the Centerbridge Shareholder and Gordon Merchant intend to vote?</p>	<p>The Centerbridge Shareholder, which holds approximately 19.30% of the Shares in Billabong, intends to vote 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 Shareholders.</p> <p>Gordon Merchant, who directly and indirectly controls the right to vote approximately 12.8% of the shares in Billabong, has stated that he intends to 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.</p>	<p>N/A</p>

QUESTION	ANSWER	MORE INFORMATION
Who is Boardriders?	<p>Boardriders is a U.S. company, previously known as Quiksilver, Inc. and is one of the world's leading outdoor sports lifestyle companies. It designs, develops and distributes branded apparel, footwear, accessories and related products. Its brands, inspired by a passion for outdoor action sports, represent a casual lifestyle for young-minded people who connect with its boardriding culture and heritage. Its three core brands, Quiksilver, Roxy, and DC, are synonymous with the heritage and culture of surfing, skateboarding and snowboarding. Boardriders' products and brands are sold in over 100 countries.</p> <p>Boardriders has approximately 5,700 employees in more than 31 countries.</p>	<p>Section 5 contains further details about Boardriders and its group of companies.</p>
Are there any conditions to be satisfied?	<p>There are certain conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become effective.</p> <p>In summary, as at the date of this Scheme Booklet, the outstanding conditions include:</p> <ul style="list-style-type: none"> • FIRB approval; • Competition Approvals; • approval from eligible Billabong Shareholders; • Court approval; • no legal or regulatory restraints on or orders preventing the implementation of the Scheme; • no Billabong Material Adverse Change occurring between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date; • no Billabong Prescribed Occurrence occurring between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date; • the representations and warranties given by Billabong and Boardriders (including as to Boardriders' funding arrangements) being true and correct in all material respects on the date of the Scheme Implementation Deed and 8.00am on the Second Court Date (and at any time between those dates in respect of the adequacy of Boardriders' funding arrangements); and • the expiration of the Marketing Period in respect of Boardriders' funding arrangements. <p>As at the date of this Scheme Booklet, the Directors are not aware of any reason why these conditions should not be satisfied or waived (where capable of waiver).</p>	<p>Section 8.3(a) contains further information on the conditions to the Scheme.</p> <p>Section 8.4 contains further information on the status of the regulatory conditions to the Scheme.</p>

QUESTION	ANSWER	MORE INFORMATION
Can I sell my Billabong Shares now?	<p>You can sell your Billabong Shares on market at any time before close of trading on ASX on the Effective Date at the then prevailing market price (which may vary from the Scheme Consideration).</p> <p>Billabong intends to apply to ASX for Billabong Shares to be suspended from official quotation on ASX from close of trading on the Effective Date (which is currently expected to be 9 April 2018). You will not be able to sell your Billabong Shares on market after this time.</p>	N/A
What vote is required to approve the Scheme?	<p>For the Scheme to proceed, the Scheme Resolution must be passed by:</p> <ul style="list-style-type: none"> a majority in number of Billabong Shareholders (other than Excluded Shareholders) who vote on the Scheme Resolution in person or by proxy; and at least 75% of the votes cast by Billabong Shareholders (other than Excluded Shareholders) on the Scheme Resolution. <p>The Court has the discretion to waive the first of these two requirements if it considers it appropriate to do so.</p>	Section 3.2(a) and the Notice of Meeting contained in Annexure D set out further details on the Scheme approval requirements.
Am I entitled to vote?	Each Billabong Shareholder (other than each Excluded Shareholder) who is registered on the Register at 7.00pm (Sydney time) on 26 March 2018 is entitled to vote at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote.
How do I vote?	You can vote by appointing a proxy or attorney to attend the Scheme Meeting and vote on your behalf or by attending the Scheme Meeting in person.	The Notice of Meeting contained in Annexure D sets out further details on how to vote at the Scheme Meeting.
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on 28 March 2018 at Billabong International Limited, Burleigh A & B Rooms, 1 Billabong Place, Burleigh Heads, Queensland, commencing at 10.00am (Queensland time).	The Notice of Meeting contained in Annexure D sets out further details on the Scheme Meeting.
When will the result of the Scheme Meeting be known?	The result of the Scheme Meeting will be available shortly after the conclusion of the meeting and will be announced to ASX once available. Even if the Scheme Resolution is passed by the Scheme Meeting, the Scheme is subject to approval of the Court.	N/A
What happens to my Billabong Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes effective?	If you do not vote, or vote against the Scheme, and the Scheme becomes effective, any Billabong Shares held by you on the Scheme Record Date (currently expected to be 16 April 2018) will be transferred to Boardriders and you will receive the Scheme Consideration, notwithstanding that you may not have voted or voted against the Scheme.	N/A
Can I oppose the Scheme at the Second Court Hearing?	You have the right as a Billabong Shareholder to appear and make submissions at the Second Court Hearing which is scheduled to be held at 10:15am on 6 April 2018 at the Federal Court of Australia – New South Wales Registry, Law Courts Building, Queens Square, 184 Phillip Street, Sydney.	Important notices on page 2
When will I be paid?	Payment of the Scheme Consideration will occur in accordance with the Scheme on the Implementation Date. The Implementation Date is expected to occur on 24 April 2018.	Section 3.1 sets out further details on the Scheme Consideration.

QUESTION	ANSWER	MORE INFORMATION
How will I be paid?	<p>All payments will be made by direct deposit into your nominated bank account, as advised to the Billabong Registry as at the Scheme Record Date.</p> <p>If you have not nominated a bank account, payment will be made by Australian dollar cheque, sent by post to your registered address as shown on the Register.</p>	Section 3.1 sets out further details on the Scheme Consideration.
Do I have to give any warranties in relation to my Scheme Shares?	Yes. Each Scheme Shareholder will be deemed to have warranted to Boardriders that all of their Scheme Shares will, at the date of transfer under the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and that they have full power and capacity to sell and to transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to Boardriders.	Section 3.3 sets out further details on the warranties given by Scheme Shareholders.
What happens if the Scheme does not proceed?	<p>If the Scheme is not approved at the Scheme Meeting, or another condition to the Scheme is not satisfied or waived (where capable of waiver), the Scheme will not be implemented.</p> <p>If the Scheme is not implemented, Scheme Shareholders will not receive the Scheme Consideration but will retain their Billabong Shares. In these circumstances, Billabong will, in the absence of another proposal, continue to operate as a stand-alone company listed on ASX and you will continue to hold your Shares and continue to be exposed to risks and opportunities associated with your investment in Billabong.</p>	N/A
Where can I get further information?	For further information, you can call the Shareholder Information Line on 1300 117 907 (within Australia) or +61 3 9415 4335 (outside Australia).	N/A

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3. OVERVIEW OF THE SCHEME AND ANCILLARY TRANSACTIONS



3 OVERVIEW OF THE SCHEME AND ANCILLARY TRANSACTIONS

3.1 Consideration

If the Scheme is approved and implemented, Scheme Shareholders will receive total cash payments of A\$1.00 per Share, in return for the transfer of their Billabong Shares to Boardriders.

Payments will be made by direct deposit into your nominated bank account, as advised to the Billabong Registry as at the Scheme Record Date. If you have not nominated a bank account, payment will be made by Australian dollar cheque.

If a Scheme Shareholder does not have a registered address, or Billabong considers the Scheme Shareholder is not known at its registered address and no bank account has been nominated, payments due to the Scheme Shareholder will be held by Billabong until claimed or applied under the relevant laws dealing with unclaimed money.

Payment of the Scheme Consideration will be made on the Implementation Date, currently expected to be 24 April 2018.

3.2 Key steps in the Scheme

(a) Scheme approval requirements

The Scheme will become effective and be implemented only if it is:

- approved by the requisite majorities of Billabong Shareholders (other than Excluded Shareholders) at the Scheme Meeting to be held on 28 March 2018; and
- approved by the Court at the Second Court Hearing.

Approval by Billabong Shareholders requires the Scheme Resolution to be approved by:

- a majority in number (more than 50%) of Billabong Shareholders (other than Excluded Shareholders) present and entitled to vote at the Scheme Meeting (either in person or by proxy); and
- at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by Billabong Shareholders (other than Excluded Shareholders) present and entitled to vote at the Scheme Meeting (either in person or by proxy).

The Court has the power to waive the first requirement.

In the event that:

- the Scheme is agreed to by the requisite majorities of Billabong Shareholders (other than Excluded Shareholders) at the Scheme Meeting; and
- all other conditions (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

then Billabong will apply to the Court for orders approving the Scheme.

Each Billabong Shareholder has the right to appear at the Second Court Hearing.

(b) Effective Date

If the Court approves the Scheme and all other conditions have been satisfied or waived, where capable of waiver, the Scheme will become effective on the date when a copy of the Court order approving the Scheme is lodged with ASIC. Billabong will, on the Scheme becoming effective, give notice of that event to ASX.

Billabong intends to apply to ASX for Billabong Shares to be suspended from official quotation on ASX from close of trading on the Effective Date.

(c) **Scheme Record Date**

The Scheme Shareholders will be entitled to receive the Scheme Consideration in respect of the Shares they hold as at the Scheme Record Date (being the fifth Business Day after the Effective Date).

(i) **Dealings on or prior to the Scheme Record Date**

For the purpose of determining which Billabong Shareholders (other than Excluded Shareholders) are eligible to participate in the Scheme, dealings in Billabong Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered on the Register as the holder of the relevant Billabong Shares as at 7.00pm (Sydney time) on the Scheme Record Date (currently expected to be 16 April 2018); and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Billabong Registry on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purposes of determining entitlements under the Scheme, Billabong will not accept for registration or recognise any transfer or transmission applications in respect of Billabong Shares received after the Scheme Record Date.

(ii) **Dealings after the Scheme Record Date**

For the purpose of determining entitlements to the Scheme Consideration, Billabong must maintain the Register in its form as at the Scheme Record Date (currently expected to be 16 April 2018) until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- all statements of holding for Scheme Shares will cease to have effect as documents relating to title in respect of such Scheme Shares; and
- each entry on the Register relating to Scheme Shares will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of such Scheme Shares.

(d) **Implementation Date**

The Implementation Date is, subject to certain conditions set out in the Scheme, the fifth Business Day after the Scheme Record Date. The Implementation Date is currently expected to be 24 April 2018.

Prior to implementation of the Scheme, and by 12.00 noon on the Implementation Date, Boardriders must pay or procure payment into a trust account nominated by Billabong the aggregate Scheme Consideration payable to Scheme Shareholders.

On the Implementation Date, which is currently expected to be 24 April 2018:

- Billabong will pay the Scheme Consideration received from Boardriders to Scheme Shareholders;
- the Scheme Shares will be transferred to Boardriders without Scheme Shareholders needing to take any further action;
- Boardriders will ensure that funding is made available to allow Billabong to repay (or cause the repayment) or discharge (or cause the discharge) all amounts owing by the Billabong Group (including principal and interest) under the Centerbridge/Oaktree Senior Secured Term Loan Agreement and the BAML ABL Facility (see section 3.5 below);
- the Centerbridge Options will be cancelled (see section 3.6 below); and
- the Equity Funding Deed will terminate (see section 3.7 below).

(e) **Deed Poll**

Boardriders has executed the Deed Poll pursuant to which it has undertaken in favour of each Scheme Shareholder to procure that each Scheme Shareholder is provided with the Scheme Consideration to which they are entitled under the Scheme, in accordance with the terms of the Scheme and subject to the Scheme becoming effective.

A copy of the Deed Poll is contained in Annexure C.

3.3 Warranties by Scheme Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to Boardriders that all of their Scheme Shares which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and that they have full power and capacity to sell and to transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to Boardriders.

3.4 Centerbridge's and Oaktree's involvement in the Transaction

As discussed above, each of Oaktree and Centerbridge (through their respective affiliated entities) hold approximately 19.3% of the shares in Billabong, and is a senior lender to Billabong under the Centerbridge/Oaktree Senior Secured Term Loan Agreement. Centerbridge also has a representative on the Billabong Board. Oaktree and Centerbridge acquired these equity and debt investments in Billabong as part of a re-capitalisation of Billabong which occurred in 2014. As part of that re-capitalisation, each of Oaktree and Centerbridge were also granted options over Billabong shares, and Oaktree, Centerbridge and Billabong entered into an Equity Funding Deed which, amongst other things, gave each of Oaktree and Centerbridge the right to appoint a certain number of directors to the Billabong Board, while they continued to hold their investment in Billabong. The acquisition by each of Oaktree and Centerbridge of their shares as part of this re-capitalisation was approved by Billabong shareholders in general meeting in early 2014.

While Oaktree and Centerbridge acquired these equity and debt investments in Billabong as part of the same re-capitalisation transaction in 2014, and were referred to at that time (and subsequently) as the 'Centerbridge/Oaktree consortium', Oaktree and Centerbridge are separate private equity funds, and make decisions independently of each other in respect of their respective investments in Billabong. After the re-capitalisation transaction in 2014, each of Centerbridge and Oaktree did file a substantial shareholding notice under the Corporations Act on the basis that they were 'associates' for the purposes of the Act (so that their respective shareholdings were aggregated to calculate each of their 'voting power' in Billabong for the purposes of the Act). However, as was made clear in those notices, this 'association' was merely because the Equity Funding Deed entered into at the time of the re-capitalisation gave them certain joint rights to appoint additional directors to the Billabong Board if the Board exceeded a certain size. Those circumstances have never arisen, but each of Centerbridge and Oaktree took the view that they needed to file a substantial shareholding notice disclosing 38.6% voting power because of this technical 'association'.

In 2016, Oaktree, through certain affiliated entities, acquired a majority interest in Boardriders. Centerbridge has no interest whatsoever in Boardriders. Prior to Oaktree acquiring its equity interest in Boardriders, the Oaktree nominee on the Billabong Board resigned as a director, and Oaktree has not had a nominee on the Billabong Board since that time.

In 2017, Oaktree and Boardriders approached Billabong with a proposal under which Boardriders would acquire all of the shares in Billabong not already owned by the Oaktree Shareholder by way of scheme of arrangement. One of the reasons for Oaktree/Boardriders seeking to acquire Billabong is because of the benefits which Oaktree/Boardriders believe that they can obtain from combining the Billabong and Boardriders businesses (see section 5.5).

Centerbridge is not part of the Boardriders proposal to acquire Billabong, nor is Centerbridge acting in concert with Oaktree or Boardriders in any way in connection with the proposal. Centerbridge has decided that its commercial interests are better served by selling its shares in Billabong at the price being offered to all Shareholders (other than Excluded Shareholders) under the Scheme of \$1.00 per share, as compared to continuing to hold its investment in Billabong. The Centerbridge Shareholder has therefore advised Billabong that it intends to vote all of the Shares held by it in favour of the Scheme¹⁴. Centerbridge's representative on the Billabong Board has also recommended that Billabong shareholders vote in favour of the Scheme, in the absence of a superior proposal for Billabong.

¹⁴ 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 Shareholders.

As discussed in sections 3.5, 3.6 and 3.7 below, if the Scheme proceeds then, on implementation of the Scheme (i) all amounts owing to the Centerbridge Lender under the Centerbridge/Oaktree Senior Secured Term Loan Agreement will be repaid, and the Centerbridge Lender's security over Billabong assets will be released; (ii) the Centerbridge Options acquired by Centerbridge as part of the 2014 re-capitalisation transaction will be cancelled for no consideration; and (iii) the Equity Funding Deed, including Centerbridge's rights to nominate directors of Billabong, will be terminated for no consideration. Centerbridge will have no involvement in the business of the merged Boardriders/Billabong entity after implementation of the Scheme.

If the Scheme does not proceed (for example, if the Scheme is not approved by the requisite majorities of Billabong Shareholders (other than Excluded Shareholders) at the Scheme Meeting), Centerbridge will retain its 19.3% shareholding in Billabong; it will remain a senior lender to Billabong under the Centerbridge/Oaktree Senior Secured Term Loan Agreement, and it will retain the Centerbridge Options and its right to nominate directors under the Equity Funding Deed.

There is a risk that in circumstances where the Scheme does not proceed and Centerbridge and Oaktree continue to be both major shareholders in the Company as well as senior secured lenders to the Company, their interests may not always align with those of the other shareholders in the Company. In particular, as discussed in detail in sections 1.1(e), 1.2 and 6.3(d) of this Scheme Booklet, the Centerbridge/Oaktree Senior Secured Term Loan must be refinanced no later than September 2019 (and possibly earlier in certain circumstances). In this scenario, there is a risk that, in any discussions between Billabong on the one hand, and Centerbridge or Oaktree on the other, about the refinancing of the loan, Centerbridge and Oaktree may favour their interests as lenders over their interests as shareholders in the Company.

3.5 Repayment of debt under the Centerbridge/Oaktree Senior Secured Term Loan Agreement and BAML ABL Facility

Boardriders intends to fund the Scheme Consideration and, to the extent such amounts are to be repaid in cash, the repayment of the amounts outstanding under the Centerbridge/Oaktree Senior Secured Term Loan Agreement from a Term Loan Facility as described in section 5.6. One of the conditions precedent to drawing on such facility is the refinancing, repayment, discharge or satisfaction (as applicable) of certain existing debt of the Boardriders Group and Billabong Group on or substantially concurrently with such drawing. Such debt includes the Centerbridge/Oaktree Senior Secured Term Loan Agreement and the BAML ABL Facility. To ensure this condition precedent can be satisfied so as to enable the Term Loan Facility to be utilised to fund the payment of the Scheme Consideration on the Implementation Date, on 5 January 2018, Billabong entered into an agreement with Boardriders and the parties to the Centerbridge/Oaktree Senior Secured Term Loan Agreement pursuant to which the parties agreed that, subject to the Scheme proceeding, Boardriders has agreed to make available to Billabong or an entity nominated by it an amount sufficient to repay amounts outstanding (including principal and interest) under the Centerbridge/Oaktree Senior Secured Term Loan Agreement which have not otherwise been discharged on the Implementation Date.

Under the terms of the agreement, all amounts owing to the Centerbridge Lender will be repaid in cash and all amounts owing to the Oaktree Lender, in each case, under the Centerbridge/Oaktree Senior Secured Term Loan Agreement will be discharged or repaid by way of a combination of cash, intercompany loans and shares in Boardriders. The amount to be repaid to the Centerbridge Lender on implementation will depend on the Implementation Date and the interest that accrues up until that date, but is currently expected to be half of approximately USD\$177 million (i.e. approximately USD\$89 million).

In addition, Boardriders will utilise either the Term Loan Facility or the ABL Facility described in section 5.6 to repay in full any amount owing to the relevant lenders under the BAML ABL Facility.

3.6 Cancellation of Centerbridge Options

On 18 September 2013, Billabong granted the Centerbridge Options to the Centerbridge Shareholder, being 2,958,185 options to subscribe for Shares (on a one for one basis) with an exercise price of \$2.50 per option and an expiry date of 3 December 2020¹⁵. On 5 January 2018, Billabong entered into an agreement with Boardriders and the Centerbridge Shareholder under which, subject to the Scheme proceeding, the Centerbridge Options will be cancelled (for nil consideration) on the Implementation Date.

¹⁵ The number of options has been adjusted to reflect the consolidation which took place in December 2015.

3.7 Termination of Equity Funding Deed

On 18 September 2013, Billabong entered into the Equity Funding Deed with the Centerbridge Shareholder and the Oaktree Shareholder. On 5 January 2018, Billabong entered into an agreement with Boardriders, the Centerbridge Shareholder and Oaktree Shareholder under which, subject to the Scheme proceeding (among other things), the Equity Funding Deed will be terminated (for nil consideration) on the Implementation Date.

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4. INFORMATION ABOUT BILLABONG



4 INFORMATION ABOUT BILLABONG

4.1 Overview

Billabong is an action sports company that designs, manufactures and sells surf, skate, snow and sports apparel, accessories and hardgoods. The business operates the Billabong, RVCA, Element, VonZipper, Xcel, Kustom, Honolua and Palmers Surf brands. The Company sells its products at both the retail and wholesale level across three operating regions: Asia Pacific, the Americas and Europe.

Billabong was founded on Australia's Gold Coast by Gordon Merchant in 1973. Merchant's handmade boardshort designs quickly became popular among the local surfing community and by the 1980s the Billabong brand had established its place in Australian surf culture.

The brand soon found success in the large North American market and licences were also granted in New Zealand, Japan and South Africa and Europe.

The demand for Billabong products grew alongside the development of the professional surfing industry, and the Company expanded into other sectors favoured by its customers, such as skate, snow and wake.

Billabong listed on the Australian Securities Exchange in August 2000, giving the Company the capacity to grow further. It added a number of action sports brands to its portfolio, including surf, skate and mixed martial arts brand RVCA, skate specialist Element, VonZipper sunglasses and Xcel wetsuits.

Billabong's rapid expansion and broadening of its product offering through multiple acquisitions coincided with the start of the global financial crisis in 2007/08. The turmoil in world markets and the associated sudden collapse in consumer confidence placed pressure on the Company's ability to sustain its debt. In response, the Company rationalised part of its brand portfolio and undertook a significant recapitalisation in 2013/14. It has since embarked on a multi-year program to address the structural changes that have impacted the global retail sector and the disruption caused by the swift development of the online sales channel.

At the centre of the program is the move to an omni-channel sales model, and a concentration on the Company's three core brands of Billabong, RVCA and Element:

- Billabong is an Australian men's and women's surf lifestyle brand that is focused on boardsports. Billabong's key product offering covers a broad range of apparel and technical boardsports products including boardshorts, t-shirts and tanks, outerwear, bottoms and jeans, footwear, wetsuits and surf accessories and snow gear.
- RVCA is the only brand in action sports that covers such a diverse set of youth subcultures as Art to Surf to Skate to Mixed Martial Arts. The RVCA Artist Network Program supports new and breakthrough art projects that are then incorporated in exclusive designs for RVCA products.
- Element is a long-standing pioneer brand in the skate industry, grounded in its celebration of the outdoors, and marked its 25th anniversary in 2017. One of Element's great assets is the diversity and depth of the Element skate team.

Billabong's brands sponsor some of the world's leading surf, skate and mixed martial arts athletes who, together with other brand ambassadors and the brands themselves, have accumulated a social media followership of more than 36 million.

Billabong's products are sold via three main commercial channels:

- Wholesale: the Company sells its products to a diversified network of retail businesses, which are serviced by both internal and external sales forces. Wholesale has historically been Billabong's largest channel.
- Retail: Billabong's stores comprise a mix of single-branded flagship stores, multi-branded stores and outlet stores. Multi-branded retail stores operate under a series of different banners, typically reflecting the legacy branding from the acquisitions made by Billabong. Billabong has a particularly strong multi-brand retail presence in both Australia and New Zealand. Outlet stores facilitate the sale of previous season inventory.
- Online: Billabong sells its products on-line through brand-specific websites and websites for its multi-brand stores.

As at 30 June 2017, Billabong operates 372 retail stores located around the world, outlined in the table below.

COUNTRY / REGION	NUMBER OF STORES AS AT 30 JUNE 2017
Australia	105
Europe	104
North America	49
Japan	46
South Africa	27
New Zealand	26
Other	15
TOTAL	372

Billabong's stores trade under a range of brand names, including but not limited to: Billabong, Element, RVCA, Surf Dive 'n' Ski (SDS), Amazon, Honolua, Becker, Two Seasons and Quiet Flight. Billabong also operates online retail ecommerce for each of its key brands.

In FY17, Billabong had revenue of A\$974.7 million (excluding revenues from third party royalties and the sales of Tigerlily), with the highest revenue being recorded in the Americas. This represents a 6.7% decrease in constant currency from the FY16 revenue.

REGION	REVENUE FY17 ¹⁶	REVENUE FY16
Americas	A\$432.9m	A\$481.3m
Asia Pacific	A\$367.0m	A\$395.0m
Europe	A\$174.8m	A\$192.7m
TOTAL	A\$974.7m	A\$1,069.0m

4.2 Billabong's Board and Key Management Personnel

(a) Billabong's Board

The Billabong Board comprises the following directors:

NAME	POSITION
Ian Pollard	Non-Executive Chairman
Neil Fiske	Executive Director
Gordon Merchant	Non-Executive Director
Howard Mowlem	Non-Executive Director
Kim Anderson	Non-Executive Director
Elliott Weinstein	Non-Executive Director

¹⁶ Table shows continuing operations sales revenue.

(b) **Billabong's Key Management Personnel**

Billabong's Key Management Personnel comprises the following individuals:

NAME	POSITION
Neil Fiske	Managing Director and Chief Executive Officer
Paul Burdekin	General Manager, Asia Pacific
Jim Howell	Chief Financial Officer
Kevin Meehan	Global General Manager, RVCA
Shannan North	Global President, Brand Billabong
Jean-Louis Rodrigues	General Manager, Europe
Michael Yerkes	Senior Vice President, Global Operations

4.3 Capital structure

(a) **Capital structure and market capitalisation**

As at the date of this Scheme Booklet, Billabong had 198,079,110 ordinary shares on issue.

As at 13 February 2018, being the last practicable date before the date of this Scheme Booklet, Billabong had a market capitalisation of approximately A\$194.12 million (based on a closing price of \$0.98 per Billabong Share).

(b) **Substantial shareholders**

Based on filings to ASX, the substantial holders of Billabong Shares as at 13 February 2018 are:

SUBSTANTIAL SHAREHOLDER	NUMBER OF SHARES ¹⁷	PERCENTAGE
CCP II Dutch Acquisition – E, B.V.	76,210,601	38.48%
OCM Clean Wave Holdings B.V.	76,210,601	38.48%
Gordon Stanley Merchant	25,368,716	12.81%
Ryder Investment Management Pty Ltd	20,395,055	10.3%
Adam Smith Asset Management	10,004,010	5.05%

(c) **Net debt**

As at 30 June 2017, Billabong Group had pro-forma net debt of A\$182 million. That FY17 pro-forma net debt comprised A\$221 million owing under the Centerbridge/Oaktree Senior Secured Term Loan and other debt facilities of A\$3 million; plus the RVCA contingent payment of A\$6 million; less cash (net of restricted cash) of A\$48 million¹⁸. Restricted cash represents cash that is subject to various constraints such that it is more in the nature of permanent working capital (e.g. cash securing various credit arrangements, cash held in jurisdictions which are subject to exchange controls or exit tax arrangements, cash in retail tills and other minimum cash balances required to maintain the group's operations). The RVCA contingent payment represents consideration payable, subject to achieving global sales targets for the brand.

¹⁷ This refers to the number of shares in Billabong in which the person or any associate has a relevant interest. As set out in section 3.4, CCP II Dutch Acquisition – E, B.V. and OCM Clean Wave Holdings B.V. are associates for the purposes of the Corporations Act.

¹⁸ Cash of A\$71 million, less restricted cash of A\$23 million.

4.4 Group structure

As at 30 June 2017, Billabong was the ultimate holding company of the following wholly-owned subsidiaries:

ENTITY NAME	COUNTRY OF INCORPORATION	BILLABONG EQUITY HOLDING (%)
Amazon (New Zealand) Pty Ltd	Australia	100
Beach Culture International Pty Ltd	Australia	100
Board Sports Retail Pty Ltd	Australia	100
Burleigh Point, Ltd	USA	100
GSM (Canada) Pty Ltd	Australia	100
BBG Asia Pty Ltd	Australia	100
GSM (Duranbah) Pty Ltd	Australia	100
GSM (Europe) Pty Ltd	Australia	100
GSM (Japan) Limited	Japan	100
GSM (NZ Operations) Limited	New Zealand	100
GSM (Operations) Pty Ltd	Australia	100
GSM (Trademarks) Pty Ltd	Australia	100
GSM Trading (South Africa) Pty Ltd	Australia	100
GSM Brasil Ltda	Brazil	100
GSM England Retail Ltd	England	100
GSM Espana Operations Sociedad Limitada	Spain	100
GSM Retail Inc	USA	100
GSM Rocket Australia Pty Ltd	Australia	100
GSM Trading (Singapore) Pty Ltd	Australia	100
Pineapple Trademarks Pty Ltd	Australia	100
Rocket Trademarks Pty Ltd	Australia	100
Seal Trademarks Pty Ltd	Australia	100
GSM (Operations) No. 1 Pty Ltd	Australia	100
GSM Chile Ltda	Chile	100
Sanmaree Pty Ltd	Australia	100
PT Billabong Indonesia	Indonesia	100
Iron Manly Pty Ltd	Australia	100
ACN 006 819 183 Pty Ltd	Australia	100
GSM Treasury Pty Ltd	Australia	100
GSM (Indonesia) Pty Ltd	Australia	100
ACN (Indonesia) Pty Ltd	Australia	100
GSM Operations (Thailand) Ltd	Thailand	100

GSM Manufacturing (South Africa) (Proprietary) Ltd	South Africa	100
Billabong Holdings USA, Inc	USA	100
GSM Canada Retail, Inc	Canada	100
GSM Czech Republic s.r.o.	Czech Republic	100
GSM Rocket Europe SAS	France	100
GSM Germany Retail GmbH	Germany	100
GSM Netherlands Retail B.V.	Netherlands	100
GSM Online Retail, Inc	USA	100

4.5 Historical financial information

The following section contains historical financial information about Billabong for the years ended 30 June 2016 and 30 June 2017. The financial information in this section is a summary only and is prepared for the purpose of this Scheme Booklet. It does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The information has been extracted from the audited financial reports of Billabong for the years ended 30 June 2016 and 30 June 2017.

Further detail on Billabong's financial performance and financial statements for the year ended 30 June 2017 as announced to ASX on 30 August 2017 can be found in the Reports section of the Billabong website at <http://www.billabongbiz.com>.

(a) Consolidated income statement

	2017 \$'000	2016 \$'000
Revenue from continuing operations	979,452	1,075,634
Cost of goods sold	(479,255)	(533,922)
Other income	3,480	8,653
Selling, general and administrative expenses	(364,123)	(410,243)
Other expenses	(222,392)	(120,357)
Finance costs	(37,954)	(42,347)
Loss before income tax	(120,792)	(22,582)
Income tax expense	(9,692)	(7,844)
Loss from continuing operations	(130,484)	(30,426)
Profit from discontinued operations after income tax	53,355	6,687
Loss for the year	(77,129)	(23,739)
Loss for the year attributable to the members of Billabong International Limited	(77,129)	(23,739)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company	Cents	Cents
Basic earnings per share	(66.0)	(15.4)
Diluted earnings per share	(66.0)	(15.4)
Earnings per share for loss attributable to the ordinary equity holders of the Company		
Basic earnings per share	(39.0)	(12.0)
Diluted earnings per share	(39.0)	(12.0)

(b) Consolidated statement of comprehensive income

	2017 \$'000	2016 \$'000
Loss for the year	(77,129)	(23,739)
Other comprehensive expense		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges, net of tax	2,223	(4,717)
Exchange differences on translation of foreign operations	(9,335)	7,955
Net investment hedge, net of tax	6,051	(3,727)
Other comprehensive expense for the year, net of tax	(1,061)	(489)
Total comprehensive expense for the year	(78,190)	(24,228)
Total comprehensive expense for the year attributable to members of Billabong International Limited	(78,190)	(24,228)
Total comprehensive (expense)/income for the year attributable to members of Billabong International Limited arises from:		
Continuing operations	(131,545)	(30,915)
Discontinued operations	53,355	6,687
	(78,190)	(24,228)

(c) Consolidated balance sheet

	2017	Restated	Restated
	\$'000	2016	2015
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	71,739	89,171	153,334
Trade and other receivables	169,325	171,644	164,504
Inventories *	162,311	182,604	186,330
Current tax receivables	28	1,499	1,934
Other	18,315	16,584	16,856
Total current assets	421,718	461,502	522,958
Non-current assets			
Receivables	7,351	7,792	7,202
Property, plant and equipment	73,160	86,321	89,504
Intangible assets	57,918	165,035	161,534
Deferred tax assets	13,246	15,712	15,384
Other	4,731	4,934	6,603
Total non-current assets	156,406	279,794	280,227
Total assets	578,124	741,296	803,185
LIABILITIES			
Current liabilities			
Trade and other payables *	151,068	173,438	189,734
Deferred payment	---	---	20,378
Borrowings	4,207	8,168	6,905
Current tax liabilities	5,054	3,629	4,115
Provisions	14,160	16,144	21,240
Total current liabilities	174,489	201,379	242,372
Non-current liabilities			
Borrowings	216,114	266,209	259,950
Deferred tax liabilities	---	---	---
Provisions	4,874	11,577	15,823
Other payables	7,403	9,241	9,855
Total non-current liabilities	228,391	287,027	285,628
Total liabilities	402,880	488,406	528,000
Net assets	175,244	252,890	275,185
EQUITY			
Contributed equity	1,094,274	1,094,274	1,094,274
Treasury shares	(20,302)	(20,431)	(20,959)
Option reserve	12,484	12,069	10,664
Other reserves	(106,808)	(105,747)	(105,258)
Retained losses *	(804,404)	(727,275)	(703,536)
Capital and reserves attributable to members of Billabong International Limited	175,244	252,890	275,185
Total equity	175,244	252,890	275,185

(d) **Consolidated statement of cash flows**

	2017	2016
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of sales taxes)	1,085,053	1,173,210
Payments to suppliers and employees (inclusive of sales taxes)	(1,051,905)	(1,177,978)
	33,148	(4,768)
Interest received	394	672
Other revenue	6,854	12,989
Finance costs	(27,081)	(27,874)
Income taxes paid	(4,123)	(3,122)
Net cash inflow/(outflow) from operating activities	9,192	(22,103)
Cash flows from investing activities		
Payments for deferred consideration	(984)	(18,646)
Payments for property, plant and equipment	(12,803)	(23,861)
Payments for finite life intangible assets	(8,385)	(14,143)
Proceeds from sale of business, net of cash divested and transaction costs	57,644	---
Proceeds from sale of immaterial operations, net of cash divested and transaction costs	(1,520)	16,143
Proceeds from sale of property, plant and equipment	142	6,359
Net cash inflow/(outflow) from investing activities	34,094	(34,148)
Cash flows from financing activities		
Proceeds from borrowings	18,594	5,202
Repayment of borrowings	(76,322)	(16,585)
Net cash outflow from financing activities	(57,728)	(11,383)
Net decrease in cash and cash equivalents	(14,442)	(67,634)
Cash and cash equivalents at the beginning of the year	89,171	153,334
Effects of exchange rate changes on cash and cash equivalents	(2,990)	3,471
Cash and cash equivalents at the end of the year	71,739	89,171

4.6 Half year results

Billabong expects its consolidated financial statements for the half-year ended 31 December 2017 to be publicly released on or around 23 February 2018. Once available, Billabong will provide a copy of the financial statements for the half year ended 31 December 2017 free of charge to any Billabong Shareholder who requests a copy, prior to the Scheme being approved by the Court.

4.7 FY18 guidance

The Company reaffirms the earnings guidance given in its announcement to the ASX on 5 January 2018 that it expects the Billabong Group's FY18 EBITDA (excluding significant items) to be in the range between \$51.1 million (being the Billabong Group's FY17 EBITDA (excluding significant items)) and \$54 million, subject to reasonable trading conditions and currency markets remaining relatively stable. As noted in Billabong's announcement on 5 January 2018, the Billabong 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. Given the increased 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 corresponding period and all the growth biased towards the second half of the year.

4.8 Material changes to Billabong's financial position since 30 June 2017

Within the knowledge of the Billabong Directors and other than as disclosed in this Scheme Booklet or announced to ASX, the financial position of Billabong has not materially changed since 30 June 2017, being the date of Billabong's financial report for the year ended 30 June 2017.

4.9 Billabong Directors' intentions for the business

The Corporations Act requires a statement by the Billabong Directors of their intentions regarding Billabong's business. If the Scheme is implemented, the existing Billabong Directors will resign and the Billabong Board will be reconstituted in accordance with the instructions of Boardriders after the Implementation Date. Accordingly, it is not possible for the Billabong Directors to provide a statement of their intentions after the Scheme is implemented regarding:

- the continuation of the business of Billabong or how Billabong's existing business will be conducted;
- any major changes, if any, to be made to the business of Billabong; or
- the future employment of the present employees of Billabong.

If the Scheme is implemented, Boardriders will indirectly own and control all of the Billabong securities. The Billabong Directors have been advised that the intentions of Boardriders with respect to these matters are as set out in section 5.7.

If the Scheme is not implemented, the Billabong Directors intend to continue to operate in the ordinary course of the business, subject to the issues discussed in section 1.2.

4.10 Publicly Available Information

Billabong is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, Billabong is subject to ASX Listing Rules which require (subject to some exceptions) continuous disclosure of any information Billabong has that a reasonable person would expect to have a material effect on the price or value of Billabong securities.

ASX maintains files containing publicly disclosed information about all companies listed on ASX. Information disclosed to ASX by Billabong is available on ASX's website at www.asx.com.au.

In addition, Billabong is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Billabong may be obtained from an ASIC office.

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5. INFORMATION ABOUT BOARDRIDERS

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5 INFORMATION ABOUT BOARDRIDERS

The information contained in this section 5 has been prepared by Boardriders. The information concerning Boardriders and its group companies and the intentions, views and opinions contained in this section are the responsibility of Boardriders. Billabong and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

5.1 Introduction

Boardriders is a US-based outdoor sports lifestyle company that began US operations in 1976. Boardriders designs, develops and distributes branded apparel, footwear, accessories and related products. Much like Billabong, Boardriders' apparel and footwear brands represent a casual lifestyle for young-minded people who are inspired by a passion for outdoor action sports, including surfing, skating and snow sports.

In March 2017, Quiksilver, Inc. (**Quiksilver**) changed its name to Boardriders, Inc.

Boardriders' products and brands, including Quiksilver, Roxy and DC, are sold in over 100 countries.

These products are sold through a wide range of distribution channels including surf shops, skate shops, snow shops, its proprietary Boardriders shops and other company-owned retail stores, other specialty stores, select department stores and through various e-commerce channels.

5.2 Overview of Boardriders brands

Boardriders' three core brands, Quiksilver, Roxy and DC, are sold internationally.

(a) **Quiksilver**

In 1969, the Quiksilver brand founders started making boardshorts and wetsuits in Torquay, Australia. Since then, Quiksilver has expanded to include a full range of apparel and accessories for men and boys inspired by surfing, snow and boardriding sports.

(b) **Roxy**

Introduced in 1991, Roxy includes a full range of apparel, footwear and accessories for women and girls inspired by surfing, beach, snow and boardriding sports.

(c) **DC**

Boardriders acquired the DC brand in 2004 and since then has developed the brand from a line of technical skateboarding shoes to include a full range of apparel, footwear and accessories for men, women and children inspired by skateboarding and snowboarding.

5.3 Licensing

In addition to the sale of apparel and accessories, Boardriders also licenses certain product categories to third party licensees. Generally, these licenses allow the licensees to design, source, and/or sell products bearing Boardriders' trademarks.

5.4 Boardriders' Board of Directors

Boardriders' Board of Directors as at the date of this Scheme Booklet comprises the following members:

NAME	POSITION
Matthew Wilson	Non-Executive Director, Chairman of the Board
Pierre Agnes ¹⁹	Director
David Tanner	Chief Executive Officer
Thomas Casarella	Non-Executive Director
Franck Riboud	Independent Non-Executive Director

Matthew Wilson

Non-executive Director, Chairman of the Board

Mr. Wilson is a Managing Director and Co-Portfolio Manager of the Special Situations Group of Oaktree. He is responsible for management of the strategy and all of its investing activities. Prior to joining Oaktree in 2007, Mr. Wilson worked at H.I.G. Capital, LLC, where he was a founding member of Bayside Capital, Inc., a firm focused on special situations and credit-oriented investments. Previously, he worked at J.H. Whitney & Co., in its middle market buyout group. Mr. Wilson began his career in the Investment Banking division at Merrill Lynch & Co. He currently serves as Chairman of the Board of Directors of Agro Merchants and Boardriders, and on the board of Glam Squad. Mr. Wilson previously served on the boards of AdvancePierre Foods, Billabong, Diamond Foods and the Bridge Direct. He is also the previous Chairman of the Board of Trustees and currently serves on the Board of Directors of The Children's Bureau of Los Angeles. Additionally, Mr. Wilson serves on the Board of Trustees of The Chadwick School.

Pierre Agnes

Director

Mr Agnes has been a member of the Board of Directors and Boardriders' Chief Executive Officer since March 2015. Mr Agnes previously served as Boardriders' President from October 2014, Global Head of Apparel from March 2013, and President of Quiksilver Europe from June 2005. Prior to that, he served as Managing Director of Quiksilver Europe from December 2003 to June 2005. Between 1992 and 2002, Mr Agnes founded and operated Omareef Europe, a licensee for Quiksilver's wetsuits and eyewear that Boardriders purchased in November 2002. Mr Agnes originally joined Quiksilver in 1988, first as team manager, and later in various capacities throughout our European marketing operations.

David Tanner

Chief Executive Officer

Mr. Tanner is a Managing Director within the Special Situations Group at Oaktree Capital Management and leads the Portfolio Transformation Team – a group of operating executives that specialise in partnering with portfolio companies to drive performance improvement. Throughout his career, Mr. Tanner has led improvement efforts in over 30 companies globally in the consumer, industrial, healthcare, and technology sectors; including more than a dozen turnaround situations. Prior to joining Oaktree in 2011, Mr. Tanner held a number of senior executive roles at Fortune Brands, Inc. Most recently, he was Senior Vice President of Strategy and Corporate Development charged with leading the turnaround of Fortune's then largest portfolio company, Beam Inc. Previously, Mr. Tanner drove M&A activities across Fortune's portfolio in the alcoholic beverages, building materials, sporting goods and security sectors; led their corporate strategy efforts; and managed a range of performance improvement initiatives across Fortune's portfolio companies. Prior thereto, he was a member of the Strategy and Corporate Finance practice at McKinsey & Company, Inc. where he worked with Fortune 500 companies and private equity firms on strategy and operational improvement efforts. Earlier in his career, Mr. Tanner served as a Major and Senior Pilot in the United States Air Force, including serving in Iraq. He currently serves on the boards of Boardriders, Coriant, Agro Merchants, and Hanley Wood. Mr. Tanner commenced his role as Chief Executive Officer of Boardriders in February 2018.

Thomas Casarella

Non-executive Director

Mr. Casarella is a Managing Director of Oaktree, where he leads investing in the consumer, and business and financial services industries. Prior to joining Oaktree in 2012, he served as Deputy Chief Restructuring Officer at the United States Department of

¹⁹ Pierre Agnes was recently declared lost at sea. It is intended that the board of directors of Boardriders will be reconfigured in the coming weeks.

the Treasury. Before that, Mr. Casarella was an investor in the Special Situations Group at Brookfield Asset Management and in the Restructuring Group at Lazard. He is a board member of Boardriders, Crossroads Building Supply and My Alarm Center. Mr. Casarella is also a member of the Board of Trustees for the Children's Bureau. He began his career as an analyst at Goldman Sachs.

Franck Riboud

Non-executive Director

Franck Riboud is Honorary Chairman of Danone's Board of Directors. Having originally joined the Danone Group in 1981, Mr. Riboud went on to hold successive positions with the Danone Group throughout the 1980's in management control, sales and marketing. After serving as Head of Sales at Heudebert, in September 1989 he was appointed to head up the department responsible for the integration and development of new companies in the Biscuits Division. He was involved in the largest acquisition, at the time, by a French group in the United States, namely the acquisition of Nabisco's European activities by BSN. In July 1990, he was appointed CEO of Société des Eaux Minérales d'Évian. In 1992, he became Head of Danone's Development Department. Danone then launched its international diversification marked by increased development in Asia and Latin America and the creation of an Export Department. From May 1996 to September 30, 2014, Mr. Riboud held the position of Chairman and CEO of Danone. Mr Riboud is a graduate of the École Polytechnique Fédérale de Lausanne.

5.5 Rationale for Boardriders' proposed acquisition of Billabong

Boardriders' business strategy has been to expand through both organic growth and strategic acquisitions, including in international markets. Boardriders believes that, with a strong portfolio of action sports brands, it will be able to compete strongly with global apparel, footwear and accessory retailers that are entering and expanding their presence in the action sports market.

Billabong is an iconic international brand that operates in the action sports and lifestyle apparel market. Boardriders believes that Billabong and the brands that it owns (including Billabong, Element, RVCA, Kustom, Palmers, Honolua, Xcel and Von Zipper) have a strong brand identity and shared values regarding the quality of its products and the excellent service provided to its customers.

The combination of Billabong and Boardriders is expected to benefit both entities as the group's increased size will drive significant efficiencies and economies through their respective global networks. In addition, the merged group will be highly diversified with revenues coming from multiple channels, customers, geographies, brands, genders, and product categories. Not only is this expected to increase the profitability of the group, but it will also increase value for customers and suppliers.

5.6 Funding arrangements for the Scheme Consideration

Boardriders intends to fund the Scheme Consideration via a new term loan facility of an aggregate principal amount of US\$450 million (**Term Loan Facility**).

Boardriders has entered into a debt commitment letter under which Deutsche Bank AG New York Branch, Bank of America, N.A. and Macquarie Capital Funding LLC (**Initial Lenders**) have severally committed to provide 40%, 40% and 20%, respectively, of the Term Loan Facility.

The maximum amount that could be required to fund the Scheme Consideration is A\$159,973,809 based on Billabong's issued share capital at the date of this Scheme Booklet. The total amount available to Boardriders under the Term Loan Facility is in excess of such maximum amount.

(a) Purpose

The proceeds under the Term Loan Facility are available to Boardriders:

- (i) to finance the Scheme Consideration;
- (ii) to refinance certain existing debt of the Billabong Group and Boardriders Group;
- (iii) to pay the fees, premiums, expenses and other transaction costs incurred in connection with the Scheme; and
- (iv) for working capital and general corporate purposes.

(b) **Conditions**

The Initial Lenders' commitments to fund the Term Loan Facility are subject to satisfaction (or waiver by the lead arrangers) of certain conditions precedent, including the following:

- (i) court approval of the Scheme on the Second Court Date;
- (ii) the lead arrangers receiving certain financial information in respect of the Billabong Group and the Boardriders Group;
- (iii) no "Billabong Material Adverse Change" (as defined in the Scheme Implementation Deed) occurring between the date of the Scheme Implementation Deed and 8.00am (Sydney time) on the Second Court Date;
- (iv) all conditions to the completion of the Scheme being satisfied or being waived with the prior consent of the lead arrangers (provided that such consent must not to be unreasonably withheld and shall not be required where the relevant condition is for the sole benefit of Billabong or the waiver is not material and adverse to the lenders);
- (v) no order being made by the Australian Treasurer pursuant to the Foreign Acquisitions and Takeovers Act 1975 (Cth) prohibiting the Transaction;
- (vi) a US\$150 million asset-based revolving credit facility (**ABL Facility**) becoming effective;
- (vii) execution and delivery of definitive documentation for the Term Loan Facility;
- (viii) certain representations made by Billabong in the Scheme Implementation Deed being true and correct in all material respects (or, if qualified by materiality, in all respects) as of 8.00am (Sydney time) on the Second Court Date or as of an earlier specified date (if applicable), such representations being those material to the interests of the lenders where Boardriders has the right to terminate its obligations under the Scheme Implementation Deed or refuse to consummate the Transaction as a result of a breach of such representations;
- (ix) certain representations and warranties made by Boardriders and certain of its subsidiaries as set forth in the term sheet for the Term Loan Facility being true and correct in all material respects as of a specified time (which representations and warranties relate to matters such as, among others, organisational existence, corporate power and authority, and solvency);
- (x) no material provision of the Scheme Implementation Deed being waived, consented, amended, supplemented or otherwise modified in any manner material and adverse to the lenders without the consent of the lead arrangers (not to be unreasonably withheld, delayed, denied or conditioned);
- (xi) consummation of the refinancing, repayment, discharge or satisfaction (as applicable) of certain existing debt of the Boardriders Group and Billabong Group (which debt includes the Centerbridge/Oaktree Senior Secured Term Loan and the BAML ABL Facility); and
- (xii) satisfaction of certain other conditions which are customary for a facility of this kind.

As at 13 February 2018, being the last practicable date before the date of this Scheme Booklet, Boardriders is not aware of any reason why the conditions will not be satisfied so as to enable the Term Loan Facility to be drawn for the purpose of funding the Scheme Consideration on the Implementation Date as contemplated by the Scheme. In relation to the condition in sub-paragraph (vi), it is noted that Boardriders has entered into a commitment letter in respect of the ABL Facility referred to in such condition. That commitment letter contains conditions which are substantially similar to the equivalent conditions in the commitment letter for the Term Loan Facility (as summarised above), and includes a condition in relation to the Term Loan Facility becoming effective.

5.7 Boardriders' intentions if the Scheme is implemented

This section sets out Boardriders' current intentions on the basis of facts and information concerning Billabong and the general business environment which are known to Boardriders at the time of the preparation of this Scheme Booklet.

If the Scheme is implemented, Boardriders intends to undertake a detailed review of Billabongs' operations covering strategic, financial and commercial operating matters to determine the optimum manner of integrating, operating and managing the combined business.

Final decisions about any major changes to the future commercial operating plan and management organisation for Billabong will be made by Boardriders following the completion of the postacquisition review described above and will be based on all material facts and circumstances at the relevant time.

Accordingly, other than where the disclosure below expressly states that Boardriders has determined to do something, the statements set out in this section are statements of current intention only and may change as new information becomes available or as circumstances change.

(a) **Restructure**

Boardriders intends to undertake a corporate restructure pursuant to which, among other things, the shares in certain members of the Billabong Group are transferred to members of the Boardriders Group.

(b) **Operations**

Based on the information available to Boardriders at the date of this Scheme Booklet, Boardriders believes that it can realise value by leveraging one integrated operating platform that will enable the combined company to invest more in product innovation and quality, digital marketing and consumer engagement, and e-commerce. Such investment will benefit consumers and customers.

(c) **Board of directors**

If the Scheme is implemented, Boardriders will replace the board members of Billabong and its subsidiaries with nominees of Boardriders (who are yet to be identified).

(d) **Management and employees**

Boardriders considers Billabong's employees to be an integral part of the past and future success of the business. Boardriders will evaluate the best way to integrate the Boardriders and Billabong management teams following completion of the post-acquisition review described above. Boardriders currently does not have any definitive plans in relation to Billabong's employees more generally.

(e) **Delisting**

If the Scheme is implemented, it is intended that quotation of Billabong Shares on the ASX will be terminated and Billabong will be removed from the official list of the ASX on or around the Business Day immediately following the Implementation Date.

5.8 Boardriders' interests in Billabong Shares

(a) **Interest in Billabong Shares**

As at the date of this Scheme Booklet, Boardriders' does not directly hold any of the issued shares in Billabong. However, Oaktree holds 19.30% of the issued shares in Billabong, and another fund managed by Oaktree owns approximately US\$90 million of Billabong's senior term debt. Funds managed by Oaktree are the majority shareholders of Boardriders, holding approximately 85% of the issued shares in Boardriders as at the date of this Scheme Booklet.

In connection with, but prior to the implementation of, the Scheme, affiliates of Boardriders will accept a transfer of all of the issued shares in Billabong owned by funds managed by Oaktree in consideration of Boardriders issuing additional shares in itself to those funds managed by Oaktree.

(b) **Dealing in Billabong Shares in previous four months**

None of Boardriders or any of its Associates has provided or agreed to provide consideration for any Billabong Shares under any other transaction during the period of four months before the date of this Scheme Booklet.

(c) **Benefits to holders of Billabong Shares**

During the four months before the date of this Scheme Booklet, none of Boardriders or any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:

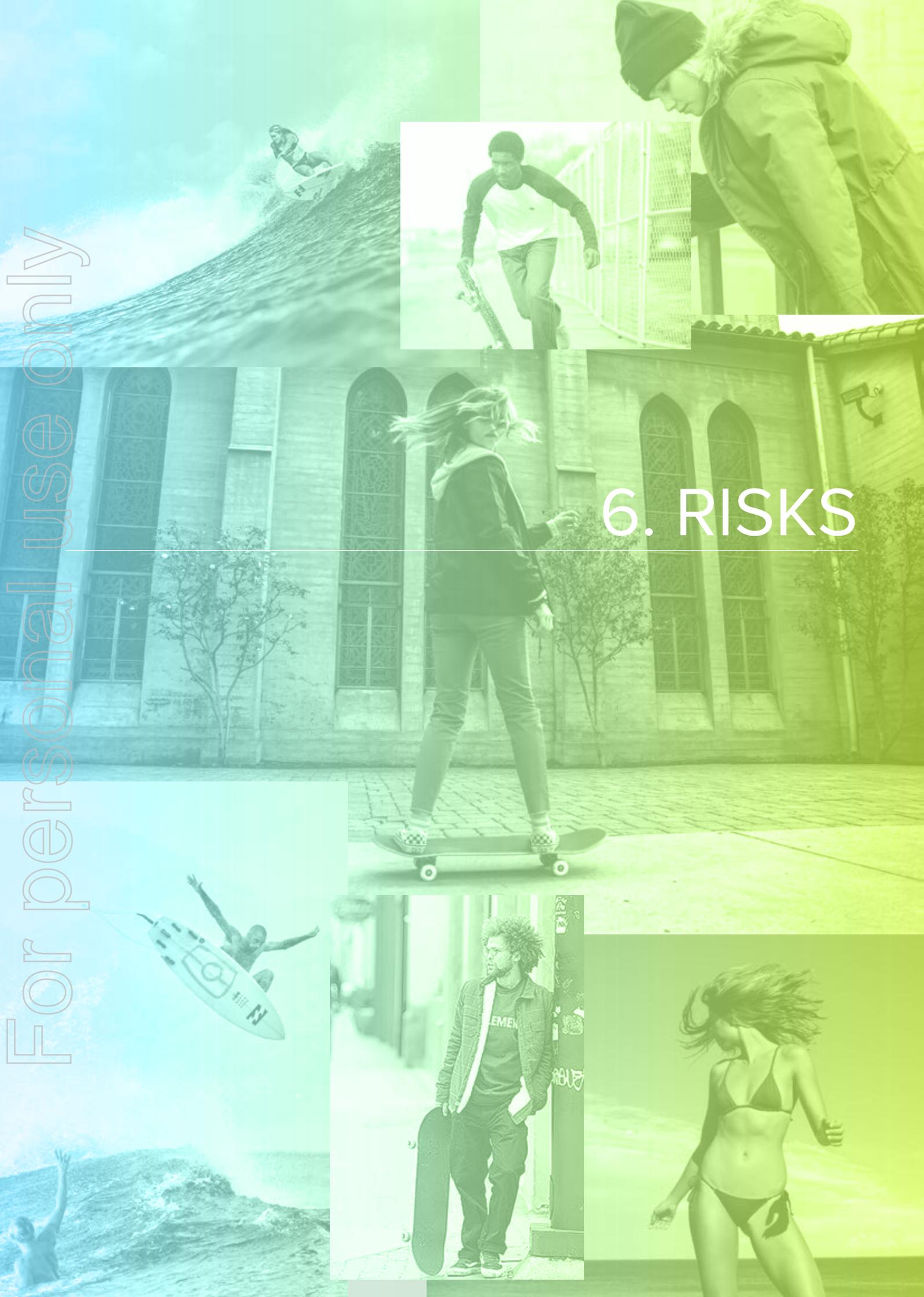
- vote in favour of the Scheme; or
- dispose of Billabong Shares,

where the benefit was not offered to all Billabong Shareholders.

(d) **Benefits to Billabong officers**

None of Boardriders and its Associates will be making any payment or giving any benefit to any current officers of Billabong as compensation or consideration for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

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6. RISKS

6 RISKS

6.1 Introduction

The Billabong Board considers that it is appropriate for Billabong Shareholders, in considering the Scheme, to be aware that there are a number of risk factors which could materially adversely affect the future operating and financial performance of Billabong, as well as the value of Billabong and its dividends.

This section outlines:

- general investment risks (refer to section 6.2); and
- risks associated with your current investment in Billabong Shares (refer to section 6.3).

This section 6 is a summary only. There may be additional risks and uncertainties not currently known to Billabong which may also have a material adverse effect on Billabong's financial and operational performance now or in the future.

If the Scheme is implemented you will receive the Scheme Consideration, will cease to be a Billabong Shareholder and will also no longer be exposed to the risks set out below (and other risks to which Billabong may be exposed). If the Scheme does not proceed, you will continue to hold your Billabong Shares and continue to be exposed to risks and opportunities associated with that investment.

In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section 6 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs. **While the Board recommends a vote in favour of the Scheme in the absence of a Superior Proposal, Shareholders are encouraged to make their own independent assessment as to whether to vote in favour of the Scheme.**

6.2 General investment risks

The market price of Billabong Shares and future distributions made to Shareholders are influenced by a number of factors in each of the countries and regions in which Billabong operates, including the following:

- changes in investor sentiment and overall performance of the Australian and international stock markets, particularly in relation to retail stocks;
- changes in sentiment in credit markets, particularly in relation to retail stocks;
- changes in general business, industry cycles and economic conditions including inflation, interest rates, exchange rates, commodity prices, employment levels and consumer demand;
- continued industry consolidation and adverse channel shifts;
- changes in government fiscal, monetary and regulatory policies, including foreign investment;
- government or political intervention in export and import markets (including sanction controls and import duties) and the disruptions this causes to supply and demand dynamics;
- loss of key personnel;
- interruptions at Billabong's workplaces arising from industrial disputes, work stoppages and accidents, which may result in business operations delays;
- natural disasters and catastrophes, whether on a global, regional or local scale; and
- accounting standards which affect the financial performance and position reported by Billabong.

6.3 Risks associated with your current investment in Billabong Shares

There is a range of business-specific risks associated with your current investment in Billabong Shares, as set out below. You will only continue to be exposed to these risks if the Scheme does not proceed, in which case (in the absence of a Superior Proposal that is ultimately consummated) Billabong will continue to operate as a stand-alone entity.

(a) **State of the action sports industry, global retail markets, and retail performance of Billabong's stores**

Billabong's business is exposed to risks relating to the state of the action sports industry and the global retail market. These risks affect both Billabong and its wholesale customers. The global retail market is going through a period of rapid and significant change which is expected to have a material impact on both Billabong's performance and retail markets more broadly. In particular, the action sports industry is experiencing major challenges and disruptions. A number of industry participants have confirmed they are investigating sale processes, some have encountered financial distress and/or bankruptcies and there is increasing risk of potential industry consolidation and further vertical integration. These challenges are being driven by a number of factors, most notably changing consumer tastes and trends such as a greater preference for lower cost fast fashion and increased global competition from online retailers such as Amazon (see section 6.3(b) below).

The risks associated with the state of global retail markets also mean that Billabong's brick and mortar retail stores may fail to perform at an acceptable level to cover fixed costs of operation and provide the required rate of return on invested capital due to store traffic, sales density, margin structures, rental rates, and staff costs. Additionally, there may be risks associated with continued weakness and declines in mall or location traffic and the threat of new or growing online retailers on store profitability. Given the competition from online retailers and increased preference for consumers to purchase clothing and other apparel online, there is a material risk that mall and location traffic will continue to decline in the foreseeable future.

Further, any additional investment by Billabong in systems, equipment, capability and restructuring needed for Billabong to address these risks, needs to be considered in light of Billabong's existing high debt levels (see sections 1.1(c), 1.1(e) and 6.3(d) below).

(b) **Shifts towards online and e-commerce retail platforms**

Billabong is exposed to a number of direct and indirect risks associated with the continuing trend away from brick and mortar stores in favour of online and other e-commerce platforms. This trend has a direct impact on Billabong's business and its major customers. Historically Billabong sold its products to a diversified network of retail businesses which are serviced by both internal and external sales forces. In addition, Billabong has sold its products through physical branded stores. The global retail market has seen a major consumer shift away from shopping at physical stores in favour of online and e-commerce platforms. While Billabong is making every effort to improve competitively in this area, leading retailers and several of Billabong's competitors are further advanced in this transformation. There is a risk that the growth from Billabong's digital commerce initiatives will not, over the short term, outweigh further declines in its traditional retail and wholesale markets.

(c) **Operations and project risks associated with the execution of Billabong's strategy**

There are risks associated with the execution of Billabong's strategy. These include the risks outlined in sections 1.1(c) and 1.2 that in order to continue to execute its strategy, Billabong will need to continue to invest in systems and equipment, operating capability and restructuring, over the next few years. The Board considers that, in order to fund this further investment, it will become necessary for Billabong to reduce its debt to a level where Billabong can fund the investment out of earnings, after servicing the interest on the debt. The ability to do this needs to be considered in the context of Billabong's existing high debt levels, the fact that its senior term debt matures in September 2019²⁰, and that its asset based loan must be repaid six months earlier unless the senior term debt is refinanced before that date.

²⁰ Unless the Centerbridge/Oaktree Senior Secured Term Loan has been refinanced, the BAML ABL Facility must be repaid in March 2019, being six months prior to the maturity date of the Centerbridge/Oaktree Senior Secured Term Loan. If any principal or interest outstanding under the BAML ABL Facility cannot be repaid or outstanding letter of credit cash collateralised or otherwise discharged on maturity of that facility, then this would result in a cross-default under the Centerbridge/Oaktree Senior Secured Term Loan, resulting in all amounts outstanding under that facility also becoming due and payable at that time.

Billabong's project risk exists in relation to its transformation from a predominately standalone regional model to an integrated global business and in particular, both the omni channel platform and logistics projects. Billabong considers these reforms to be essential if Billabong is to remain competitive in a rapidly changing environment. Converting to new distribution centres/systems has the risk of interrupting product flow/customer service in the transition. Billabong's current systems, including retail point of sale systems, are being re-configured to support an omni channel business model. The transition of Billabong's existing systems to a new channel business model could result in significant customer service issues and other material disruptions to Billabong's business which could have a negative impact on its financial performance.

In addition, Billabong currently operates a disparate system of application software packages that support business processes, information flows, reporting and data analytics (commonly known as 'enterprise systems' or 'ES'). In order for Billabong to deliver on its strategy, it is critical for the Company to make significant investments in these systems to achieve efficiencies and global alignment. Failing to improve on Billabong's existing enterprise systems puts the Company at a material disadvantage as a number of Billabong's key global competitors already have globally aligned systems or are in a stronger position to make such investments than Billabong.

(d) Financing risks

Billabong is exposed to refinancing risks in relation to its debt. In particular, the Billabong Group currently has USD\$177 million (approximately A\$224 million)²¹ of borrowings under the Centerbridge/Oaktree Senior Secured Term Loan, which is due to be repaid on maturity of the loan in September 2019. Billabong may not be able to refinance all or some of its borrowings (including the Centerbridge/Oaktree Senior Secured Term Loan) on terms as favourable as its current terms, or at all, especially having regard to the state of debt markets for companies with significant retail operations such as Billabong. Such events could materially and adversely affect Billabong's financial performance and the Billabong Share price.

Billabong's debt facilities also have a financial and various non-financial covenants. If operating results deteriorate, then Billabong may be unable to meet the requirements of its financial covenant, which may require Billabong to seek amendments, waivers of covenant compliance, or alternative borrowing arrangements. If a breach of a covenant were to occur, there is no assurance that Billabong's financiers would consent to an amendment or waiver, or that its financiers would not exercise their enforcement rights, including requiring immediate repayment.

Billabong would need to source alternative finance in the event that it looked to sell assets if the Scheme does not proceed, in order to refinance any difference between the asset sale proceeds and the outstanding amount of the term loan. Obtaining such alternative funding cannot be guaranteed.

(e) Quality and fashion risks

A product quality issue could adversely impact the brand reputation and brand equity of products sold by Billabong. Quality controls are embedded in the Company, from material sourcing and product design through to manufacturing and distribution, including quality control checks in the country of origin and on arrival at distribution centres. Such quality control procedures are only able to mitigate such risks.

Billabong operates in the inherently risky fashion sector whereby changes in consumer trends, preferences within sectors, categories and product lines all impact the sales of Billabong product and profit margins able to be achieved on those sales.

(f) Disruption to product sourcing and delivery

Billabong sources the majority of its products from suppliers who manufacture outside Australia, the United States and Europe. As a result, Billabong is subject to risks including disruptions to production and supply of goods, and delays in international shipping arrangements. Billabong mitigates the risk of disruptions to production and supply of goods by maintaining relationships with a number of suppliers, and securing space on the production lines of its preferred suppliers.

(g) Competition

The industry and sector in which Billabong operates is highly competitive. Billabong's competitive position may deteriorate as a result of actions by existing competitors (for example, lowering their sale prices; creating new, attractive product lines; and paying

²¹ Based on a AUD/USD exchange rate of \$0.79, being the last practicable exchange rate before the lodgement of this Scheme Booklet.

more for production or staff) or the entry of new competitors. Billabong addresses this risk by focusing on innovative product development and brand building to promote customer loyalty, and remunerating staff fairly.

(h) **Seasonal factors**

Billabong's operations may be affected by prolonged periods of unseasonable or severe weather conditions which could result in Billabong's product range being less attractive to customers or could adversely impact customer traffic. Billabong seeks to mitigate the impact of prolonged unseasonable or severe weather by having operations in diverse geographic locations.

(i) **Social risk**

Billabong's suppliers may fail to meet social responsibility and ethical standards, which could adversely impact Billabong's reputation, brand equity and sales. Billabong seeks to mitigate this risk by having a Code of Conduct, which contains standards equivalent to SA8000 and Worldwide Responsible Accredited Production ("WRAP"). Billabong utilises an external auditing body to audit supplier compliance with the Code of Conduct.

(j) **Cyber security**

Billabong is heavily reliant on the security of its websites and associated payment systems to ensure that customers are confident of transacting online. Breaches of security could impact customer satisfaction and confidence in Billabong and could impact the financial performance of Billabong and/or its Share price. Billabong has an IT security strategy in place, IT disaster recovery plans, and uses reputable third party secure payment gateways and service providers. Billabong also performs regular risk assessments.

(k) **Foreign exchange risk**

Billabong's inventory purchases are typically denominated in United States Dollars whereas sales are mainly denominated in the respective local currency where the sales are made. This exposes Billabong to foreign exchange risk on its operating performance in territories other than the USA. Billabong uses forward contracts to manage foreign exchange risk on inventory purchases, which manages the risk in the near term.

Despite the ability to manage this risk in the near term through forward contracts, in the medium term and longer, a stronger US Dollar relative to local currencies creates long term operating and margin challenges for jurisdictions other than the United States.

The Centerbridge/Oaktree Senior Secured Term Loan is denominated in United States Dollars which means that in Australian Dollar terms the amount of the loan and the accompanying interest obligations vary according to the prevailing exchange rate. Testing of financial covenants in Australian Dollar terms can also be impacted by exchange rate movements. The value of the Billabong Group's assets and earnings in the United States in Australian Dollar terms also varies according to the prevailing exchange rate and is able to partially mitigate, on an economic basis, adverse foreign exchange movements in the United States Dollar.

The Australian Dollar value of the Billabong Group's operations (assets and earnings) in foreign jurisdictions other than the USA can also vary in accordance with exchange rates.

(l) **Asset impairment**

Billabong is required to assess at each reporting date whether there is any indication that an asset may be impaired. Depending on earnings performance and Share price trading levels, Billabong's assets may be required to be written down or impaired, which may negatively impact Billabong's financial performance and position. Billabong seeks to mitigate this risk by implementing its business strategy such that earnings from operations support the assets' carrying values.

(m) **Tax risks**

Changes in tax law (including goods and services taxes and stamp duties), or changes in the way that tax laws are interpreted in the various jurisdiction in which Billabong operates, may impact Billabong's tax liabilities. Billabong seeks to manage this risk by monitoring changes in legislation and utilising experienced external accounting, tax and legal advisors when required.

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7. TAXATION IMPLICATIONS

7 TAXATION IMPLICATIONS

7.1 Taxation outline

The following is a general description of the Australian tax consequences for a Billabong Shareholder that disposes of their Billabong Shares under the Scheme (assuming it becomes effective). The comments set out below are relevant only to those Billabong Shareholders who hold their Billabong Shares on capital account. The description is based upon the Australian law and administrative practice in effect at the date of this Scheme Booklet, but is general in nature and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of a Billabong Shareholder.

This description does not apply to all Billabong Shareholders. For example, it does not apply to Billabong Shareholders that:

- hold their Billabong Shares on revenue account or as trading stock;
- are temporary residents of Australia for Australian taxation purposes;
- hold their Billabong Shares in connection with a business carried on through a permanent establishment outside their country of residence;
- acquired their Billabong Shares by exercising a Billabong Option or performance right;
- are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* in relation to gains and losses on their Billabong Shares;
- obtained rollover relief in connection with the acquisition of their Billabong Shares; or
- have not been resident in the same country for tax purposes throughout the period they have owned the Billabong Shares.

Billabong Shareholders should seek independent professional advice in relation to their particular circumstances.

Billabong Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under Australian law.

This section does not consider the tax consequences of the cancellation of any Billabong Options.

Unless otherwise indicated, this description applies to Billabong Shareholders who are individuals.

7.2 Australian resident shareholders

(a) Capital Gains Tax ('CGT')

The Scheme will, if implemented, result in the disposal by Billabong Shareholders of their Billabong Shares to Boardriders. This change in the ownership of the Billabong Shares will constitute CGT event A1 for Australian CGT purposes.

The date of disposal of the Billabong Shares for CGT purposes will be the Implementation Date.

(b) Calculation of capital gain or capital loss

Billabong Shareholders may make a capital gain on the disposal of Billabong Shares to the extent that the 'capital proceeds' from the disposal of the Billabong Shares are more than the 'cost base' of those Billabong Shares. Conversely, Billabong Shareholders may make a capital loss to the extent that the 'capital proceeds' are less than their 'reduced cost base' of those Billabong Shares.

• Cost base

The 'cost base' of Billabong Shares generally includes the cost of acquisition and any incidental costs of acquisition and disposal that are not deductible to the Billabong Shareholder. The 'reduced cost base' of the Billabong Shares is usually determined in a similar, but not identical, manner.

- **Capital proceeds**

The 'capital proceeds' received in respect of the disposal of each Billabong Share should be the consideration received of A\$1.00 per Billabong Share.

- (c) **CGT discount**

Australian resident Shareholders who are individuals, complying superannuation entities or trust may be entitled to reduce the amount of any capital gain made on the disposal of their Billabong Shares if they have held their Billabong Shares for at least 12 months prior to the Implementation Date (excluding the acquisition date and the Implementation Date). This reduction is referred to as the 'CGT discount'.

The CGT discount, if it is available, is applied only after any available capital losses have been applied to reduce the capital gain.

The discount rate is 50% for individuals and trusts, and 33.3% for complying superannuation entities. For trusts the ultimate availability of the discount may depend on a beneficiary's entitlement to a discount.

The CGT discount is not available to, among others, Billabong Shareholders that:

- are companies; or
- have held their Billabong Shares for less than 12 months (excluding the acquisition date and the Implementation Date); or
- acquired their Billabong Shares before 21 September 1999 where the Billabong Shareholder chooses to index the cost base of their Billabong Shares for CGT purposes.

Capital gains and capital losses made by a Billabong Shareholder in a year of income from all sources are aggregated to determine whether they make a net capital gain or capital loss for the year of income. A net capital loss is not deductible from the assessable income for a Billabong Shareholder. However, a net capital loss may be able to be carried forward to offset capital gains made by the Billabong Shareholder in future years of income, subject to various requirements being met.

7.3 Non-resident shareholders

For a Billabong Shareholder who:

- is not a resident of Australia for Australian tax purposes; and
- does not hold their Billabong Shares in carrying on a business through a permanent establishment in Australia,

the disposal of Billabong Shares will generally only result in Australian CGT implications if, in broad terms:

- that Billabong Shareholder together with its associates held an interest of 10% or more in Billabong at the time of disposal or for a 12 month period within two years preceding the disposal (referred to as a 'non-portfolio interest'); and
- more than 50% of the market value of Billabong's assets is attributable to direct or indirect interests in 'taxable Australian real property' (as defined in the income tax legislation).

If a Billabong Shareholder holds a 'non-portfolio' interest in Billabong, they should obtain independent advice as to the tax implications of sale. Importantly, such Billabong Shareholders should not be entitled to discount CGT treatment, as described in section 7.2(c) above.

A non-resident individual Billabong Shareholder who has previously been an Australian tax resident and chose to disregard a capital gain or loss in respect of their Billabong Shares on ceasing to be an Australian tax resident will be subject to Australian CGT consequences on disposal of their Billabong Shares.

7.4 Foreign Resident Capital Gains Withholding ('FRCGW')

The FRCGW regime may impose a 10% 'withholding' obligation (calculated by reference to the purchase price) on the purchasers of certain assets (including shares which are 'indirect Australian real property interests' as defined in the income tax legislation) in certain circumstances.

On the basis that, broadly speaking, less than 50% of the market value of Billabong's assets is attributable to direct and indirect interests in 'taxable Australian real property' (as defined in the income tax legislation), the FRCGW regime should not apply to Boardriders' acquisition of Billabong Shares from a Billabong Shareholder.

7.5 Australian Goods and Services Tax ('GST')

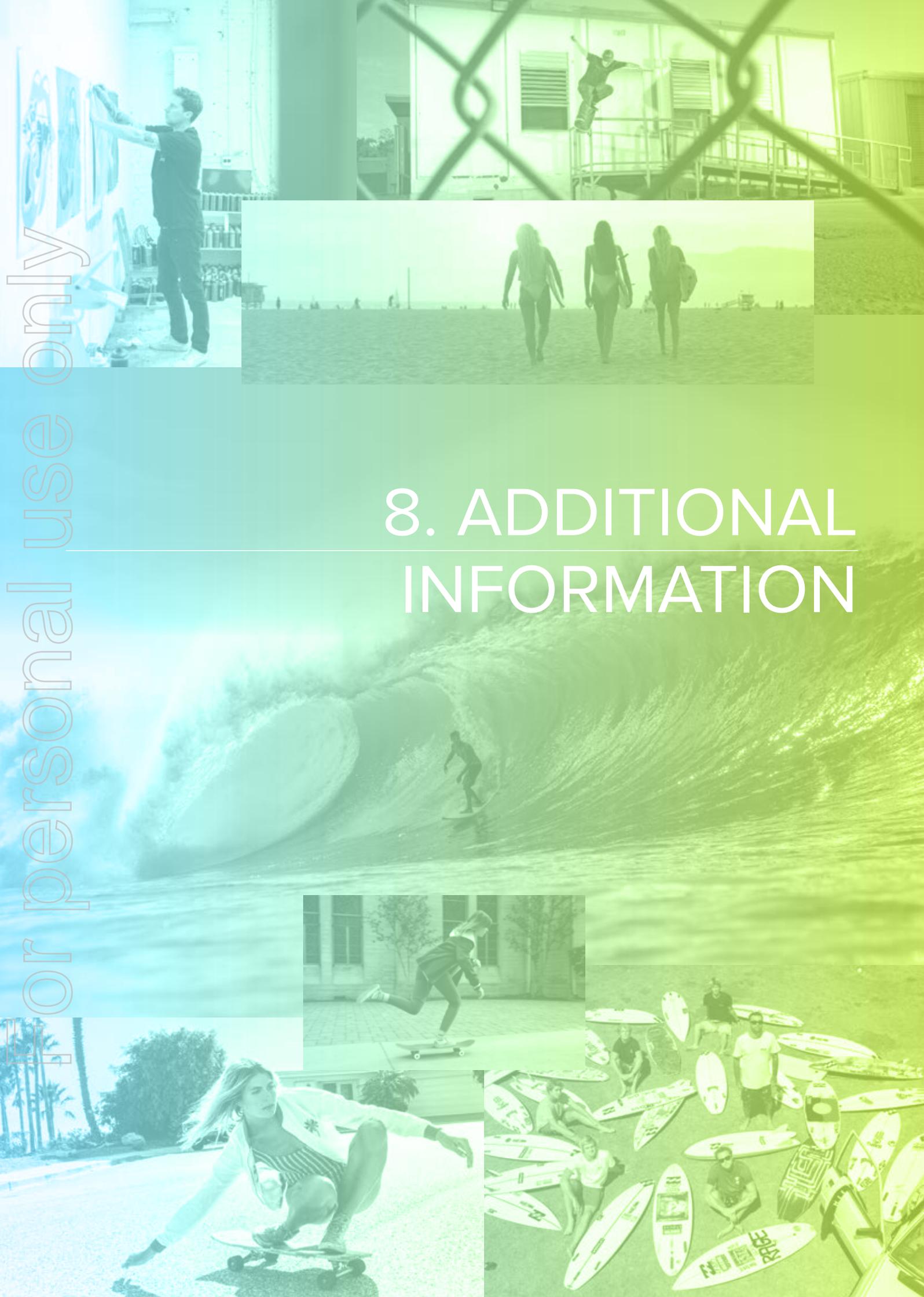
Billabong Shareholders should not be liable to pay GST in respect of a disposal of Billabong Shares pursuant to the Scheme.

Billabong Shareholders may incur GST on costs (such as third party brokerage and adviser fees) that relate to the Scheme. Billabong Shareholders that are registered, or required to be registered, for GST may not be entitled to full input tax credits for any GST payable on such costs but may be entitled to 'reduced input tax credits' (at the rate of 75%) for some acquisitions. This will depend on each Billabong Shareholder's individual circumstances.

7.6 Australian stamp duty

No stamp duty should be payable in any Australian jurisdiction by Billabong Shareholders in respect of the disposal of their Billabong Shares.

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8. ADDITIONAL INFORMATION

8 ADDITIONAL INFORMATION

8.1 Interests of Billabong Directors in Billabong

As at the date of this Scheme Booklet, the number of Billabong Shares held by or on behalf of the Billabong Directors is as follows:

DIRECTOR	NUMBER OF BILLABONG SHARES
Ian Pollard	50,596
Neil Fiske	491,072
Gordon Merchant	24,386,908
Howard Mowlem	27,500
Kim Anderson	None
Elliott Weinstein	None
TOTAL	24,928,576

No director of Billabong has acquired or disposed of a Relevant Interest in any Billabong Shares in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

In addition, as at the date of this Scheme Booklet, Mr Neil Fiske also holds 771,330 market priced options and 1,799,770 premium priced options under the Incentive Plan, the terms of which are described in section 8.5.

8.2 Interests of Billabong Directors in Boardriders

No director of Billabong has a Relevant Interest in any shares in Boardriders.

No director of Billabong acquired or disposed of a Relevant Interest in any shares in Boardriders in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

8.3 Summary of Scheme Implementation Deed

On 5 January 2018, Billabong and Boardriders entered into a binding Scheme Implementation Deed under which Billabong agreed to propose the Scheme. The Scheme Implementation Deed contains terms and conditions that are standard for these types of agreements, including in relation to the parties' obligations to implement the Scheme and Billabong's obligation to conduct its business in the ordinary course during the Scheme process.

A summary of the key elements of the Scheme Implementation Deed is set out below. A full copy of the Scheme Implementation Deed was lodged with ASX on 5 January 2018 and can be obtained from www.asx.com.au or from <http://www.billabongbiz.com>.

(a) Conditions

Implementation of the Scheme is subject to the following conditions which must be satisfied or waived (where capable of waiver) before the Scheme can be implemented:

- **FIRB approval:** before 8.00am on the Second Court Date, the Treasurer of the Commonwealth of Australia (or his delegate) either:
 - provides notice that there are no objections to the Transaction under the FATA, and that notice is not subject to any condition or is subject only to standard tax-related conditions and/or any conditions that Boardriders reasonably considers to be acceptable; or
 - becomes precluded by passage of time from making any order or decision in respect of the Transaction;

- **Competition Approvals:** all Competition Approvals have been obtained (or, in the case of a waiting period or filing, have terminated or expired or have been made, as the case may be);
- **Billabong Shareholder approval:** Billabong Shareholders (other than Excluded Shareholders) approve the Scheme;
- **Court approval:** the Court approves the Scheme;
- **No restraints:** no applicable law shall have been enacted and no Order shall be in effect as at 8.00am on the Second Court Date that prevents, makes illegal or prohibits the implementation of the Scheme;
- **No Billabong Material Adverse Change:** no Billabong Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date;
- **No Billabong Prescribed Occurrence:** no Billabong Prescribed Occurrence occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date;
- **Expiration of Marketing Period:** before 8.00am on the Second Court Date, the Marketing Period shall have commenced and expired;
- **Billabong representations and warranties:** the representations and warranties given by Billabong to Boardriders (other than the representations and warranties given by Billabong for the purpose of Boardriders obtaining warranty and indemnity insurance) are true and correct in all material respects at the date of the Scheme Implementation Deed and at 8.00am on the Second Court Date;
- **Boardriders funding:** the representation and warranty given by Boardriders to Billabong regarding Boardriders' funding arrangements is true and correct at all times between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date; and
- **Boardriders representations and warranties:** the representations and warranties given by Boardriders to Billabong are true and correct in all material respects at the date of the Scheme Implementation Deed and at 8.00am on the Second Court Date.

Full details of the conditions and the ability of Billabong and Boardriders to rely on the various conditions and the provisions relating to satisfaction or waiver of these conditions are set out in clause 3 of the Scheme Implementation Deed. As at the date of this Scheme Booklet, Billabong is not aware of any reason why the conditions will not be satisfied.

(b) **Competition Approvals**

Boardriders must apply for all necessary competition approvals for the Transaction. In the event that, following a process of reasonable consultation with Boardriders, a Government Agency will only agree to grant a competition approval subject to certain conditions, Boardriders must accept such conditions unless it considers (acting reasonably) that such conditions would or would be reasonably likely to:

- materially detract from the benefits which Boardriders (acting reasonably) would anticipate to derive from the Transaction; or
- cause material prejudice to the Boardriders Group or its business, operations or activities.

(c) **Exclusivity**

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of Boardriders. These arrangements are in line with market practice in this regard and may be summarised as follows:

- **Termination of existing discussions:** Billabong must terminate any existing negotiations or discussions with any third party in respect of a Competing Proposal (or which may reasonably be expected to lead to a Competing Proposal).
- **No Talk:** Billabong must not, and must ensure that none of its Representatives or agents, participate in negotiations or discussions, or enter into any agreement or understanding, with any third party in relation to a Competing Proposal (or which could reasonably be expected to lead to a Competing Proposal).

- **No Shop:** Billabong must not, and must ensure that none of its Representatives or agents, solicit any Competing Proposal or any enquiries, negotiations or discussions with any third party in relation to a Competing Proposal (or which would reasonably be expected to lead to a Competing Proposal).
- **No Due Diligence:** Billabong must not, and must ensure that its Representatives and agents do not, permit any third party to undertake due diligence investigations on any Billabong Group Member in connection with the formulation of a Competing Proposal.
- **Notification:** If Billabong receives in writing a Competing Proposal, Billabong must notify Boardriders (which notice must include the material terms of the Competing Proposal and the identity of the third party making the Competing Proposal).
- **Matching Right:** Billabong must:
 - not, and must ensure that its Representatives do not, enter into an agreement or arrangement to implement a Competing Proposal; and
 - ensure that none of the Billabong Directors recommend a Competing Proposal or withdraw or change their recommendation or voting intention,unless the Competing Proposal is a Superior Proposal and Billabong has given Boardriders at least five Business Days to make a proposal that matches or exceeds the Competing Proposal.

However, Billabong is not required to comply with its obligations under the 'no talk' and 'no due diligence' provisions in the Scheme Implementation Deed if the Billabong Board determines that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the Billabong Board.

These exclusivity arrangements are set out in full in clause 12 of the Scheme Implementation Deed.

(d) **Break Fee**

Billabong has agreed to pay Boardriders a break fee of A\$1,600,000 (**Break Fee**) if:

- **Change in recommendation:** any Billabong Director makes a public statement:
 - withdrawing or adversely changing their recommendation that Billabong Shareholders (other than Excluded Shareholders) vote in favour of the Scheme at the Scheme Meeting;
 - that they will not vote (or procure the voting of) all Billabong Shares held or controlled by him or her in favour of the Scheme at the Scheme Meeting; or
 - supporting or endorsing a Competing Proposal,other than where the Independent Expert concludes that the Scheme is not in the best interests of Billabong Shareholders (except where that conclusion is a result of a Competing Proposal);
- **Competing Proposal announced and transaction subsequently completed:** a Competing Proposal is announced by a third party prior to the earlier of termination of the Scheme Implementation Deed and the End Date and, within one year after that occurring, the third party or their associate:
 - completes in all material respects a transaction of the kind referred to in the definition of Competing Proposal; or
 - has a relevant interest in at least 50% of Billabong Shares; or
- **Material breach:** Boardriders terminates the Scheme Implementation Deed due to a material breach by Billabong (and Billabong fails to remedy such breach within the required notice period).

However, the Break Fee is not payable if the Scheme nevertheless becomes effective.

For full details of the Break Fee, see clause 13 of the Scheme Implementation Deed.

(e) **Termination**

Either Billabong or Boardriders can terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court Date if:

- the other party is in material breach of the Scheme Implementation Deed (including a representation and warranty, but excluding a representation and warranty given by Billabong to Boardriders for the purpose of Boardriders obtaining warranty and indemnity insurance) taken in the context of the Transaction as a whole, and that breach is not remedied within five Business Days of receiving written notice from the non-breaching party;
- in certain circumstances where:
 - there is a breach or non-satisfaction of a condition which is not waived by the time or date specified in the Scheme Implementation Deed for the satisfaction of the condition;
 - there is an act, failure to act or occurrence which will prevent a condition being satisfied by the time or date specified in the Scheme Implementation Deed for the satisfaction of the condition; or
 - the Scheme will not become effective by the End Date.

Boardriders can terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court Date if any Billabong Director has withdrawn or adversely changed its recommendation that Billabong Shareholders vote in favour of the Scheme at the Scheme Meeting or has recommended or made a statement supporting or endorsing a Competing Proposal.

Billabong can terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court Date if a majority of the Billabong Board withdraws its recommendation that Billabong Shareholders vote in favour of the Scheme at the Scheme Meeting, and, if required to pay the Break Fee as a result of such withdrawal, Billabong has paid Boardriders the Break Fee.

The Scheme Implementation Deed will terminate automatically if, at the Scheme Meeting, Billabong Shareholders (other than Excluded Shareholders) do not pass the Scheme Resolution.

(f) **Nomination by Boardriders**

Boardriders has nominated Boardriders Sub to acquire all of the Scheme Shares. Accordingly, Boardriders must procure that Boardriders Sub complies with its obligations and Boardriders shall not otherwise be relieved of its obligations under the Scheme Implementation Deed.

8.4 Status of regulatory conditions

As at the date of this Scheme Booklet:

- **FIRB approval:** the Treasurer of the Commonwealth of Australia has not yet provided notice that there are no objections to the Transaction under the FATA; and
- **Competition Approvals:** the Competition Approvals have not yet been obtained.

An update will be provided on the status of the FIRB approval and the Competition Approvals at the Scheme Meeting.

8.5 Billabong Options and performance rights

(a) Implications of the Scheme for Billabong performance rights

Billabong operates the Incentive Plan pursuant to which it has made grants to eligible Billabong employees of performance rights. Each performance right entitles the holder to acquire one Billabong Share subject to the satisfaction of certain performance hurdles or continued service conditions. The terms governing the performance rights are supplemented by the various documents comprising the offers made to each eligible employee.

As at the date of this Scheme Booklet, Billabong has a total of 2,578,467 performance rights on issue under the Incentive Plan, the details of which are set out in the table below. None of these performance rights have vested.

PERFORMANCE RIGHTS HOLDER	NUMBER	VESTING DATE
Participants under Incentive Plan for FY15	1,929,899	15 September 2018 (provided performance based hurdles achieved)
Participant under Incentive Plan for FY17: Jim Howell	Tranche 1: 324,284	20 June 2018 (provided continued service condition achieved)
	Tranche 2: 324,284	20 June 2019 (provided continued service condition achieved)
TOTAL	2,578,467	

The Incentive Plan provides that the Billabong Board may, in the event of a change of control of Billabong under a takeover bid or scheme of arrangement, exercise its discretion to (i) lapse or cancel or (ii) vest any unvested performance rights. Subject to the Scheme proceeding, the Billabong Board intends to exercise this discretion to cancel all of the 2,578,467 performance rights on issue, other than 486,426 of the 648,568 performance rights held by Billabong's CFO, Jim Howell. Unlike performance rights held by other participants, Mr Howell's performance rights are not subject to performance based hurdles. Subject to the Scheme proceeding, the Billabong Board intends to exercise its discretion to accelerate the vesting of those 486,426 performance rights held by Mr Howell. On vesting, 341,444 Billabong Shares, which are currently issued and held by the trustee of the Billabong Equity Plans Trust, will be transferred to Mr Howell in satisfaction of those vested performance rights and 144,982 of Mr Howell's performance rights will be satisfied by the payment of \$144,982 in cash by the Company.

(b) Implications of the Scheme for Billabong Options

As at the date of this Scheme Booklet, Billabong had the following options on issue. All of these options are out of the money (i.e. they have an exercise price higher than the Scheme Consideration):

- 8,501,500 options issued to employees under the Incentive Plan (which are subject to the satisfaction of continued employment conditions);
- 240,000 options issued to an employee, Patrick Tenore, under the Billabong Executive Option Plan dated 31 January 2014 (which are subject to the satisfaction of continued employment conditions);
- a total of 8,451,958 options issued to ACP Burleigh Holdings, LLC, FS Investment Corporation and FS Investment Corporation II under option deeds entered into between each of these entities and the Company together with the terms and conditions dated 18 December 2015; and
- a total of 5,916,371 options issued to CCP II Dutch Acquisition – E, B.V. and OCM Clean Wave Holdings B.V. on 3 December 2013 pursuant to the Equity Funding Deed entered into between the Company and each of these entities dated 18 September 2013.

Details of these options are set out in the table below:

OPTION HOLDER	NUMBER	EXERCISE PRICE	EXPIRY DATE
Recipients of market priced options under Incentive Plan for FY16	3,230,050	\$1.23	No later than 30 November 2020
Recipients of premium priced options under Incentive Plan for FY16	5,271,450	\$1.85	No later than 30 November 2020
Patrick Tenore	240,000	\$3.00	31 January 2024
ACP Burleigh Holdings, LLC	1,549,526	\$2.50	16 July 2020
FS Investment Corporation	3,451,216	\$2.50	16 July 2020
FS Investment Corporation II	3,451,216	\$2.50	16 July 2020
Centerbridge Shareholder	2,958,185	\$2.50	3 December 2020
Oaktree Shareholder	2,958,186	\$2.50	3 December 2020
TOTAL	23,109,829		

Note – number of options has been adjusted to account for the consolidation that took place in December 2015.

Subject to the Scheme proceeding, the Billabong Board intends to exercise its discretion under the Incentive Plan to lapse all of the 8,501,500 options held by participants under the Incentive Plan for FY16, prior to the Scheme Record Date (in the same manner as the performance rights described in paragraph 8.5(a) above).

In respect of the remaining option holders listed above, under the terms of the Scheme Implementation Deed, Billabong will use reasonable endeavours to enter into a deed with each relevant option holder under which the options held by the relevant option holders are cancelled for nil or nominal consideration (subject to implementation of the Scheme) with effect from the Implementation Date. As noted in section 3.6 above, the Centerbridge Shareholder has agreed to the cancellation of all of the Centerbridge Options.

8.6 Benefits and agreements

(a) Benefits in connection with retirement from office

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Billabong (or any of its Related Bodies Corporate) as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in Billabong (or any of its Related Bodies Corporate) in connection with the Scheme.

(b) Agreements connected with or conditional on the Scheme

Other than as set out in section 8.5 of this booklet in relation to the impact of the Scheme on the Billabong Options and performance rights, there are no agreements or arrangements made between any Billabong Director and any other person in connection with, or conditional on, the outcome of the Scheme.

(c) Interests of Billabong Directors in contracts with Boardriders

None of the Billabong Directors have any interest in any contract entered into by Boardriders.

(d) Benefits under the Scheme or from Boardriders

None of the Billabong Directors have agreed to receive, or are entitled to receive, any benefit from Boardriders which is conditional on, or is related to, the Scheme²².

²² Other than their entitlement to receive the Scheme Consideration for the Billabong Shares they have a Relevant Interest in.

8.7 Consents and disclosures

(a) Consents

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- Boardriders in respect of the Boardriders Information only;
- Grant Samuel & Associates Pty Limited as the Independent Expert; and
- The Centerbridge Shareholder as to its voting intentions as set out in the section of the Chairman's letter headed 'Voting intentions of Centerbridge and Gordon Merchant'.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the time of registration of this Scheme Booklet with ASIC, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- Goldman Sachs Australia Pty Ltd as financial adviser to Billabong;
- Allens as legal adviser to Billabong; and
- Computershare Investor Services Pty Limited as the Billabong Registry.

(b) Disclosures and responsibility

Further, each party named in section 8.7(a):

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than:
 - Boardriders in respect of the Boardriders Information only;
 - Grant Samuel in relation to its Independent Expert's Report; and
 - The Centerbridge Shareholder as to its voting intentions as set out in the section of the Chairman's letter headed 'Voting intentions of Centerbridge and Gordon Merchant', and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 8.7(b).

8.8 No unacceptable circumstances

The Billabong Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Billabong that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

8.9 No other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Billabong Director, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to Billabong Shareholders.

8.10 Supplementary information

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, Billabong becomes aware that:

- a material statement in this Scheme Booklet is false or misleading;
- there is a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet has occurred; or
- a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

Billabong will prepare a supplementary document to this Scheme Booklet.

The form which the supplementary document may take, and whether a copy will be sent to each Billabong Shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from Billabong's website at <http://www.billabongbiz.com>, www.billabongscheme.com.au and from the ASX website at www.asx.com.au.

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9. GLOSSARY AND INTERPRETATION



9 GLOSSARY AND INTERPRETATION

9.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

TERM	MEANING
Antitrust Laws	statutes, rules, regulations, orders, decrees, administrative or judicial doctrines or other laws, whether of Australia or any foreign country, that are designed to prohibit, restrict or regulate actions having the purpose or effect of monopolisation or restraint of trade (including, for the avoidance of doubt, the <i>Competition and Consumer Act 2010</i> (Cth)).
ASIC	Australian Securities and Investments Commission.
Associate	has the same meaning as in section 12 of the Corporations Act.
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates.
BAML ABL Facility	the multi-currency credit facility provided by Bank of America, N.A. to the Billabong Group.
Billabong	Billabong International Limited (ABN 17 084 923 946).
Billabong Board or Board	the board of directors of Billabong.
Billabong Director or Your Director	a member of the Billabong Board.
Billabong Group	Billabong and each of its subsidiaries and a reference to a “Billabong Group Member” or a “member of the Billabong Group” is to Billabong or any such subsidiary.
Billabong Information	the information contained in this Scheme Booklet, other than the Boardriders Information and the information contained in Annexure A (except the information provided by Billabong to Grant Samuel & Associates Pty Limited).
Billabong Material Adverse Change	<p>any event, occurrence or matter that individually or when aggregated with all such events, occurrences or matters:</p> <p>(a) diminishes, or could reasonably be expected to diminish, the consolidated net assets of the Billabong Group by an amount equal to \$46,500,000 or more (calculated after taking into account any event, occurrence or matter which (i) occurs after the date of the Scheme Implementation Deed, (ii) had not been budgeted for by the Billabong Group at the date of the Scheme Implementation Deed, and (iii) has had, or could reasonably be expected to have, a positive effect on consolidated net assets, as demonstrated by Billabong to Boardriders), as compared to what the consolidated net assets of the Billabong Group could reasonably be expected to have been but for the relevant events, occurrences or matters; or</p> <p>(b) diminishes, or could reasonably be expected to diminish, the consolidated EBITDA of the Billabong Group by an amount more than \$7,500,000 in any financial year (calculated after taking into account any event, occurrence or matter which (i) occurs after the date of the Scheme Implementation Deed, (ii) had not been budgeted for by the Billabong Group at the date of the Scheme Implementation Deed, and (iii) has had, or could reasonably be expected to have, a positive effect on consolidated EBITDA, as demonstrated by Billabong to Boardriders), as compared to what the consolidated annual EBITDA of the Billabong Group could reasonably be expected to have been in that financial year but for the relevant events, occurrences or matters,</p>

TERM	MEANING
	<p>in each case other than an event, occurrence or matter:</p> <ul style="list-style-type: none"> (c) required or permitted by the Scheme Implementation Deed or the Scheme; (d) to the extent that it was fairly disclosed in due diligence material or the disclosure letter provided by Billabong to Boardriders; (e) fairly disclosed to ASX within 5 years prior to the date of the Scheme Implementation Deed or fairly disclosed in a document lodged with ASIC by or on behalf of Billabong within 12 months prior to the date of the Scheme Implementation Deed; (f) arising from any actual or proposed change in any law or accounting standards after the date of the Scheme Implementation Deed; (g) arising from general economic, retail industry or political conditions or changes in those conditions (including financial market fluctuations, changes in interest rates or changes in foreign currency exchange rates) after the date of the Scheme Implementation Deed; (h) arising from an act of terrorism, war (whether or not declared), natural disaster or the like after the date of the Scheme Implementation Deed; (i) arising from the announcement of, or entry into, or performance of obligations under, the Scheme Implementation Deed and consummation of the transactions contemplated by the Scheme Implementation Deed; (j) which is a non-cash impairment charge in response to indicators arising from the difference between Billabong's share price and the carrying value of the Billabong Group's assets; (k) which is a reduction in deferred tax assets or increase in deferred tax liabilities or which is an adverse movement in foreign currency translation reserves; or (l) arising from any unforeseen disruption to the Billabong Group's supply chain or information technology systems but only to the extent that such disruption is not caused or contributed to by any member of the Billabong Group, <p>but, in respect of paragraphs (f), (g) and (h), excluding any event, occurrence or matter which has a materially disproportionate effect on the Billabong Group, taken as a whole, as compared to other participants in the industries in which the Billabong Group operates.</p>
Billabong Options	the options issued by Billabong in respect of the Billabong Shares, whether vested or unvested.

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TERM	MEANING
Billabong Prescribed Occurrence	<p>any of the following occurrences:</p> <ul style="list-style-type: none"> • Billabong converting all or any of its shares into a larger or smaller number of shares; • any member of the Billabong Group resolves to reduce its share capital in any way; • any member of the Billabong Group: <ul style="list-style-type: none"> • enters into a buy-back agreement; or • resolves to approve the terms of a buy-back agreement under the Corporations Act; • any member of the Billabong Group issues shares or other securities to a person or grants an option over or a right to receive its shares or other securities, or agrees to make such an issue or grant such an option or right; • any member of the Billabong Group issues, or agrees to issue, convertible notes or any other instrument or security convertible into shares or securities in or of any member of the Billabong Group; • Billabong disposes, or agrees to dispose, of the whole or a substantial part of its business or property; • Billabong grants, or agrees to grant, a security interest in or over the whole or a substantial part of its business or property; • any member of the Billabong Group resolves to be wound up; • a liquidator or provisional liquidator of any member of the Billabong Group is appointed; • a court makes an order for the winding up of any member of the Billabong Group; • an administrator of any member of the Billabong Group is appointed under section 436A, 436B or 436C of the Corporations Act; • any member of the Billabong Group executes a deed of company arrangement; or • a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of any member of the Billabong Group, <p>in each case other than an occurrence:</p> <ul style="list-style-type: none"> • required or expressly permitted by the Scheme Implementation Deed or the Scheme; • to the extent that it was fairly disclosed in due diligence material or the disclosure letter provided by Billabong to Boardriders; or • fairly disclosed to ASX within 5 years prior to the date of the Scheme Implementation Deed or fairly disclosed in a document lodged with ASIC by or on behalf of Billabong within 12 months prior to the date of the Scheme Implementation Deed.

TERM	MEANING
Billabong Registry	Computershare Investor Services Pty Limited ACN 078 279 277.
Billabong Share or Share	a fully paid ordinary share in the capital of Billabong.
Billabong Shareholder or Shareholder	each person registered in the Register as a holder of Billabong Shares.
Boardriders	Boardriders, Inc.
Boardriders Group	Boardriders and each of its related bodies corporate (excluding, at any time, Billabong and its subsidiaries to the extent that Billabong and its subsidiaries are subsidiaries of Boardriders at that time).
Boardriders Information	the information contained in: <ul style="list-style-type: none"> • the answer to the question “Who is Boardriders?” in section 2; and • section 5.
Boardriders Sub	Quiksilver Australia Pty Ltd (ACN 091 136 195).
Break Fee	has the meaning given in section 8.3(d).
Business Day	a business day as defined in the ASX Listing Rules.
Centerbridge	Centerbridge Partners, L.P.
Centerbridge Options	2,958,185 options to subscribe for Shares (on a one for one basis) held by the Centerbridge Shareholder, such options having an exercise price of \$2.50 per option and an expiry date of 3 December 2020.
Centerbridge Lender	CCP II Dutch Acquisition – D, B.V.
Centerbridge Shareholder	CCP II Dutch Acquisition – E, B.V.
Centerbridge/Oaktree Senior Secured Term Loan Agreement	the loan agreement dated 18 September 2013 between Billabong, the Centerbridge Lender, the Oaktree Lender and certain others in respect of the Centerbridge/Oaktree Senior Secured Term Loan.
Centerbridge/Oaktree Senior Secured Term Loan	the senior secured term loan advanced by the Centerbridge Lender and the Oaktree Lender to the Billabong Group under the terms of the Centerbridge/Oaktree Senior Secured Term Loan Agreement.
Company	Billabong

TERM	MEANING
Competing Proposal	<p>a transaction or arrangement or any proposal, offer or expression of interest in relation to a transaction or arrangement, pursuant to which:</p> <ul style="list-style-type: none"> a third party will, if the transaction or arrangement is entered into or completed: <ul style="list-style-type: none"> acquire (whether directly or indirectly) or become the holder of a legal, beneficial and/or economic interest in all or a substantial part of the business or assets of the Billabong Group taken as a whole; acquire a relevant interest in or otherwise acquire or have a right to acquire a legal, beneficial and/or economic interest in 20% or more of the Billabong Shares; acquire control of Billabong within the meaning of section 50AA of the Corporations Act or otherwise acquire or merge with Billabong, <p>whether by way of takeover bid, scheme of arrangement, shareholder approved transaction, capital reduction or buy-back, sale or purchase of shares or assets, joint venture, dual-listed company structure (or other synthetic merger), or other transaction or arrangement; or</p> <ul style="list-style-type: none"> Billabong would be required to not proceed with the Transaction or as a result of which the Transaction otherwise would not proceed.
Competition Approval	<ul style="list-style-type: none"> any approval, clearance, filing or expiration or termination of a waiting period required in relation to the Transaction under any Antitrust Law of Australia, the United States of America, Japan, Austria, Germany and South Africa; and any approval, clearance, filing or expiration or termination of a waiting period in relation to the Transaction under any Antitrust Law of any other country or jurisdiction that is required or that Boardriders reasonably determines advisable.
Court	the Federal Court of Australia (New South Wales) or such other court of competent jurisdiction under the Corporations Act agreed to in writing between the parties.
EBIT	earnings before interest and tax.
EBITDA	earnings before interest, tax, depreciation and amortisation.
Effective Date	the date on which the Scheme becomes effective.
End Date	the date which is 6 months after the date of the Scheme Implementation Deed, subject to any extension under the Scheme Implementation Deed.
Equity Funding Deed	the equity funding deed between Billabong, the Centerbridge Shareholder and the Oaktree Shareholder dated 18 September 2013 (as amended from time to time).
Excluded Share	a Billabong Share held by a person on behalf of, or for the benefit of, Boardriders or any of its Related Entities (which, for the avoidance of doubt, as at the date of this Scheme Booklet includes the Billabong Shares held by Oaktree).
Excluded Shareholders	a holder of Excluded Shares.
FATA	<i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
FIRB	the Australian Foreign Investment Review Board.
Government Agency	any Australian or foreign government or governmental, semi-governmental or judicial entity or authority. It also includes any self-regulatory organisation established under statute or any securities exchange.
Implementation Date	the fifth Business Day after the Scheme Record Date or such other date agreed to in writing between Billabong and Boardriders.

TERM	MEANING
Incentive Plan	the Billabong International Limited Executive Incentive Plan.
Independent Expert	Grant Samuel & Associates Pty Limited (ACN 050 036 372).
Independent Expert's Report	the report prepared by the Independent Expert dated 13 February 2018 set out in Annexure A.
Listing Rules	the official listing rules of the ASX.
Marketing Period	a period of at least 20 consecutive Business Days, ending no later than the Business Day immediately prior to the Effective Date, commencing upon receipt by Boardriders of certain financial information provided that: (i) such 20 consecutive Business Day period prior shall not commence until 5 January 2018 and (ii) each of 15 January 2018, 19 February 2018, 30 March 2018 and 28 May 2018 shall not be a Business Day for the purposes of the Marketing Period. The Marketing Period commenced on 5 January 2018.
Notice of Meeting	the notice of meeting relating to the Scheme Meeting which is contained in Annexure D.
Oaktree	Oaktree Capital Management L.P. together with its affiliates and each of funds managed or advised by it or its affiliates (or any one or more of them, as the context requires).
Oaktree Lender	OCM Clean Wave Debt Holdings B.V.
Oaktree Shareholder	OCM Clean Wave Holdings B.V.
Order	any decree, judgment, injunction, direction, writ or other order, whether temporary, preliminary or permanent, made or given by a court of competent jurisdiction or by another Government Agency.
Proxy Form	the proxy form which accompanies this Scheme Booklet.
Register	the share register of Billabong.
Related Entity	has the same meaning given to it in the Corporations Act.
Relevant Interest	has the same meaning as given by sections 608 and 609 of the Corporations Act.
Representative	in relation to Billabong: <ul style="list-style-type: none"> • each other member of the Billabong Group; • an officer or employee of a member of the Billabong Group; or • an adviser to a member of the Billabong Group.
Scheme or Scheme of Arrangement	the scheme of arrangement between Billabong and the Scheme Shareholders under which all Scheme Shares will be transferred to Boardriders in accordance with Part 5.1 of the Corporations Act, substantially in the form in Annexure B, together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.
Scheme Booklet	this document.
Scheme Consideration	in respect of each Scheme Share, A\$1.00 cash.
Scheme Implementation Deed	the Scheme Implementation Deed between Billabong and Boardriders dated 5 January 2018. A summary is set out in section 8.3, and a full copy can be obtained from Billabong's website http://www.billabongbiz.com .
Scheme Meeting	the meeting of Billabong Shareholders (other than Excluded Shareholders) ordered by the Court to be convened under section 411(1) of the Corporations Act.
Scheme Record Date	7.00pm (Sydney time) on the fifth Business Day after the Effective Date.
Scheme Resolution	a resolution of Billabong Shareholders (other than Excluded Shareholders) to approve the Scheme, the form of which is set out in the Notice of Scheme Meeting in Annexure D of the Scheme Booklet.
Scheme Share	a Billabong Share on issue as at the Scheme Record Date other than an Excluded Share.

TERM	MEANING
Scheme Shareholder	each person who is registered in the Register as the holder of one or more Scheme Shares at the Scheme Record Date.
Second Court Date	the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard, or if the application is adjourned for any reason, the first day on which the adjourned application is heard.
Second Court Hearing	the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
Shareholder Information Line	1300 117 907 from within Australia and +61 3 9415 4335 from outside Australia.
Superior Proposal	<p>a bona fide written Competing Proposal received after the date of the Scheme Implementation Deed (that has not been solicited, invited, encouraged or initiated by Billabong) which the Billabong Board determines, acting in good faith and in order to satisfy what the Billabong Board considers to be its fiduciary or statutory duties (after receiving written advice from its external legal and, if appropriate, financial advisers):</p> <p>(a) is reasonably capable of being valued and implemented, taking into account all aspects of the Competing Proposal; and</p> <p>(b) would, if completed substantially in accordance with its terms, be more favourable to Billabong Shareholders (other than the Excluded Shareholders) than the Scheme.</p>
Transaction	the acquisition of Billabong by Boardriders through implementation of the Scheme.
VWAP	volume weighted average price.

9.2 Interpretation

In this Scheme Booklet:

- (a) words of any gender include all genders;
- (b) words importing the singular include the plural and vice versa;
- (c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (d) a reference to a section or annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;
- (e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them;
- (f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;
- (g) a reference to time is a reference to Sydney, Australia time unless otherwise specified;
- (h) a reference to dollars and \$ is to Australian currency;
- (i) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- (j) the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

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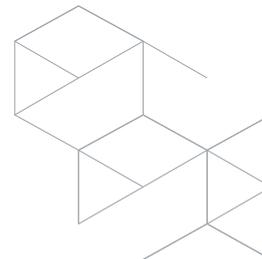


ANNEXURE A INDEPENDENT EXPERT'S REPORT



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GRANT SAMUEL



13 February 2018

The Directors
Billabong International Limited
1 Billabong Place
Burleigh Heads QLD 4220

Dear Directors

Proposal from Boardriders, Inc.

1 Introduction

On 5 January 2018, Billabong International Limited (“Billabong”) announced that it had entered into a scheme implementation deed with Boardriders, Inc. (“Boardriders”), under which it is proposed that Boardriders will acquire all of the shares in Billabong, other than those already owned by its related entities, by way of a scheme of arrangement under Section 411 of the Corporations Act (Cth) (“Scheme”). If the Scheme is implemented, Billabong shareholders will receive \$1.00 cash for each Billabong share.

Boardriders is a United States company, previously known as Quiksilver, Inc. and is a leading global outdoor sports lifestyle company. Its three core brands are *Quiksilver*, *Roxy* and *DC*. Boardriders is controlled by funds managed by Oaktree Capital Management, L.P. (“Oaktree”). Oaktree, through its controlled entities, already holds 19.3% of the shares in Billabong and is one of Billabong’s two senior lenders. Oaktree’s shares in Billabong 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.

Announcement of the Scheme followed Billabong’s announcement that it had received an indicative, non-binding proposal from Boardriders on 1 December 2017 (“Boardriders indicative proposal”).

Centerbridge Partners, L.P. (through a controlled shareholder) (“Centerbridge”) currently holds 19.3% of the shares in Billabong and Gordon Merchant, a director of Billabong, controls the right to vote 12.8% of the shares in Billabong. Both of these shareholders have stated that they intend to 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.

The Scheme is subject to a number of conditions that are set out in the Notice of Meeting and Explanatory Statement (“Scheme Booklet”).

The directors of Billabong have unanimously recommended 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 directors of Billabong have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Scheme is in the best interests of Billabong shareholders. A copy of the report (including this letter) will accompany the Scheme Booklet to be sent to shareholders by Billabong. This letter contains a summary of Grant Samuel’s opinion and main conclusions.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS Licence No 240985
Level 19 Governor Macquarie Tower, 1 Farrer Place Sydney NSW 2000 GPO BOX 4301 SYDNEY NSW 2001 T +61 2 9324 4211 F +61 2 9324 4301
GRANTSAMUEL.COM.AU

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2 Opinion

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, in Grant Samuel's opinion, the Scheme is in the best interests of Billabong shareholders, in the absence of a superior proposal.

3 Key Conclusions

- **Billabong has been valued in the range \$190-239 million, equivalent to \$0.96-1.20 per share**

Grant Samuel's valuation of Billabong is summarised below:

BILLABONG - VALUATION SUMMARY (\$ MILLIONS)

	FULL REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Business operations ¹	4.4	390.0	440.0
Other assets and liabilities	4.6	(16.9)	(22.8)
Enterprise value		373.1	417.2
Adjusted net borrowings	4.7	(183.5)	(178.5)
Value of equity		189.6	238.7
Fully diluted shares on issue (millions) ²		198.1	198.1
Value per share		0.96	1.20

The valuation represents the estimated full underlying value of Billabong assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Billabong shares to trade on the Australian Securities Exchange ("ASX") in the absence of a takeover offer.

The bottom of the range (\$0.96) represents the threshold price. An offer above that level is fair from a financial point of view. However, an offer price below that level would not be fair.

The value attributed to the operating business of \$390-440 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA³ and EBIT⁴) and discounted cash flow ("DCF") analysis.

The valuation allows for:

- other assets and liabilities, which are primarily restructuring costs expected to be incurred in FY18⁵, FY19 and FY20 in relation to the turnaround strategy; and
- cash required to fund permanent working capital and the impact of seasonality on Billabong's working capital requirements.

¹ The value of Billabong's business operations is after corporate overhead cost savings (i.e. listed company costs) which are available to acquirers of 100% of the company (refer to Section 4.3 of the full report for details).

² Fully diluted shares on issue is 198,079,110 ordinary shares (including treasury shares). No allowance has been made for any of the unvested performance rights or options over unissued ordinary shares (other than the 341,444 treasury shares to be allocated to Jim Howell) as they have not met their performance hurdles or are well out of the money with an exercise price above the consideration under the Scheme.

³ EBITDA is earnings before net interest, tax, depreciation, amortisation and impairment and significant items.

⁴ EBIT is earnings before net interest, tax and significant items.

⁵ FYXX is the year end 30 June 20XX.

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- **The multiples implied by the valuation of Billabong’s business operations reflect its small size and mix of operations, as well as the turnaround which is underway**

The multiples implied by the valuation of Billabong’s business operations are summarised below:

BILLABONG’S BUSINESS OPERATIONS – IMPLIED MULTIPLES

	FULL REPORT SECTION REFERENCE	VARIABLE (\$ MILLION)	RANGE OF PARAMETERS	
			LOW	HIGH
Multiple of adjusted EBITDA (times)				
Year ended 30 June 2017 (adjusted actual)	4.3.2	53.0	7.4	8.3
Year ending 30 June 2018 (adjusted company guidance) ⁶	4.3.2	55.0	7.1	8.0
Multiple of adjusted EBIT (times)				
Year ended 30 June 2017 (adjusted actual)	4.3.2	24.8	15.7	17.7
Year ending 30 June 2018 (adjusted company guidance) ⁶	4.3.2	26.3	14.8	16.7

The multiples are considered to be appropriate taking into account market evidence from recent relevant transactions, the trading multiples of comparable companies and the particular attributes of Billabong’s business operations, including factors such as:

- Billabong’s exposure to several factors beyond its control, including, in particular, economic and retail conditions and consumer sentiment in the regions in which it operates and fluctuations in foreign exchange rates;
- the highly competitive nature of the retail sector and branded apparel’s niche position within this sector. Apparel markets have experienced minimal growth, if not absolute declines over the past few years as a result of shifting consumer demand patterns and the impact of e-commerce on selling prices. The general outlook is for, at best, modest improvement over the next few years;
- Billabong’s well recognised and diversified portfolio of brands. The three key brands, *Billabong*, *Element* and *RVCA* have leading or very strong market positions in their key markets in each region. *RVCA* and, to a lesser extent, *Element*, are regarded as having significant growth potential. On the other hand, the *Billabong* brand, which represents more than 50% of Billabong’s total sales revenue, is a mature surf brand where growth is more difficult and expensive to achieve;
- its global diversification, with operations across North and South America, the Asia Pacific region and Europe;
- the experienced and well regarded management team;
- an improving quality of earnings. While revenues have declined from FY14 to FY17, this has, to a significant degree, been the result of a concerted effort to rationalise the store network and to improve financial discipline;
- the mix of business between wholesale and retail, with around 45% of total sales generated through retail channels (including e-commerce) and a significant exposure in the Asia Pacific to larger multi-brand stores. Retail is a more capital intensive industry and multi-brand stores are less attractive for a variety of reasons;
- Billabong’s relatively low operating margins (which are, in part, a function of its small scale and its significant retail business operations). Moreover, as EBITDA margins have compressed, capital expenditure (and depreciation and amortisation expense) has become a proportionately much

⁶ The implied forecast multiples are based on the mid-point of the updated guidance for FY18 EBITDA provided by Billabong in conjunction with the announcement of the Scheme on 5 January 2018 and Billabong’s FY18 forecast for depreciation, amortisation and impairment.

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larger drain on cash flow (and now represent over 50% of EBITDA), severely constraining free cash flows;

- Billabong's recent underlying financial performance. Cost savings and benefits from implementation of the turnaround strategy have been achieved but have been offset by one off events and declining like-for-like sales (particularly in the Asia Pacific);
- the turnaround strategy is midway through implementation. While there is upside potential from further cost efficiencies and ongoing benefits from roll out of the global platforms (including the omni-channel platform), progress has been slower than expected and there is no certainty that all elements of the turnaround will be implemented successfully. In any event, it must be recognised that these new global platforms, even if successful:
 - are likely to result in incremental rather than dramatic enhancements to sales and margins; and
 - will require continued investment in the platforms to maintain their effectiveness;
- Billabong has generally underperformed relative to its budgets and forecasts in recent years (although it has met market guidance); and
- Billabong's substantial carried forward income tax losses, albeit the ability to utilise these tax losses is extremely uncertain and unlikely to be paid for by an acquirer.

The valuation assumes Billabong has the funding in place to continue to execute its turnaround strategy.

- **The DCF analysis generates values for Billabong's business operations that are consistent with the value range of \$390-440 million**

Grant Samuel has prepared a high level DCF analysis of Billabong's business operations as a cross check on the value range. The key parameters of the model include:

- 10 years of projected cash flows, from 1 July 2017 to 30 June 2027. The FY18 Forecast⁷ has been used as the basis for the cash flow forecasts. The cash flows are nominal, ungeared and after tax;
- discrete assumptions for sales revenue, gross margin and EBITDA margin for each sales channel (wholesale, bricks & mortar and e-commerce) within each region, with the wholesale channel further split into the three key brands, *Billabong*, *Element* and *RVCA*, and other. This approach allows for the different sales revenue growth and cost profiles of each sales channel (and wholesale brand) in each region. Capital expenditure and working capital assumptions have been made on a business-wide basis;
- an effective corporate tax rate of 28%, which is a blended tax rate before financing costs reflecting the mix of Billabong's global business operations;
- approximately \$2.2 million of public company cost savings annually;
- a terminal growth rate of 2.5% (implying an EBITDA exit multiple of 5.5-6.2 times); and
- a discount rate (weighted average cost of capital) based on the Capital Asset Pricing Model (CAPM⁸), but adjusted to reflect Grant Samuel's judgement as to a realistic discount rate, of 10-11%.

The key parameters of the scenarios are summarised below:

⁷ The FY18 Forecast is the detailed forecast for the year ending 30 June 2018 prepared by Billabong management. It incorporates the actual performance for Billabong for the six months to December 2017 and the outlook (including forward orders) at that time. The updated guidance for FY18 EBITDA provided by Billabong in conjunction with announcement of the Scheme on 5 January 2018 is consistent with the FY18 Forecast.

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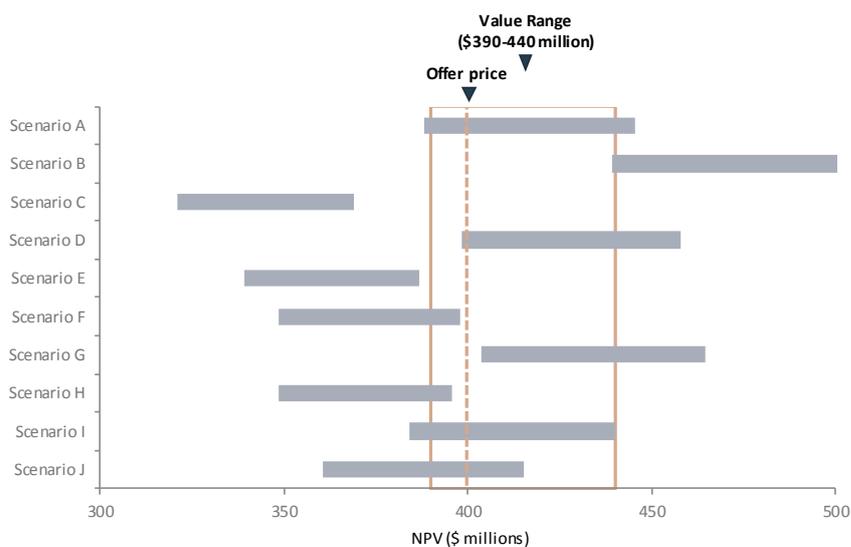
BILLABONG'S BUSINESS OPERATIONS - DCF SCENARIOS

SCENARIO	DESCRIPTION
Scenario A	Based on FY18 Forecast and projections prepared by Billabong management. From FY21 onwards, revenue growth assumptions by sales channel and region resulting in average annual revenue growth of around 3.5%. Improvement in gross margin percentage results in increase in EBITDA margin from 5.4% in FY18 to 8.0% by FY27. Capital expenditure at 5.8% of retail sales. Depreciation and amortisation 105-110% of capital expenditure in FY19 and FY20, then 100% of capital expenditure. Terminal growth rate of 2.5%
Scenario B	Scenario A except that the gross margin improvement continues across all markets through to FY25 (a further 100 basis points improvement). The EBITDA margin increases to around 9.0% in FY27
Scenario C	Scenario A except that the Asia Pacific experiences a prolonged period of weakness driven by underperformance in Australia (average annual Asia Pacific revenue growth of 0.2%). Asia Pacific gross margins are also lower as Billabong discounts heavily to maintain sales and clear inventory and costs of doing business are higher driven by defensive marketing spend to maintain market share, resulting in the overall EBITDA margin increasing to 7.3% in FY27
Scenario D	Scenario A except that Billabong achieves higher annual sales growth from FY20 onwards across all markets (average annual revenue growth of 4.2%) through an increased investment in marketing. The EBITDA margin increases to 8.0% in FY27
Scenario E	Scenario A except that the Americas (Billabong's largest region by sales revenue) experiences subdued growth as Billabong closes unprofitable stores across its bricks & mortar channel and wholesale takes longer than expected to return to growth. Average annual Americas revenue growth is 1.4%
Scenario F	Scenario A except that the global omni-channel project requires higher capital expenditure post FY20 to maintain the user experience (6.5% of retail sales) and the associated retail sales revenue benefit is smaller than anticipated
Scenario G	Scenario A except that there is stronger growth in RVCA branded sales revenue across all markets, driven by higher brand awareness in Europe and the Asia Pacific and continued market share gains in the Americas (average annual revenue growth of 4.0%)
Scenario H	Scenario A except Billabong experiences a decrease in demand for its products across all markets (average annual revenue growth of 0.3%)
Scenario I	Scenario A except that growth in e-commerce in the Asia Pacific is less than expected due to competition from the introduction of Amazon locally (average annual Asia Pacific revenue growth of 1.9%)
Scenario J	Scenario A except that the expected margin improvement from implementation of the turnaround strategy over the FY18 to FY20 period does not eventuate. The EBITDA margin increases to 7.8% in FY27

The net present value ("NPV") outcomes are depicted diagrammatically below:

BILLABONG'S BUSINESS OPERATIONS – NPV OUTCOMES

(AT 10-11% DISCOUNT RATE)



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A number of the scenarios fall below or only just within the value range for Billabong's business operations of \$390-440 million. This is not surprising as the DCF represents a standalone value for Billabong under the current ownership structure and the value range Grant Samuel has placed on Billabong's business operations includes an element of payment for some of the synergies Boardriders and other acquirers could generate.

Grant Samuel's value range incorporates the vast majority of Scenarios A, D, G and I, a substantial proportion of Scenario J, the top end of Scenarios F and H, and the bottom end of Scenario B. Scenarios C and E are outside the low end of the range. Grant Samuel has considered the outcome of all of the scenarios in determining its value range for Billabong's business operations:

- Scenario B is based on a substantial improvement in the EBITDA margin, from 5.4% in FY18 to 7.3% in FY20 and around 9.0% by FY27. The ability of Billabong to achieve this level of performance is extremely uncertain. It requires everything to go Billabong's way, which has not been the case historically;
- there is a real possibility that any of Scenarios D, G, I or J could eventuate. Scenarios D and G project higher sales revenue growth than Scenario A, either across all markets (Scenario D) or specifically in the RVCA brand (Scenario G). Higher sales growth could be achieved, but this would likely require an increased investment in marketing. The outcome is a relatively small uplift in value which indicates the difficulty achieving growth in earnings in a mature market. Equally, Scenarios I and J are potentially realistic downside outcomes around lower than expected e-commerce sales growth in Australia (Scenario I) and the expected margin improvement from implementation of the turnaround strategy over the FY18 to FY20 period not eventuating (Scenario J); and
- Scenarios C, E, F and H show the sensitivity of the NPV to downward movements in sales revenue growth (and, in the case of Scenario F, an increase in e-commerce capital expenditure). While each of these scenarios is possible, the impact on value (compared to Scenario A) is very material, and does not make any allowance for mitigating factors that Billabong would take if it became apparent that these types of scenarios might eventuate (such as seeking alternative sources of revenue growth, further cost reductions or curtailing capital expenditure). Although there may be periods of lower revenue growth (and/or higher capital expenditure), in Grant Samuel's opinion, it is unlikely that Billabong would continue to operate indefinitely in this environment without responding, particularly where there is a compounding impact on margins such as in Scenario C.

■ **The Scheme is fair and reasonable and, therefore, is in the best interests of Billabong shareholders, in the absence of a superior proposal**

Grant Samuel has estimated the full underlying value of Billabong to be in the range \$0.96-1.20 per share. The consideration under the Scheme of \$1.00 per share falls within this range. Accordingly, the Scheme is fair.

In considering the fairness of the Scheme, there are a number of specific issues that shareholders should consider:

- the consideration under the Scheme represents multiples of 7.5 times adjusted historical FY17 EBITDA and 7.3 times adjusted forecast FY18 EBITDA. While these multiples superficially appear to be relatively modest, the decline in earnings (EBITDA) from the levels of a decade ago mean that capital expenditure now consumes approximately 50% of EBITDA, substantially reducing the free cash flow available to an owner of the business. Assuming depreciation and amortisation is a reasonable proxy for long run capital expenditure, EBIT multiples are a more meaningful basis of value assessment. In this context, the consideration under the Scheme represents an adjusted historical FY17 EBIT multiple of 16.1 times and an adjusted forecast FY18 EBIT multiple of 15.2 times. These multiples are well above almost all of the comparable transaction evidence and the



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vast majority of comparable listed companies (focused on the retail sector), many of which are substantially larger than Billabong;

- Billabong is only midway through implementation of its turnaround strategy and there is still upside potential from:
 - further cost efficiencies in product sourcing and the logistics and distribution project; and
 - successful implementation of the omni-channel project (particularly from improvement in Billabong's e-commerce offering).

Grant Samuel's valuation does reflect this potential (both in the implied multiples and the assumptions adopted in the DCF analysis).

In any event, shareholders need to recognise that retailing, particularly branded apparel, is a tough sector facing continued headwinds. Sales growth and/or margin improvement will be hard won and the retail sector is littered with examples of companies that continue to deteriorate. Despite the cost savings that Billabong has realised over the past four years, margins have stood still with gains offset by one off events and sales slippage. The future is unlikely to be any easier; and

- Boardriders, as owner of the *Quiksilver* brand (one of the two major competitors to Billabong), has the potential to extract substantial synergies from merging the two businesses. Boardriders has not made any public statements as to its expectations of synergy benefits (other than broad statements in the Scheme Booklet), nor have these been conveyed to Billabong, so it is not possible to reliably estimate them. However, at the very least, they are likely to include:
 - elimination of head office functions and duplicated shared services;
 - merging of operations such as sourcing and logistics;
 - purchasing power benefits;
 - e-commerce fulfillment rationalisation; and
 - inventory realignment in multi-brand stores.

While the synergy benefits (net of costs) may be significant, they are to a degree unique to Boardriders. There are only two businesses that compete (globally at similar scale) directly with Billabong in terms of product lines, *Quiksilver* and *Rip Curl* and *Rip Curl* is understood to not be in a position to acquire Billabong. Normal valuation practice is only to include synergies common to several acquirers in fair value. Synergies unique to one party are excluded.

There are other apparel retailers that could acquire Billabong and may be able to make some level of operational savings although the lack of overlap in product would be a limitation on cost savings.

The synergies for a number of such potential acquirers may also be meaningful but the valuation range includes an allowance for synergy benefits. The implied multiples for Billabong are consistent with, if not higher than, the pre-synergy multiples from acquisitions of comparable companies (multiples based on post synergy earnings are materially lower) and therefore implicitly allow for a considerable level of synergies and/or future turnaround potential. The DCF analysis indicates that the value range for the Billabong business (\$390-440 million) is above the NPV of many of the scenarios (all on a standalone basis) implying the inclusion of some level of synergy benefits.

As the Scheme is fair, it is also reasonable. In any event, there are a number of factors to support the conclusion that the Scheme is reasonable:

- the consideration under the Scheme of \$1.00 per share represents a substantial premium over the Billabong share price prior to announcement of the Boardriders indicative proposal:



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BILLABONG – PREMIUM OVER PRE-ANNOUNCEMENT PRICES⁸

PERIOD	BILLABONG SHARE PRICE/VWAP ⁹	PREMIUM
30 November 2017 – pre-announcement closing price	\$0.78	28.2%
28 November 2017 – opening price	\$0.67	49.3%
1 week prior to 30 November 2017 – VWAP	\$0.71	40.8%
1 month prior to 30 November 2017 – VWAP	\$0.66	51.5%
3 months prior to 30 November 2017 – VWAP	\$0.59	69.5%
6 months prior to 30 November 2017 - VWAP	\$0.66	51.5%

Source: Scheme Booklet

The premium relative to the share price immediately prior to announcement of the Boardriders indicative proposal (at 28.2%) is consistent with the level of premium typically expected in takeovers, which tend to fall in the range 20-25%. However, this share price was impacted by the ramp up in the Billabong share price in the three days prior to announcement of the Boardriders indicative proposal (see Section 3.9.1 of the full report). The premium is significantly higher (40-70%) when compared to prices in the periods up to six months prior to announcement. In this case, the extent of the premium is probably attributable to Billabong’s limited free float and its small market capitalisation, which results in trading in Billabong shares being relatively illiquid. Accordingly, less reliance can be placed on the share price as a good indicator of fair market value;

- Billabong’s major shareholders, Centerbridge and Gordon Merchant (collectively holding or controlling the right to vote a 32% interest in Billabong, or 39.7% excluding Oaktree’s holding) have indicated that, in the absence of a superior proposal and subject to an independent expert determining that the Scheme is in the best interests of shareholders, they intend to vote the shares in their control in favour of the Scheme. Both Centerbridge and Gordon Merchant can be regarded as well informed and independent shareholders who have come to an independent view that the Scheme is in their best interests;
- Billabong and its advisers undertook a comprehensive process to identify alternative potential acquirers of Billabong. While no formal auction process was undertaken, Billabong and its advisers assessed a full list of candidates and made direct contact as considered appropriate. No alternative party has expressed interest in making an alternative offer. In any event, Billabong has essentially been “in play” since (at least) 2013 when several parties contested the recapitalisation of Billabong. The meeting at which Billabong shareholders will vote on the Scheme is scheduled for 28 March 2018. There has been ample opportunity for an alternative bidder to come forward subsequent to announcement of the Boardriders indicative proposal on 1 December 2017 and there will be further opportunity up until the shareholders meeting; and
- the short term outlook for Billabong is uncertain. While Billabong has not publicly released earnings forecasts for beyond FY18, it is midway through a turnaround that has taken longer than expected to implement and interest payments combined with Billabong’s high debt levels will result in ongoing losses and it is not expected to pay dividends in the medium term. In these circumstances, and in the absence of the Scheme or any alternative offer (or speculation as to any offer), it is likely that Billabong shares, under current market conditions and its current ownership and capital structure, would trade at prices well below the consideration under the Scheme of \$1.00 per share; and

⁸ The VWAPs shown in the table are calculated using on-market trading only, consistent with the disclosure in the Scheme Booklet. The VWAPs calculated using all trading (i.e. on-market and off-market trading), which is the basis that Grant Samuel usually adopts, are the same except for the 6 month VWAP, which is \$0.70 (a 42.9% premium).

⁹ VWAP is volume weighted average price.

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- Billabong's outlook is also impacted by its capital structure. The loan facility provided by the Centerbridge/Oaktree Consortium matures in September 2019. Billabong has been actively considering options for the refinancing of the loan but conditions in the retail industry (including the collapse of numerous participants) makes any refinancing challenging. Given the degree of leverage, refinancing all of the debt with new debt is unlikely to be achievable, necessitating with asset sales or equity raisings. Neither of these alternatives are likely to be attractive to shareholders or positive for future share price performance:
 - Billabong has limited options for selling parts of its business. The most saleable business, RVCA, is Billabong's best growth prospect over the medium term. Selling regional units would be sub optimal and fraught with issues for managing a global business. In any event, sale of a significant business would reduce Billabong's scale, adversely affecting its ability to generate margin; and
 - further equity raisings would also be extremely challenging, certainly if Oaktree or Centerbridge did not participate (and if they prioritised their lending exposure). There would be a significant risk of substantial dilution of existing shareholders' position and value.

As the Scheme is fair and reasonable, it is, therefore, in the best interests of Billabong shareholders, in the absence of a superior proposal.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Billabong shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Billabong in relation to the Scheme.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of Billabong. In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders, based on their own views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED



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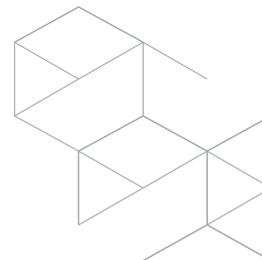
**Billabong
International
Limited**

FINANCIAL SERVICES GUIDE
AND
INDEPENDENT EXPERT'S REPORT
IN RELATION TO THE PROPOSAL FROM
BOARDRIDERS, INC.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372

13 FEBRUARY 2018

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FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Billabong International Limited ("Billabong") in relation to the proposal from Boardriders, Inc. ("the Billabong Report"), Grant Samuel will receive a fixed fee of \$525,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 6.3 of the Billabong Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Billabong Report.

Grant Samuel is required to be independent of the Entity to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 6.3 of the Billabong Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Billabong or Boardriders or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that:

- on 20 December 2013, Grant Samuel issued an independent expert's report in relation to a recapitalisation of Billabong; and
- Grant Samuel Capital Advisory Pty Limited, a related party of Grant Samuel:
 - provided advice to Billabong on capital structure matters from time to time over the period from December 2015 to January 2017; and
 - advised on the refinancing of Billabong's United States asset based loan facilities (completed in June 2016).

The fees for these assignments were \$275,000 and \$325,000 respectively and were not material in the context of total Grant Samuel group revenue over the last two financial years.

Grant Samuel commenced analysis for the purposes of this report prior to announcement of the Scheme. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$525,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Billabong Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Billabong Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS Licence No 240985
Level 19 Governor Macquarie Tower, 1 Farrer Place Sydney NSW 2000 GPO BOX 4301 SYDNEY NSW 2001 T +61 2 9324 4211 F +61 2 9324 4301
GRANTSAMUEL.COM.AU

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Appendix

1	Market Evidence	
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1 Terms of the Scheme

On 5 January 2018, Billabong International Limited (“Billabong”) announced that it had entered into a scheme implementation deed with Boardriders, Inc. (“Boardriders”), under which it is proposed that Boardriders will acquire all of the shares in Billabong, other than those already owned by its related entities, by way of a scheme of arrangement under Section 411 of the Corporations Act (Cth) (“Scheme”). If the Scheme is implemented, Billabong shareholders will receive \$1.00 cash for each Billabong share.

Boardriders is a United States company, previously known as Quiksilver, Inc. and is a leading global outdoor sports lifestyle company that designs, develops and distributes branded apparel, footwear, accessories and related products. Its three core brands are *Quiksilver*, *Roxy* and *DC*. Boardriders is controlled by funds managed by Oaktree Capital Management, L.P. (“Oaktree”). Oaktree, through its controlled entities, already holds 19.3% of the shares in Billabong and is one of Billabong’s two senior lenders. Oaktree’s shares in Billabong 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.

Announcement of the Scheme followed Billabong’s announcement that it had received an indicative, non-binding proposal from Boardriders on 1 December 2017, to acquire all of the shares in Billabong, other than those already owned by Boardriders’ related entities, at a price of \$1.00 cash per share, via a scheme of arrangement (“Boardriders indicative proposal”). The Boardriders indicative proposal was subject to a number of conditions, including due diligence to Boardriders’ satisfaction, securing committed financing, unanimous recommendation from the Billabong Board and entry into a definitive scheme implementation agreement between the parties. The Billabong Board decided to grant due diligence access to Boardriders to enable Boardriders to put a formal proposal to Billabong.

Centerbridge Partners, L.P. (through a controlled shareholder) (“Centerbridge”), which currently holds 19.3% of the shares in Billabong, 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 Centerbridge, 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.

Gordon Merchant, a director of Billabong, controls the right to vote 12.8% of the shares in Billabong and has stated that his intention is to 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.

The Scheme is subject to a number of conditions that are set out in the Notice of Meeting and Explanatory Statement (“Scheme Booklet”). In summary, the key conditions include:

- receipt of approval from the Foreign Investment Review Board in Australia;
- receipt of all competition approvals or clearances required in relation to the Scheme, including under any antitrust law in Australia, the United States, Japan, Austria, Germany and South Africa;
- Billabong shareholder (excluding Oaktree) approval of the Scheme by the necessary majorities;
- Federal Court of Australia approval of the Scheme;
- no legal or regulatory restraints on, or orders preventing, the implementation of the Scheme;
- no material adverse change, prescribed occurrence or breach of warranty in relation to Billabong; and
- expiry of the marketing period (a period of 20 consecutive business days commencing on 5 January 2018) in respect of Boardriders’ funding arrangements.



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In addition:

- issued options and performance rights (refer to Section 3.8.1 for details of these securities) will be treated as follows, subject to the Scheme becoming effective:
 - the Billabong Board intends to exercise its discretion under the incentive plan rules to:
 - lapse 8,443,500 options held by participants under the incentive plan for FY16¹ prior to the Scheme record date;
 - cancel all of the 2,578,467 performance rights on issue other than 486,426 of the 648,568 performance rights held by Billabong's Chief Financial Officer, Jim Howell (refer below for treatment of these performance rights);
 - in respect of the remaining option holders, under the terms of the scheme implementation deed, Billabong will use its reasonable endeavours to enter into a deed with each option holder under which the options held by each option holder are cancelled for nil or nominal consideration with effect from the Scheme implementation date; and
 - Billabong has an obligation to issue 648,568 performance rights to Jim Howell, pursuant to a sign on bonus agreement. Unlike the performance rights held by other participants, these performance rights are not subject to performance based hurdles. The Billabong Board has resolved that Jim Howell will be entitled to 486,426 of these performance rights on a change of control. 341,444 of these performance rights will vest prior to implementation of the Scheme (and will participate in the Scheme) and he will be allocated the 341,444 ordinary shares held by Billabong's employee share trust. Billabong will pay the remaining 144,982 performance rights in cash, being \$144,982. The Billabong Board has resolved that the remainder of Jim Howell's performance rights will lapse on a change of control;
- Billabong and Boardriders have agreed to certain exclusivity restrictions including no talk, no shop and no due diligence provisions. Billabong has also agreed to terminate any existing negotiations or discussions with any third party in relation to any competing proposal. The no talk and no due diligence restrictions do not apply if the Billabong Board determines that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the Billabong Board;
- Billabong must notify Boardriders if it receives in writing a competing proposal and must disclose to Boardriders all material terms of the competing proposal and the identity of the third party making the competing proposal;
- Billabong must not enter into an agreement or arrangement to implement a competing proposal and must ensure that none of its directors recommend a competing proposal or withdraw or change their recommendation or voting intention unless the Billabong Board determines, acting in good faith and in order to satisfy its fiduciary or statutory duties, that the competing proposal would be a superior proposal and Billabong has given Boardriders as least five business days to make a proposal that matches or exceeds the competing proposal;
- Billabong has agreed to pay Boardriders a break fee of \$1.6 million if:
 - any Billabong director makes a public statement, withdrawing or adversely changing their recommendation that Billabong shareholders (other than Centerbridge) vote in favour of the Scheme, that they will not vote all Billabong shares held or controlled by them in favour of the Scheme, or supporting or endorsing a competing proposal (other than where the independent expert concludes that the Scheme is not in the best interests of Billabong shareholders except where that conclusion is a result of a competing proposal);

¹ FYXX is the year end 30 June 20XX.



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- a competing proposal is announced by a third party prior to the earlier of the Scheme being implemented and the end date² and, within one year after that occurring, the third party or their associate completes a competing proposal or has a relevant interest in at least 50% of Billabong shares; or
- Boardriders terminates the scheme implementation deed due to a material breach by Billabong (and Billabong fails to remedy such breach within the required notice period).

The break fee is not payable if the Scheme nevertheless becomes effective; and

- the scheme implementation deed can be terminated:
 - by either Billabong or Boardriders if either party is in material breach of the scheme implementation deed and that breach is not remedied within five business days of receiving written notice from the non-breaching party or in certain circumstances where there is a breach or non-satisfaction of a condition which is not waived, there is an act, failure to act or occurrence which will prevent a condition being satisfied or the Scheme will not become effective by the end date;
 - by Boardriders if any Billabong director has withdrawn or adversely changed its recommendation that Billabong shareholders vote in favour of the Scheme or has recommended or made a statement supporting or endorsing a competing proposal; or
 - by Billabong if a majority of the Billabong Board withdraws its recommendation that Billabong shareholders vote in favour of the Scheme and, if required to pay the break fee as a result of such withdrawal, Billabong has paid Boardriders the break fee.

The directors of Billabong have unanimously recommended 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.

² The end date is the date which is six months after the date of the scheme implementation deed, subject to any extension under the scheme implementation deed.



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2 Scope of the Report

2.1 Purpose of the Report

The Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by Billabong shareholders, the Scheme will then be subject to approval by the Federal Court of Australia.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding (30% or more) in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the Australian Securities Exchange ("ASX") Listing Rules, the directors of Billabong have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Scheme is in the best interests of Billabong shareholders and to state reasons for that opinion. A copy of the report will accompany the Notice of Meeting and Explanatory Memorandum ("the Scheme Booklet") to be sent to shareholders by Billabong.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Billabong shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Billabong in relation to the Scheme.

Voting for or against the Scheme is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8). For most other transactions, the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

The Scheme is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Scheme as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable".

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Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criterion. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is more than pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation, the minority shareholders have little prospect of receiving full value from a third-party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Scheme is fair by comparing the estimated underlying value range of Billabong with the offer price. The Scheme will be fair if it falls within the estimated underlying value range. In considering whether the Scheme is reasonable, the factors that have been considered include:

- the existing shareholding structure of Billabong;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Billabong shares in the absence of the Scheme; and
- other advantages and disadvantages for Billabong shareholders of approving the Scheme.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Scheme Booklet (including earlier drafts);
- annual reports of Billabong for the four years ended 30 June 2017;
- updated guidance for FY18 EBITDA³ provided by Billabong in conjunction with announcement of the Scheme on 5 January 2018;
- press releases, public announcements, media and analyst presentation material and other public filings by Billabong including information available on its website;
- brokers' reports and recent press articles on Billabong and the branded apparel sector; and

³ EBITDA is earnings before net interest, tax, depreciation, amortisation and impairment and significant items.

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- sharemarket data and related information on Australian and international listed companies engaged in the branded apparel sector and on acquisitions of companies and businesses in this sector.

Non-Public Information provided by Billabong

- management accounts for Billabong for the period to 30 November 2017;
- forecast for the year ending 30 June 2018 prepared by Billabong management (“FY18 Forecast”);
- projections for the years ending 30 June 2019 and 2020 prepared by Billabong management; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel has held discussions with, and obtained information from, senior management of Billabong and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel’s opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Billabong and its advisers. Grant Samuel has considered and relied upon this information. Billabong has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Scheme is in the best interests of Billabong shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all the matters that an audit, extensive examination or “due diligence” investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Billabong or Boardriders. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).



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The information provided to Grant Samuel included the FY18 Forecast. The updated guidance for FY18 EBITDA⁴ provided by Billabong in conjunction with announcement of the Scheme on 5 January 2018 is consistent with the FY18 Forecast.

Billabong is responsible for the FY18 Forecast. Grant Samuel has considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis. It should be noted that the FY18 Forecast and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the FY18 Forecast has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account:

- Billabong is an established business operating in a mature market and is not subject to major operational changes (albeit it has a poor track record of forecasting accuracy);
- the FY18 Forecast takes into account the actual performance for Billabong for the six months to December 2017 and the outlook (including forward orders) as at that date;
- the FY18 Forecast has been adopted by the directors of Billabong; and
- the FY18 Forecast has been prepared through a detailed forecasting process involving preparation of "ground up" forecasts by the management of individual operations and review by management of Billabong.

The information provided to Grant Samuel also included Billabong's projections for the two years ending 30 June 2020. Billabong is responsible for the projections. Grant Samuel has not relied on the projections for the purposes of its report but has used this information in developing financial models for Billabong's business operations as discussed in Section 4.4.3.

The directors of Billabong have decided not to include the FY18 Forecast or the projections in the Scheme Booklet and therefore this information has not been disclosed in this report.

Grant Samuel has no reason to believe that the FY18 Forecast or the projections reflect any material bias, either positive or negative. However, the achievability of the FY18 Forecast and the projections is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and

⁴ EBITDA is earnings before net interest, tax, depreciation, amortisation and impairment and significant items.

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- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Billabong and its advisers regarding legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Scheme Booklet sent by Billabong to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Scheme will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Scheme are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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3 Profile of Billabong

3.1 Background

Billabong is an Australian based wholesaler, retailer, and marketer of apparel, hard goods, accessories, eyewear, wetsuits and other products in the surf and board sports sector. The company has a portfolio of eight brands, including its flagship *Billabong* brand. It has major businesses in the Americas, the Asia Pacific region and Europe.

Billabong was founded in 1973 by Gordon and Rena Merchant on the Gold Coast, Queensland, as a board short manufacturer. Over the next two decades, it established itself as an iconic Australian surfing brand and began to distribute internationally, with an initial focus on North America. By the early 1990s, Billabong had also expanded into Japan and Europe. In August 2000, Billabong listed on the ASX, issuing 192 million shares at \$2.30⁵ per share to retail investors and \$2.60⁵ per share to institutional investors.

Over the period from 2000 to 2010, Billabong acquired eleven brands. The additional brands enabled Billabong to diversify into skate and ski related hard goods and apparel. An overview of Billabong's brand portfolio is set out in Section 3.2.1. From FY09 to FY11, Billabong aggressively grew its retail business, in part in response to pressure on its wholesale business. It acquired a number of retail chains, growing its retail outlets from 335 as at 30 June 2009 to 639 by 30 June 2011. Retail sales increased from \$288 million to \$618 million over this period. However, this growth by acquisition masked an underlying decline in Billabong's business. Billabong was faced with challenging market conditions, characterised by a fall in consumer confidence and spending following the global financial crisis (particularly in the United States and Europe), a general decline in the popularity of surf apparel, and margin pressure caused by the growth of online channels. Integration of the newly acquired retail chains was problematic and diverted management attention away from Billabong's core business. The result was a dramatic fall in margins.

Billabong's gearing had increased to fund its acquisitions, and the decline in its earnings meant that it faced growing financial pressure. Continued structural change, retail headwinds and a deterioration in financial performance led to Billabong receiving several acquisition and recapitalisation proposals during 2012 and 2013, culminating in a proposal from the Centerbridge/Oaktree Consortium to recapitalise the business in September 2013. The proposal, which was approved by shareholders in January 2014 and implemented by the end of March 2014, provided Billabong with a capital structure that had the financial flexibility required to reshape the business. The recapitalisation was accompanied by several changes to senior management and the Board, who would lead a multi-year turnaround strategy announced in late 2013 (see Section 3.3).

Since the announcement of Billabong's turnaround strategy, significant investment has been made in personnel and systems to drive a turnaround in performance. Non-core businesses and brands (i.e. *DaKine*, *Surfstitch.com*, *Swell.com*, *West 49*, *Sector 9* and *Tigerlily*) have been sold to enable increased focus on Billabong's core global brands, *Billabong*, *Element* and *RVCA*. Various initiatives have been implemented to simplify the structure of the business, improve sourcing, reconfigure the supply chain and make Billabong's cost base more competitive. Underperforming retail stores have been closed and the proportion of sales through the e-commerce channel has increased (excluding the impact of discontinued operations), as has Billabong's use of social media and customer data and analytics.

While these initiatives have led to improvements across the business, the financial benefits from the turnaround strategy are taking longer to realise than expected. Compounding matters, Billabong has also been confronted with additional challenges and setbacks, including fluctuations in foreign exchange rates, weak trading conditions, the collapse of several major wholesale customers and delays to major cost saving initiatives and the omni-channel rollout. The combination of these factors has meant that Billabong is yet to experience a turnaround in earnings.

⁵ Equivalent to 38.4 million shares issued at \$11.50 per share to retail investors and \$13.00 per share to institutional investors after adjusting for the 5 for 1 share consolidation effective from December 2015.

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As at 30 June 2017, Billabong distributed its own brands as well as other third-party products through approximately 10,000 retail sites worldwide, including its wholesale customer's stores, 372 Billabong operated retail stores and a global e-commerce platform which supports country-specific websites for each major brand.

Prior to announcement of the Boardriders indicative proposal, Billabong had a market capitalisation of approximately \$133 million⁶.

3.2 Business Operations

3.2.1 Brands

Billabong owns a portfolio of brands in the surf, skate, and snow apparel and hard goods markets. The portfolio consists of eight brands, *Billabong*, *RVCA*, *Element*, *VonZipper*, *Honolua*, *Palmers*, *Kustom* and *Xcel*.

Billabong's brands are managed through direct operations in Australia, Brazil, Canada, France, Indonesia, Japan, New Zealand, Singapore, South Africa and the United States. The brands are distributed, either directly or indirectly, through more than 90 countries.

Billabong's top three brands by revenue are Billabong, Element and RVCA, which collectively represent just under 80% of Billabong's total sales revenue. Billabong's other owned brands account for approximately 7% of total sales revenue and third-party brands represent the remaining 13% of total sales revenue.

A brief overview of each brand is set out below:

Billabong

The *Billabong* brand was founded in 1973. It is the company's cornerstone brand and has established itself as an iconic Australian brand and an international surfing and board sport brand. The brand's identity is represented through its marketing, which is focussed on its association with board sport athletes and events. *Billabong* was recently named women's brand of the year at the 2017 surf industry awards for the United States Surf Industry Manufacturers' Association and the Australian Surf & Boardsports Industry Association. *Billabong* branded product represents approximately 52% of total group sales revenue.

Element

Element was founded in 1992 in California and is a global skate and street brand. Billabong acquired *Element* in 2001. *Element* branded product represents approximately 14% of total group sales revenue. Europe is *Element*'s largest market, although Billabong believes there is substantial potential to grow the brand in the United States.

RVCA

RVCA is a design-driven, global youth lifestyle brand that was established in 2001 and acquired by Billabong in 2010. It offers a mix of surf, skate, mixed martial arts and visual creativity built around its Artist Network Program, giving artists, athletes and advocates a platform for creative expression, which is then used to create graphics for its apparel. *RVCA* has established a strong market position in the United States and is increasingly becoming a global brand with consistent growth across product categories, genders, geographies and sales channels. Billabong management believes that the *RVCA* brand including its sub brand *VA Sport*) has considerable growth potential globally and could grow to double or triple its current size. *RVCA* was awarded Australian Men's Brand of the Year at the 2017 Surf & Boardsports Industry Association Awards. *RVCA* branded product represents approximately 13% of total group sales revenue.

⁶ Based on a Billabong share price of \$0.67, the opening share price on 28 November 2017. See Section 3.9.1 for details.

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VonZipper

VonZipper was founded in 1999 in California and acquired by Billabong in 2001 to expand into sunglasses and snow goggles. *VonZipper* is a fashion forward brand centred around the alternative consumer and focussed on the premium eyewear, goggles, soft goods and accessories market.

Honolua

Billabong acquired the *Honolua* brand and associated chain of Hawaii-based retail stores effective from December 2003. The *Honolua* brand remains predominantly Hawaii-based. It is designed to appeal to men and women whose lives revolve around an ocean-inspired lifestyle.

Palmers

Billabong acquired *Palmers* in 2004. *Palmers* is primarily a surf accessories brand and is one of the smaller brands in Billabong's portfolio.

Kustom

Kustom was established in 2000 in Australia, and was acquired by Billabong in 2004. *Kustom* is a footwear brand that focusses on the casual beach and surf lifestyle market.

Xcel

Xcel was established as a speciality wetsuit brand in 1982 in Hawaii and acquired by Billabong in 2007. Xcel has established itself as a premium international specialist wetsuit and hardgoods brand with a focus on product development.

The following table shows the geographic and product coverage for each brand:

BILLABONG BRAND MATRIX

BRAND	BILLABONG	RVCA	ELEMENT	VONZIPPER	HONOLUA	PALMERS	KUSTOM	XCEL
GEOGRAPHY								
Asia Pacific	✓	✓	✓	✓		✓	✓	✓
Americas	✓	✓	✓	✓	✓			✓
Europe	✓	✓	✓	✓				✓
PRODUCT MIX								
Men's apparel	✓	✓	✓	✓	✓		✓	✓
Ladies apparel	✓	✓	✓	✓	✓			✓
Youth apparel	✓	✓	✓	✓	✓			✓
Outerwear	✓	✓	✓		✓			✓
Hard goods	✓		✓					
Wetsuits	✓	✓			✓			✓
Sunglasses/goggles				✓	✓			
Accessories	✓	✓	✓	✓	✓	✓	✓	✓
Ladies swimwear	✓	✓			✓			
Footwear	✓	✓	✓				✓	

Source: Billabong

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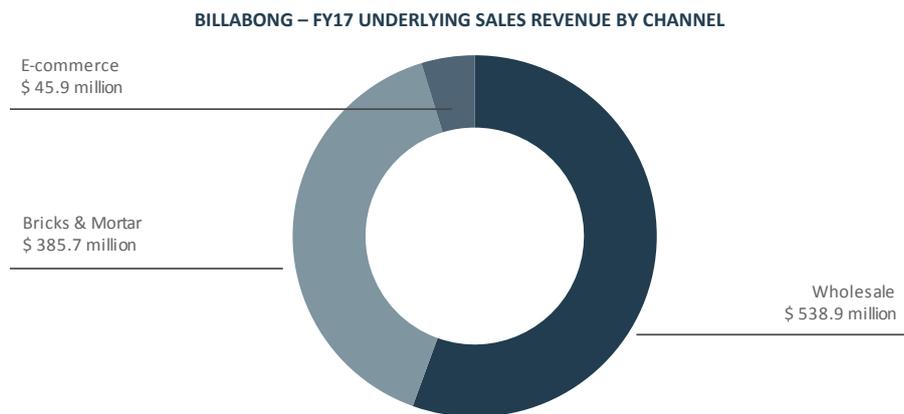


3.2.2 Sales Channels

Billabong’s products are sold via three main commercial channels:

- **wholesale.** The company sells its products to a diversified network of third-party retail businesses that on-sell products to end-customers. The wholesale sales channel is serviced by both internal and external sales forces. Wholesale is Billabong’s largest sales channel by revenue;
- **bricks & mortar⁷ retail stores.** As at 30 June 2017, Billabong operated 372 retail stores, with 216 in Asia Pacific, 104 in Europe and 52 in the Americas. Billabong’s retail stores are a mix of:
 - 122 single-branded flagship (or mono-brand) stores primarily under the *Billabong* name. Mono-brand stores sell predominantly *Billabong* products, although around 12% of sales are of third party products (such as Go Pro, Havaianas etc);
 - 126 multi-branded stores, with a larger floor plate and more brands. Multi-branded stores operate under a number of different banners, typically reflecting legacy branding from acquisitions made by Billabong (e.g. Surf Dive ‘n’ Ski, Amazon and Two Seasons);
 - 54 outlet stores, which facilitate the sale of previous season inventory, predominantly for the wholesale business; and
 - 70 shop-in-shop stores, which are primarily in Europe where Billabong rents and fits-out space in another retailer store to sell its products. Sales revenue from shop-in-shop stores is reported net of rental expense; and
- **e-commerce.** Over the past three years, Billabong has revamped its approach to the sale of products over the internet. Previously, Billabong operated a decentralised regional strategy with three separate online platforms (one for each region) which, in Australia and Europe, were outsourced to multi-brand e-commerce business, *SurfStitch.com* (in which Billabong had a 51% interest). As part of a broader strategy to move to a direct-to-consumer omni-channel model, and to reclaim control over Billabong websites, Billabong sold its interests in *SurfStitch.com* as well as *Swell.com* (100% owned by Billabong) in 2014. Billabong products are also available online through Billabong’s wholesale customers that sell products online.

The chart below shows Billabong’s FY17 underlying sales revenue⁸ by channel:



Source: Billabong

⁷ The term “bricks & mortar” retail stores is used to distinguish sales via Billabong’s retail store network from e-commerce (online) sales.

⁸ Underlying sales revenue is sales revenue from continuing operations after allowing for foreign exchange impacts and therefore differs from reported sales revenue. See Section 3.4.2.

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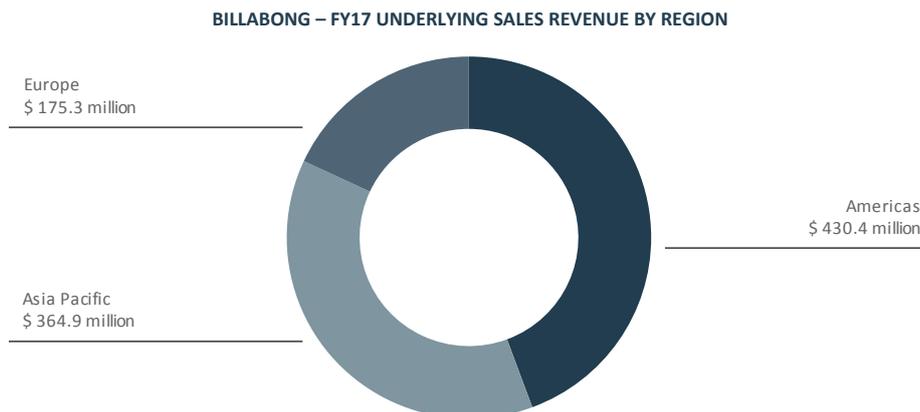


The proportion of total sales revenue from the wholesale channel has remained relatively constant over the past four years (at around 55% of total sales revenue). Over the same period, the contribution from the retail channel has fallen from 43% to 38% of sales revenue, mostly due to the net closure of retail stores. Although the e-commerce channel has experienced strong growth, it is an underdeveloped sales channel. E-commerce sales contributed only around 5% of Billabong's total sales revenue in FY17, although with greater traction in the Americas (where it represents 7.4% of sales) relative to Europe (4.0% of sales) and Asia Pacific (only 1.9% of sales), and is considered by management to be a major growth opportunity for the group.

3.2.3 Regional Operations

Billabong's management classifies its operating business into three geographical regions, the Americas, Asia Pacific and Europe. Royalties received from third party operations are reported separately from these geographical regions.

The chart below shows Billabong's FY17 underlying sales revenue⁸ by region:



Source: Billabong

Over the past four years, the majority (approximately 44%) of Billabong's sales revenue has been generated by its operations in the Americas with the Asia Pacific region representing 38%. The European operations are considerably smaller, representing only 18% of sales revenue.

A brief description of each of Billabong's regional operations is set out below.

Americas

The Americas includes the United States, Canada and Brazil. In addition, Billabong operates a distribution model in Peru, Chile and Mexico.

While *Billabong* is the largest brand in the Americas, *RVCA* is the brand most concentrated in the Americas. The Americas represents 80% of total sales⁹ for the *RVCA* brand and around 49% of total *Billabong* branded sales. Although *Element* had its origins in the United States, its sales in the Americas have been shrinking as the brand lost distribution. The Americas currently represents around 28% of total *Element* branded sales.

More than 70% of sales revenue in the Americas is from the wholesale channel, followed by bricks & mortar retail stores (approximately 20%) and e-commerce (less than 10%). The significant wholesale share of sales revenue reflects the scale of the United States market. Major wholesale customers for the region

⁹ All percentages for branded sales are calculated based on "wholesale equivalent sales" i.e. sales to wholesale customers and to owned retail channels.

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include Tilly's, Inc, The Buckle, Inc. ("The Buckle"), Nordstrom Inc., World of Jeans and Tops, Pacific Sunwear, Macy's Inc. and Amazon.com, Inc.

The majority of Billabong's retail stores in the Americas are mono-brand. As at 30 June 2017, the Americas retail business operated 36 mono-brand stores, six multi-brand stores (under the Quiet Flight and Becker names) and ten outlet stores. Billabong also operates 15 websites in the region with e-commerce capabilities.

Asia Pacific

The Asia Pacific region consists of Australia, New Zealand, Japan, South Africa, Singapore and Indonesia. The two largest geographies by sales revenue are Australia and Japan. In addition, Billabong operates a distribution model in the United Arab Emirates and South Korea.

The *Billabong* brand generates approximately 32% of sales from the Asia Pacific region. Sales revenue from *RVCA* and *Element* branded product is smaller, with the Asia Pacific region representing around 16% of each brand's total sales. *Element* has never been strong in Australia although it is reasonably strong in Japan. *RVCA*, while small overall, is growing fast in Australia.

In contrast to the Americas, sales revenue in the Asia Pacific region is weighted towards bricks & mortar retail stores, which represent around 65% of sales revenue. The wholesale channel contributes just over 30% of sales revenue. Penetration of the e-commerce channel is low, contributing less than 2% of total sales revenue.

Billabong's retail stores in the Asia Pacific region are heavily weighted towards multi-brand stores, trading as Surf Dive 'n' Ski in Australia and Amazon Surf in New Zealand. As at 30 June 2017, Asia Pacific's retail operations included 105 multi-brand stores, 69 mono-brand stores, 34 outlet stores and eight shop-in-shop stores. Billabong also has nine websites across the Asia Pacific region that sell products online.

Products sold by Asia Pacific's wholesale operations are distributed through approximately 2,000 customer sites, with the major wholesale customers including Murasaki Sports (Japan), City Beach, Surfstitch.com, Ozmosis Pty Ltd, Tonik Surf Centre and General Pants Co Pty Ltd.

Europe

Europe comprises operations in France, England, Spain, Germany and the Czech Republic. In addition, Billabong operates a distribution model in Portugal.

The *Element* brand has been very successful in Europe, positioned as a street brand with skateboarding at its roots. Europe represents approximately 56% of total *Element* brand sales revenue. Europe represents much smaller proportions of *Billabong* and *RVCA* branded sales at around 19% and 4% respectively.

Europe has a similar operating structure to the Americas with the wholesale channel accounting for the majority of sales revenue (approximately 65%), followed by bricks & mortar retail (approximately 30%) and e-commerce (approximately 5%). Europe's major wholesale customers include Zalando SE, Despomar LDA, Planet Sports GmbH, Blue Tomato GmbH and Surfdomo.com.

As at 30 June 2017, the European bricks & mortar retail business operated 15 multi-brand stores, 17 mono-brand stores, ten outlet stores and 62 shop-in-shop stores, primarily with the Spanish retailer El Corte Inglés. Billabong also operates seven European websites that sell *Billabong* products.

3.3 Business Strategy

After reaching agreement with the Centerbridge/Oaktree Consortium on the refinancing and recapitalisation in late 2013, Billabong appointed a new Chief Executive Officer, made a series of new management appointments and announced a turnaround strategy to rationalise the business and improve performance and profitability. The mantra of the new strategy was "fewer, bigger, better", where fewer businesses, fewer brands, fewer styles, fewer suppliers, etc. would help build a bigger and better business. The turnaround strategy targeted improvements across seven key aspects of the business:

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- **brand** – refocus the company on building a portfolio of strong global brands, with a major emphasis on the core three brands (*Billabong*, *RVCA* and *Element*);
- **product** – improve merchandise planning, buying, allocating and inventory management;
- **marketing** – develop a bolder, more effective strategy and leverage improved customer profiling;
- **omni-channel** – build a mono-brand direct-to-consumer platform, consolidate e-commerce into one global platform and strengthen Billabong’s core wholesale channel;
- **supply chain** – rationalise suppliers, improve inventory turn and restructure distribution and logistics;
- **organisation** – reconfigure and re-energise Billabong’s back-of-house functions to support the company’s global focus and growth targets; and
- **financial discipline** – increase focus on inventory management, prioritise capital expenditure and remove unnecessary costs to fund marketing and improve profitability.

Over the following two years, macro-economic and trading conditions continued to challenge Billabong’s turnaround. As the turnaround has taken shape, Billabong has focussed on building a global platform for its global brands, centred around four key projects. This platform was designed to significantly improve the way that customers interact with its brands. A brief description of the four projects is outlined below:

- **global sourcing** – build a global approach to product sourcing. Vastly reducing the number of suppliers is expected to improve negotiating power and drive improvements in quality, innovation and speed to market. Billabong is targeting annual global sourcing cost savings of approximately \$25 million by FY19;
- **concept-to-customer** – reconfigure the entire process from product design to delivery to enable the company to better respond to market trends, make more informed buying decisions, quickly identify high demand products and adjust ordering patterns;
- **logistics and distribution** – lower costs by redesigning and optimising Billabong’s global distribution network. This project is expected to translate to annual cost savings of approximately \$10 million by FY19; and
- **omni-channel** – create a seamless, uniform shopping experience across all of Billabong’s sales channels. Key initiatives focus on creating a single view of the customer and inventory, improving merchandising and allocating systems and creating a world class e-commerce platform.

Of the four major projects, the omni-channel project is expected to be the most transformational from a consumer perspective. The strategy involves making changes across the entire business to improve Billabong’s ability to identify and engage customers, market to them directly and maximise value across all channels. The solution is designed to be cloud-based, use best-in-class technology and be scalable to countries and distribution partners globally. Progress has been made with several of the key initiatives, including implementation of a new digital business-to-business system and a more advanced merchandising and planning allocation system for retail. Billabong has also ramped up its use of social media to improve its consumer engagement. As at 30 June 2017, global social media followership of brands and athletes/advocates was over 36 million (an increase of 42% over the previous year).

Although implementation issues resulted in termination of the contracted omni-channel solution provider in July 2017, the roll-out is now getting back on track following the appointment of a number of industry leading partners to implement the e-commerce, retail point-of-sale and customer relationship management components of the platform. Billabong is moving quickly to deployment, with Surf Dive ‘n’ Ski recently launched and full roll-out expected to be completed by FY19.

These projects remain Billabong’s primary focus. While progress has been made in respect of each, their scale is significant and it will take time for the expected benefits to be realised. In addition, there is a risk that the expected benefits may be less than management anticipate, take longer to implement or cost more to realise.

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3.4 Financial Performance

3.4.1 Reported Historical Financial Performance

The reported historical financial performance of Billabong for the four years ended 30 June 2017 is summarised below:

BILLABONG – REPORTED FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 JUNE			
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL
Sales revenue	1,119.2	1,048.4	1,096.9	974.7
Royalties	2.8	3.5	3.5	3.0
Other	2.0	2.4	2.3	1.2
Total revenue from continuing operations	1,124.0	1,054.2	1,102.7	978.9
Cost of goods sold	(542.1)	(492.6)	(541.1)	(476.3)
Gross profit	581.9	561.6	561.6	502.6
Costs of doing business	(530.7)	(498.7)	(504.1)	(454.3)
Other income	1.4	2.8	-	2.7
EBITDA from continuing operations	52.5	65.7	57.5	51.1
Depreciation, amortisation and impairment	(37.7)	(32.9)	(32.2)	(28.2)
EBIT¹⁰	14.8	32.8	25.3	22.9
Net interest expense	(34.1)	(28.3)	(33.5)	(31.3)
Significant items	(115.9)	(24.7)	(7.6)	(112.3)
Profit/(loss) before tax from continuing operations	(135.2)	(20.2)	(15.9)	(120.8)
Income tax (expense)/benefit	(74.6)	12.2	(7.8)	(9.7)
Profit/(loss) after tax from continuing operations	(209.8)	(8.0)	(23.7)	(130.5)
Profit/(loss) from discontinued operations after tax	(30.1)	10.5	-	53.4
Loss attributable to non-controlling interests	6.2	1.6	-	-
NPAT¹¹ attributable to Billabong shareholders	(233.7)	4.2	(23.7)	(77.1)
STATISTICS				
Basic earnings per share	(5.7) ^{c12}	0.1 ^{c12}	(12.0) ^c	(39.0) ^c
Sales revenue growth		-6.3%	+4.6%	-11.1%
Gross profit growth		-3.5%	-	-10.5%
EBITDA growth		+25.1%	-12.5%	-11.2%
EBIT growth		+121.8%	-23.1%	-9.5%
Gross profit margin	51.8%	53.3%	50.9%	51.3%
EBITDA margin	4.7%	6.2%	5.2%	5.2%
EBIT margin	1.3%	3.1%	2.3%	2.3%
Interest cover ¹³	0.4x	1.2x	0.8x	0.7x

Billabong and Grant Samuel analysis

¹⁰ EBIT is earnings before net interest, tax and significant items.

¹¹ NPAT is net profit after tax.

¹² Adjusted for the 5 for 1 share consolidation effective from December 2015.

¹³ Interest cover is EBIT divided by net interest.

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Billabong's financial performance over the past four years reflects the impact of the turnaround strategy that has been in place since December 2013, in particular:

- significant items, particularly in FY14 and FY17. A summary of Billabong's reported significant items for the four years ended 30 June 2017 is set out below:

BILLABONG – REPORTED SIGNIFICANT ITEMS (\$ MILLIONS)

	YEAR ENDED 30 JUNE			
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL
Net realisable value shortfall expense on inventory realised	(13.6)	(2.7)	-	-
Gain/(loss) from adjustment to contingent consideration	(5.9)	7.7	2.4	(1.0)
Strategy and other restructuring costs	(19.2)	(21.6)	(8.5)	(5.6)
Redundancy costs	(6.0)	(2.0)	(1.4)	(3.3)
RVCA compensation expense	(4.5)	(2.3)	2.9	4.9
Impairment of goodwill, brands and other intangibles	(29.3)	-	0.1 ¹⁴	(106.5)
Divestment of immaterial operations	-	-	(4.9)	(0.2)
Borrowing costs	(42.1)	-	(3.6)	-
Other	4.7	(3.8)	5.4	(0.6)
Total significant items before tax	(115.9)	(24.7)	(7.6)	(112.3)

Source: Billabong

The major significant items have consistently been restructuring and redundancy costs (\$67.6 million over the past four years) and impairment of intangible assets (\$135.7 million¹⁴ over the past four years, including a \$106.5 million impairment in FY17 which was primarily made up of an \$86.2 million impairment of goodwill (primarily to align Billabong's net assets with its market capitalisation) and an \$11.7 million impairment relating to the termination of the agreement with the previous omni-channel solution provider; and

- divestment of business operations in line with Billabong's strategy to simplify its brand portfolio and focus on building strong global brands. Over the past four years, Billabong has sold Canadian specialty retailer *West 49* and outdoor clothing brand *DaKine* (FY14), its interests in e-commerce platforms *Surfstitch.com* (51% interest) and *Swell.com* (100% interest) (FY15), longboard manufacturer *Sector 9* (FY16) and swimwear brand *Tigerlily* (FY17). Billabong's reported financial performance from continuing operations does not reflect its underlying performance as:
 - divestments that have taken place in subsequent years have not been adjusted for in prior financial years (e.g. the contribution from *Tigerlily* is treated as a discontinued operation in FY17 but not in FY14 to FY16); and
 - divestments that did not satisfy the materiality conditions of accounting standards to be disclosed as discontinued operations have not been adjusted (i.e. *Sector 9* is included in continuing operations in FY16).

Reported performance also reflects:

- major exchange rate fluctuations, particularly the A\$/US\$ and the A\$/€, that have impacted the cost of goods sold in Asia Pacific and Europe; and
- changes in accounting treatments and allocation of costs (e.g. between costs of doing business and cost of goods sold, which affected gross profit margins in FY17).

¹⁴ Includes a reversal of impairment expense of \$1.1 million in relation to *Tigerlily* (sold in April 2017).

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Income tax expense arises primarily from non-claimable withholding tax credits and deferred tax assets not being recognised on tax losses or temporary differences in most jurisdictions (especially Europe and North America).

3.4.2 Underlying Historical Financial Performance

Billabong's underlying financial performance (adjusting all years for all discontinued operations and on a constant currency basis) for the four years ended 30 June 2017 is summarised below:

BILLABONG – UNDERLYING HISTORICAL FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 JUNE			
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL
Reported sales revenue from continuing operations	1,119.2	1,048.4	1,096.9	974.7
Contribution from subsequent year discontinued operations	(116.2)	(51.5)	(50.9)	-
Underlying sales revenue at actual exchange rates	1,003.0	996.9	1,046.0	974.7
Foreign exchange impact ¹⁵	66.6	34.2	(27.6)	(4.1)
Underlying sales revenue on a constant currency basis	1,069.5	1,031.1	1,018.4	970.6
Reported EBITDA from continuing operations	52.5	65.7	57.5	51.1
Contribution from subsequent year discontinued operations	(3.8)	(11.2)	(5.3)	-
Underlying EBITDA at actual exchange rates	48.7	54.6	52.1	51.1
Foreign exchange impact ¹⁵	8.3	3.4	(2.0)	(0.7)
Underlying EBITDA on a constant currency basis	57.0	57.9	50.1	50.4
STATISTICS				
<i>Underlying sales revenue growth</i>		-3.6%	-1.2%	-4.7%
<i>Underlying EBITDA growth</i>		+1.7%	-13.5%	+0.5%
<i>Underlying EBITDA margin</i>	5.3%	5.6%	4.9%	5.2%

Source: Billabong

The turnaround strategy announced in December 2013 in conjunction with the recapitalisation of Billabong is well underway, but progress has been slower than expected and performance (even on an underlying basis) has been impacted by factors outside of Billabong's direct control, including:

- product hedge foreign exchange differentials that have impacted cost of goods sold (particularly in FY16);
- the collapse of a number of major wholesale customers in United States retail market (also in FY16); and
- a weak Australian retail sector.

On an underlying basis, sales revenue has fallen by an average of 3.2% per annum over the past four years.

FY14 included several months of performance post the recapitalisation and announcement of the turnaround strategy. Over this period, Billabong stabilised and refocused its business (closing 41 underperforming stores, restructuring its operations in Europe, South Africa, Brazil and Asia and converting Chile and Peru to distributor models), implemented a new global organisational structure and executive team, began to simplify its portfolio and took significant costs out of the business (reducing overheads by more than \$20 million). FY15 saw a full year impact of these initiatives, with the resulting increase in the EBITDA margin driving a small improvement in EBITDA despite the decline in sales.

However, the turnaround faltered in FY16. Against a backdrop of global uncertainty and industry change, Billabong continued to focus on levers within its control, including getting inventories back to normal levels

¹⁵ Calculated assuming a constant exchange rate of A\$1 = US\$0.76 and A\$1 = €0.69. The adjustment has only been made in relation to the translation of foreign currencies to A\$ and had not adjusted for product hedge differentials between each year that impact cost of goods sold.

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after the port strike, initiatives to lift margins, cost of doing business and quality distribution. While the three key brands continued to grow and gain market share in key markets, evidenced by the much lower 1.2% decline in sales revenue, the EBITDA margin fell from 5.6% in FY15 to 4.9% in FY16, resulting in a 13.5% fall in EBITDA. The sharp decline in margin reflected the impact of a relatively higher US\$ on cost of goods sold in the Asia Pacific and Europe and the requirement for mark downs to reduce excess inventory in the Americas (following disruption to inbound shipments caused by a labour dispute at Californian ports), which more than offset the material reduction in the cost of doing business over the financial year.

FY17 was a turning point for company. While 1HY17¹⁶ continued to be affected by weak sales and margin pressure, especially in the Australian market, performance was stronger in 2HY17¹⁷. Billabong achieved its three core objectives to continue to turn around its largest market (the Americas), expand comparable gross margins across all regions, and reduce the cost of doing business. Development of Billabong's global platforms underpinned the operational improvements. Global sourcing from a reduced number of factories and concept-to-customer helped deliver reduced inventory levels and product costs, and Billabong commenced implementing a strategy to reduce global logistics and distribution costs. It closed its Canadian warehouse, established consolidation centres in Asia and transitioned to a third-party logistics provider in the United States. While sales revenue continued to fall, the significant improvement in the EBITDA margin from 4.9% in FY16 to 5.2% in FY17 enabled Billabong to report a flat underlying EBITDA.

3.4.3 Outlook

Billabong has not publicly released detailed earnings forecasts for the year ending 30 June 2018. However, on 30 August 2017, in conjunction with the release of its FY17 results, Billabong advised that:

- the composition of earnings will continue to be weighted towards Asia Pacific and retail in 1HY18 and towards the Americas and Europe in 2HY18;
- it expects to show further progress (EBITDA growth) in the Americas and Europe;
- the circumstances that have impacted the FY17 performance of Asia Pacific (such as the weak retail environment in Australia) are expected to continue to weigh on trading in that region, particularly in 1HY18, although Billabong's objective is for a marked lift in 2HY18 EBITDA; and
- 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 1HY18 EBITDA below the prior corresponding period and the growth biased towards 2HY18.

Overall, the group expected FY18 EBITDA (excluding significant items) to exceed FY17 EBITDA of \$51.1 million, subject to reasonable trading conditions and currency markets remaining relatively stable.

While market conditions remain challenging, Billabong sees opportunities for earnings growth through further expansion of gross margins in every region, acceleration of its direct-to-consumer channel, strength in the Americas, growth in RVCA and ongoing benefits and further efficiencies from its global platforms (product sourcing, logistics and distribution and omni-channel).

Billabong confirmed this outlook at its Annual General Meeting ("AGM") on 21 November 2017.

On 5 January 2018, in conjunction with announcement of the Scheme, Billabong provided updated guidance in relation to FY18 EBITDA, confirming that it expected FY18 EBITDA to be in the range \$51.1 million (FY17 EBITDA) and \$54 million, subject to reasonable trading conditions and currency markets remaining relatively stable. While retail conditions remain challenging in a number of markets, Billabong's results during the holiday trading period were generally in line, albeit at the low end, of expectations and there continues to be a significant bias to second half earnings, with trading in the Americas in June 2018 key to achieving the Billabong's updated guidance for FY18 EBITDA.

¹⁶ 1HYXX is the six months ended or ending 31 December 20XX-1.

¹⁷ 2HYXX is the six months ended or ending 30 June 20XX.

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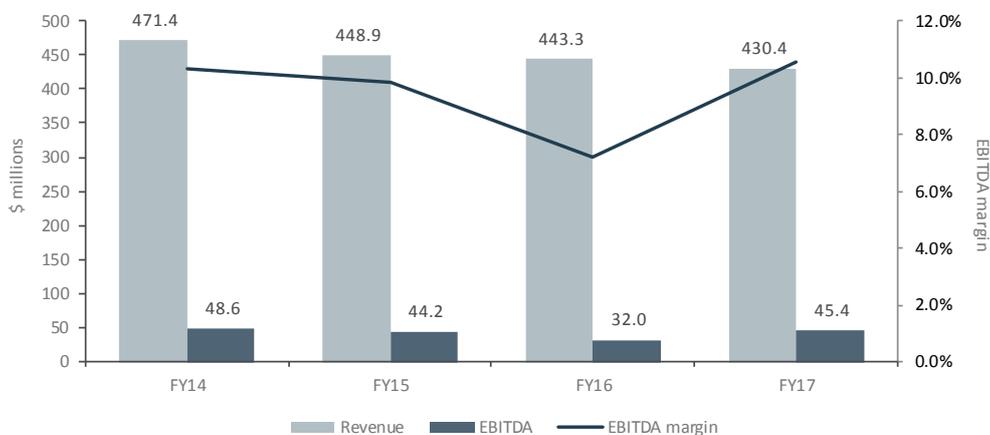
3.4.4 Regional Financial Performance

Americas

HISTORICAL UNDERLYING FINANCIAL PERFORMANCE

Underlying sales revenue, EBITDA, and EBITDA margins for the Americas from FY14 to FY17 are set out below:

**AMERICAS – HISTORICAL UNDERLYING PERFORMANCE (BEFORE GLOBAL OVERHEAD ALLOCATION)
 (FY14 TO FY17)**



Source: Billabong

Over the period from FY14 to FY17, underlying sales revenue for the Americas has fallen by an average of 3.0% per annum. The EBITDA margin fell from 10.3% in FY14 to 7.2% in FY16 but recovered to 10.6% in FY17.

FY14 was a challenging year, impacted by operational instability prior to the refinancing/recapitalisation and reflected in a decline in sales as wholesale sales fell in Canada and Brazil and bricks & mortar retail sales fell due to weak like-for-like sales (down 3.3%) and store closures. The challenging market conditions continued in FY15 and FY16, with numerous industry participants filing for bankruptcy or undergoing significant restructuring. Sales and margins declined in FY15 and more so in FY16. In FY15, a rebound in the United States was dampened by continued weakness in Canada. The sharp decline in margin in FY16 reflected the discounts required to clear excess inventory.

FY17 was a turnaround year for the Americas. While sales were lower, this was primarily due to a decline in sales to Pacific Sunwear, which was in Chapter 11 bankruptcy for part of the year. Like for like retail sales increased over the period and the *Billabong* and *RVCA* brands gained market share in the core specialty channel. Despite the overall decline in sales, improvement in the gross margin (up by 290 basis points for the year, including a 380 basis point increase in the second half) and a reduction in the costs of doing business resulted in an increase in the EBITDA margin and a 42% increase in EBITDA.

OUTLOOK

Billabong is confident that the Americas has delivered a sustainable improvement in operating performance and is an opportunity for further improvements. External markets appear to be more stable, although channel shifts and consolidation of wholesalers continue. The company intends to focus on controlling inventories, streamlining the organisation, reducing costs, improving owned retail, growing e-commerce and expanding the gross margin through sourcing and concept-to-customer projects.

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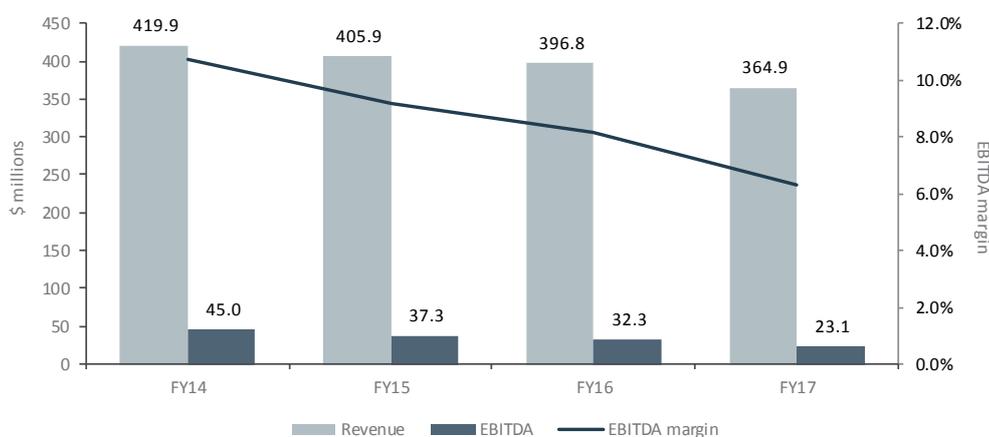


Asia Pacific

HISTORICAL UNDERLYING FINANCIAL PERFORMANCE

Asia Pacific's underlying sales revenue, EBITDA and EBITDA margin from FY14 to FY17 are set out below:

**ASIA PACIFIC – HISTORICAL UNDERLYING PERFORMANCE (BEFORE GLOBAL OVERHEAD ALLOCATION)
(FY14 TO FY17)**



Source: Billabong

Over the period from FY14 to FY17, Asia Pacific underlying sales revenue has fallen by an average of 4.6% per annum, while the EBITDA margin has fallen significantly, from 10.7% to 6.3%.

EBITDA improved in FY14 as sales revenue increased and overheads declined. Sales revenue growth was achieved through exiting smaller Asian territories and a restructuring in South Africa. In FY15, in advance of the expected roll out of the new omni channel platform, Billabong rationalised its store fleet, closing 20 underperforming stores and consolidating its multi-brand stores in Australia under the Surf Dive 'n' Ski banner. It also opened 12 mono-brand and one multi-brand store. Further new retail (mainly mono-brand) stores were opened in FY16. However, softening retail trading conditions in Australia (Billabong's key Asia Pacific market) and the impact of a stronger US\$ on product purchases has seen sales revenue and EBITDA decline in FY15 and FY16. Performance was worse again in FY17, impacted by further weakness in retail conditions in Australia as well as brand execution issues (particularly with the *Billabong* brand, where trends moved more quickly across markets than was anticipated). Retail sales declined and retail gross margins were lower due to higher promotions and clearance markdowns. There was also further wholesale market consolidation, cautious buying and fewer repeat orders (although gross margins improved). The resulting decline in sales revenue and overall gross margin more than offset sourcing and other improvements in the cost of doing business that were implemented during FY17.

OUTLOOK

The broad retail environment remains difficult in Australia, hampered by weak wages growth and the prospect of rising interest rates in 2018. While retail sales rose slightly in October and November 2017 (following falls over the period from July to September), the clothing sector has remained relatively weak.

The first six months of FY18 for Asia Pacific were below forecast, with performance in the key months of November and December at the low end of Billabong's expectations (but above the prior year). The actual performance of Asia Pacific to December 2017 is reflected in the FY18 Forecast and the updated guidance provided by Billabong in conjunction with announcement of the Scheme on 5 January 2018. Management of Billabong is confident in its ability to turnaround Asia Pacific and expects to grow market share going

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forward, implementing learnings from the successful Americas turnaround, improving assortment, installing new sales leadership and deploying its omni-channel platform first in the Asia Pacific region.

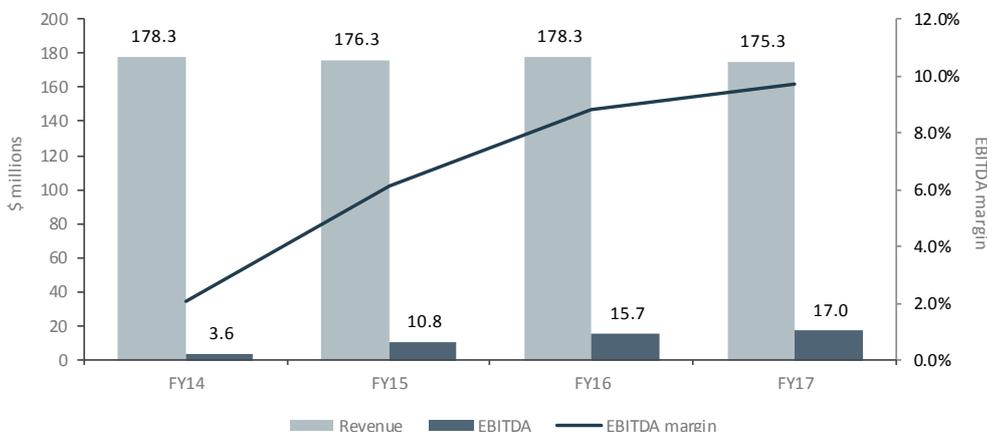
Europe

HISTORICAL UNDERLYING FINANCIAL PERFORMANCE

The underlying sales revenue, EBITDA, and EBITDA margin for Europe for FY14 to FY17 are set out below:

EUROPE – HISTORICAL UNDERLYING PERFORMANCE (BEFORE GLOBAL OVERHEAD ALLOCATION)

(FY14 TO FY17)



Source: Billabong

Over the period from FY14 to FY17, underlying sales revenue for Europe has remained relatively flat, although there has been a substantial turnaround in profitability. A substantial improvement in the EBITDA margin (from 2.0% in FY14 to 9.7% in FY17) has seen EBITDA increase to \$17 million, an average annual increase of more than 60% per annum. These four consecutive years of EBITDA growth followed four years of decline as Europe experienced a major economic downturn following the global financial crisis and sovereign debt concerns across the region. Billabong was particularly affected given its strong presence in Spain, which experienced a severe economic downturn and high levels of unemployment. The improvement in margin and EBITDA reflect improvement in the “quality” of earnings.

In FY14, the Europe business was right sized to a smaller, more stable business with a tighter focus on quality customers, reduced close out sales (as Billabong got inventory levels under control) and a significant reduction in overhead. This restructuring continued in FY15, as a focus on better quality channels and sales (including a planned contraction in wholesale sales) drove margins higher, despite operational challenges with Billabong’s Paris distribution facility. Sourcing benefits and other cost controls allowed the EBITDA margin to expand in FY16. Although 1HY17 performance was impacted by weakness in the United Kingdom following the Brexit decision and the late arrival of colder weather, the *Billabong* brand showed strong growth in 2HY17, with the sustained improvement in overall performance reflecting the improved quality of sales revenue, concentration on the three key brands and leveraging of global platforms.

OUTLOOK

Billabong expects improvement in wholesale sales and EBITDA margins in Europe to continue in FY18 due to better sourcing and more stable conditions in the United Kingdom. Europe will continue to focus on quality of sales revenue, inventory management and the three key brands, in particular growing the *RVCA* brand. Other initiatives for FY18 include leveraging Billabong’s global brand and platform initiatives, strengthening the management team and driving digital commerce and consumer engagement.

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3.5 Financial Position

The financial position of Billabong as at 30 June 2017 is summarised below:

BILLABONG - FINANCIAL POSITION (\$ MILLIONS)

	AS AT 30 JUNE 2017 ACTUAL
Debtors and prepayments	187.5
Inventories	162.3
Creditors and accruals	(151.8)
Net working capital¹⁸	198.0
Property, plant and equipment (net)	73.2
Intangible assets	57.9
Deferred tax assets (net)	13.2
Derivative financial instruments (net)	(4.2)
Provisions	(19.0)
Other	4.7
Total funds employed	323.8
Cash and deposits	71.7
Bank loans, other loans and finance leases	(220.3)
Net borrowings	(148.6)
Net assets	175.2
STATISTICS	
<i>Shares on issue at period end (millions)</i>	<i>198.1</i>
<i>Net assets per share</i>	<i>0.88c</i>
<i>NTA¹⁹ per share</i>	<i>0.59c</i>
<i>Gearing²⁰</i>	<i>45.9%</i>

Source: Billabong and Grant Samuel analysis

Typical of wholesaling and retailing businesses, a significant proportion of Billabong's funds employed are invested in its working capital requirements with its other main investment being property, plant and equipment and intangible assets. Working capital represents approximately 20% of FY17 sales revenue. This represents an increase over prior years (with net working capital increasing from 14% of sales revenue in FY14) primarily due to a decline in creditors and accruals associated with the global sourcing project. While there has also been a decline in inventories over the same period, this has been largely offset by an increase in debtors and prepayments.

Intangible assets comprise brands (\$35.8 million), which are treated as having an indefinite life (and are not amortised), computer software and omni-channel platform (\$16.5 million), which are amortised over a period of 3-5 years and key money²¹ (\$5.6 million), which is also treated as having an indefinite life. Goodwill was fully impaired as at 30 June 2017 to better align Billabong's net assets with its market capitalisation.

The net deferred tax asset relates to timing differences. In most jurisdictions, Billabong recognises a deferred tax asset only to the extent that it offsets a deferred tax liability on the basis that it is not considered probable that sufficient taxable profits will be generated in those jurisdictions to utilise a deferred tax asset in excess of the deferred tax liability. The main exceptions are in Australia, Japan and

¹⁸ Net working capital includes prepayments and the current tax receivable and current tax liability. This differs from the calculation of working capital set out in Billabong's accounts (which does not include prepayments or tax receivables and liabilities).

¹⁹ NTA is net tangible assets, which is calculated as net assets less intangible assets.

²⁰ Gearing is net borrowings divided by net assets plus net borrowings.

²¹ Key money is a payment made to an incumbent tenant when Billabong enters into a lease.

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New Zealand where the deferred tax asset recognised exceeds the deferred tax liability (on the basis that recovery of the deferred tax asset is probable). Other than in New Zealand, no deferred tax asset is recognised in relation to any tax losses on the basis that some conditions (e.g. continuity of ownership) may not be met and utilisation of tax losses in the other jurisdictions is not considered probable.

Provisions are primarily employee provisions (including short term incentive plans and termination benefits) (\$12.9 million) with the balance made up of make good provisions (\$3.7 million) and onerous lease and restructuring provisions (\$2.4 million). Onerous lease and restructuring provisions represent the estimated settlement costs of terminating leases early or the minimum unavoidable costs of trading stores to lease expiry where these stores are loss making or underperforming stores and they have closed or it is intended to close them.

Net borrowings are principally the term loan provided by the Centerbridge/Oaktree Consortium as part of the recapitalisation in December 2013:

BILLABONG – NET BORROWINGS AS AT 30 JUNE 2017 (\$ MILLIONS)

FACILITY	FACILITY SIZE	AMOUNT DRAWN	TERM/MATURITY
Bank loans	15.7	(3.0)	revolving
Finance lease liability		(1.2)	within one year
Term loan facility	US\$172.2 ²²	(216.1)	16 September 2019
Asset-based multi-currency credit facility	US\$100.0	-	14 July 2021
Total interest bearing liabilities		(220.3)	
Cash and deposits		71.7	
Net borrowings		(148.6)	

Source: Billabong

The bank loans are term loans at variable interest rates.

The senior secured term loan facility is provided by the Centerbridge/Oaktree Consortium and is denominated in US\$. Key terms of the facility agreement include:

- a fixed interest rate of 11.9% per annum, of which at least 5.9% is payable in cash and up to 6.0% is payable in kind (at Billabong’s option);
- restrictions on asset sales, acquisitions and investments and other borrowings, depending on Billabong’s gearing; and
- a single leverage covenant (the ratio of total interest bearing debt to the last 12 months’ adjusted EBITDA must not exceed 6.00:1.00), tested on a quarterly basis.

During FY17, Billabong agreed various amendments to the term loan facility, including certain relaxations of Billabong’s financial undertakings and on the restrictions on the use of proceeds from asset sales. Billabong paid \$4.2 million in fees to Centerbridge and Oaktree in return for certain of these amendments.

As at 30 June 2017, Billabong had US\$172.2 million (\$223.9 million) of borrowings under the term loan, offset by prepaid borrowing costs of \$7.8 million. No amounts were drawn during the year, but \$15.9 million of interest was paid in kind and \$54.8 million was repaid with a prepayment premium of \$1.65 million.

On 14 July 2016, Billabong entered into a US\$100 million asset-based multi-currency credit (“ABL”) facility with Bank of America Merrill Lynch to provide support for working capital, capital expenditure and other general corporate purposes (and is usually only drawn on at times of high working capital). The ABL facility incurs interest at a variable rate plus a margin of between 0.5% and 2.0%. The facility limit is US\$100 million but the amount available for drawing is determined by reference to the value of certain borrowing

²² Facility size is the same as drawn size.

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base assets held by relevant Billabong group entities (85% is available to draw down at any time). As at 30 June 2017, Billabong had no borrowings drawn on the ABL facility, although US\$15 million was outstanding and committed under a supply chain facility and \$2.4 million in letters of credit were outstanding under the letter of credit sub-facility.

Cash and deposits includes approximately \$17 million that is regarded as permanent working capital and not available for debt reduction.

As at 30 November 2017, net borrowings had increased to \$185.5 million (before offsetting prepaid borrowing costs), reflecting the seasonality of debt levels (which are highest in October and November each year and lowest in June/July and December/January each year).

3.6 Cash Flow

Billabong's cash flow for the four years ended 30 June 2017 is summarised below:

BILLABONG - CASH FLOW (\$ MILLIONS)

	YEAR ENDED 30 JUNE			
	2014 ACTUAL	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL
Reported EBITDA from continuing operations	52.5	65.7	57.5	51.1
EBITDA from discontinued operations	(5.6)	(2.5)	-	6.3
Significant items and payments from provisions	(50.0)	(38.0)	(21.0)	(9.0)
Changes in working capital and other non-cash items	36.4	(3.6)	(26.9)	(6.5)
Net operating cash flow	33.3	21.6	9.6	41.9
Capital expenditure	(24.9)	(27.7)	(38.0)	(21.2)
Proceeds from sale of property, plant and equipment	0.2	0.3	6.4	0.1
Free cash flow	8.6	(5.8)	(22.1)	20.8
Proceeds from divestments (net of costs)	83.9	38.4	16.1	56.1
Payments for deferred consideration	(41.6)	-	(18.6)	(1.0)
Net cash flow before financing and tax	50.9	32.6	(24.6)	75.9
Tax paid	(12.3)	(2.2)	(3.1)	(4.1)
Proceeds from share issue	182.1	-	-	-
Net cash generated/(used)	129.6	(0.8)	(54.9)	45.1
Payment in kind interest	-	-	(8.4)	(15.9)
Impact of foreign exchange on net borrowings	(6.0)	(37.9)	(6.9)	6.2
(Increase)/decrease in net borrowings	123.6	(38.7)	(70.2)	35.5
Net borrowings – opening ²³	(206.6)	(83.0)	(121.7)	(191.9)
<i>Net borrowings – closing²³</i>	<i>(83.0)</i>	<i>(121.7)</i>	<i>(191.9)</i>	<i>(156.4)</i>

Billabong and Grant Samuel analysis

Billabong has reported declining net operating cash flow up until FY17. In FY15, a small increase in working capital and other non-cash items (compared to a large decrease in the prior year) more than offset the increase in EBITDA from continuing operations and lower cash outflows for significant items. In FY16, lower EBITDA and a large increase in working capital and other non-cash items (in part reflecting a reduction in creditors as part of Billabong's supplier consolidation strategy) resulted a substantial deterioration in net operating cash flow. The significant improvement in net operating cash flow in FY17 reflects declining cash outflows from significant items and a materially smaller increase in working capital requirements.

²³ Before deduction of capitalised borrowing costs of \$8.7 million in FY14, \$8.2 million in FY15, \$6.7 million in FY16 and \$7.8 million in FY17.

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Annual capital expenditure has generally been in range \$15-25 million (excluding omni-channel platform capital expenditure) and focussed on key customer facing initiatives. The increase in capital expenditure in FY15 and FY16 was attributable to investment in the omni-channel platform. Capital expenditure was lower in FY17, reflecting reductions across all regions and in retail as well as the effect of delays on the omni-channel platform project. The ramp up of the omni channel project is expected to result in an increase in total capital expenditure to \$25-30 million over the period from FY18 to FY20 before reverting to the \$20-25 million range in subsequent years.

Significant divestments over the past four years and the share issue associated with the recapitalisation completed in March 2014 have gone some way to reduce Billabong's debt. However, net borrowings were adversely impacted by the weakening of the A\$ against the US\$²⁴ in FY15 and by the decline in net operating cash flow and payments for deferred consideration (RVCA) in FY16.

Net borrowing costs in FY14 included one-off refinancing costs of approximately \$55 million. Net borrowing costs fell in FY16 despite an increase in net borrowings due to payment in kind interest in 2HY16. In FY17, net borrowing costs fell further as a result of payment in kind interest and repayment of debt, partially offset by ABL refinancing costs and term loan amendment/prepayment fees.

3.7 Taxation Position

Billabong is subject to income taxes in Australia and jurisdictions where it has foreign operations.

Under the Australian tax consolidation regime, Billabong and its wholly owned Australian resident entities have elected to be taxed as a single entity.

As at 30 June 2017, Billabong had consolidated tax losses (excluding United States state tax losses) of \$590.4 million and \$194.3 million of United States state tax losses:

- none of these tax losses have been recognised in the balance sheet on the basis that it is currently not considered probable that sufficient taxable profits will be generated in the relevant jurisdictions to utilise the tax losses;
- \$321.0 million of the consolidated tax losses and \$194.3 million of the United States state tax losses are subject to a period of expiry in the relevant tax jurisdiction (although almost all are subject to expiry in more than five years); and
- utilisation of all tax losses is subject to various loss testing rules for the relevant tax jurisdictions including continuity of ownership rules.

In addition, as at 30 June 2017, Billabong had carried forward Australian capital losses of \$25.8 million.

As at 30 June 2017, Billabong had no accumulated franking credits.

3.8 Capital Structure and Ownership

3.8.1 Capital Structure

Billabong has the following securities on issue:

- 198,079,110 ordinary shares;
- 23,051,829 options over unissued ordinary shares; and
- 2,578,467 performance rights over unissued ordinary shares.

Ordinary shares include 341,444 treasury shares, which are shares held by the Billabong Executive Performance Share Plan trusts for the purpose of issuing shares under Billabong's long-term incentive plan and short-term incentive deferral scheme for senior executives (refer below).

²⁴ As at 30 June 2014, the exchange rate was A\$1 = US\$0.94 and as at 30 June 2015 it was A\$1 = US\$0.77.

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Details of the options over unissued ordinary shares are set out below:

BILLABONG – OPTIONS OVER UNISSUED ORDINARY SHARES

	NUMBER	EXERCISE PRICE	EXPIRY DATE
Refinancing proposal – Altamont ²⁵	8,451,958	\$2.50	16 July 2020
Recapitalisation proposal – Centerbridge/Oaktree ²⁵	5,916,371	\$2.50	3 December 2020
Executive option plan	240,000	\$3.00	31 January 2024
Market priced options	3,201,050	\$1.23	30 November 2019
Premium priced options	5,242,450	\$1.85	30 November 2019
Total options over unissued ordinary shares	23,051,829		

Source: Billabong

Billabong operates a number of share-based payment plans:

- a short-term incentive plan, where the total award payable is split 75% cash and 25% deferred equity (performance rights). Deferred equity is granted with a two-year vesting period and is forfeited if the executive ceases employment prior to the vesting date. Performance rights are granted for no consideration and are not entitled to vote or receive dividends until they vest. Once vested, each performance right entitles the holder to receive one Billabong share with no exercise price payable.

In addition, a sign-on incentive in the form of an equity rights award was granted to Jim Howell on 19 June 2017. 50% of the rights will vest on 19 June 2018 and 50% will vest on 19 June 2019, subject to the senior executive continuing to be employed on the vesting dates; and

- a long-term incentive plan under which performance rights or options are issued. In FY17, Billabong awarded options although performance rights were awarded in prior years:
 - options vest when the three-year service requirement is met. Options are granted for no consideration and are not entitled to vote or receive dividends until they vest. Once vested, each option entitles the holder to receive one Billabong share on payment of the exercise price. Vested options can be exercised during a six to 12-month period following vesting. On expiry, any vested but unexercised options lapse. Unvested options are forfeited. In FY17, Billabong issued 50% (30% in the case of management) of the total long-term incentive award in the form of market priced options (with an exercise price of \$1.23) and 50% (70% in the case of management) in the form of premium priced options (with an exercise price of \$1.85); and
 - performance rights vest over a three-year period on achievement of performance hurdles and subject to continuing employment. Performance rights are granted for no consideration and are not entitled to vote or receive dividends until they vest. Once vested, each performance right entitles the holder to receive one Billabong share with no exercise price payable. Vested performance rights are exercisable up until expiry. On expiry, any vested but unexercised performance rights lapse. Unvested performance rights are forfeited.

In the event of a change of control prior to the vesting of an award, the Billabong Board may determine, in its absolute discretion, whether some or all of an executive's unvested award vests, lapses or is forfeited or remains subject to applicable conditions and/or performance periods or becomes subject to varied conditions and/or performance periods.

3.8.2 Ownership

As at 11 October 2017, Billabong had 14,297 registered shareholders. The top ten registered shareholders accounted for more than 75% of the ordinary shares on issue. Other than Centerbridge, Oaktree and

²⁵ Options issued to the Altamont Consortium in July 2013 as part of the agreed bridge loan and loan term financing and the Centerbridge/Oaktree Consortium in 2013 on funding of the new term loan. Number of options and exercise price have been adjusted for the 5 for 1 share consolidation completed in December 2015.

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Gordon Merchant, the top ten registered shareholders are principally institutional nominee or asset management companies.

Billabong has a limited retail investor base with only around 14% of shares on issue held by retail and broker shareholders. Billabong shareholders are predominantly United States based investors (holding approximately 44% of issued shares), although this includes 38.5% held by Centerbridge and Oaktree. Excluding Centerbridge and Oaktree, Billabong shareholders are predominantly Australian based investors (holding approximately 37% of issued shares, including 12.8% controlled by Gordon Merchant).

Billabong has received notices from the following substantial shareholders:

BILLABONG – SUBSTANTIAL SHAREHOLDERS

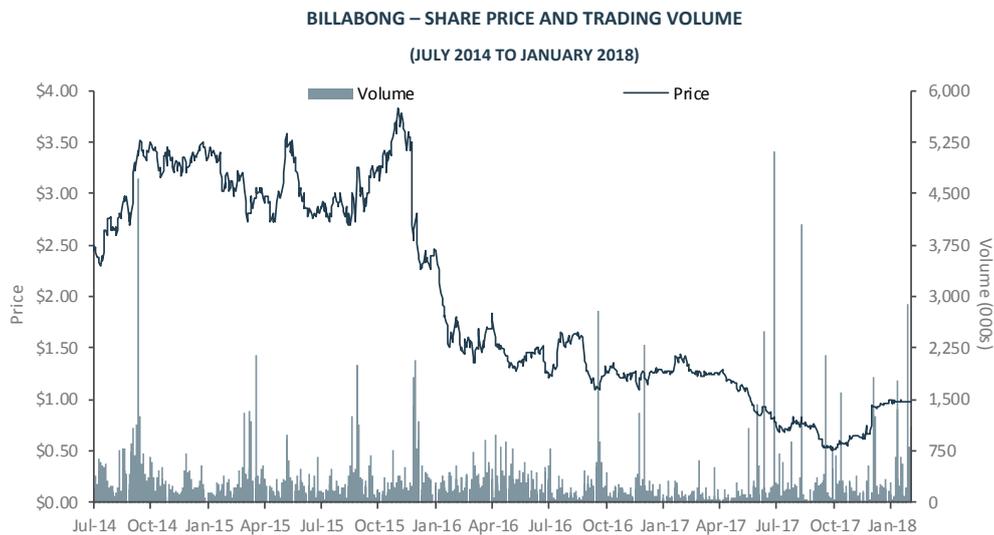
SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	PERCENTAGE
OCM Clean Wave Holdings B.V. (Oaktree)	20 March 2015	76,210,601	38.5% ²⁶
CCP II Dutch Acquisition – E, B.V. (Centerbridge)	20 March 2015	76,210,601	38.5% ²⁶
Gordon Merchant	17 December 2015	25,368,716	12.8%
Ryder Investment Management Pty Ltd	24 October 2017	20,395,055	10.3%
Adam Smith Asset Management	26 October 2017	10,004,010	5.1%

Source: Billabong and IRESS

3.9 Share Price Performance

3.9.1 Share Price History

The following graph illustrates the movement in the Billabong share price and trading volumes since 1 July 2014:



Source: IRESS, share prices adjusted for 1 for 5 share consolidation effective from December 2015

²⁶ Based on substantial shareholder notices filed with the ASX, Oaktree and Centerbridge each have a relevant interest in 38.5% of Billabong shares as they are associates for the purposes of the Corporations Act. Oaktree has an individual relevant interest in 38,105,301 shares and Centerbridge has an individual relevant interest in 38,105,300 shares (each representing a 19.2% interest). Subsequent to lodgement of their substantial shareholder notices, Oaktree and Centerbridge have each acquired additional shares in Billabong, increasing their individual relevant interests to 19.3%.

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Following completion of the recapitalisation in March 2014, Billabong's share price strengthened on the back of the turnaround strategy that was to be implemented, encouraged by the sale of Billabong's loss-making investments in *Surfstitch.com* and *Swell.com* and the announcement of FY14 results (which included restructuring actions and cost reductions that had been implemented and major projects launched or underway) in August 2014. The share price traded as high as \$3.60²⁷ at the end of September 2014.

Share trading remained in the range \$2.80-3.40²⁷ through to mid-2015, although it generally weakened over the period as confidence in the turnaround diminished (particularly after the 1HY15 results). The commencement of a shareholder class action (relating to market disclosure in 2011) in March 2015 also contributed to the share price weakness.

July to October 2015 saw a marked strengthening in the share price following announcement of Billabong's FY15 full year results, which reported an acceleration in the turnaround strategy, a return to full year EBITDA growth for the first time since 2008 and the first full year profit (after significant items) since 2011.

Billabong's share price peaked at \$3.85²⁷ on 2 November 2015, but subsequently declined sharply around the time of the 5 for 1 share consolidation that occurred on 26 November 2015. The share price fell by almost 30%, from \$3.55²⁷ on 19 November 2015 (five days prior to the share consolidation) to \$2.51 on 2 December 2015 (five days after the share consolidation). The steep decline would have been at least in part due to the trading update provided at Billabong's AGM on 24 November 2015, that indicated a more challenging external environment for Billabong as it continued to execute its turnaround, including currency (a stronger US\$ impacting the cost of goods sold), weak trading conditions and increased price discounting and promotion activity. After a period of stability, there was a further sharp decline in the share price in early 2016, around the time of release of Billabong's 1HY16 results, to just below \$1.50 per share.

The Billabong share price continued to fall steadily, due to the impact of an ongoing challenging external environment as well as internal issues, which were reflected in a 12.5% decline in underlying EBITDA from continuing businesses in FY16 and flat underlying EBITDA in FY17, despite continued progress on the turnaround strategy. The decline in the share price was interrupted by a brief period of higher prices in July 2016, following announcement of the settlement of the shareholder class action commenced in March 2015 with no material financial impact. The share price reached a low of \$0.4875 on 27 September 2017, but then recovered to settle in the \$0.60-0.70 range.

Billabong shares closed at \$0.78 on 30 November 2017, the last trading day prior to announcement of the Boardriders indicative proposal, although the share price had increased by \$0.11 or 16.4% over the previous three days (having opened at \$0.67 on 28 November 2017), compared to a relatively flat overall market (key indices fell by 0.2% over the same period). Since announcement of the Boardriders indicative proposal, Billabong shares have traded in the range \$0.915-0.995, at a volume weighted average price of \$0.97, below the cash consideration under the Scheme of \$1.00 per share, in part reflecting the conditional nature of the Boardriders indicative proposal, and, once the Scheme was announced on 5 January 2018, the requirement for regulatory approvals and the time until payment of the cash consideration.

3.9.2 Liquidity

Billabong's three major shareholders, Centerbridge, Oaktree and Gordon Merchant, collectively represent approximately 51% of Billabong shares.

Given its limited free float (~49% of total issued shares) and its small market capitalisation, trading in Billabong shares has been relatively illiquid. Average weekly volume over the twelve months prior to

²⁷ Adjusted for the 5 for 1 share consolidation effective from December 2015.

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announcement of the Boardriders indicative proposal represented approximately 0.5% of average shares on issue or annual turnover of around 26% of total average issued capital (54% of the free float).

3.9.3 Relative Performance

Billabong’s relatively small market capitalisation combined with limited free float results in it being excluded from most indices other than the All Ordinaries Index (where its weighting is less than 0.01%). However, to give some indication of relative performance, Grant Samuel has considered the performance of Billabong shares since 1 July 2014 relative to the S&P/ASX Small Industrials Index and the S&P/ASX 300 Consumer Discretionary Index:

**BILLABONG VS S&P/ASX SMALL INDUSTRIALS INDEX AND S&P/ASX 300 CONSUMER DISCRETIONARY INDEX
 (JULY 2014 TO JANUARY 2018)**



Source: IRESS, share prices adjusted for 1 for 5 share consolidation effective from December 2015

Trading in Billabong shares has reflected its own specific circumstances rather than following broad market trends. From July 2014 to October 2015, markets were broadly flat while the price of Billabong shares rose strongly (initially) and then fluctuated in response to changing views as to the progress of its turnaround strategy. Since November 2015, the Billabong share price has consistently underperformed compared to relevant indices. While this underperformance primarily reflects Billabong’s financial performance, limited free cash flow and absence of dividends over recent years, other factors that may have impacted Billabong’s relative performance include its limited free float and its considerably smaller size relative to companies in the respective indices.

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4 Valuation of Billabong

4.1 Summary

Grant Samuel has valued Billabong in the range \$190-239 million which corresponds to a value of \$0.96-1.20 per share. The valuation is summarised below:

BILLABONG - VALUATION SUMMARY (\$ MILLIONS)

	REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Business operations ²⁸	4.4	390.0	440.0
Other assets and liabilities	4.6	(16.9)	(22.8)
Enterprise value		373.1	417.2
Adjusted net borrowings	4.7	(183.5)	(178.5)
Value of equity		189.6	238.7
Fully diluted shares on issue (millions) ²⁹		198.1	198.1
Value per share		0.96	1.20

The valuation represents the estimated full underlying value of Billabong assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Billabong shares to trade on the ASX in the absence of a takeover offer. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The bottom of the range (\$0.96) represents the threshold price. An offer above that level is fair from a financial point of view. However, an offer price below that level would not be fair.

The value attributed to the operating business of \$390-440 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA and EBIT) and discounted cash flow ("DCF") analysis.

The valuation reflects the particular attributes of Billabong's business operations and takes into account factors such as:

- Billabong's well recognised and diversified portfolio of brands. The three key brands, *Billabong*, *Element* and *RVCA* have leading or very strong market positions in their key markets in each region. *RVCA* and, to a lesser extent, *Element*, are regarded as having significant growth potential. On the other hand, the *Billabong* brand, which represents more than 50% of Billabong's total sales revenue, is a mature surf brand where growth is more difficult and expensive to achieve;
- its global diversification, with operations across North and South America, the Asia Pacific region and Europe;
- Billabong's exposure to several factors beyond its control, including, in particular, economic and retail conditions and consumer sentiment in the regions in which it operates and fluctuations in foreign exchange rates;

²⁸ The value of Billabong's business operations is after corporate overhead cost savings (i.e. listed company costs) which are available to acquirers of 100% of the company (refer to Section 4.3 for details).

²⁹ Fully diluted shares on issue is 198,079,110 ordinary shares (including treasury shares). No allowance has been made for any of the unvested performance rights or options over unissued ordinary shares (other than the 341,444 treasury shares to be allocated to Jim Howell) as they have not met their performance hurdles or are well out of the money with an exercise price above the consideration under the Scheme.

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- the highly competitive nature of the retail sector and branded apparel's niche position within this sector. Apparel markets have experienced minimal growth, if not absolute declines over the past few years as a result of shifting consumer demand patterns and the impact of e-commerce on selling prices. The general outlook is for, at best, modest improvement over the next few years;
- the experienced and well regarded management team;
- an improving quality of earnings. While revenues have declined from FY14 to FY17, this has, to a significant degree, been the result of a concerted effort to rationalise the store network and to improve financial discipline;
- the mix of business between wholesale and retail, with around 45% of total sales generated through retail channels (including e-commerce) and a significant exposure in the Asia Pacific to larger multi-brand stores. Retail is a more capital intensive industry and multi-brand stores are less attractive for a variety of reasons;
- Billabong's relatively low operating margins (which are, in part, a function of its small scale and its significant retail business operations). Moreover, as EBITDA margins have compressed, capital expenditure (and depreciation and amortisation expense) has become a proportionately much larger drain on cash flow (and now represent over 50% of EBITDA), severely constraining free cash flows;
- Billabong's recent underlying financial performance. Cost savings and benefits from implementation of the turnaround strategy have been achieved but have been offset by one off events and declining like-for-like sales (particularly in the Asia Pacific);
- the turnaround strategy which is midway through implementation. While there is upside potential from further cost efficiencies and ongoing benefits from roll out of the global platforms (including the omni-channel platform), progress has been slower than expected and there is no certainty that all elements of the turnaround will be implemented successfully. In any event, it must be recognised that these new global platforms, even if successful:
 - are likely to result in incremental rather than dramatic enhancements to sales and margins; and
 - will require continued investment in the platforms to maintain their effectiveness;
- Billabong has generally underperformed relative to its budgets and forecasts in recent years (although it has met market guidance); and
- Billabong's substantial carried forward income tax losses, albeit the ability to utilise these tax losses is extremely uncertain and unlikely to be paid for by an acquirer.

The valuation assumes Billabong has the funding in place to continue to execute its turnaround strategy.

4.2 Methodology

4.2.1 Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.





Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

4.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT (or EBITA³⁰) or NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples (or EBITA multiples) and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT (or EBITA) multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

While EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT (or EBITA) multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable indicator of ongoing capital expenditure. In addition, there can be differences between companies in the basis of calculation of depreciation. Where this is an issue, another metric that can be useful is EBITDA-Capital Expenditure (sometimes referred to as Operating Cash Flow); and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

In determining a value for Billabong's business operations, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses.

³⁰ EBITA is earnings before net interest, tax and amortisation of acquired intangible assets.

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Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. While averages or medians can be determined it is not appropriate to simply apply such measures to the business being valued. The range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings. The most important part of valuation is to evaluate the attributes of the specific business being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations, premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations, there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to consider differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a



wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

4.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology can explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

In the case of Billabong, no detailed forecasts have been prepared beyond the year ending 30 June 2018. A financial model for Billabong’s business operations has been developed by Grant Samuel in conjunction with Billabong management. The financial model is discussed in more detail in Section 4.4.3 of this report.

4.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

4.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

4.3 Approach for Billabong

4.3.1 Valuation of Business Operations

Grant Samuel’s valuation of Billabong has been estimated by aggregating the estimated market value of its business operations (on a “control” basis) together with the realisable value of non-trading assets and

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deducting external borrowings and non-trading liabilities. The value of the business operations has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

In valuing Billabong's business operations, the primary focus was on analysis of earnings multiples with DCF analysis used as a cross check. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business operations of Billabong. A net assets/realisation of assets methodology is not appropriate for Billabong.

The value range selected for Billabong is a judgement derived through an iterative process³¹. The objective is to determine a value that is both consistent with the market evidence as to earnings multiples and fits with the output of DCF analysis in terms of the various scenarios and their likelihood.

Specific aspects of the methodology adopted by Grant Samuel include the following:

- Billabong has been valued as a single business (i.e. the Americas, Asia Pacific and Europe operations have not been valued separately and then aggregated). There are a number of reasons for adopting this approach:
 - Billabong has a global approach to its brands and the operations in each region are not structured as separate businesses. Each region wholesales and retails each of the three key brands, *Billabong*, *Element* and *RVCA*. Product sourcing, distribution and logistics and the new omni-channel platform operate on a global basis. Back-of-house and corporate costs represent the costs of running a global, integrated branded apparel business. It is unlikely that any of the regions could easily be separated from Billabong, although some individual brands could be (and have been) divested;
 - the economic drivers of each of the regions are similar (macro-economic conditions, consumer sentiment etc). While the outlook for Australia may differ from the outlook for the Americas and Europe, this is more a function of the cyclical nature of the branded apparel retail sector; and
 - a number of the branded apparel businesses included in the comparable evidence also have activities in several regions and/or multiple brands and this is reflected in their multiples;
- EBITA rather than EBIT has been used in the earnings multiple analysis (where this information is available) as it is before the impact of amortisation of identifiable intangible assets acquired in prior transactions. Amortisation of acquired intangibles for international comparable companies is often not separately disclosed. Where it has been able to be identified, it is material only for Esprit Holdings Limited ("Esprit") and PVH Corp. ("PVH") (refer to Appendix 1). Billabong does not have any amortisation of acquired intangible assets (its acquired intangible assets are primarily brands, which are treated as having an infinite life and are not amortised). As a result, Billabong's EBITA and EBIT multiples are the same. For ease of reference, Grant Samuel refers only to EBIT multiples in this report. Reference to an EBIT multiple is a reference to an EBITA multiple where the context requires; and
- Grant Samuel has considered (but not made explicit adjustment for) the synergies potentially achievable by acquirers of Billabong. In this regard, it needs to be recognised that:
 - normal valuation practice is to include (either implicitly or explicitly) a value for synergies that are available to multiple acquirers but to exclude synergy value that is unique to a particular acquirer; and

³¹ The iterative process involves selecting an initial value range for the business operations (based on a review of market evidence on multiples and the output of DCF analysis), reviewing the implied multiples (across historical and forecast EBITDA and EBIT) and the relationship with the NPV outputs of the various DCF scenarios and then, if necessary, adjusting the value range until Grant Samuel is satisfied that the final value range is reasonable across all of these parameters, taking into account the specific attributes of the business, its outlook and its risk profile.

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- where earnings multiples from comparable transactions represent primary valuation evidence, adding synergies to earnings or making a further multiple adjustment for synergies would potentially result in “double counting” of value as the multiples from the comparable transactions are usually based on “standalone” earnings (either reported or forecast) and the value of synergies- is therefore reflected in the multiple (i.e. the transaction multiple would be lower if based on earnings including synergy benefits).

4.3.2 Earnings for Valuation Purposes

Grant Samuel has considered implied multiples of EBITDA and EBIT for FY17 (historical) and FY18 (forecast).

While the directors of Billabong have decided not to include any forecasts in the Scheme Booklet, Billabong provided updated guidance for FY18 EBITDA in conjunction with announcement of the Scheme on 5 January 2018 in the range \$51.1-54 million. The updated guidance for FY18 EBITDA is consistent with the FY18 Forecast. Grant Samuel has used the mid-point of this range (\$52.6 million) and Billabong’s FY18 forecast for depreciation, amortisation and impairment for the purposes of calculating the multiples implied by the valuation of Billabong’s business operations.

The historical forecast earnings have been further adjusted by Grant Samuel to add back:

- other finance costs of approximately \$0.2 million per annum (unused line fees, fees on the ABL facility, legal advice) that have been reflected in EBITDA; and
- the savings in listed company costs that would be available to any acquirer of Billabong (see Section 4.5).

The adjusted earnings are summarised below:

BILLABONG – ADJUSTED EARNINGS (\$ MILLIONS)

	REPORT SECTION REFERENCE	YEAR END 30 JUNE	
		2017 ACTUAL	2018 COMPANY GUIDANCE
Reported EBITDA from continuing operations	3.4.1, 3.4.3	51.1	52.6
Finance costs	refer above	0.2	0.2
Corporate overhead cost savings	4.5	1.7	2.2
Adjusted EBITDA		53.0	55.0
Depreciation, amortisation and impairment	3.4.1	(28.2)	(28.7)
Adjusted EBIT		24.8	26.3

Source: Billabong and Grant Samuel analysis

4.4 Value of Business Operations

4.4.1 Overview

Grant Samuel estimates the value of Billabong’s business operations to be in the range \$390-440 million.

The valuation is a subjective judgement having regard to both earnings multiples and DCF analysis.

4.4.2 Earnings Multiple Analysis

Transaction Evidence

There have been a number of transactions involving businesses in the branded apparel sector over recent years. Appendix 1 contains an analysis of the earnings multiples implied by acquisitions of branded apparel businesses globally over the past five years.

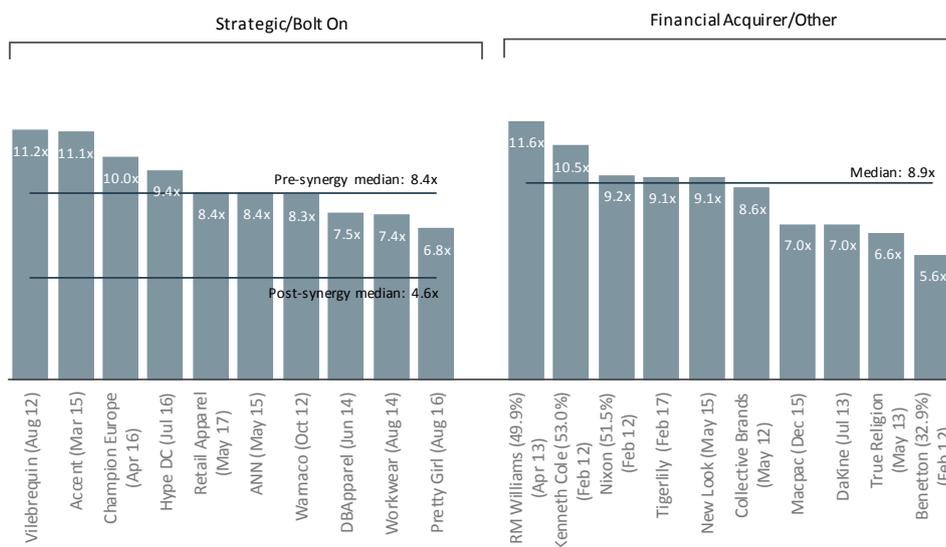
The following charts summarise the historical and forecast EBITDA multiples:



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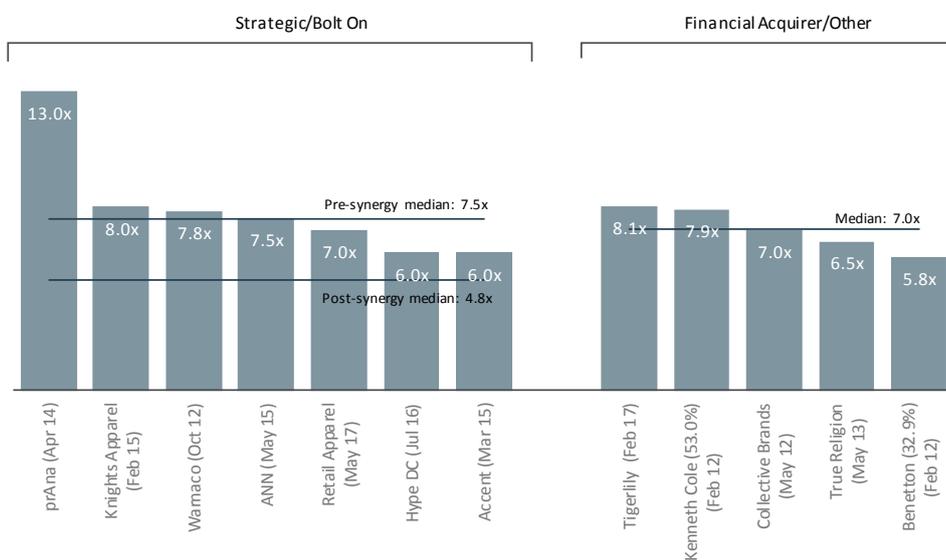


BRANDED APPAREL TRANSACTIONS – HISTORICAL EBITDA MULTIPLES



Source: Grant Samuel analysis (see Appendix 1)
Note: The consideration for the acquisitions of Pretty Girl Fashion Group and Vilebrequin included contingent payments. The historical EBITDA multiples shown in the chart have been calculated based on the actual contingent payments made or expected to be made.

BRANDED APPAREL TRANSACTIONS – FORECAST EBITDA MULTIPLES



Source: Grant Samuel analysis (see Appendix 1)
Note: The forecast EBITDA multiple for the Tigerlily acquisition is the mid-point of the range set out in Appendix 1.

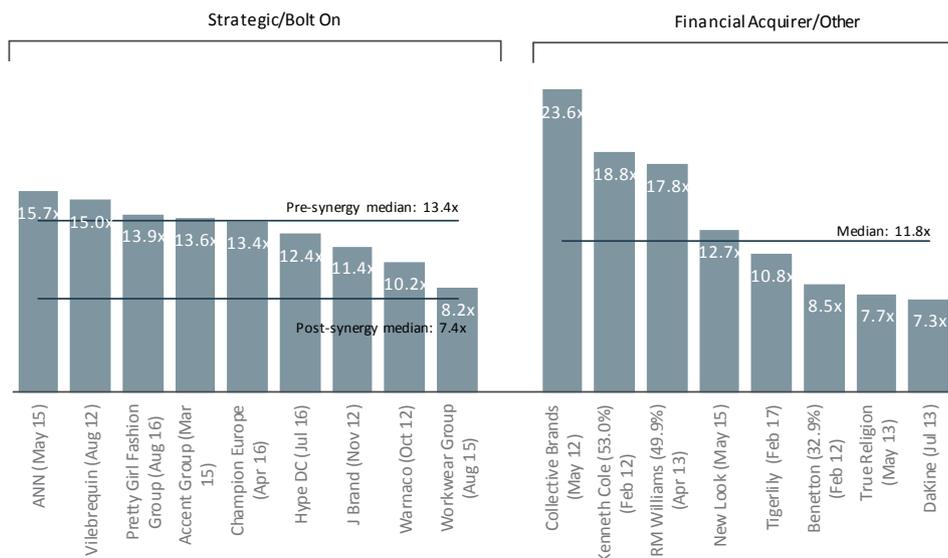
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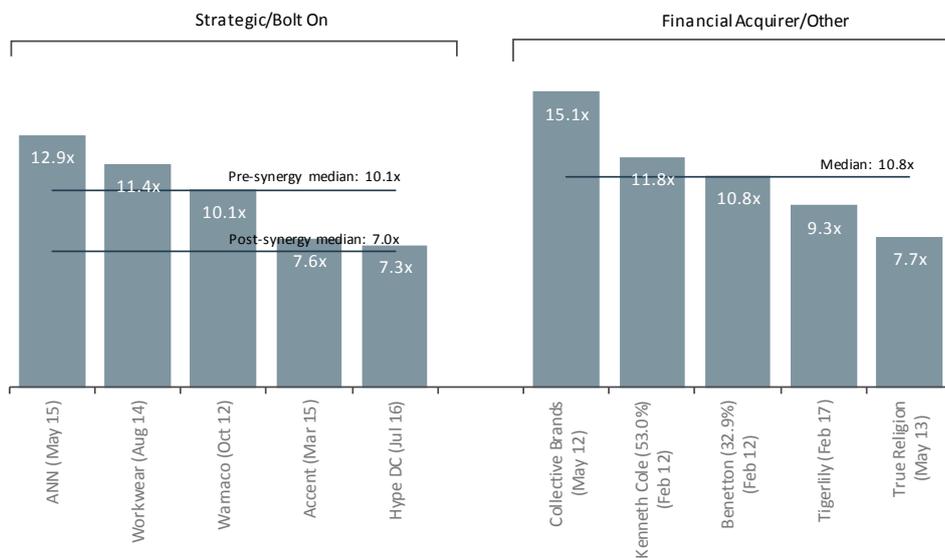
The following charts set out the historical and forecast EBIT multiples:

BRANDED APPAREL TRANSACTIONS – HISTORICAL EBIT MULTIPLES



Note: Grant Samuel analysis (see Appendix 1)
The consideration for the acquisitions of Pretty Girl Fashion Group and Vilebrequin included contingent payments. The historical EBIT multiples shown in the chart have been calculated based on the actual contingent payments made or expected to be made.

BRANDED APPAREL TRANSACTIONS – FORECAST EBIT MULTIPLES



Note: Grant Samuel analysis (see Appendix 1)
The forecast EBIT multiple for the Tigerlily acquisition is the mid-point of the range set out in Appendix 1.

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The data indicates a very wide range of outcomes:

- historical EBITDA multiples in the range 5.6-11.6 times and forecast EBITDA multiples in the range 5.8-13.0 times; and
- historical EBIT multiples in the range 7.3-23.6 times and forecast EBIT multiples in the range 7.3-15.1 times.

This wide range of multiples reflects the different characteristics of each of the transactions, including the nature of the acquirer, relative mix of retail and wholesale operations, brand strength and recent performance and growth expectations.

The transactions have been grouped into two categories:

- strategic or bolt on acquisitions, in new geographic regions or otherwise strategically important, which were expected to generate significant synergies; and
- acquisitions by financial or other acquirers that would not generally be expected to generate material synergies (although there are exceptions).

This analysis shows that there is not a material difference between the multiples implied by strategic/bolt on acquisitions and those implied in acquisitions by financial acquirers, with median implied multiples of:

- 8.4 times historical EBITDA for strategic/bolt on acquisitions compared to 8.9 times historical EBITDA for acquisitions by financial acquirers and 7.5 times forecast EBITDA for strategic/bolt on acquisitions compared to 7.0 times forecast EBITDA for acquisitions by financial acquirers; and
- 13.4 times historical EBIT for strategic/bolt on acquisitions compared to 11.8 times historical EBIT for acquisitions by financial acquirers and 10.1 times forecast EBIT for strategic/bolt on acquisitions compared to 10.8 times forecast EBIT for acquisitions by financial acquirers.

While this seems counter intuitive, there are reasons why financial and other acquirers may have been prepared to pay high multiples for acquisitions:

- the majority of the financial acquirers were private equity firms, some of which either had other branded apparel businesses and the ability to generate some cost savings (e.g. L Capital Asia's acquisition of R.M. Williams Holdings Pty Ltd ("RM Williams")) or were acquiring poorly performing businesses that they expected to be able to turnaround in the short term (e.g. the acquisition of Collective Brands, Inc. ("Collective Brands"), which had reported an historical loss and was midway through a turnaround); and
- acquisitions of remaining interests by a founder and/or majority shareholder (e.g. Kenneth Cole Productions, Inc ("Kenneth Cole")) may have been able to achieve other benefits from 100% ownership.

In addition, it is important to note that the post-synergy multiples for strategic/bolt on acquisitions (where these multiples can be calculated) are materially lower than the pre-synergy multiples at:

- 3.5-6.4 times historical EBITDA (median 4.6 times) and 4.5-6.1 times forecast EBITDA (median 4.8 times); and
- 7.2-7.5 times historical EBIT (median 7.4 times) and 6.6-7.4 times forecast EBIT (median 7.0 times).

The wide range of implied multiples also reflects the mix of retail and wholesale operations within each business. Generally speaking, predominantly wholesale businesses with strong brands have been acquired at higher multiples than those businesses with a greater (or sole) focus on retail and lesser known brands. For example, the acquisitions of wholesale businesses Knights Holdco Inc. ("Knights Apparel") and J Brand Holdings, LLC ("J Brand") implied relatively high multiples of 8.0 times forecast EBITDA and 11.4 times historical EBIT respectively.

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Acquisitions of businesses which are predominantly or solely retail also have significantly higher implied EBIT multiples, reflecting the capital intensity of bricks & mortar retail distribution (which is not a feature of wholesale business operations). This capital intensity would also tend to constrain the EBITDA multiples for predominantly retail businesses. Acquisitions of retail businesses where this trend is evident include:

- Pretty Girl Fashion Group Pty Ltd (“Pretty Girl”), at 6.8 times historical EBITDA and 13.9 times historical EBIT;
- ANN Inc (“ANN”), at 8.4 times historical and 7.5 forecast times EBITDA and 15.7 times historical and 12.9 times forecast EBIT. The higher EBITDA multiples in this case would also reflect the substantial synergies that ascena retail group Inc (“ascena”) expected to achieve. Post-synergy EBITDA multiples were considerably lower at 5.2 times historical and 4.8 times forecast EBITDA; and
- Collective Brands, at 8.6 times historical and 7.0 times forecast EBITDA and 23.6 times historical and 15.1 times forecast EBIT (also refer to the comments above on Collective Brands).

Several transactions included in the analysis involved companies that had been performing poorly in the period leading up to their acquisition (reflected in lower multiples):

- the consideration paid by Altamont Capital Partners for *DaKine* is likely to have reflected *DaKine*'s falling revenue and earnings during the years leading up to the sale and the expectation that earnings would be challenged in the years ahead. Furthermore, *DaKine* was being sold by a seller under pressure (Billabong) as part of a broader agreement to secure much needed bridge funding and reduce gearing;
- at the time of the takeover offer by TowerBrook Capital Partners L.P., True Religion Apparel, Inc. (“True Religion”) had been losing ground in the premium denim market, experiencing a slide in EBITDA and EBIT margins in the previous three years and had announced results for the March 2013 quarter substantially lower than broker expectations; and
- Edizione S.r.L., the Benetton family investment company and controlling shareholder of Benetton Group S.p.A. (“Benetton”) with a 67% stake, announced an offer for the shares it did not already own on 1 February 2013. The consideration offered implied low multiples of earnings (and forecast multiples higher than historical multiples) reflecting Benetton's poor performance and uncertain outlook, in part due to its exposure to weak European markets.

On the other hand, acquisitions of high growth companies have been priced at higher multiples (in particular, high historical multiples):

- prAna Living LLC (“prAna”) had achieved average annual sales growth of more than 30% over the three years prior to its acquisition and was on track to achieve substantial growth in 2014 while also generating a low double digit operating margin. prAna was acquired at 13.0 times forecast EBITDA;
- the high historical multiples implied by the acquisition of Accent Group Limited (“Accent”) (11.1 times historical EBITDA and 13.6 times historical EBIT) reflect the significant growth achieved by Accent through like-for-like sales growth and new stores. The forecast multiples implied by this transaction are much lower at 6.0 times EBITDA and 7.6 times EBIT;
- New Look Retail Group Limited (“New Look”) had achieved double digit EBITDA growth in recent years (historical EBITDA multiple of 9.1 times and historical EBIT multiple of 12.7 times); and
- Retail Apparel Group Ltd (“Retail Apparel Group”) was expected to achieve double digit growth in forecast revenue and earnings (historical EBITDA multiple of 8.4 times compared to forecast EBITDA multiple of 7.0 times).

Other transactions included in the charts above took place at higher implied multiples reflecting strong brand positioning and outlook for the target companies as well as other favourable transaction features:

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- the high multiples (11.2 times historical EBITDA and 15.0 times historical EBIT, excluding the contingent payments that were ultimately not paid) implied by the acquisition of Vilebrequin International S.A. (“Vilebrequin”), a leading provider of swimwear and accessories, may have reflected the luxury positioning of the brand, its high margins (EBITDA margin of around 20%) and the intention of the acquirer, G-III Apparel Group, Ltd, to expand the brand internationally, adding more retail locations and further developing the brand’s offerings; and
- the acquisition of Champion Europe S.p.A. (“Champion Europe”), the owner of the *Champion* brand in Europe, the Middle East and Africa (at 10.0 times historical EBITDA and 13.4 times historical EBIT) created a unified growth platform for Hanesbrands Inc, which owned the *Champion* brand in all other global regions and was expected to result in supply chain synergies.

Taking the above factors into account (and removing the impact of outliers), branded apparel companies have generally been acquired at multiples of around:

- 7-9 times historical and 6-8 times forecast EBITDA. Post synergy forecast EBITDA multiples are in the order of 5 times; and
- 11-14 times historical and 10-11 times forecast EBIT. Post synergy EBIT multiples are in the order of 7 times.

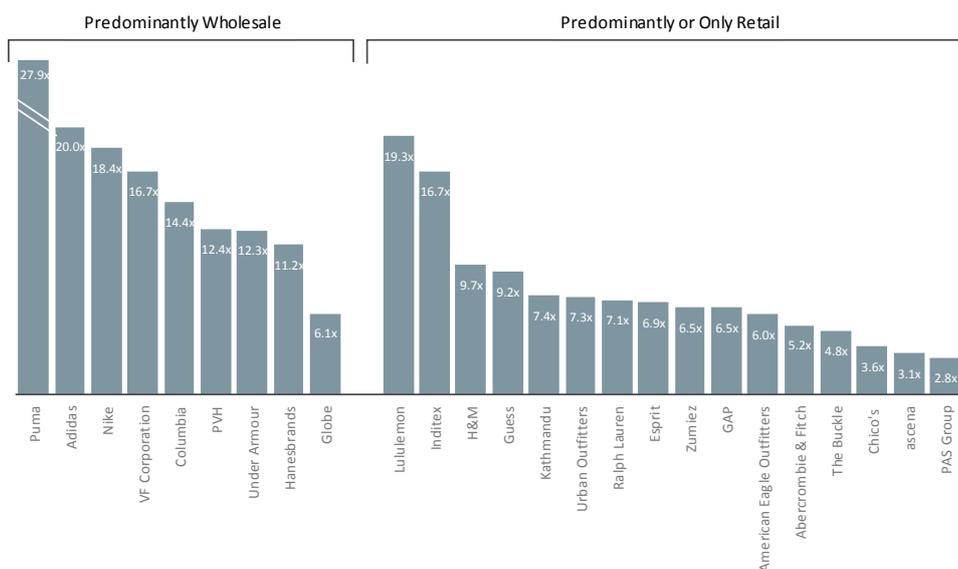
These multiples are relatively low compared to other industries but this reflects the challenging conditions across the retail industry and the subdued outlook (particularly for small to medium sized operators). Furthermore, all of the transactions are relatively small relative to the size of the large listed companies that trade at higher multiples (refer below).

Sharemarket Evidence

Appendix 1 contains analysis of the earnings multiples implied by share prices as at 31 December 2017 for a selection of international companies operating in the branded apparel sector.

The following charts summarise the historical and forecast EBITDA multiples:

BRANDED APPAREL LISTED COMPANIES – HISTORICAL EBITDA MULTIPLES



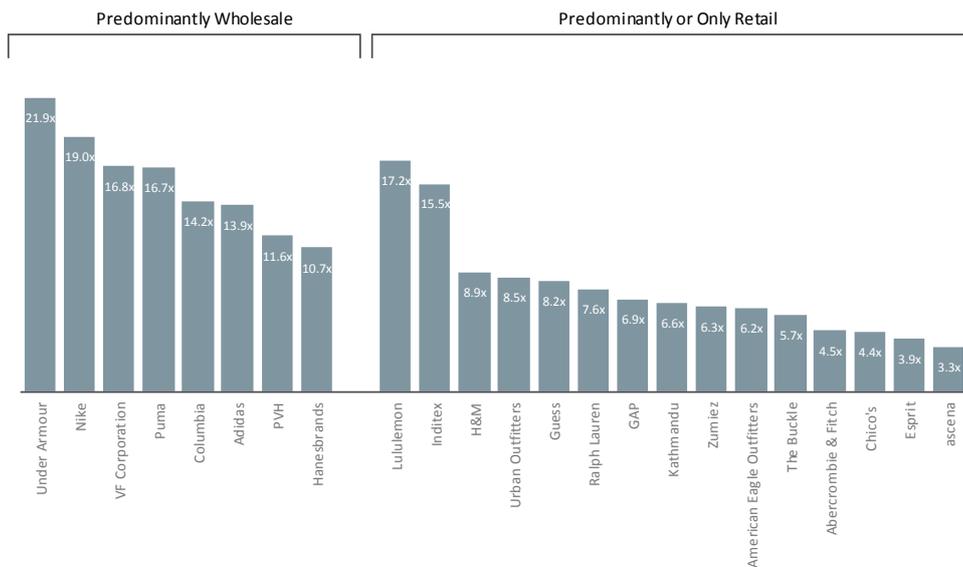
Source: Grant Samuel analysis (see Appendix 1)

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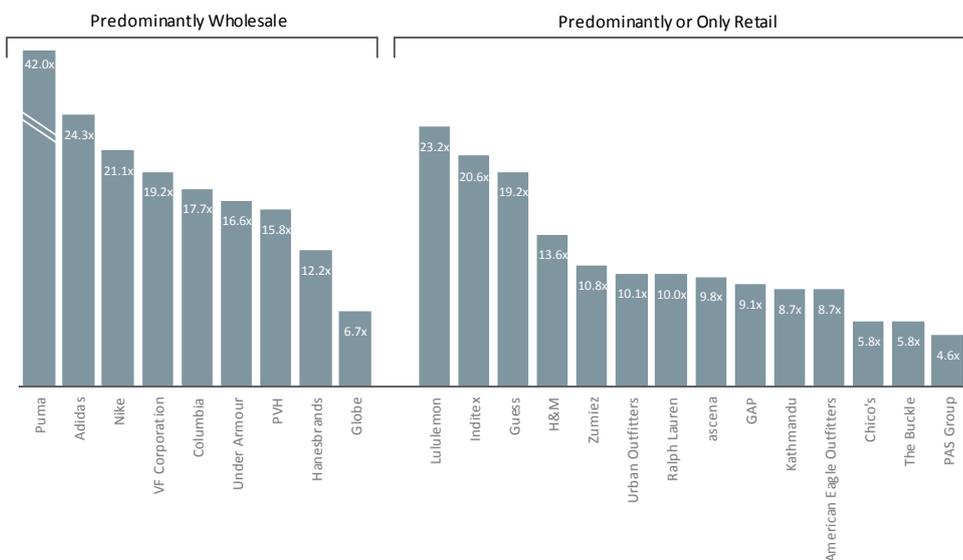
BRANDED APPAREL LISTED COMPANIES – FORECAST EBITDA MULTIPLES



Source: Grant Samuel analysis (see Appendix 1)

The following charts summarise the historical and forecast EBIT multiples:

BRANDED APPAREL LISTED COMPANIES – HISTORICAL EBIT MULTIPLES

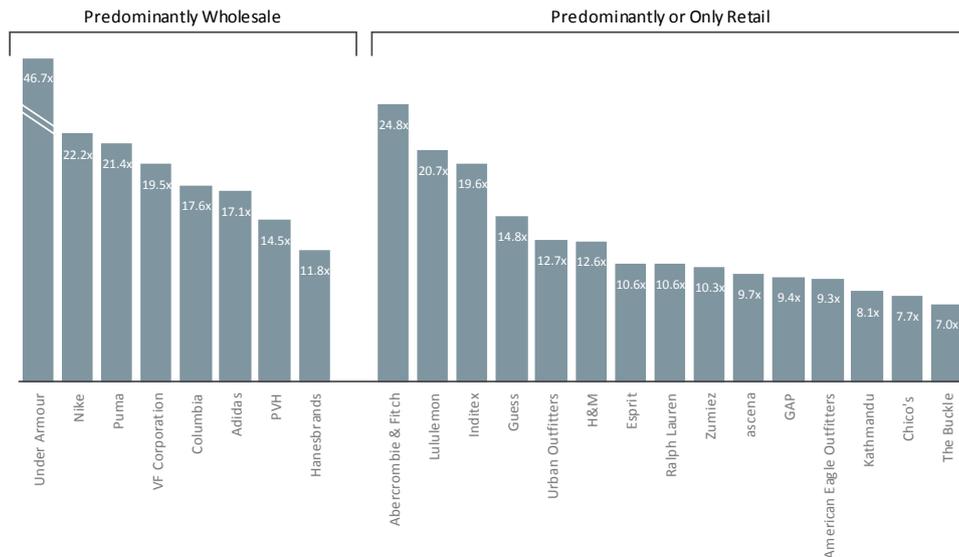


Source: Grant Samuel analysis (see Appendix 1)

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BRANDED APPAREL LISTED COMPANIES – FORECAST EBIT MULTIPLES



Source: Grant Samuel analysis (see Appendix 1)

The following factors are relevant to consideration of the comparable trading multiples:

- the multiples for the listed entities are based on share prices as at 31 December 2017 and therefore do not include a premium for control;
- the range of trading multiples for branded apparel listed companies is extremely wide, from 2.8-27.9 times historical and 3.3-21.9 times forecast EBITDA and 4.6-42.0 times historical and 7.0-46.7 times forecast EBIT;
- to provide more informed analysis, Grant Samuel has segmented the listed companies into those that are predominantly (greater than 50%) wholesale and those that are predominantly (greater than 50%) or only retail. Predominantly wholesale companies generally trade at higher multiples than predominantly or only retail companies, reflecting their higher blended operating margins.

In particular, the pure retailers (ascena, Chico's FAS, Inc., ("Chico's"), The Buckle and Zumiez Inc ("Zumiez")) trade at or close to the lowest multiples (especially EBITDA multiples). Zumiez is trading at relatively higher multiples, due to its track record and expectation of earnings growth, whereas the other retailers are forecasting flat or declining earnings.

However, the range of trading multiples across both segments is still relatively wide. This can be explained in part by:

- the scale of some of the listed companies (wholesalers and retailers). There are clear benefits from strong international brands and economies of scale (improved purchasing power, control over pricing, market and customer diversification, etc.) with the largest companies (market capitalisations of \$50 billion or more), such as Nike, Inc. ("Nike"), Adidas AG ("Adidas"), Industria de Diseño Textil, S.A. ("Inditex") and H & M Hennes & Mauritz AB ("H&M"), trading at very high multiples. VF Corporation, although smaller (with a market capitalisation of around \$36 billion), also falls into this category.

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These companies (excluding H&M (refer to comments below)), are generally trading at multiples in the range 17-20 times historical and 16-19 times forecast EBITDA and 19-24 times historical and 17-22 times forecast EBIT.

Although Nike, Adidas and VF Corporation (owner of *The North Face*, *Timberland*, *Vans*, *Lee* and *Wrangler* brands) have a substantial retail footprint and e-commerce presence, the wholesale channel represents around 70-75% of their total sales. These companies have also reported consistent revenue and earnings growth despite challenging retail conditions.

Inditex and H&M are the global leaders in fast moving, affordable, fashion and have significant retail footprints. Inditex (owner of *Zara* and *Pull&Bear*) has reported consistent double-digit revenue growth and strong margins. It has an unrivalled scale (market capitalisation of around \$140 billion), larger than Nike and nearly three times the size of H&M. H&M has maintained strong revenue growth and stable dividends, however its earnings performance has been more lacklustre which is reflected in its lower trading multiples relative to Inditex.

In contrast, very small listed companies such as Globe International Limited ("Globe") and PAS Group Limited ("PAS Group"), with market capitalisations of \$50-60 million, trade at the lowest multiples (of 3-6 times historical EBITDA and 5-7 times historical EBIT);

- sector focus. Several of the companies trading at higher multiples operate in higher growth subsectors. In particular, Nike, Adidas, Puma SE ("Puma"), VF Corporation, Under Armour, Inc. ("Under Armour") and lululemon athletica Inc. ("Lululemon") operate exclusively or predominantly in the higher growth sports lifestyle/outdoor and action sports subsector of the branded apparel sector;
- exceptionally high margins. Lululemon is a mono brand company with strong brand momentum in women's athletic lifestyle apparel. It is trading at 19.3 times historical and 17.3 times forecast EBITDA and 23.2 times historical and 20.7 times forecast EBIT. These high multiples reflect Lululemon's high operating margins as well as its strong track record of growth and international and e-commerce expansion opportunities. Lululemon generates a 22% EBITDA margin and an 17% EBIT margin, similar to the margins generated by Inditex, which is more than ten times its size and compared to a median EBITDA margin of 13% and median EBIT margin of 9%;
- recent underperformance and/or an expected turnaround in performance:
 - Puma generates approximately 75% of total sales from the wholesale channel. Its relatively high multiples (27.9 times historical and 16.7 times forecast EBITDA and 42.0 times historical and 21.4 times forecast EBIT) reflect an earnings turnaround following several years of declining profitability. Puma has a December year end and the forecast multiples are for the year ending 31 December 2017. In October 2017, Puma released third quarter results that included upgraded guidance for the full year including sales growth of 14-16% and EBIT in the range €235-245 million (an increase of 85-90% over the prior year). The year 2 forecast multiples (for calendar year 2018) are more in line with other predominantly wholesale comparable companies at 13.2 times EBITDA and 16.3 times EBIT; and
 - the high forecast multiples for Under Armour, which has wholesale sales of approximately 65% of total sales, in part reflect earnings downgrades for the 2017 (forecast) year after several years of strong growth. In October 2017, Under Armour announced that 2017 EBIT before restructuring costs was expected to be in the range US\$140-150 million (compared to US\$415 million in 2016), its second downgrade to 2017 earnings. While the share price has dropped almost 25% following announcement of the most recent downgrade, it appears that the market is viewing positively Under Armour's major restructuring plans to reshape the business; and
- the relative capital intensity of the businesses. A number of the predominantly or only retail companies are trading at significantly higher EBIT multiples relative to their EBITDA multiples, although this will be impacted by different ownership structures for stores (own or rent) and

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different accounting treatments for fit out (capitalised or expensed). The differential in multiples is particularly evident for ascena (multiples of around 3 times EBITDA and around 10 times EBIT), Abercrombie & Fitch Co. ("Abercrombie & Fitch") (forecast multiples of 4.5 times EBITDA and 24.8 times EBIT) and Esprit (forecast multiples of 3.9 times EBITDA and 10.6 times EBIT) and to a lesser extent GUESS?, Inc. ("Guess") (multiples of 8.2-9.2 times EBITDA and 14.8-19.2 times EBIT). For each of these companies, depreciation and amortisation expense is a very high percentage of EBITDA (in excess of 70%, and up to 150% in the case of Esprit's historical earnings, with Guess at 45-50%).

However, some of the differential in multiples is the result of declining EBITDA performance (making it more difficult to assess whether the differences between the EBIT and EBITDA multiples are driven by capital intensity or simply poor performance). Very high EBIT multiples appear to constrain EBITDA multiples (e.g. Abercrombie & Fitch and Esprit).

In any event, the EBITDA and EBIT multiples are typically closer together for companies that focus on wholesale (e.g. Hanesbrands which sells over 90% of its products through the wholesale channel and is trading at multiples of 10.7-11.2 times EBITDA and 11.8-12.8 times EBIT) reflecting the considerably lower capital requirements associated with wholesale operations; and

- taking these factors into account and removing outliers from the analysis:
 - predominantly wholesale branded apparel companies are mostly trading in the range 11-17 times historical and forecast EBITDA and 15-19 times historical and forecast EBIT; and
 - predominantly retail branded apparel companies are mostly trading in the range 5-8 times historical and forecast EBITDA. EBIT multiples average around 10 times historical and 11 times forecast earnings, but there are notable examples trading at materially higher and lower EBIT multiples.

The similarity between historical and forecast multiples indicates that the outlook is for flat (or lower earnings) for the majority of wholesalers and retailers, reflecting difficult macroeconomic conditions across many regions as well as shifting consumer spending patterns and intense competition.

Implied Multiples for Billabong

Grant Samuel has valued Billabong's business operations in the range \$390-440 million. Based on the adjusted earnings set out in Section 4.3.2, the value range represents the following multiples:

BILLABONG BUSINESS OPERATIONS – IMPLIED MULTIPLES

	VARIABLE (\$ MILLION)	RANGE OF PARAMETERS	
		LOW	HIGH
Multiple of adjusted EBITDA (times)			
Year ended 30 June 2017 (adjusted actual)	53.0	7.4	8.3
Year ending 30 June 2018 (adjusted company guidance) ³²	55.0	7.1	8.0
Multiple of adjusted EBIT (times)			
Year ended 30 June 2017 (adjusted actual)	24.8	15.7	17.7
Year ending 30 June 2018 (adjusted company guidance) ³²	26.3	14.8	16.7

The multiples implied by the valuation of Billabong's business operations are around the mid-to-low end of the range of pre-synergy EBITDA multiples but above the high end of the range of pre-synergy EBIT multiples for recent comparable transactions (after removing the impact of outliers):

- many of the comparable transactions have involved companies that are considerably larger than Billabong and while the evidence is not clear, it would be expected that, all other things being equal,

³² The implied forecast multiples are based on the mid-point of the updated guidance for FY18 EBITDA provided by Billabong in conjunction with announcement of the Scheme on 5 January 2018 and Billabong's FY18 forecast for depreciation, amortisation and impairment.

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larger companies would change hands at higher multiples than smaller companies given the impact of scale on margins;

- while the post-synergy multiples for strategic/bolt on acquisitions have been considerably lower (3.5-6.4 times historical and 4.5-6.1 times forecast EBITDA and 7.2-7.5 times historical and 6.6-7.4 times forecast EBIT), Grant Samuel has also taken into account that financial acquirers have been willing to pay around 6-7 times forecast EBITDA for branded apparel businesses;
- EBITDA multiples fail to capture relative differences in capital intensity between different businesses. Assuming depreciation and amortisation expense is a reasonable proxy for capital expenditure, EBIT is a better measure of underlying free cash flow and EBIT multiples provide more useful and reliable benchmarking. In Billabong's case, depreciation and amortisation expense and capital expenditure (historical and forecast) are both in the order of \$20-30 million (on average) and therefore consume approximately 50% of Billabong's EBITDA, significantly limiting free cash flows. This factor constrains the appropriate EBITDA multiples for Billabong and explains the divergence in relativities;
- other transactions involving Billabong brands (i.e. *Tigerlily*, *Dakine* and *Nixon*) are not particularly relevant as they involve the sale of single brands in particular circumstances. Nevertheless, it should be noted that while *Tigerlily* was sold at a higher EBITDA multiple than is implied by the valuation of Billabong (at around 8 times forecast EBITDA), the EBIT multiple implied by the sale was only around 9-10 times;
- there have been no transactions that are directly comparable to Billabong in terms of scale, wholesale/retail mix and outlook (i.e. in the midst of a turnaround). However:
 - Accent (6.0 times forecast EBITDA and 7.6 times forecast EBIT) and Pacific Brands Limited's Workwear Group (7.4 times historical EBITDA and 8.2 times historical and 11.4 times forecast EBIT) are the most similar in size to Billabong and had a mix of wholesale and retail sales, but were very different to Billabong in terms of growth outlook. RCG Corporation's acquisition of Accent was also highly strategic;
 - Retail Apparel Group (which was acquired by TFG Retailers Pty Ltd at 8.4 times historical and 7.0 times forecast EBITDA) was also similar in size to Billabong but was a pure retailer, which would have constrained its EBITDA multiples. However, it was forecasting double digit growth (which would justify higher multiples);
 - The Warnaco Group, Inc. ("Warnaco") (acquired at around 8 times EBITDA and around 10 times EBIT) owned or licensed a number of strong brands (e.g. *Calvin Klein*, *Speedo*) and operated across both the wholesale and retail sales channels, but was much larger than Billabong (with an equity value of US\$2.85 billion) and PVH expected to achieve significant synergies from the acquisition, reducing the implied multiples to around 6 times EBITDA and 7.5 times EBIT); and
 - Collective Brands (8.6 times historical and 7.0 times forecast EBITDA and 23.6 times historical and 15.1 times forecast EBIT), although larger than Billabong (with an equity value of US\$1.5 billion), had a significant proportion of sales through the retail channel (which in part explains its very high EBIT multiples) and was midway through a turnaround at the time of its acquisition.

The multiples implied by the value range are low relative to the trading multiples of predominantly wholesale comparable companies but are more in line with the trading multiples of predominantly retail comparable companies (after allowing for a premium for control), particularly at an EBIT level. This reflects Billabong's relatively small scale and its mix of wholesale and retail sales revenue:

- all the comparable listed companies (other than Globe and PAS Group) are significantly larger than Billabong; and

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- Billabong has a significant exposure to retail sales revenue (approximately 45% of total sales). The comparable companies analysis indicates that trading multiples generally fall considerably once the proportion of retail sales is 50% or more of total sales.

Billabong has a number of positive attributes that are reflected in its earnings multiples:

- a well recognised and diversified portfolio of brands. The three key brands, *Billabong*, *Element* and *RVCA* having leading or very strong market positions in their key markets in each region. Arguably, the *Billabong* brand had “lost its way” over the past few years but it has now turned the corner, with its women’s lines in particular performing strongly. In addition, *RVCA* (particularly through its *VA Sports* sub brand), and to a lesser extent, *Element*, are regarded as having significant growth potential, albeit this growth will require investment in development and expansion of the brands;
- global diversification, with operations across North and South America, the Asia Pacific region and in Europe, which provides some level of protection from events impacting individual markets, economies of scale and the ability to replicate learnings in one region across other regions;
- an experienced and well regarded management team. In particular, the Managing Director and Chief Executive Officer, Neil Fiske, who has been with the group since September 2013, has considerable international retail experience including previous success in turnarounds;
- an improving quality of earnings. While revenues have declined from FY14 to FY17, this has, to a significant degree, been the result of a concerted effort to rationalise the store network (eliminating poorly performing stores) and to improve financial discipline;
- Billabong is only midway through implementation of its turnaround strategy. There is upside potential for the business from:
 - further cost efficiencies and ongoing benefits from the global product sourcing and global logistics and distribution projects (in the short term); and
 - successful implementation of the omni-channel strategy (albeit there is an expectation that some of the growth in e-commerce likely to be at expense of bricks & mortar); and
- as at 30 June 2017, Billabong had consolidated tax losses (excluding United States state tax losses) of \$590.4 million and \$194.3 million of United States state tax losses. The ability to utilise these tax losses is extremely uncertain. While the value attributed to Billabong’s business operations does not explicitly reflect any value for tax losses, any potential value that might be attributed to tax losses is implicitly reflected in the high end of the value range for Billabong’s business operations.

However, at the same time it needs to be recognised that:

- Billabong is subject to the ongoing impact of several factors beyond its control, including:
 - economic and retail conditions and consumer sentiment in the regions in which it operates. In particular:
 - the United Kingdom (Billabong’s major market in Europe) is suffering from some retail softness which may continue with the ongoing costs of Brexit; and
 - the Asia Pacific region has been impacted by an extended period of poor retail conditions in Australia (the major Asia Pacific market); and
 - fluctuations in foreign exchange rates. The majority of product is sourced from Asia and is purchased on a US\$ denominated basis. Ongoing inflationary pressures in those Asian regions from which Billabong sources its product will put pressure on costs. Any material devaluation of the A\$, € or £ against the US\$ is likely to have a significant impact in terms of an increase in cost of goods sold which is unlikely to be able to be passed on to customers (to do so would make Billabong uncompetitive) and will reduce profitability. Conversely, gains achieved through any

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appreciation of the A\$, € or £ and the resulting decline in local currency costs are often shared with customers (because of competitor actions);

- the retail sector (including online participants such as Amazon) is highly competitive. Branded apparel is a niche market within this sector, which amplifies the competitive issues, exposes Billabong to apparel retailing/fashion risk and increases the importance of reacting quickly to consumer trends in each region. Changes in consumer preferences, fashion shifts and other retail developments have adversely impacted the business in the past and are likely to occur again;
- around 45% of sales are generated through retail channels (including e-commerce). This high exposure to retail sales, and moreover to the less attractive multi-brand stores, is particularly the case for the Asia Pacific, where retail sales represent more than 65% of Asia Pacific revenue and multi-brand stores represent almost 50% of total Asia Pacific retail outlets;
- more than 50% of total sales are of *Billabong* branded product. *Billabong* is a mature surf brand (in contrast to skate and street brands) where growth is more difficult and expensive (i.e. requires considerable investment in marketing) to achieve. All of the major surf brands (e.g. *Billabong*, *Quiksilver* and *Rip Curl*) are struggling to generate sales growth. In short, the segment is less attractive than adjacent sectors such as active/sportswear. At the same time, the growth brands such as *RVCA* and *Element* are relatively small, with each representing less than 15% of group sales, and will have limited impact on overall results. Billabong's other brands are extremely small but add complexity to management of the business;
- Billabong generates relatively low operating margins (an underlying EBITDA margin of 5.2% in FY17 and in the range 4.9-5.6% over the past four years). These low margins are in part a function of its relatively small scale and its wholesale/retail sales mix, and compare to an average EBITDA margin for the comparable listed companies of 13% (ranging from 2% to 22%). While this suggests significant potential for margin improvement, there is no obvious catalyst to generate a sustainable step change. Billabong has already attacked much of the "low hanging fruit" over the past few years and further improvements will be hard won in a highly competitive market;
- Billabong's recent underlying financial performance (post commencement of the turnaround strategy) has been declining or flat overall as cost savings and benefits from implementation of the turnaround strategy have been offset by one off events (such as inventory issues in the Americas) and declining like-for-like sales;
- while it was always anticipated that the turnaround would take a number of years to implement and then flow through to financial performance, progress has been slower than expected and there is no certainty that all elements of the turnaround will be implemented successfully or meet the expectations of management. In particular, there is considerable execution risk in relation to the global roll out of the new omni-channel platform that has only recently commenced in Australia. The retail industry is littered with companies that have been unable to achieve the necessary turnaround in performance; and
- Billabong has generally underperformed relative to its budgets and forecasts in recent years (although it has met market guidance).

On balance, Grant Samuel believes that the multiples implied by the valuation of Billabong's business operations of 7.4-8.3 times adjusted historical EBITDA, 7.1-8.0 times adjusted forecast EBITDA and 15.7-17.7 times adjusted historical EBIT and 14.8-16.7 times adjusted forecast EBIT are appropriate.

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4.4.3 Discounted Cash Flow Analysis

No detailed projections are available for Billabong. Nevertheless, Grant Samuel has used DCF analysis as a cross check of the capitalisation of earnings based valuation. To do so, Grant Samuel has prepared a high level DCF model that uses as its starting point the FY18 Forecast. Grant Samuel has extended the model for a further nine years based on assumptions in relation to sales revenue growth, gross margin, EBITDA margin and capital expenditure (by region), developed in conjunction with Billabong management. The DCF model is based on a number of assumptions that Grant Samuel considers to be reasonable. However, the model does not constitute a forecast or projection by Grant Samuel of the future performance of Billabong and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the model. A number of different scenarios have been developed and analysed to reflect the impact on value of various key assumptions. However, these scenarios do not, and do not purport to, represent the range of potential outcomes for Billabong's business operations. They are simply indicators of the sensitivity of the net present values derived from the DCF analysis.

The DCF model projects nominal after tax cash flows from 1 July 2017 to 30 June 2027, a period of ten years, with a terminal value calculated at 30 June 2027 to represent the value of cash flows in perpetuity. The terminal value has been calculated by capitalising net after tax cash flows using a perpetual growth assumption. Other key assumptions include a nominal discount rate (weighted average cost of capital) in the range 10-11% and an effective corporate tax rate of 32.5% (a blended tax rate reflecting the mix of Billabong's global business operations). The ungeared after-tax cash flows assume that tax is paid in cash from 1 July 2017. Billabong's existing (and expected future) tax losses have been considered separately.

Discount Rate

For the purposes of the analysis, Grant Samuel has utilised a discount rate in the range 10-11%. The determination of the appropriate discount rate for the analysis is difficult:

- the cost of equity capital is not a precise or provable number nor can it be estimated with any degree of reliability. The cost of equity capital is not directly observable and models such as the Capital Asset Pricing Model ("CAPM") do no more than infer it from other data using one particular theory about the way in which security prices behave. The usefulness of any estimate therefore depends on the efficacy of the theory and the robustness of the data but the available tools such as CAPM involve:
 - models which have questionable empirical validity (and competing formulation);
 - simplifying assumptions;
 - the use of historical data as proxy for estimates of forward looking parameters;
 - data of dubious statistical reliability; and
 - unresolved issues (such as the impact of dividend imputation).

It is easy to over-engineer the process and to credit the output of models with a precision it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than an absolute truth. The cost of capital is fundamentally a matter of judgement, not merely a calculation; and

- strict application of the CAPM at the present time gives results that are arguably unrealistically low (primarily because of very low government bond rates) and are often inconsistent with other measures.

Use of the CAPM based on current parameters would result in a cost of equity in the range 9.2-9.8% calculated as follows:

- a risk-free rate of 2.6% based on the 10-year Commonwealth Government bond rate in November 2017;

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- a market risk premium of 6% (a standard rate adopted by Grant Samuel), which is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
- an equity beta factor of 1.1-1.2. It is difficult to determine a reliable beta for Billabong:
 - Billabong has a beta of 1.5 using four years of data (as reported by SIRCA Technology Pty Limited ("SIRCA") in September 2017) but at a 68% confidence interval is in the range 0.7-2.3;
 - the betas of Billabong's peer group companies fall in a very wide range. For example, Bloomberg betas measured monthly over the last four years against the local market index (consistent with the calculation of SIRCA betas) have betas in the range 0.17 (Globe International Limited) to 1.47 (ascena), with a median of 0.8. The same betas measured weekly over two years range from 0.26 to 1.74, with a median of 1.1;
 - gearing levels vary significantly but are not always consistent with the beta factors; and
 - intuitively, it would be expected that a company such as Billabong, operating in the global branded apparel sector, would have a beta greater than 1.0 given the sensitivity of consumer spending to economic cycles.

Taking these factors into account, Grant Samuel believes that a beta of 1.1-1.2 is a reasonable estimate of the appropriate beta for Billabong (and reflecting market gearing as opposed to Billabong's actual gearing which is currently extremely high, albeit having changed dramatically over the past four years).

The resultant WACC calculation is 8.6-9.5% assuming:

- a cost of debt of 5%, reflecting a 2.4% margin over the risk-free rate; and
- a debt/equity mix of 5-10% debt and 90-95% equity, based on gearing for Australian and international branded apparel companies, the majority of which are in a net cash position at balance date (although this would underestimate the appropriate gearing level given seasonal working capital requirements).

The cost of debt and gearing level selected for the purpose of calculating a WACC differ from Billabong's actual cost of debt (11.9% for the term loan facility) and gearing (in excess of 50%). This is necessary and appropriate to ensure consistency between the beta and gearing assumptions.

However, in Grant Samuel's opinion, these calculations are likely to understate the true cost of capital for Billabong. In this context:

- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the very substantial amounts of liquidity being pumped into many advanced economies (particularly Western Europe and the United States) to stimulate economic activity. Effective real interest rates are now low and, in some cases, are negative. There is an argument that these conditions have now been present for some years and are therefore the "new normal". While there is some merit in this argument, Grant Samuel does not believe the current position is sustainable over the long term and, in our view, the risk is clearly towards a rise in bond yields. Indeed, in June 2017, the Federal Reserve in the United States raised interest rates for the third time in six months (albeit to a still low 1.25%), with further increases expected in the short term and in November 2017, the Bank of England increased the bank rate by 25 basis points to 0.5%, the first rate rise since July 2007.

Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long-term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a "normalised" risk free rate should be used. This practice has become

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increasingly common among broker analysts. On this basis, an increase in the risk-free rate to (say) 4% (still relatively low by historical standards) would, for example, increase the calculated WACC range to 10.0-10.9%;

- the 30 year bonds issued by the Australian government are trading at yields of 0.8% higher than equivalent 10-year bond (the term premium for United States and United Kingdom bonds is slightly lower at around 0.4-0.55%);
- the one broker that provides research on Billabong is currently adopting a WACC of 9.8%; and
- there are arguments for a small company premium which would increase the cost of equity capital but there is limited empirical evidence as to the appropriate quantum of this premium (or the cut off points).

Having regard to these matters, Grant Samuel considers a discount rate above the calculated WACC to be an appropriate measure of the cost of capital. Accordingly, for this purpose Grant Samuel has adopted a discount rate in the range 10-11%.

DCF Assumptions

The DCF analysis considers a number of different scenarios. Scenario A is based on the FY18 Forecast and the projections for Billabong prepared by Billabong management (for the period from FY18 to FY20), with Grant Samuel making longer term assumptions to extend the cash flows for an additional seven years to FY27.

The DCF model has discrete sales revenue, gross margin and EBITDA margin assumptions for each sales channel (wholesale, bricks & mortar and e-commerce) within each region, with the wholesale channel further split into the three key brands, *Billabong*, *Element* and *RVCA*, and other. This approach allows for the different sales revenue growth and cost profiles of each sales channel (and wholesale brand) in each region. Capital expenditure and working capital assumptions have been made on a business-wide basis.

For Scenario A, the DCF model assumes the following:

- average annual growth in sales revenue over the projection period of around 3.5%. This sales revenue growth reflects:
 - a return to growth in sales revenue for the Americas from FY19 onwards with average annual growth of 3.4% over the projection period. Wholesale sales revenue is expected to recover in FY19 and grow at an average annual rate of 2.8% through signing of new accounts and strong growth in sales of *Element* and *RVCA* branded product. Retail sales revenue grows at a higher average annual rate of 4.8%, although this reflects strong, low-double digit growth in e-commerce sales. Bricks & mortar sales continue to decline through to FY21 as the closure of unprofitable stores continues as scheduled, returning to a modest growth rate of less than 1.0% per annum thereafter;
 - a return to growth in sales revenue for the Asia Pacific from FY19 onwards with average annual growth of 3.1% over the projection period. Wholesale sales revenue is projected to grow at an average annual rate of 2.8%. Retail sales revenue is projected to grow at an average annual rate of 3.3%, driven by growth in e-commerce sales (from a very low base). Bricks & mortar sales revenue remains relatively flat; and
 - average annual growth in sales revenue of 4.1% in Europe, driven by stronger growth in wholesale (primarily very strong growth in *RVCA* branded sales) and e-commerce, tempered by very modest sales revenue growth in the bricks & mortar channel.

These sales growth rates represent a significant turnaround from the declines of the past four years although it should be recognised that these declines were largely due to one off events such as the financial collapse of a major wholesale customer and deliberate store network rationalisation;

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- the overall gross margin improves by just over 300 basis points over the projection period, with the largest improvements (250 basis points) over the period from FY17 to FY20, as Billabong continues to deliver on its global sourcing and concept-to-customer initiatives. Post FY20, the gross margin improves much more gradually, largely reflecting the shift in channel mix to a higher proportion of higher margin e-commerce sales;
- costs of doing business (including global overheads) are projected to remain relatively stable as a percentage of sales revenue over the projection period (although a portion of global overheads are treated as fixed overheads which are assumed to increase at inflation of 2.5% per annum);
- the result of the above assumptions is an increase in the EBITDA margin from 5.4% in FY18 to 8.0% by FY27. Billabong has, in the past, publicly expressed a goal of achieving double digit overall EBITDA margins (i.e. 10%) as the business is turned around and the various initiatives are successfully implemented. However, while this may be an aspiration, Grant Samuel believes that a recovery to 8-9% is a more realistic assumption for valuation purposes in the difficult and highly competitive retail environment that has emerged recently and that is likely to prevail over the next few years. Even this level represents a very substantial improvement from current levels of around 5% and, if anything, the last 2-3 years have shown how difficult it is to achieve any uplift, with EBITDA margins remaining stuck at around 5% despite the significant cost savings (e.g. from global sourcing) that have been realised to date. In Grant Samuel's view, EBITDA margins of 8-9% are more consistent with those likely to be assumed by acquirers of the business (before synergies);
- capital expenditure is as projected by Billabong for the period from FY18 to FY20, to take into account the expenditure on the global omni-channel project over this period. In subsequent years, capital expenditure is calculated as 5.8% of retail sales revenue, which is consistent with the historical trend (excluding omni-channel investment);
- depreciation and amortisation is calculated as a percentage capital expenditure. Depreciation and amortisation is projected to be 105-110% of capital expenditure in FY19 and FY20 to reflect the shorter life of omni-channel investments. From FY21, depreciation and amortisation is assumed to be equal to 100% of capital expenditure;
- a working capital adjustment assuming that working capital is in the range 21.5-22% of sales revenue;
- approximately \$2.2 million of public company cost savings annually (increased by inflation);
- an effective corporate tax rate (including United States state taxes) of 28%, which is a blended tax rate before financing costs reflecting the mix of Billabong's global business operations; and
- a terminal growth rate of 2.5% (implying an EBITDA exit multiple of 5.5-6.2 times).

As with any long-term projections, there are inherent uncertainties about future events and outcomes and small changes in certain assumptions (in particular, sales revenue growth, margins and levels of capital expenditure) can have disproportionate impacts on the calculated values. The DCF model is, at least implicitly, based on a large number of assumptions which are subject to significant uncertainty, many of which are outside the control of Billabong, including macroeconomic conditions (e.g. economic conditions, consumer sentiment and other factors that drive retail spending by consumers) and the level of competition in the branded apparel sector as a result of actions of other participants and new entrants.

As a result of these uncertainties, there is a wide range of potential outcomes that could occur, both positive and negative (and an even greater number of possible combinations of those outcomes). Most of these risks impact demand for Billabong's products, which would likely be reflected as either higher or lower sales revenue or higher or lower margins than anticipated. Other potential outcomes include:

- the further cost efficiencies and ongoing benefits from roll out of the global platforms as part of Billabong's turnaround strategy are greater or less than anticipated; and

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- capital expenditure requirements to implement the global omni-channel project or to sustain Billabong’s business operations are greater or less than anticipated.

Given the high-level nature of the DCF model and the purpose of the analysis, it is neither practical nor useful to analyse an exhaustive range of alternative scenarios. However, Grant Samuel has considered the impact of alternative assumptions for the key drivers to at least provide some indication of the sensitivity of the NPV outcome to changes in these drivers.

Each of the scenarios considered by Grant Samuel assumes as a starting point that the FY18 Forecast is achieved. Longer term assumptions have been made by Grant Samuel with reference to Billabong’s projections following discussions with Billabong management. A description of each scenario is outlined in the table below:

BILLABONG - DCF SCENARIOS

SCENARIO	DESCRIPTION
Scenario A	As described above
Scenario B	Scenario A except that the gross margin improvement continues across all markets through to FY25 (a further 100 basis points improvement). The EBITDA margin increases to around 9.0% in FY27
Scenario C	Scenario A except that the Asia Pacific experiences a prolonged period of weakness driven by underperformance in Australia (average annual Asia Pacific revenue growth of 0.2%). Asia Pacific gross margins are also lower as Billabong discounts heavily to maintain sales and clear inventory and costs of doing business are higher driven by defensive marketing spend to maintain market share, resulting in the overall EBITDA margin increasing to 7.3% in FY27
Scenario D	Scenario A except that Billabong achieves higher annual sales growth from FY20 onwards across all markets (average annual revenue growth of 4.2%) through an increased investment in marketing. The EBITDA margin increases to 8.0% in FY27
Scenario E	Scenario A except that the Americas (Billabong’s largest region by sales revenue) experiences subdued growth as Billabong closes unprofitable stores and wholesale takes longer than expected to return to growth. Average annual Americas revenue growth is 1.4%
Scenario F	Scenario A except that the global omni-channel project requires higher capital expenditure post FY20 to maintain the user experience (6.5% of retail sales) and the associated retail sales revenue benefit is smaller than anticipated
Scenario G	Scenario A except that there is stronger growth in RVCA branded sales revenue across all markets, driven by higher brand awareness in Europe and the Asia Pacific and continued market share gains in the Americas (average annual revenue growth of 4.0%)
Scenario H	Scenario A except Billabong experiences a decrease in demand for its products across all markets (average annual revenue growth of 0.3%)
Scenario I	Scenario A except that growth in e-commerce in the Asia Pacific is less than expected due to competition from the introduction of Amazon locally (average annual Asia Pacific revenue growth of 1.9%)
Scenario J	Scenario A except that the expected margin improvement from implementation of the turnaround strategy over the FY18 to FY20 period does not eventuate. The EBITDA margin increases to 7.8% in FY27

NPV Outcomes

Grant Samuel’s selected value range of \$390-440 million for Billabong’s business operations reflects a subjective balancing of the scenarios and a view that the appropriate discount rate to apply is 10-11%. This is depicted diagrammatically below:

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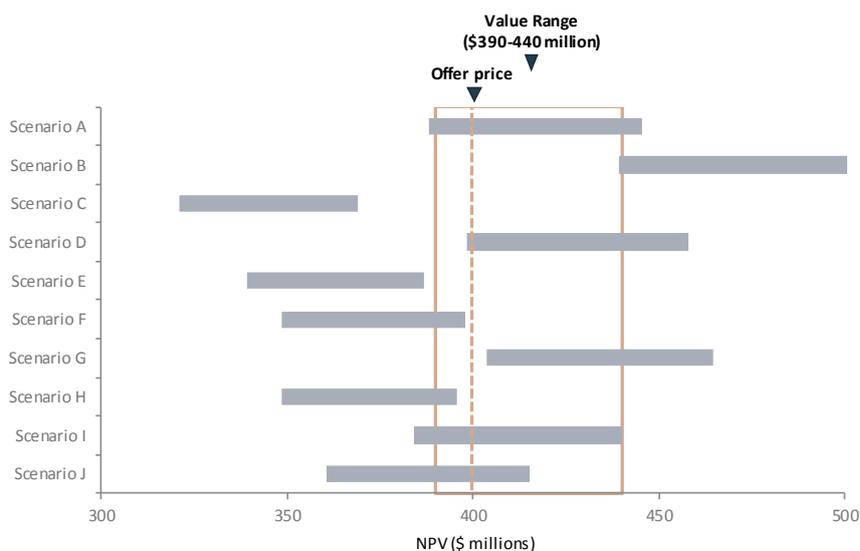
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BILLABONG'S BUSINESS OPERATIONS – NPV OUTCOMES

(AT 10-11% DISCOUNT RATE)



A number of the scenarios fall below or only just within the value range for Billabong's business operations of \$390-440 million. This is not surprising as the DCF represents a standalone value for Billabong under the current ownership structure and the value range Grant Samuel has placed on Billabong's business operations includes an element of payment for some of the synergies Boardriders and other acquirers could generate.

Grant Samuel's value range incorporates the vast majority of Scenarios A, D, G and I, a substantial proportion of Scenario J, the top end of Scenarios F and H, and the bottom end of Scenario B. Scenarios C, and E are outside the low end of the range. Grant Samuel has considered the outcome of all of the scenarios in determining its value range for Billabong's business operations. However, it should be noted that:

- Scenario B is based on substantial improvement in the EBITDA margin, from 5.4% in FY18 to 7.3% in FY20 and around 9.0% by FY27 (compared to 5.2% achieved in FY17). The ability of Billabong to achieve this level of performance is extremely uncertain. It requires everything to go Billabong's way, which has not been the case historically;
- there is a real possibility that any of Scenarios D, G, I or J could eventuate:
 - Scenarios D and G project higher sales revenue growth than Scenario A, either across all markets (Scenario D) or specifically in the RVCA brand (Scenario G). It is possible that higher sales growth could be achieved, but this would likely require an increased investment in marketing, which is also reflected in Scenario D. The outcome is a relatively small uplift in value which indicates the difficulty achieving growth in earnings in a mature market. The RVCA brand is considered to have considerable growth potential, the full extent of which is arguably not reflected in Scenario A; and
 - equally, Scenarios I and J are potentially realistic downside outcomes. A significant proportion of projected growth in total sales revenue in Scenario A is attributed to growth in higher margin e-commerce sales and it is possible that Amazon (which commenced operations in Australia in December 2017) could have a greater than expected impact on e-commerce sales in Australia (albeit the impact on value is not overly material as e-commerce sales in Australia represent less than 10% of total sales by FY27). It is also possible that the expected margin improvement from

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implementation of the turnaround strategy over the FY18 to FY20 period (with EBITDA margins projected to increase to 7.3% in FY20 under Scenario A from 5.2% in FY17) does not eventuate, which has a more material impact on value (Scenario J); and

- Scenarios C, E, F and H show the sensitivity of the NPV to downward movements in sales revenue growth:
 - given the competitive environment for retail generally and branded apparel specifically, it is possible that Billabong will have to invest more than expected on its e-commerce channel once this has been rolled out (by FY20) and that the uplift in sales revenue from the e-commerce channel is lower than projected (Scenario F);
 - Scenarios E and H project lower sales revenue growth than Scenario A either in the Americas (Scenario E) or across all products (Scenario H). Billabong management believes that the Americas has achieved a sustainable improvement in performance in FY17 and is an opportunity for growth in the future. The performance of the Americas over the first six months of FY18 supports this view. A decrease in demand across all of Billabong's brands and products in all regions, at the same time and over an extended period, is an overly negative scenario; and
 - Scenario C projects lower sales revenue growth than Scenario A in Australia (the key market in the Asia Pacific). While the outlook for Australia and the Asia Pacific region is uncertain, management of Billabong is confident in its ability to turnaround performance, implementing learnings from the turnaround in the Americas. Furthermore, the assumptions underlying Scenario C have a compounding effect, with the lower sales revenue growth accompanied by greater discounting and higher marketing costs (and therefore lower margins).

While Scenarios C, E, F and H are possible, the impact on value (compared to Scenario A) is very material, and does not make any allowance for mitigating factors that Billabong would take if it became apparent that these types of scenarios might eventuate (such as seeking alternative sources of revenue growth, further cost reductions or curtailing capital expenditure). Although there may be periods of lower revenue growth (and/or higher capital expenditure), in Grant Samuel's opinion, it is unlikely that Billabong would continue to operate indefinitely in this environment without responding, particularly where there is a compounding impact on margins such as in Scenario C.

Taking these factors into account, Grant Samuel believes that the values produced by the DCF analysis support a range of values for Billabong's business operations of \$390-440 million (recognising the potential for synergies to acquirers).

4.5 Global Operations and Corporate and Head Office Costs

Billabong incurs costs related to running Billabong's global operations as well as corporate and head office costs, which include the costs of:

- international advertising and promotion costs;
- central sourcing costs;
- certain group shared services (such as human resources, IT etc);
- the Billabong executive office (such as costs associated with the offices of the Chief Executive Officer and the Chief Financial Officer, company secretarial and legal, corporate affairs, treasury, tax etc); and
- being a listed company (such as directors' fees and insurance, annual reports and shareholder communications and share registry and listing fees).

Any acquirer of 100% of Billabong would be able to save the costs associated with being a publicly listed company. The ability to save other costs is less clear. Even financial buyers may be able to rationalise head office costs (e.g. close the Australian corporate headquarters) but a number of the functions would need to be replicated. In any event, allowing for such savings would potentially double count them given the earnings multiples from comparable transactions reflect (to some extent) synergies available to the acquirer.

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For valuation purposes, Grant Samuel has reduced corporate costs by \$1.7 million in FY17 and \$2.2 million in FY18 (reflecting listed company costs) in the calculation of Billabong's adjusted earnings described in Section 4.3.2 and consequently, no separate adjustment has been made for these cost savings.

4.6 Other Assets and Liabilities

Billabong's other assets and liabilities have been valued in the range \$(16.9)-(22.8) million and include:

- land that is surplus to Billabong's requirements (and is currently a vacant site), valued at \$3.7 million;
- payment received for settlement of a legal dispute (the terms of which are confidential);
- a contingent payment that may be payable to the founder of RVCA depending on the performance of RVCA in FY18. This payment has been allowed for only at the high end of the valuation range;
- cash costs paid subsequent to year end in relation to the divestment of Tigerlily (working capital adjustment and payments to return fit out lease contributions back to landlords);
- onerous lease provisions provided for in Billabong's balance sheet as at 30 June 2017; and
- the net present value of restructuring costs expected to be incurred in FY18, FY19 and FY20 in relation to the turnaround strategy (including the restructuring provisions provided for in Billabong's balance sheet as at 30 June 2017).

These amounts have not been tax effected on the basis that Billabong would not obtain any tax benefit in relation to expenses or make any tax payment in relation to income as it does not generate any taxable income and would be able to utilise existing capital losses in relation to any capital gains recognised.

Billabong has a number of other assets and liabilities that have not been included in other assets and liabilities for the following reasons:

- make good provisions of \$3.7 million as at 30 June 2017 which are all in the ordinary course of business;
- the contingent payment of up to \$3.5 million disclosed in Billabong's FY17 Annual Report which is no longer payable following settlement of the legal dispute; and
- tax losses. As at 30 June 2017, Billabong had consolidated tax losses (excluding United States state tax losses) of \$590.4 million and \$194.3 million of United States state tax losses. The amount of tax losses recognised on Billabong's balance sheet is immaterial. The ability of Billabong to utilise these tax losses on a standalone basis is extremely uncertain:
 - no material taxable income is expected to be generated in the medium term given Billabong's capital structure;
 - approximately 40% of the tax losses expire (albeit the expiry is generally more than five years away); and
 - even if taxable income was generated at some future point in time, Billabong would need to meet the continuity of ownership and/or same business tests over this period to obtain the benefit of the tax losses. The continuity of ownership test is harder to meet over a longer time frame and the continuity of business test can be challenging.

In addition, there is an argument that, at least for Australian resident taxpayers, Australian tax losses have no value because of the dividend franking regime.

From an acquirer's perspective, there are similarly high levels of uncertainty that make it unlikely any acquirer would pay substantial incremental cash value for tax losses. For example:

- acquirers will undoubtedly have some level of debt in their capital structures which will push recoupment of tax losses further into the future; and



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- the continuity of ownership test would not be met and there would have to be reliance on the less robust continuity of business test.

Grant Samuel has therefore taken any potential value of tax losses into account in its assessment of the value of Billabong’s business operations.

4.7 Net Borrowings

Billabong’s adjusted net borrowings for valuation purposes are in the range \$(178.5)-(183.5) million. This amount reflects Billabong’s reported net borrowings as at 30 June 2017 adjusted for non-cash capitalised borrowing costs, cash required to fund permanent working capital and the impact of seasonality on Billabong’s working capital requirements:

BILLABONG – ADJUSTED NET BORROWINGS (\$ MILLIONS)

	SECTION REFERENCE	AS AT 30 JUNE 2017	
		LOW	HIGH
Net borrowings as at 30 June 2017 ³³	3.5	(148.6)	(148.6)
Prepaid borrowing costs	refer below	(7.8)	(7.8)
Cash regarded as permanent working capital	refer below	(17.0)	(17.0)
Adjustment to reflect working capital seasonal requirements	refer below	(10.0)	(5.0)
Cash payout of performance rights	1	(0.1)	(0.1)
Adjusted net borrowings		(183.5)	(178.5)

Prepaid borrowing costs have been added back to net borrowings as this is a non-cash asset (that is amortised over the life of the relevant borrowings).

A portion of Billabong’s cash balance of \$71.7 million as at 30 June 2017 is effectively permanent working capital and is not available for debt reduction. This reflects the complexity and broad spread of Billabong’s global operations. Specifically:

- a small amount of cash is pledged as security to financial service providers;
- Billabong’s South American and Asian operations are self-funded and hold cash for working capital purposes; and
- there are restrictions on transferring cash from certain countries (e.g. South Africa, Thailand, Indonesia and Brazil) which limit Billabong’s ability to quickly transfer cash and therefore require that cash be held in regional bank accounts.

Billabong management has estimated that cash tied up as permanent working capital is approximately US\$13 million, which is equivalent to approximately \$17 million at 30 June 2017 exchange rates.

The seasonality of Billabong’s business and its terms of trade result in large fluctuations in its working capital requirements. Net borrowings are typically at seasonal lows in December/January and July/August each year. Over FY17, Billabong’s net borrowings (adjusting for the sale of Tigerlily and before netting off prepaid borrowing costs) ranged from \$138 million to \$185 million, with an average balance of \$162 million and a median balance of \$168 million (compared to \$156.4 million as at 30 June 2017). Analysis of monthly working capital balances demonstrates a similar differential (range from \$180 million to \$237 million, with an average balance of \$209 million and a median balance of \$211 million, compared to \$198 million as at 30 June 2017). The adjustment of \$(5)-(10) million in the table above reflects both a seasonal adjustment for working capital and intra-month working capital movements, to capture the economic value of Billabong’s net borrowings.

³³ Net borrowings have been calculated using the A\$/US\$ exchange rate as at 30 June 2017 of A\$1 = US\$0.77. Movements in the A\$/US\$ exchange rate will impact the A\$ amount of the term facility, although this would be offset by the conversion of cash balances and earnings from US\$ to A\$.

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5 Evaluation of the Scheme

5.1 Opinion

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, in Grant Samuel's opinion, the Scheme is in the best interests of Billabong shareholders, in the absence of a superior proposal.

5.2 Fairness

Grant Samuel has estimated the full underlying value of Billabong, including a premium for control, to be in the range \$0.96-1.20 per share. The value is the aggregate value of the estimated value of Billabong's operating business together with other assets less external liabilities and any non-trading assets or liabilities. The valuation and the basis for it are set out in detail in Section 4 of this report.

The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect Billabong to trade on the ASX in the absence of a takeover offer (or speculation as to an offer).

The consideration payable under the Scheme of \$1.00 per share falls within the value range of \$0.96-1.20. Accordingly, the Scheme is fair. The bottom of the value range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair and it is irrelevant where in the range an offer falls.

In considering the fairness of the Scheme, there are a number of specific issues that shareholders should consider that are set out in the sections below.

5.2.1 Earnings Multiples

The consideration under the Scheme represents multiples of 7.5 times adjusted historical FY17 EBITDA and 7.3 times adjusted forecast FY18 EBITDA. While these multiples superficially appear to be relatively modest, the very significant decline in earnings (EBITDA) from the levels of a decade ago mean that capital expenditure (which in broad terms runs at around \$25 million per year on average albeit with higher levels at certain times) now consumes approximately 50% of EBITDA, substantially reducing the free cash flow available to an owner of the business.

Assuming depreciation and amortisation is a reasonable proxy for long run capital expenditure, EBIT multiples are a more meaningful basis of value assessment, particularly as the level of capital intensity varies significantly between different companies (and is particularly affected by the extent of retail relative to wholesale sales).

In this context, the consideration under the Scheme represents an adjusted historical FY17 EBIT multiples of 16.1 times and an adjusted forecast FY18 EBIT multiple of 15.2 times. These multiples are well above almost all of the comparable transaction evidence and the vast majority of comparable listed companies (focused on the retail sector), many of which are substantially larger than Billabong.

5.2.2 The Turnaround

Following the recapitalisation completed in 2014, Billabong began implementation of a significant operational restructuring designed to turnaround the business performance. The strategy involves four major projects, global sourcing, concept-to-customer (product processes), logistics and distribution and omni-channel (including e-commerce re-engineering).

Significant progress has been made, particularly in global sourcing, with substantial cost savings achieved. However, Billabong is only midway through implementation and there is still upside potential from:

- further cost efficiencies in product sourcing and the logistics and distribution project; and

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- successful implementation of the omni-channel project (particularly from improvement in Billabong's e-commerce offering).

Grant Samuel's valuation does reflect this potential:

- the primary DCF scenarios assume:
 - sales return to growth (compared to the decline over the FY14 to FY17 period) with average annual growth of over 3% (and retail sales growth of almost 4%) across the ten year projection period; and
 - EBITDA margins increase by approximately 280 basis points (compared to FY17) over the projection period; and
- the implied multiples of 15.7-17.7 times adjusted historical FY17 EBIT and 14.8-16.7 times adjusted forecast FY18 EBIT (above most of the comparable transaction and trading multiples) implicitly reflect an expectation of meaningful improvement in earnings.

In any event, shareholders need to recognise that retailing, particularly branded apparel, is a tough sector facing continued headwinds. Sales growth and/or margin improvement will be hard won and the retail sector is littered with examples of companies that continued to deteriorate despite turnaround plans. Any gains are likely to be incremental. There is no magic bullet that will see margins return to previous levels. Despite the cost savings that Billabong has realised over the past four years, margins have stood still with gains offset by one off events and sales slippage. The future is unlikely to be any easier.

In addition:

- there is considerable execution risk in the omni-channel strategy (Billabong has already experienced initial mis-steps);
- while it was always anticipated that the turnaround would take a number of years to implement and flow through to financial performance, progress has been slower than expected and there is no certainty that all elements of the turnaround will be implemented successfully;
- growth in e-commerce sales is likely to cannibalise, to some extent, existing bricks & mortar sales;
- while e-commerce sales are currently higher margin sales (compared to bricks & mortar sales), the omni-channel platform will require significant ongoing capital expenditure to maintain its effectiveness; and
- in a brutally competitive world (from both other brands and online platforms), there will be continued downwards pressure on product prices and upwards pressure on marketing expenditure. The net result is that at least some of the efficiency gains will have to be reinvested into the business or returned to customers rather than being captured by shareholders.

5.2.3 Synergies

Boardriders, as owner of the *Quiksilver* brand (one of the two major competitors to Billabong), has the potential to extract substantial synergies from merging the two businesses. Boardriders has not made any public statements as to its expectations of synergy benefits (other than to state in the Scheme Booklet that the combination of Billabong and Boardriders is expected to benefit both entities as the group's increased size will drive significant efficiencies and economies through their respective global networks and that Boardriders believes that it can realise value by leveraging one integrated operating platform), nor have these been conveyed to Billabong, so it is not possible to reliably estimate them. However, at the very least, they are likely to include:

- elimination of head office functions and duplicated shared services;
- merging of operations such as sourcing and logistics;



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- purchasing power benefits;
- e-commerce fulfillment rationalisation; and
- inventory realignment in multi-brand stores.

On the other hand, it would be reasonable to assume each brand would need to maintain its distinctiveness and character so there would be limited savings in marketing, design or retail operations.

At the same time, the costs to achieve many of these synergy benefits would be significant (requiring a comprehensive restructure of Billabong's operations) and would only be able to be achieved over a relatively long time frame.

While the synergy benefits (net of costs) may be significant, they are to a degree unique to Boardriders. There are only two businesses that compete (globally at similar scale) directly with Billabong in terms of product lines, *Quiksilver* and *Rip Curl* and *Rip Curl* is understood to not be in a position to acquire Billabong. Normal valuation practice is only to include synergies common to several acquirers in fair value. Synergies unique to one party are excluded.

There are other apparel retailers that could acquire Billabong and may be able to make some level of operational savings although the lack of overlap in product would be a limitation on cost savings. For example, even for a multi-brand business such as VF Corporation (*North Face*, *Timberland*, *Vans*) or PVH (*Calvin Klein*, *Tommy Hilfiger*), the sourcing arrangements would be through completely different channels to much of their existing business.

The synergies for a number of such potential acquirers may also be meaningful but the valuation range includes an allowance for synergy benefits:

- the implied multiples for Billabong are consistent with, if not higher than, the multiples from acquisitions of comparable companies. These comparable multiples incorporate the value of synergies "paid away" by the acquirer (which in some cases were significant) as they are based on reported earnings (multiples based on post synergy earnings are materially lower). Adding additional discrete value for synergies would effectively double count them;
- at 14.8-16.7 times FY18 EBIT, the valuation implicitly allows for a considerable level of synergies and/or future turnaround potential (comparable transactions are around 10-11 times forecast EBIT);
- the DCF analysis indicates that the value range for the Billabong business (\$390-440 million) is above the NPV of many of the scenarios (all on a standalone basis) implying the inclusion of some level of synergy benefits; and
- the absence (to date) of any counterproposals suggest that the synergy benefits are not so compelling as to enable an alternative offeror to generate value materially above the offer price of \$1.00 per share.

It is, of course, open for shareholders to hold out for a higher offer if the bidding party is likely to generate significant synergies for itself. However, such a strategy will involve risks if it means voting against the Scheme at the Scheme meeting. If the Scheme is defeated, there is no certainty that Boardriders would return with a higher offer (particularly with the alternative industry consolidation opportunities available to it).

5.3 Reasonableness

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme and which Billabong shareholders should consider in determining whether to vote for or against the Scheme. These factors are set out in the following sections.



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5.3.1 Premium for Control

The Scheme enables shareholders to realise their investment in Billabong at a cash price which incorporates a significant premium for control. Takeover transactions are commonly analysed by reference to the extent of the control premium. The consideration under the Scheme of \$1.00 per share represents the following premiums to the prices at which Billabong shares traded in periods up to six months prior to announcement of the Boardriders indicative proposal:

BILLABONG – PREMIUM OVER PRE-ANNOUNCEMENT PRICES³⁴

PERIOD	BILLABONG SHARE PRICE/VWAP ³⁵	PREMIUM
30 November 2017 – pre-announcement closing price	\$0.78	28.2%
28 November 2017 – opening price	\$0.67	49.3%
1 week prior to 30 November 2017 – VWAP	\$0.71	40.8%
1 month prior to 30 November 2017 – VWAP	\$0.66	51.5%
3 months prior to 30 November 2017 – VWAP	\$0.59	69.5%
6 months prior to 30 November 2017 - VWAP	\$0.66	51.5%

Source: Scheme Booklet

While the level of premiums observed in takeovers tend to fall in the range 20-35% (and this range has become a standard expectation), it is important to recognise that:

- premiums for control are an outcome not a determinant of value; and
- they vary widely depending on individual circumstances of the target and other factors (such as the potential for competing offers). In fact, a substantial proportion of transactions fall outside (above and below) the 20-35% range.

The premium relative to the Billabong share price immediately prior to announcement of the Boardriders indicative proposal (at 28.2%) is comparable to this range, although this share price was impacted by the ramp up in the Billabong share price in the three days prior to announcement of the Boardriders indicative proposal (see Section 3.9.1). The premium is significantly higher (40-70%) when compared to prices in the periods up to six months prior to announcement. In this case, the extent of the premium is probably attributable to Billabong’s limited free float and its small market capitalisation, which results in trading in Billabong shares being relatively illiquid. Accordingly, less reliance can be placed on the share price as a good indicator of fair market value.

5.3.2 Major Shareholder Support

An acquisition proposal by a third party could not succeed without agreement of Centerbridge and Gordon Merchant, who together control approximately 39% of the shares eligible to vote on the Scheme. Both major shareholders have indicated that, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of shareholders, they intend to vote the shares in their control in favour of the Scheme.

Both Centerbridge and Gordon Merchant can be regarded as well informed (each is represented on the board of Billabong) and independent shareholders (neither has any interest in Boardriders or Oaktree) who have come to an independent view that the Scheme is in their best interests.

³⁴ The VWAPs shown in the table are calculated using on-market trading only, consistent with the disclosure in the Scheme Booklet. The VWAPs calculated using all trading (i.e. on-market and off-market trading), which is the basis that Grant Samuel usually adopts, are the same except for the 6 month VWAP, which is \$0.70 (a 42.9% premium).

³⁵ VWAP is volume weighted average price.

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5.3.3 Alternative Offers

In weighing up any offer, shareholders need to have regard to the alternatives that are realistically available to them.

After being approached by Boardriders, Billabong and its advisers undertook a comprehensive process to identify alternative potential acquirers of Billabong. While no formal auction process was undertaken, Billabong and its advisers assessed a full list of candidates and made contact as considered appropriate. No alternative party has expressed interest in making an alternative offer. Potential acquirers were likely to be deterred by the complexity of Billabong's capital structure (with two major shareholders that are also lenders to the company), uncertainty about the success of the turnaround strategy and fit with their own business, as well as difficult broader sector dynamics in the global branded apparel and retail sectors.

In any event, Billabong has essentially been "in play" since (at least) 2013 when several parties contested the recapitalisation of Billabong. Neither Oaktree nor Centerbridge (or their loans) would be necessarily considered an impediment to an interested bidder (each only holds around 20% of the issued capital) and neither would be necessarily considered long term holders so potential industry buyers could have come forward at any time if they were interested. None have done so.

The meeting at which Billabong shareholders will vote on the Scheme is scheduled for 28 March 2018. There has been ample opportunity for an alternative bidder to come forward subsequent to announcement of the Boardriders indicative proposal on 1 December 2017 and there will be further opportunity up until the Scheme meeting.

5.3.4 Share Trading in the Absence of the Scheme

In the absence of the Scheme or any alternative offer, shareholders could only realise their investment by selling on the ASX at a price which does not include any premium for control and would incur transaction costs (e.g. brokerage).

In this context, the short-term outlook for Billabong is uncertain. While Billabong has not publicly released earnings forecasts for beyond FY18:

- it is midway through a turnaround that has taken longer than expected to implement. There is no certainty that the turnaround strategy will be successfully implemented and, even if it is, over what period of time; and
- interest payments (at 11.9% per annum) combined with Billabong's high debt levels will result in ongoing losses and it is not expected to pay dividends in the medium term.

In these circumstances, and in the absence of the Scheme or a similar transaction, it is likely that Billabong shares, under current market conditions and its current ownership and capital structure, would trade at prices well below the consideration under the Scheme of \$1.00 per share.

Furthermore, Billabong's outlook is impacted by its capital structure. Billabong is highly leveraged, with significant net borrowings as well as net non-trading liabilities (primarily relating to restructuring costs). The senior secured term loan facility from the Centerbridge/Oaktree Consortium is relatively expensive, has some restrictive terms (in relation to asset sales/acquisitions) and matures in September 2019, less than two years away. Billabong has been actively considering options for the refinancing of the loan but conditions in the retail industry (including the collapse of numerous participants) makes any refinancing challenging. Given the degree of leverage, refinancing all of the debt with new debt is unlikely to be achievable, necessitating asset sales or equity raisings.

Neither of these alternatives are likely to be attractive to shareholders or positive for future share price performance.

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Billabong has limited options for selling parts of its business. The most saleable business, *RVCA*, is Billabong's best growth prospect over the medium term. Selling regional units would be sub optimal and fraught with issues for managing a global business. In any event, sale of a significant business would reduce Billabong's scale, adversely affecting its ability to generate margin.

Further equity raisings would also be extremely challenging, certainly if Oaktree or Centerbridge did not participate (and if they prioritised their lending exposure). There would be a significant risk of substantial dilution of existing shareholders' position and value.

5.3.5 Other Matters

Taxation Consequences

If the Scheme is implemented, shareholders will be treated as having disposed of their Billabong shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the Billabong shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes.

Details of the Australian taxation consequences for Billabong shareholders who are Australian resident individuals and hold their shares on capital account are set out in Section 7 of the Scheme Booklet. Shareholders should consult their own professional adviser in relation to the taxation consequences.

Transaction Costs

If the Scheme is not approved by shareholders or otherwise not implemented, it is estimated that Billabong will meet costs (including legal and other adviser's fees as well as printing and mailing costs) of \$2.7 million (around 1.4 cents per share). In certain circumstances, Billabong will also be liable to pay Boardriders a \$1.6 million break fee. If the Scheme is implemented, all transaction costs will effectively be borne by Boardriders.

5.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Scheme is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of Billabong.

In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Scheme, shareholders should consult their own professional adviser.



6 Qualifications, Declarations and Consents

6.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally). The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 545 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Jaye Gardner BCom LLB(Hons) CA SF Fin GAICD and Stephen Wilson BCom MCom(Hons) CA SF Fin. Both have a significant number of years of experience in relevant corporate advisory matters. Teo Covalciuc BSc(Hons) and Lachlan Whittaker BCom(Liberal Studies)(Hons) CA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

6.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Scheme is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any Billabong shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel was not involved in the preparation of the Scheme Booklet issued by Billabong and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

6.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Billabong or Boardriders or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that:

- on 20 December 2013, Grant Samuel issued an independent expert's report in relation to a recapitalisation of Billabong; and
- Grant Samuel Capital Advisory Pty Limited, a related party of Grant Samuel:
 - provided advice to Billabong on capital structure matters from time to time over the period from December 2015 to January 2017; and
 - advised on the refinancing of Billabong's United States asset based loan facilities (completed in June 2016).

The fees for these assignments were \$275,000 and \$325,000 respectively and were not material in the context of total Grant Samuel group revenue over the last two financial years.

Grant Samuel commenced analysis for the purposes of this report prior to announcement of the Scheme. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$525,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket

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expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

6.4 Declarations

Billabong has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Billabong has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Billabong are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Billabong and its advisers. Advance drafts of Sections 1,2, 3 and 6 of this report were also provided by Billabong to Boardriders in accordance with its obligations under the scheme implementation deed. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. In particular, following the provision of the full final draft report on 23 January 2018, Grant Samuel was advised by Billabong of an updated valuation for surplus land. This change resulted in a \$1.4 million increase in the value of other assets and liabilities and an \$0.01 increase in the value per share at the low end of the valuation range. Amendments were also made to certain DCF assumptions to reflect up to date information. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

6.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Billabong. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

6.6 Other

The accompanying letter dated 13 February 2018 and the Appendix form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

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13 February 2018

Grant Samuel & Associates

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APPENDIX 1 - MARKET EVIDENCE

1 Valuation Evidence from Transactions

Set out below is a summary of transactions involving branded apparel businesses internationally over the past five years for which there is sufficient information to determine meaningful valuation parameters:

RECENT TRANSACTION EVIDENCE – BRANDED APPAREL BUSINESSES

DATE	TARGET	TRANSACTION	CONSIDERATION ¹ (MILLIONS)	EBITDA MULTIPLE ² (TIMES)		EBIT MULTIPLE ³ (TIMES)	
				HISTORICAL	FORECAST	HISTORICAL	FORECAST
Oct-17	Alternative Apparel	Acquisition by Hanesbrands	US\$60	na ⁴	3.5 ⁵	na	na
May-17	Retail Apparel Group	Acquisition by TFG	\$303	8.4	7.0	na	na
Feb-17	Tigerlily	Acquisition by Crescent	\$60	9.1	7.5-8.6	10.8	8.6-10.0
Aug-16	Pretty Girl Fashion Group	Acquisition by Noni B	\$75-82	6.6-7.2	na	13.3-14.6	na
Jul-16	Hype DC	Acquisition by RCG	\$99	9.4	6.0	12.4	7.3
Apr-16	Champion Europe	Acquisition by Hanesbrands	€200	10.0	na	13.4	na
Dec-15	Macpac	Acquisition by CHAMP	\$78	7.0	na	na	na
May-15	ANN	Acquisition by ascena	US\$2,239	8.4	7.5	15.7	12.9
May-15	New Look	Acquisition by a consortium	£880	9.1	na	12.7	na
Mar-15	Accent Group	Acquisition by RCG	\$199	11.1	6.0	13.6	7.6
Feb-15	Knights Apparel	Acquisition by Hanesbrands	US\$193	na	8.0	na	na
Aug-14	Workwear Group	Acquisition by Wesfarmers	\$180	7.4	na	8.2	11.4
Jun-14	DBApparel	Acquisition by Hanesbrands	€400	7.5	na	na	na
Apr-14	prAna	Acquisition by Columbia	US\$188	na	13.0	na	na
Jul-13	DaKine	Acquisition by Altamont	\$70	7.0	na	7.3	na
May-13	True Religion	Acquisition by TowerBrook	US\$824	6.6	6.5	7.7	7.7
Apr-13	RM Williams	Acquisition of 49.9% interest by L Capital Asia	\$100	11.6	na	17.8	na
Nov-12	J Brand	Acquisition of 80.1% stake by Fast Retailing	US\$362	na	na	11.4	na
Oct-12	Warnaco	Acquisition by PVH	US\$2,850	8.3	7.8	10.2	10.1
Aug-12	Vilebrequin	Acquisition by G-III Apparel	€86-108	11.2-13.7	na	15.0-18.4	na
May-12	Collective Brands	Acquisition by a consortium	US\$1,474	8.6	7.0	23.6	15.1

1 Implied equity value if 100% of the company or business had been acquired.

2 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation and significant items.

3 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax and significant items.

4 na = not available.

5 Post synergy EBITDA multiple reported by Hanesbrands.

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RECENT TRANSACTION EVIDENCE – BRANDED APPAREL BUSINESSES (CONT)

DATE	TARGET	TRANSACTION	CONSIDERATION ⁶ (MILLIONS)	EBITDA MULTIPLE (TIMES)		EBIT MULTIPLE (TIMES)	
				HISTORICAL	FORECAST	HISTORICAL	FORECAST
Feb-12	Kenneth Cole	Acquisition of remaining 53.0% by founder	US\$279	10.5	7.9	18.8	11.8
Feb-12	Nixon	Acquisition of 51.5% stake by Trilantic and Nixon management	US\$464	9.2	na	na	na
Feb-12	Benetton	Acquisition of remaining 32.92% by Benetton family	€840	5.6	5.8	8.5	10.8

Source: Grant Samuel analysis⁷

A brief summary of each transaction is set out below:

Alternative Apparel/Hanesbrands

On 18 October 2017, Hanesbrands Inc. (“HanesBrands”) announced that it had entered into an agreement to acquire Alternative Apparel, Inc. (“Alternative Apparel”), for US\$60 million on an enterprise basis. Alternative Apparel designs, manufactures and sells *Alternative* branded better basic t-shirts, fleece, and other apparel and accessories through its retail stores, online and in department stores across the United States and internationally. *Alternative* is a lifestyle brand known for its comfort, style, and social responsibility. HanesBrands reported that the purchase price of US\$60 million represented a multiple of 3.5 times projected post-synergy EBITDA. Synergies were expected to be generated from utilisation of HanesBrands global supply chain and market and channel penetration, including online. The acquisition was one of a number made by Hanesbrands over the past few years to generate cash flow and add to its portfolio of brands.

Retail Apparel Group/TFG Retailers

On 24 May 2017, TFG Retailers Pty Ltd (“TFG”), a subsidiary of South African retailer The Foschini Group, entered into an agreement to acquire Retail Apparel Group Ltd (“RAG”). RAG retails affordable menswear under the *Tarocash*, *Connor*, *yd.*, *Johnny Bigg* and *Rockwear* brands across a network of approximately 400 stores. The purchase price was capped at the lower of 7.0 times RAG’s audited normalised EBITDA for the year ending June 2017 and \$302.5 million. RAG recorded sales of \$324 million and EBITDA of \$36 million for the year ended June 2016 and expected to achieve double-digit growth in revenue and earnings, forecasting sales of \$373 million and EBITDA of \$43 million for the year ending June 2017. RAG was The Foschini Group’s first major acquisition in Australia and broadened the group’s international expansion into chosen geographical areas with a product and value offering aligned with TFG’s multi-brand business model and a platform to expand into other retail categories.

Tigerlily/Crescent

On 23 February 2017, Crescent Capital Partners Management Pty Ltd (“Crescent”) entered into an agreement to acquire Tigerlily Swimwear Pty Ltd (“Tigerlily”) from Billabong for \$60 million. Tigerlily is a swimwear and female apparel business based in Australia. The forecast multiples are based on a public statement by Billabong that Tigerlily was expected to contribute between \$7 million and \$8 million in EBITDA to Billabong for the 2017 financial year. Forecast EBIT has been estimated assuming forecast depreciation and amortisation equivalent to historical depreciation and amortisation of \$1 million.

⁶ Implied equity value if 100% of the company or business had been acquired.

⁷ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers’ reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

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Pretty Girl/Noni B

On 2 August 2016, Noni B Limited (“Noni B”) entered into an agreement to acquire Pretty Girl Fashion Group Pty Limited (“Pretty Girl Fashion Group”) from Consolidated Press Holdings Pty Limited for a total consideration (on a cash free, debt free basis) of up to \$82 million comprising \$65 million in cash, \$9.7 million in Noni B shares and up to \$7.3 million in cash over two tranches, depending on the revenue performance of existing Pretty Girl Fashion Group stores in FY17 and FY18. While Pretty Girl Fashion Group reported a 5.5% increase in sales for the year ended 3 July 2016, EBITDA declined by 33% due to higher merchandise discounting. Pretty Girl Fashion Group sources and retails women’s apparel across a network of 379 stores. The acquisition of Pretty Girl Fashion Group made Noni B one of the largest specialty apparel retailers in Australia with a network of close to 600 stores across the *Noni B*, *Rockmans*, *W.Lane* and *BeMe* brands. The acquisition was regarded as transformational for Noni B, bringing together four highly synergistic and complementary brands each catering to its own loyal customer. The acquisition was expected to generate significant commercial synergies and cost savings over time as the two businesses were integrated.

In its FY17 Annual Report, Noni B disclosed a contingent consideration of \$3.2 million in relation to deferred payments for the acquisition of the Pretty Girl Fashion Group. Based on the targets, no liability arose in FY17 but management expect that Noni B will have a liability in FY18. The adjusted consideration results in implied multiples of 6.8 times historical EBITDA and 13.9 times historical EBIT.

Hype DC/RCG Corporation

On 4 July 2016, RCG Corporation Limited (“RCG”) entered into an agreement to acquire 100% of the shares in Hype DC Pty Limited (“Hype DC”), for 6 times normalised FY16 EBITDA or approximately \$105 million (based on expected normalised FY16 EBITDA of \$17.5 million). Hype DC is an Australian retailer of branded athleisure and style footwear with 60 retail stores (57 branded *Hype DC* and three branded *Shubar*), predominantly in metropolitan and major regional locations. In addition, Hype DC operated a substantial and growing fully-integrated online retail business. The acquisition was highly strategic as it provided RCG with portfolio diversification (strengthening its position as a regional leader in the retail and distribution of branded footwear), scale opportunities (potential cost saving and efficiency improvements), an enhanced vertical strategy, new retail formats and complementary management skills. The transaction completed on 4 August 2016 and the final purchase price was \$99 million. As part of the acquisition, RCG valued the *Hype DC* brand at \$30 million but as at 30 June 2017, reported an impairment of \$10 million as the brand performed below expectations.

Champion Europe/Hanesbrands

On 7 April 2016, Hanesbrands Inc. (“HanesBrands”) announced that it had entered into an agreement to acquire Champion Europe S.p.A. (“Champion Europe”) for 10 times actual calendar 2016 EBITDA, subject to adjustment for cash, debt and working capital. Champion Europe expected 2016 EBITDA of approximately €20 million, valuing the transaction at €200 million. Champion Europe owns the trademark for the *Champion* brand in Europe, the Middle East and Africa (“EMEA”). Champion Europe designs, sources and sells *Champion* athletic apparel wholesale to retailers and directly to consumers via company-owned retail stores. The company’s largest wholesale markets are Italy, Greece, Spain and Scandinavia, while the company operates approximately 130 retail stores in Italy and Greece. Hanesbrands, which owns the *Champion* brand globally (except EMEA), expected the combination to create a unified growth platform and result in supply chain synergies, although the quantum of synergies was not disclosed.

Macpac/CHAMP

On 21 December 2015, CHAMP Ventures Pty Ltd (“CHAMP”) entered into an agreement to acquire a significant majority interest in Macpac Group Holdings Limited (“Macpac”). Although financial details were not disclosed, it was reported that CHAMP acquired a 90% interest in Macpac for \$70 million. Macpac designs, manufactures and retails outdoor equipment and clothing. At the time of the acquisition, Macpac



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owned a network of 43 stores (27 in New Zealand and 16 in Australia) and sold its products in 30 countries through its online website as well as through distribution agreements in Europe and Japan. The sale price was reported to represent a multiple of about 7 times EBITDA, reflecting the high-quality brand, strong management team and the business's clearly defined growth strategy.

ANN/ascena

On 17 May 2015, ascena retail group Inc ("ascena") entered into an agreement to acquire ANN Inc ("ANN") for US\$2.4 billion in cash and stock (US\$37.34 cash and 0.68 of an Ascena share for each ANN share, valuing each ANN share at US\$47). ANN retails women's apparel, shoes and accessories under the *Ann Taylor* and *LOFT* brands. As at 13 March 2015, it operated 1,030 retail stores in 47 states across the United States, Puerto Rico, and Canada comprising 245 Ann Taylor stores, 537 LOFT stores, 116 Ann Taylor Factory stores, 127 LOFT Outlet stores and five Lou & Grey stores. The transaction combined two strong and complementary businesses and management teams and reinforced ascena's leadership position in women's speciality apparel retailing. The addition of the *Ann Taylor* and *LOFT* brands made ascena one of North America's largest and most diversified specialty apparel retailers, with opportunities to expand its leadership position in the women's apparel market. ascena identified US\$150 million of synergies that it expected would be generated over a three year period. Synergies were expected in the areas of sourcing and procurement, distribution and logistics. Taking these synergies into account, the implied transaction multiples fall to 5.2 times historical and 4.8 times forecast EBITDA and 7.2 times historical and 6.6 times forecast EBIT.

In April 2017, ascena recorded a non-cash impairment of goodwill of US\$429 million and an impairment of other intangible assets of US\$566 million in its Premium Fashion segment (the *Ann Taylor* and *LOFT* brands) to reflect the impact of the challenging retail environment, the decline in the ascena's stock price and the reduction in its forecast earnings.

New Look/Consortium

On 15 May 2015, Brait SE ("Brait") announced that it had agreed to acquire a 90% interest in New Look Retail Group Limited ("New Look") for £780 million. The Singh family interests and current management of New Look retained the remaining 10% of New Look. At the time of acquisition, New Look had net borrowings of £1.0 billion. New Look operates a chain of retail stores that sell apparel, footwear and accessories for women, men and teenage girls. The company sells its products online and through a network of 809 stores (704 directly operated and 105 franchises) across Europe, the Middle East and Asia. New Look was attractive to Brait given its double digit EBITDA growth in recent years, solid cash flow generation, established United Kingdom footprint in the higher growth value segment of the apparel and accessories market, leading United Kingdom market share (no. 2 overall womenswear and no.1 in under 25s womenswear), strong growth prospects in France, Germany, Poland and China, strong brand awareness (particularly among women in the United Kingdom), well developed multi-channel offering via traditional stores and a fast growing e-commerce platform, investment in infrastructure and systems, difficulty replicating the scale and efficiency of its fast fashion operating model from source to customer and its experienced and proven management team.

Accent Group/RCG Corporation

On 19 March 2015, RCG entered into an agreement to acquire 100% of the issued shares of Accent Group Limited ("Accent Group") for 6 times normalised FY15 EBITDA (April year end) or \$180-198 million (based on expected normalised FY15 EBITDA of \$30-33 million). Accent Group is a New Zealand company with operating subsidiaries in Australia and New Zealand. It is a wholesaler and retailer of seven international footwear brands including *Vans*, *Skechers*, *Dr Martens* and *Timberland*. Accent Group operated 97 stores, including mono-branded Skechers, Vans and Timberland stores as well as the multi-branded sneaker business, Platypus Shoes. The acquisition was highly strategic as it was aligned with RCG's stated growth strategy, creating a market leader in branded footwear and providing RCG with portfolio diversification, a growth engine for RCG, scale opportunities (both new revenue opportunities and potential cost saving and

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efficiency improvements), cross branded distribution opportunities, an enhanced vertical strategy and new retail formats.

On 27 May 2015, RCG announced that the normalised EBITDA used as the basis for calculating the total consideration payable by RCG was \$33.1 million, resulting in a consideration of \$198.6 million. The high historical multiples reflect the significant growth achieved by Accent Group through both like-for-like sales growth and the opening of new stores.

Knights Apparel/Hanesbrands

On 24 February 2015, HanesBrands announced that it had entered into an agreement to acquire Knights Holdco Inc. ("Knights Apparel") from affiliates of Merit Capital Partners for US\$193 million in cash. Knights Apparel is a leading seller of licensed collegiate logo apparel in the mass retail channel. The company sells t-shirts, sweatshirts and other sports apparel with college logos and graphics representing 400 of the largest colleges and universities in the United States. The combination created a best-in-class supplier of licensed collegiate apparel with both low-cost and quick-turn supply capability, supported by company-owned garment production facilities. HanesBrands expected to realise significant cost savings and efficiencies by integrating Knights with its GearCo business and the post synergy multiple was expected to be approximately 4.5 times forecast EBITDA.

Workwear Group/Wesfarmers

On 26 August 2014, Wesfarmers Industrial and Safety Pty Ltd ("Wesfarmers") entered into an agreement to acquire Pacific Brands Limited's Workwear Group ("Workwear Group") for \$180 million on a cash free and debt free basis. The Workwear Group designs, sources, manufactures and distributes industrial workwear, corporate wear, uniforms and defence emergency services workwear to customers across Australia, New Zealand, the United Kingdom and the United Arab Emirates. It owns a suite of brands including industrial workwear brands *Hard Yakka*, *KingGee* and *Stubbies*. Its retail presence in Australia included 16 owned Totally Workwear and Hard Yakka Workwear Centre stores and 53 franchised Totally Workwear stores.

DBApparel/Hanesbrands

On 25 June 2014 Hanesbrands Inc. ("HanesBrands") announced its intention to acquire DBApparel of France ("DBApparel") from Sun Capital Partners Inc. for a cash consideration of approximately €400 million (on an enterprise value basis). DBApparel is a leading marketer of intimate apparel, hosiery and underwear in Europe with nearly half of total sales revenue coming from intimate apparel. At the time of acquisition, DBApparel had a market leading position in Western and Central Europe and generated annual sales of more than \$875 million. DBApparel's brands include *DIM*, *Playtex* and *Wonderbra* with *DIM* accounting for approximately 50% of all sales. Approximately 45% of sales were in France, while the German/Austrina market accounted for approximately 15% of sales. Italy, Spain and Portugal together accounted for another 20% of sales. The acquisition provided HanesBrands with entry into new geographic markets. In addition, HanesBrands expected to realise significant operational synergies that reduced the historical EBITDA multiple to less than 4.0 times.

prAna/Columbia

On 29 April 2014, Columbia Sportswear Company ("Columbia") entered into an agreement to acquire prAna Living LLC ("prAna") for US\$190 million in cash. prAna is a lifestyle apparel brand that designs, manufactures and retails clothing for yoga, climbing and travelling. At the time of acquisition, prAna's sales had grown at a compound annual growth rate of more than 30% between 2010 and 2013, and were on track to surpass \$100 million in 2014, while generating a low double-digit operating margin. prAna sold its products through select speciality and online retailers across North America as well as company owned direct-to-consumer channels including five United States retail stores, a United States based e-commerce platform and direct-mail catalogues. Markets outside of North America accounted for less than 5% of annual sales and represented a substantial opportunity to accelerate growth by leveraging Columbia's international relationships. The acquisition of prAna fitted with Columbia's strategy to expand into

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categories that appeal to complementary consumer segments, reduce its dependency on cold-weather products and leverage Columbia's global operational platforms to expand across key geographic markets.

DaKine/Altamont

On 16 July 2013, the San Francisco based private equity firm Altamont Capital Partners ("Altamont") entered into an agreement to purchase the board sports lifestyle brand, *DaKine*, from Billabong for \$70 million. *DaKine* is a designer and developer of technical bags and accessories for surf, skate, snowboard, ski, mountain bike, windsurf and kitesurf activities.

True Religion/TowerBrook

On 10 May 2013, the London and New York based private equity firm TowerBrook Capital Partners L.P. ("TowerBrook") entered into an agreement to acquire all the outstanding shares in True Religion Apparel, Inc. ("True Religion") for US\$32.00 per share in cash, corresponding to an equity consideration of approximately US\$824 million. True Religion is a United States-based branded apparel business specialising in jeans and related apparel, with over 100 stores in the United States and approximately 30 stores outside the United States. The implied multiples reflect the declining performance of True Religion. Between the 2009 and 2012 financial years, True Religion's EBITDA margin fell from approximately 27.0% to 19.6%.

RM Williams/L Capital Asia

On 13 April 2013, L Capital Asia agreed to acquire a 49.9% interest in R.M. Williams Holdings Pty Ltd ("RM Williams") from Ken Cowley for \$50 million. L Capital Asia was granted an option to acquire the remaining 50.1% interest over a certain time frame. RM Williams designs, manufactures and markets footwear, clothing and leather accessories. At the date of acquisition, RM Williams had 63 retail stores across Australia, the United States and the United Kingdom. In October 2014, L Capital Asia agreed to acquire the remaining 50.1% interest for \$50 million. Revenue was reported to have increased to \$128 million from \$119 million in 2013.

J Brand/Fast Retailing

On 30 November 2012, Fast Retailing Co., Ltd ("Fast Retailing") entered into an agreement to acquire 80.1% of J Brand Holdings, LLC ("J Brand"), from the United States-based private equity firm Star Avenue Capital, LLC ("Star Avenue") and J Brand management for US\$290 million. The balance of the shares were to be held by management. J Brand is a Los Angeles based designer, manufacturer and distributor of luxury jeanswear. Its products were sold through over 2,000 speciality boutiques and luxury retailers in over 20 countries and it generated approximately US\$125 million in revenue in the 2011 financial year. Fast Retailing is a Japanese global retailing business. The acquisition extended Fast Retailing's brand portfolio in the affordable luxury apparel category, leveraged J Brand's know-how in the area of premium denim and strengthened the group's capability to develop denim products. At the same time, acquiring a Los Angeles-based apparel brand enabled Fast Retailing to reinforce its presence in the crucial United States market.

Warnaco/PVH

On 31 October 2012, PVH Corp. ("PVH") entered into an agreement to acquire 100% of the issued shares in The Warnaco Group, Inc. ("Warnaco") for US\$51.75 cash and 0.1822 PVH share per Warnaco share valuing Warnaco at US\$2.85 billion. Warnaco owned and licensed brands such as *Calvin Klein*, *Speedo*, *Chaps*, *Warner's* and *Olga*, operated over 1,700 Calvin Klein retail stores globally (including concession and shop-in-shops), several e-commerce platforms and had retail licences or franchise and distributor agreements with third parties operating an additional 615 stores. The acquisition significantly increased PVH's scale (with more than US\$8 billion of revenue) and resulted in the unification of the *Calvin Klein* brand (Warnaco was the largest *Calvin Klein* licensee and the acquisition gave PVH complete control of the Calvin Klein jeanswear and underwear businesses across the globe). The acquisition also allowed PVH to pursue growth strategies in Asia and Latin America where Warnaco had an established base. Significant synergies in the form of US\$100 million of cost reductions (lower corporate and back office overheads) were expected to be

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achieved over a period of three years, reducing the post synergy implied multiples to 6.4 times historical and 6.1 times forecast EBITDA and 7.5 times historical and 7.4 times forecast EBIT.

Vilebrequin/G-III Apparel

On 7 August 2012, G-III Apparel Group, Ltd (“G-III Apparel”) announced it had acquired Vilebrequin International SA (“Vilebrequin”) for a total consideration of up to €108 million, consisting of €70.5 million in cash, €15 million as unsecured promissory notes due on 31 December 2017 (with interest at the rate of 5% per year) and up to €22.5 million contingent on the achievement of three-year performance targets. Vilebrequin designs luxury swimwear, accessories and resort wear. Vilebrequin sold its products through 185 owned and franchised specialty retail stores as well as wholesale distribution, primarily across Europe, the United States, Hong Kong, and Macao. G-III Apparel manufactures and distributes outerwear, dresses, sportswear, swimwear, beachwear and women's suits, as well as handbags and luggage, under licensed brands, its own brands and private label brands. G-III Apparel intended to expand the *Vilebrequin* brand internationally, adding more retail locations and further developing the brand's men's accessories and resort-wear offerings.

Collective Brands/Consortium

On 1 May 2012, a consortium consisting of Wolverine Worldwide, Inc. (“Wolverine”), Blum Capital Partners and Golden Gate Capital (together, “the Consortium”) entered into an agreement to acquire Collective Brands, Inc. (“Collective Brands”) for US\$21.75 per share, or a total equity consideration of US\$1.5 billion. Collective Brands' business comprised Payless ShoeSource, one of the world's largest footwear specialty retailers, the Performance + Lifestyle Group, a provider of performance and lifestyle footwear and Collective Licensing, a brand development and licensing company specialising in the youth lifestyle market. Under the transaction, Wolverine, an apparel maker, acquired the Performance + Lifestyle Group (which manages brands such as *Keds*, *Saucony*, *Sperry*, *Top-Sider* and *Stride Rite*), which accounted for approximately 30% total revenue. Blum Capital Partners and Golden Gate Capital jointly acquired discount retailer Payless ShoeSource and Collective Licensing (which creates and markets youth brands), which accounted for approximately 70% of revenue. Collective Brands had experienced a tough market and reported a net loss in 2011. It was midway through a turnaround and had closed 352 Payless and Stride Rite stores in 2011 (and expected to close a total of 500 stores over three years).

Kenneth Cole Productions/Kenneth Cole

On 24 February 2012, Kenneth Cole Productions, Inc. (“Kenneth Cole Productions”) announced that it had received a non-binding proposal from Kenneth Cole, Chairman and Chief Creative Officer of Kenneth Cole Productions, to acquire the 95.45% of class A shares in Kenneth Cole Productions that he did not already own for US\$15.00 per share (Kenneth Cole owned all the class B shares). On 6 June 2012, Kenneth Cole Productions announced it had signed an agreement and that the consideration had been increased to US\$15.25 per share, which implied a total equity value for Kenneth Cole Productions of approximately US\$279 million. Kenneth Cole Productions designed, sourced and marketed a range of footwear, apparel and accessories under the brands *Kenneth Cole New York*, *Kenneth Cole Reaction*, *Unlisted* and *Gentle Souls* and granted licences for the production of apparel, fragrances, watches and other accessories.

Nixon/Trilantic

On 17 February 2012, Billabong announced that it had entered into an agreement with Trilantic Capital Partners (“Trilantic”) to establish a joint venture to accelerate the growth of the *Nixon* brand globally. Billabong and Trilantic would each hold approximately 48.5% Of Nixon, with management acquiring the remaining 3% interest. Billabong expected to realised net proceeds of US\$285 million as a result of the transaction. Nixon is a premium watch and accessories brand targeting the youth market. At the time of the transaction it was voted the number 1 best seller in the United States and Canada and had received several industry awards. The brand was carried by more than 70% of United States surf and skate retailers and had established a reputation for shaping trends in the action sports and youth fashion market. The



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relatively high historical EBITDA multiple reflected the significant strategic value and strong potential of the *Nixon* brand.

Benetton/Edizione

On 1 February 2012, Benetton Group S.p.A. (“Benetton”) announced that Edizione S.r.L. (“Edizione”), the Benetton family investment company, had made an offer to acquire the 32.92% in Benetton it did not already own. The consideration was approximately €277 million. Benetton designed, manufactured and marketed fashion apparel in wool, cotton and woven fabrics for men, women and children under its flagship brand *United Colors of Benetton* Adult and Kids and other brands. It sold its products globally through its own network of stores and through wholesale clients. The relatively low implied multiples may have reflected the group’s poor performance in the years leading up to the transaction and the company’s uncertain outlook, in part due to its large exposure to weak European markets.

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2 Valuation Evidence from Sharemarket Prices

The sharemarket ratings of selected listed branded apparel companies are set out below:

SHAREMARKET RATINGS OF SELECTED LISTED BRANDED APPAREL COMPANIES

	MARKET CAPITALISATION ⁸ (MILLION)	EBITDA MULTIPLE ⁹ (TIMES)			EBIT MULTIPLE ¹⁰ (TIMES)		
		HISTORICAL	FORECAST YEAR 1	FORECAST YEAR 2	HISTORICAL	FORECAST YEAR 1	FORECAST YEAR 2
PREDOMINANTLY WHOLESALERS							
Nike	US\$102,051	18.4	19.0	16.9	21.1	22.2	19.4
Adidas	EUR33,945	20.0	13.9	12.0	24.3	17.1	14.6
VF Corporation	US\$29,241	16.7	16.8	15.3	19.2	19.5	17.7
PVH	US\$10,555	12.4	11.6	10.6	15.8	14.5	13.4
Hanesbrands	US\$7,623	11.2	10.7	10.4	12.2	11.8	11.3
Puma	EUR5,453	27.9	16.7	13.2	41.0	21.4	16.3
Under Armour	US\$6,127	12.3	21.9	18.9	16.6	46.7	40.1
Columbia	US\$5,023	14.4	14.2	13.0	17.7	17.6	16.3
Globe	AU\$49	6.1	na ¹¹	na	6.7	na	na
PREDOMINANTLY OR ONLY RETAILERS							
Inditex	EUR90,437	16.7	15.5	14.0	20.6	19.6	17.7
H & M	SEK280,204	9.7	8.9	8.4	13.6	12.6	12.1
GAP	US\$13,244	6.5	6.9	6.8	9.1	9.4	9.4
Lululemon	US\$10,640	19.3	17.2	15.1	23.2	20.7	18.2
Ralph Lauren	US\$8,428	7.1	7.6	7.7	10.0	10.6	10.6
Urban Outfitters	US\$3,795	7.3	8.5	8.0	10.1	12.7	11.7
American Eagle Outfitters	US\$3,333	6.0	6.2	6.0	8.7	9.3	8.9
Guess	US\$1,389	9.2	8.2	7.1	19.2	14.8	11.4
Abercrombie & Fitch	US\$1,187	5.2	4.5	4.8	nm ¹²	24.8	26.8
Chico's	US\$1,1127	3.6	4.4	4.2	5.8	7.7	7.2
The Buckle	US\$1,145	4.8	5.7	6.1	5.8	7.0	7.8
Esprit	HK\$7,948	6.9	3.9	3.1	nm	10.6	6.4
Zumiez	US\$526	6.5	6.3	5.9	10.8	10.3	9.7
Ascena Retail Group	US\$450	3.1	3.3	3.2	9.8	9.7	9.7
Kathmandu	NZ\$491	7.4	6.6	6.4	8.7	8.1	8.0
PAS Group	AU\$57	2.8	na	na	4.6	na	na

Source: Grant Samuel analysis¹³

⁸ Market capitalisation based on sharemarket prices as at 31 December 2017.

⁹ Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, and significant and non-recurring items.

¹⁰ Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, amortisation of acquired intangibles (where material) and significant and non-recurring items.

¹¹ na = not available.

¹² nm = not meaningful.

¹³ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

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The multiples shown above are based on sharemarket prices as at 31 December 2017 and do not reflect a premium for control.

The companies selected have a variety of year ends. The majority of companies have a November, December or January year end. The exceptions are Globe International Limited (“Globe”), Esprit Holdings Limited (“Esprit”), ascena, Kathmandu Holdings Limited (“Kathmandu”) and The PAS Group Limited (“PAS Group”), which have June or July year end and Ralph Lauren Corporation (“Ralph Lauren”) and Nike, Inc. (“Nike”) which have a 1 April and 31 May year end respectively. The data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

A brief description of each company is set out below:

Nike, Inc.

Nike is one of the world’s largest sports lifestyle companies with strong market shares in both athletic footwear and apparel. Nike designs, develops, markets and sells athletic footwear, apparel, equipment and accessories in virtually all countries around the world. Its main brands are *NIKE*, *Jordan*, *Converse* and *Hurley*. For the year ended 31 May 2017, Nike generated sales of US\$34.4 billion through a mix of independent wholesalers and licensees (around 70% of sales), Nike-owned retail stores (384 stores in the United States and 758 stores overseas) and an e-commerce platform. The United States accounts for approximately 50% of revenue, followed by Europe (approximately 20%) and greater China (approximately 15%).

Adidas AG

Adidas AG (“Adidas”) is one of the largest participants in the global sports lifestyle product industry. Adidas designs, distributes and markets footwear, apparel and lifestyle products predominantly in its own concept stores and through e-commerce platforms. Its main brands are *Adidas* (which represents 90% of sales) and *Reebok*. Wholesale accounts for approximately 74% of revenue with retail (including online) contributing the balance. Adidas has more than 2,600 own retail stores, 12,000 mono-branded franchise stores and sells products through approximately 120,000 wholesale locations and more than 50 owned e-commerce sites.

V.F. Corporation

V.F. Corporation (“VF Corporation”) designs, manufactures, markets and distributes branded apparel, footwear and related products in the United States and Europe. VF Corporation owns a diversified portfolio of over 30 brands in the outdoor and action sports sector (e.g. *The North Face*, *Timberland*, *Vans*), jeanswear (e.g. *Lee*, *Wrangler*), imagewear, sportswear (e.g. *Nautica*, *Kipling*) and contemporary segments. For the year ending 31 December 2016, the company generated revenue of approximately US\$12.0 billion, of which wholesale accounts for approximately 70% with retail (including online) accounting for the balance. Approximately 70% of revenue is generated from the Americas, with 20% from Europe and 10% from the Asia Pacific region.

PVH Corp.

PVH Corp. (“PVH”) designs and markets branded dress shirts, neckwear, sportswear, footwear and other related products globally. PVH owns the *Calvin Klein* and *Tommy Hilfiger* brands, as well as the heritage brands *Van Heusen* and *IZOD*, and a collection of well-known licensed brands including *Speedo*, *Geoffrey Beene* and *Michael Kors*. PVH’s distribution strategy varies by brand but most products are sold wholesale to retailers, franchisees and licensees. PVH also operates over 1,600 retail stores and 1,150 shop-in-shops worldwide for *Calvin Klein*, *Tommy Hilfiger* and certain other heritage brands, and sells products online for key brands in select countries. For the year ended 29 January 2017, PVH reported sales of US\$8.2 billion of which North America accounted for over 50% and the *Calvin Klein* and *Tommy Hilfiger* brands represented approximately 80%.

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Hanesbrands, Inc.

Hanesbrands designs, manufactures, sources and sells various basic innerwear and activewear apparel for men, women and children in the United States and internationally. Hanesbrands' stronger brands include *Hanes*, *Champion*, *Maidenform*, *DIM*, *Playtex*, *Bali*, *Just My Size*, *Nur Die*, *L'eggs*, *Lovable*, *Wonderbra* and *Berlei*. Unlike most apparel companies, Hanesbrands operates its own manufacturing facilities with over 70% of products sold manufactured in its own plants or those of dedicated contractors. As at 31 December 2016, Hanesbrands operated 252 outlet stores in the United States, as well as 460 retail and outlet stores internationally. Despite this physical presence, only 7% of sales are made through the direct-to-consumer channel (retail stores and online) with over 90% of products sold to wholesale customers. Over the past few years Hanesbrands has completed several acquisitions to grow its portfolio of brands, leverage its global supply chain and increase market and channel penetration.

Puma SE

Puma SE ("Puma") designs, markets and sells sports and sports lifestyle footwear, apparel, and accessories for men, women and kids. Puma sells products in more than 120 countries and its main brands are *PUMA* and *Cobra Golf*. Wholesale customers account for over 75% of revenue but products are also sold through owned stores, factory outlets and online. For the year ended 31 December 2016, Puma reported sales of €3.6 billion of which footwear accounted for 45%, with apparel and accessories representing 37% and 18% respectively.

Under Armour, Inc.

Under Armour, Inc., ("Under Armour") specialises in the development, marketing and distribution of branded performance apparel, footwear and accessories largely in North America (over 75% of sales). Products are designed to be worn by athletes at all levels and target consumers with active lifestyles. Around two-thirds of Under Armour's revenue is generated by wholesale customers including sporting goods chains, independent and specialty retailers, department stores and institutional athletic departments, leagues and teams. Products are also sold direct to consumers through a range of brand and outlet stores and company websites (approximately 30% of sales) and through licensing and other arrangements (approximately 5% of sales). Following several years of rapid growth, low demand in North America and operational challenges has led to Under Armour downgrading its earnings twice during 2017.

Columbia Sportswear Company

Columbia Sportswear Company ("Columbia") designs, markets and distributes active outdoor apparel, accessories and equipment (approximately 80% of net sales) and footwear. For the year ended 31 December 2016, the flagship brand *Columbia* represented around 80% of sales, followed by *SOREL* (9%) and *prAna* (6%) with other brands (*Mountain Hardware*, *The Montrail*, *The OutDry* and *The Pacific Trail*) contributing the remainder. Columbia's brands are distributed through a variety of channels including wholesale (over 3,000 customers), direct-to-customer (stores and online), independent distributors and licensees. The United States and Canada account for over two thirds of revenue, followed by Latin America and the Asia Pacific (approximately 20%) and Europe, the Middle East and Africa (approximately 10%).

Globe International Limited

Globe produces and distributes purpose-built apparel, footwear and skateboard hardgoods for the board sports, street fashion and workwear markets. The company markets its products under various brands, including *Globe*, *Salty Crew*, *FXD*, *Dwindle*, *Almost*, *Enjoi*, *Blind*, *Darkstar*, *Tensor*, *Dusters* and *Sample*. It also licenses and distributes third party brands, including *Stüssy*, *Obey*, *M/SF/T*, *XLarge*, *Zero*, *ANDALÉ*, *Kryptonics* and *Hardcore*. Globe's brands are sold direct to retailers, through third party distributors and through a small number of flagship branded retail stores in certain strategic locations around the world. Globe sells products in approximately 100 countries with the majority of sales made in the Australasia region (55%), followed by North America (35%) and Europe (15%).

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Industria de Diseno Textil SA

Industria de Diseño Textil, S.A. (“Inditex”) is one of the world’s largest fast fashion retailers. It designs, sources and markets fashion for women, men and children using several brand concepts, including *Zara* (approximately two thirds of net sales), *Pull&Bear*, *Massimo Dutti*, *Bershka*, *Stradivarius*, *Oysho*, *Zara Home* and *Uterqüe*. Inditex sells its products through a network of more than 7,400 stores (over 80% of which are managed by Inditex) in approximately 100 countries and through an e-commerce platform that is live in over 40 countries. For the year ended 31 January 2017, Inditex reported sales of €23.3 billion of which Europe represented approximately 60% with the Americas and Asia/Rest of the World sharing the balance.

H & M Hennes & Mauritz AB

H & M Hennes & Mauritz AB (“H&M”) is a global, vertically integrated retailer of affordable fast fashion. It designs, sources and markets products for women, men and children through company-owned stores, a small number of franchisees and an e-commerce platform (over 40 online markets). The company’s flagship brand, *H&M*, accounted for 4,133 of its 4,553 stores (as of August 2017) and was present in 68 markets around the globe. H&M’s other brands include *COS*, *Monki*, *Weekday*, *Cheap Monday*, & *Other Stories* and *H&M Home* (home textiles). Despite challenging trading conditions, H&M continues to expand its geographical footprint with 418 additional stores as at 31 August 2017, a 10% increase compared to the prior year. For the nine months ending 31 August 2017, Germany was the group’s largest market with over 15% of total sales, followed by the United States (12%) and the United Kingdom (6%).

The Gap, Inc.

The Gap, Inc. (“Gap”) is a global, vertically integrated retailer of apparel, accessories and personal care products for men, women, children and babies under brands including *Gap* (over 30% of sales), *Old Navy* (approximately 45% of sales), *Banana Republic* (approximately 15% of sales), *Piperlime*, *Athleta* and *Intermix*. Gap’s products are offered through 3,200 self-operated stores across the United States (80% of sales), Canada, United Kingdom, France, Ireland, Japan, China and Italy. The remainder of sales are generated through a range of specialty, outlet, e-commerce and franchise stores (459 stores).

lululemon athletica Inc.

lululemon athletica Inc. (“Lululemon”) is a designer and retailer of athletic apparel with a major focus on North America but also with operations in Australia, the United Kingdom, New Zealand and several other countries. The company sells its products under the *Lululemon Athletica* (yoga inspired) and *Ivivva Athletica* (dance focus) brands and primarily targets sophisticated and educated women. Products are currently sold through 421 company-owned stores (over 70% of revenue), an e-commerce platform (approximately 20% of sales) and through other channels including outlets, showrooms, temporary locations, wholesale and franchise arrangements. Lululemon recently announced plans to convert *Ivivva Athletica* to an e-commerce focused business which will result in the closure of 40 of the 55 *Ivivva Athletica* stores and approximately half of the remaining stores will be converted to *Lululemon Athletica* branded stores. For the year ended 29 January 2017, Lululemon reported sales of US\$2.3 billion, 74% of which was generated in the United States, 19% in Canada and 7% from other international locations.

Ralph Lauren Corporation

Ralph Lauren designs, markets and distributes *Ralph Lauren* labelled lifestyle products, including men’s, women’s and children’s apparel, accessories, fragrances and home furnishings. Ralph Lauren operates and sells its products through over 13,000 worldwide wholesale distribution locations, 466 retail stores, 619 shop-in-shops and various e-commerce websites. In addition to the Ralph Lauren owned stores, international licencing partners operate an additional 263 stores. Ralph Lauren’s retail operations represent just over 55% of total sales while wholesale accounts for approximately 40% and licencing arrangements comprise the remainder.

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Urban Outfitters, Inc.

Urban Outfitters, Inc. (“Urban Outfitters”) sells lifestyle-oriented general merchandise and consumer products through a range of global brands to consumers in North America and Europe. Urban Outfitter’s retail channel accounts for over 90% of sales and includes 245 Urban Outfitters stores, 225 Anthropologie stores (40%), 130 Free People stores (10%) and an e-commerce platform. The remainder of sales are generated by a private label range of young women’s casual wear which is sold wholesale to approximately 1,900 department and specialty stores and third-party websites.

American Eagle Outfitters, Inc.

American Eagle Outfitters, Inc. (“American Eagle”) is a multi-brand specialty retailer offering clothing, accessories and personal care products targeting teenagers and young adults. American Eagle’s core brands include *American Eagle Outfitters*, *erie*, *Tailgate* and *Todd Snyder New York*. As at 28 January 2017, American Eagle operated 1,050 stores (over 900 in the United States) and licensed an additional 176 stores. Approximately 90% of American Eagle’s revenue is generated by its United States operations with the majority of the remainder coming from Canada, Mexico, China, Hong Kong and the United Kingdom. Sales made through the online channel are understood to exceed 20% of total sales.

GUESS?, Inc.

GUESS?, Inc. (“Guess”) is a vertically integrated retailer of contemporary apparel and accessories for men, women and children, principally targeting a “style-conscious” consumer in the 20- to 35-year-old demographic. Guess brands include *Guess*, *Guess USA*, *Guess Jeans*, *Triangle Design*, *Marciano* and others. Guess also grants licences to manufacture and distribute a range of products that complement their apparel lines including eyewear, watches, handbags and footwear. Products are sold through a variety of channels including retail, wholesale, online and licensing arrangements. As at 29 July 2017, Guess operated 945 owned stores and licensed another 699 stores across approximately 100 countries. For the year ending 28 January 2017, approximately half of Guess’s net revenues were generated in the Americas, which are weighted towards retail rather than wholesale, followed by Europe (37%) and Asia (12%).

Abercrombie & Fitch Co.

Abercrombie & Fitch Co. (“Abercrombie & Fitch”) is a vertically integrated specialty retailer of casual apparel, personal care products and accessories under the brands of *Hollister*, *Abercrombie & Fitch*, *abercrombie kids* and *Gilly Hicks*. For the year ending 28 January 2017, *Hollister* accounted for approximately 55% of total sales. Abercrombie & Fitch operates 703 stores in the United States, 188 stores outside the United States and an e-commerce platform which provides strong global reach and accounts for approximately 25% of net sales. Abercrombie & Fitch also sells products wholesale, however, this channel is relatively small, representing less than 1% of net sales. Abercrombie & Fitch has experienced several years of underperformance and is implementing various strategic initiatives to return to earnings growth.

Chico's FAS, Inc.

Chico’s FAS, Inc. (“Chico’s”) is a vertically integrated, specialty apparel retailer targeting women 35 years and older. Its portfolio of brands includes *Chico’s*, *White House | Black Market* (“WHBM”) and *Soma Intimates*. Apparel, accessories and related products are offered domestically and internationally through each brand’s network of stores (more than 1,350 stores, mainly in the United States and Canada), e-commerce platform and call-centre. For the year ended 28 January 2017, Chico’s reported net sales of US\$2.5 billion, of which 52% was generated by *Chico’s* (707 retail stores and outlets), 34% by *WHBM* (500 retail stores and outlets) and 14% by *Soma Intimates* (294 retail stores and outlets). Over the past few years Chico’s has experienced consistent declines in revenue and earnings.

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The Buckle, Inc.

The Buckle, Inc. ("The Buckle") is a pure retailer of medium to high-priced casual apparel, footwear and accessories for young men and women. The Buckle offers a selection of branded merchandise (approximately two-thirds of total sales) and private-label casual apparel through a network of 463 retail stores mostly located in regional, high-traffic shopping malls and lifestyle centres in 44 states across the United States. The Buckle also maintains an e-commerce platform which accounts for approximately 10% of sales.

Esprit Holdings Limited

Esprit is a global fashion brand focused on the wholesale and retail distribution and licensing of fashion and lifestyle products for women, men and children. Esprit products are available in over 40 countries through over 660 self-operated retail stores, 6,000 wholesale points of sale and 20 e-commerce websites. The company markets its products under two brands, *Esprit* (60% of total sales) and *edc*, mainly in Europe (87% of total sales). For the year ended 30 June 2017, retail stores were Esprit's largest distribution channel with 42% of total sales, followed by wholesale (32%), e-commerce (25%) and licensing (1%). Esprit has performed relatively poorly in recent years and has implemented several initiatives to regain market competitiveness, including downsizing its store base and increasing its focus on e-commerce.

Zumiez Inc.

Zumiez Inc. ("Zumiez") is a niche, specialty retailer of branded action sports related apparel, footwear, accessories and hardgoods, focusing on skateboarding, snowboarding, surfing, motocross and BMX for young men and women. Zumiez sells its products through 692 company-owned stores (605 in the United States, 51 in Canada and 30 in Europe and 6 in Australia) and three e-commerce websites.

ascena retail group, Inc.

ascena operates as a specialty retailer of apparel, shoes and accessories for women and tween girls in the United States, Canada and Puerto Rico. Its principal brands are *Ann Taylor*, *LOFT*, *maurices*, *dressbarn*, *Lane Bryant*, *Catherines* and *Justice*. The company operates approximately 4,800 stores across four segments, Premium Fashion (*Ann Taylor* and *LOFT* brands, 1,000 retail stores and outlets, 35% of revenues), Value Fashion (*maurices* and *dressbarn* brands, 1,784 retail stores and outlets, 30% of revenue), Plus Fashion (*Lane Bryant* and *Catherines* brands, 1,123 retail stores and outlets, 20% of revenue) and Kids Fashion (*Justice* brand, 900 retail stores and outlets, 15% of revenue). ascena has performed relatively poorly since its US\$2.2 billion acquisition of ANN in 2015 and is currently implementing various turnaround measures aimed at regaining competitiveness.

Kathmandu Holdings Limited

Kathmandu is a vertically integrated designer, marketer and retailer of clothing and equipment for adventure and travel. It offers a range of apparel, including waterproof jackets, thermals, shirts, pants, merino apparel and footwear. The company also sells a variety of outdoor equipment including packs, bags, sleeping bags, tents, travel accessories and camping accessories. For the year ended 31 July 2017, Kathmandu reported sales of NZ\$445 million generated through its network of 164 stores (Australia 116 stores, New Zealand 47 stores and one store in the United Kingdom) and online platform (approximately 8% of total sales). Kathmandu recently commenced trials for a European wholesale channel as part of a strategy to grow its international presence.

The PAS Group Limited

PAS Group operates as a wholesaler and retailer of apparel, accessories and sports equipment for women, men and children. The company's main brands are *JETS* (swimwear and activewear), *Black Pepper*, *Breakaway*, *Yvonne Black*, *Equus* (lifestyle leisurewear), *The White Runway* (bridalwear) and *Yarra Trail* (casualwear). PAS Group distributes its products through a network of 258 owned retail stores, its online platform and wholesale arrangements with department, discount and independent retail stores. The company reported sales of \$262 million for the year ended 30 June 2017, of which the direct to consumer channel (retail and online) represented approximately 55%.

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ANNEXURE B SCHEME



Scheme of Arrangement under Part 5.1 of the Corporations Act.

Parties	
1.	Billabong International Limited (ACN 084 923 946) registered in Queensland of 1 Billabong Place, Burleigh Heads QLD 4220 (Billabong); and
2.	Each holder of Billabong Shares recorded in the Billabong Share Register at the Scheme Record Date (other than holders of Excluded Shares) (each a Scheme Shareholder and together the Scheme Shareholders).

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

The meanings of the terms used in this scheme of arrangement are set out below.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

Billabong Board means the board of directors of Billabong.

Billabong Registry means Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any replacement provider of share registry services to Billabong.

Billabong Share means a fully paid ordinary share in Billabong.

Billabong Shareholders means each person who is registered as the holder of Billabong Shares from time to time.

Billabong Share Register means the register of members of Billabong maintained in accordance with the Corporations Act.

Boardriders means Boardriders, Inc. of 5600 Argosy Avenue, Building 100, Huntington Beach, California 92649, United States of America.

Boardriders Group means Boardriders and each of its related bodies corporate (excluding, at any time, Billabong and its subsidiaries to the extent that Billabong and its subsidiaries are subsidiaries of Boardriders at that time). A reference to a **member of the Boardriders Group** is a reference to Boardriders or any such related body corporate but does not include any Oaktree Entity.

Boardriders Sub means Quiksilver Australia Pty Ltd (ACN 091 136 195).

Business Day means a business day as defined in the ASX Listing Rules.

CHES means the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing between the parties.

Court Order means the order of the Court approving this scheme under section 411(4)(b) of the Corporations Act.

Deed Poll means the deed poll dated 9 February 2018 executed by Boardriders in favour of the Scheme Shareholders.

Effective means the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this scheme.

Effective Date means the date on which this scheme becomes Effective.

End Date means the 'End Date' determined in accordance with the Scheme Implementation Deed.

Excluded Share means a Billabong Share held by any person on behalf of, or for the benefit of, Boardriders or any of its Related Entities (which, for the avoidance of doubt, as at the date of this deed includes the Billabong Shares held by Oaktree BV).

Excluded Shareholder means a holder of Excluded Shares.

Implementation Date means the fifth Business Day after the Scheme Record Date or such other date agreed to in writing between the parties, provided that if such date falls on:

- (a) Monday; or
- (b) a day that is a public holiday in the United States of America and on which commercial banks in that place are closed (such day, a U.S. Holiday) or the day after a U.S. Holiday,

the 'Implementation Date' shall be the next Business Day on which neither (a) or (b) above apply. It is understood that the reference to a "day" in the United States of America shall refer to the day preceding the applicable day in Australia (by way of example, only, February 28th in Australia shall be February 27th in the United States of America).

Marketable Parcel means a marketable parcel as defined by the ASX Operating Rules.

Oaktree BV means OCM Clean Wave Holdings B.V..

Oaktree Entity means Oaktree Capital Management, L.P. and each of its affiliates (including Oaktree BV).

Registered Address means, in relation to a Billabong Shareholder, the address shown in the Billabong Share Register.

Related Entity has the meaning given in the Corporations Act. For the avoidance of doubt, Boardriders Related Entities include the members of the Boardriders Group and the Oaktree Entities.

Scheme Booklet means the scheme booklet sent to holders of Billabong Shares on or about 19 February 2018.

Scheme Consideration means \$1 per Scheme Share.

Scheme Implementation Deed means the Scheme Implementation Deed dated 5 January 2018 between Boardriders and Billabong.

Scheme Meeting means the meeting of Billabong Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.

Scheme Record Date means 7pm on the fifth Business Day after the Effective Date or such other time and date agreed to in writing between the parties.

Scheme Shares means the Billabong Shares on issue as at the Scheme Record Date other than the Excluded Shares.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned for any reason, the day on which the adjourned application is heard.

Trust Account means an Australian dollar denominated trust account operated by the Trustee, to be held on trust for the Scheme Shareholders, except that any interest on the amounts deposited (less bank fees and other charges) will be to Boardriders' account.

Trustee means Billabong as trustee for the Scheme Shareholders.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or schedule is a reference to a clause of or schedule to this deed.
- (f) A reference to an *agreement or document* (including a reference to this scheme) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this deed or that other agreement or document, and includes the recitals, schedules and annexures to that agreement or document.
- (g) A reference to a party to this deed or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an *agreement* includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to *dollars* and \$ is to Australian currency.
- (l) All references to time are to Sydney, Australia time.
- (m) Mentioning anything after *includes, including, for example*, or similar expressions, does not limit what else might be included.
- (n) Nothing in this deed is to be interpreted against a party solely on the ground that the party put forward this deed or a relevant part of it.
- (o) A reference to associate, *control* (by an entity of another entity), *officer, related body corporate, relevant interest, subsidiary or voting power* is to that term as it is defined in the Corporations Act.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

1.4 Listing requirements included as law

A listing rule or business rule of a financial market will be regarded as a law, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to a party.

2 PRELIMINARY

2.1 Billabong

- (a) Billabong is a public company limited by shares, registered in Victoria and admitted to the official list of ASX.
- (b) Billabong Shares are officially quoted on ASX. At 13 February 2018, 198,079,110 Billabong Shares were on issue.

2.2 Consequence of this scheme becoming Effective

If this scheme becomes Effective:

- (a) it will override the constitution of Billabong, to the extent of any inconsistency;
- (b) Boardriders must (pursuant to its obligations under the Deed Poll) pay or procure payment of the Scheme Consideration in the manner contemplated by clause 5 below; and
- (c) all the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares, will be transferred to the Boardriders Sub, and Billabong will enter the Boardriders Sub in the Billabong Share Register as the holder of the Scheme Shares with the result that Billabong will become a wholly-owned indirect subsidiary of Boardriders.

3 CONDITIONS

- (a) This scheme is conditional on:
 - (i) all the conditions precedent in clause 3.1 of the Scheme Implementation Deed (other than the condition in clause 3.1(d)) having been satisfied or waived in accordance with the terms of the Scheme Implementation Deed by 8am on the Second Court Date;
 - (ii) the Court making orders approving this scheme under section 411(4)(b) of the Corporations Act, including with such alterations made or required by the Court under section 411(6) of the Corporations Act as are acceptable to Boardriders and Billabong (each acting reasonably);
 - (iii) such other conditions imposed by the Court under section 411(6) of the Corporations Act, as are acceptable to Boardriders and Billabong (each acting reasonably), having been satisfied; and
 - (iv) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to this scheme on or before the End Date.
- (b) The satisfaction of the conditions referred to in clause 3(a) is a condition precedent to the operation of clauses 4 and 5.
- (c) This scheme will lapse and be of no further force or effect if:
 - (i) the Effective Date does not occur on or before the End Date or any later date as the Court, with the consent of Boardriders and Billabong, may order; or
 - (ii) the Scheme Implementation Deed is terminated before implementation of this scheme on the Implementation Date.

4 IMPLEMENTATION

4.1 Lodgement of Court orders

Billabong must lodge with ASIC copies of any Court orders under section 411 of the Corporations Act approving this scheme by 5pm on the Business Day the Court approves this scheme or by 5pm on the Business Day on which the Court orders are entered, whichever is the later.

4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the payment of the Scheme Consideration to the Trust Account in accordance with clause 5.3(a), the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to the Boardriders Sub, without the need for any further act by any Scheme Shareholder (other than acts performed by Billabong or its officers as agent and attorney of the Scheme Shareholders under clause 8.5 or otherwise) by:
 - (i) Billabong delivering to the Boardriders Sub a duly completed and executed share transfer form to transfer all the Scheme Shares to the Boardriders Sub; and
 - (ii) the Boardriders Sub duly executing such transfer form and delivering it to Billabong for registration; and
- (b) immediately after receipt of the transfer form in accordance with paragraph (a)(ii), Billabong must enter the name of the Boardriders Sub in the Billabong Share Register in respect of the Scheme Shares.

5 SCHEME CONSIDERATION

5.1 Amount of Scheme Consideration

Subject to clause 5.2, each Scheme Shareholder is entitled to receive the Scheme Consideration in respect of each Scheme Share held by that Scheme Shareholder.

5.2 Joint holders

In the case of Scheme Shares held in joint names, the relevant Scheme Consideration is payable to and must be sent to the holder whose name appears first in the Billabong Share Register at the Scheme Record Date or where the joint holders have nominated a bank account under clause 5.3(c)(ii), the amount must be deposited directly to the nominated bank account of the joint holders.

5.3 Scheme Consideration

- (a) Boardriders must (pursuant to its obligations under the Deed Poll) before 12 noon on the Implementation Date pay or procure payment to the Trust Account of an amount at least equal to the aggregate amount of Scheme Consideration.
- (b) As soon as practicable following implementation of this Scheme on the Implementation Date, the Trustee must pay from the Trust Account to each Scheme Shareholder such amount of cash as is due to that Scheme Shareholder as Scheme Consideration in respect of that Scheme Shareholder's Scheme Shares. Boardriders will not have any responsibility or liability for any such payment.
- (c) The amounts referred to in paragraph (b) must be paid to each Scheme Shareholder by the Trustee doing any of the following at its election:
 - (i) sending (or procuring the Billabong Registry to send) the relevant amount to the Scheme Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the Billabong Registry to deposit) the relevant amount into an account with any Australian ADI (as defined in the Corporations Act) notified to Billabong (or the Billabong Registry) by an appropriate authority from the Scheme Shareholders.

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- (d) If there is any surplus in the amount held by the Trustee in the Trust Account, that surplus must be paid by the Trustee to Boardriders as soon as practicable following the satisfaction of the Trustee's obligations under this clause 5.3.
 - (e) If any amount is required under any Australian law or by any Australian government or any Australian governmental, semi-governmental or judicial entity or authority to be:
 - (i) withheld from an amount payable under paragraph (b) and paid to that entity or authority; or
 - (ii) retained by the Trustee out of an amount payable under paragraph (b),its payment or retention by the Trustee (or the Billabong Registry) will constitute the full discharge of the Trustee's obligations under this clause 5.3 with respect to the amount so paid or retained until it is no longer required to be retained.
 - (f) The Unclaimed Money Act 1995 (NSW) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 7 of the Unclaimed Money Act 1995 (NSW)).
 - (g) Any interest or other benefit accruing from unclaimed Scheme Consideration will be to the benefit of Boardriders.

6 DEALINGS IN BILLABONG SHARES

- (a) To establish the identity of the Scheme Shareholders, dealings in Billabong Shares will only be recognised if:
 - (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Billabong Share Register as the holder of the relevant Billabong Shares on or before the Scheme Record Date; and
 - (ii) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Scheme Record Date at the place where the Billabong Share Register is kept and such transmission applications or transfers are registered on or before the Scheme Record Date.
- (b) Billabong must register registrable transmission applications or transfers of the kind referred to in clause 6(a) on the Scheme Record Date (provided that for the avoidance of doubt nothing in this clause 6(b) requires Billabong to register a transfer that would result in a Billabong Shareholder holding a parcel of Billabong Shares that is less than a Marketable Parcel).
- (c) Billabong will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Billabong Shares received after the Scheme Record Date.
- (d) For the purpose of determining entitlements to the Scheme Consideration, Billabong must maintain the Billabong Share Register in accordance with the provisions of this clause 6 until the Scheme Consideration has been paid to the Scheme Shareholders. The Billabong Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (e) From the Scheme Record Date until registration of the Boardriders Sub in respect of all Scheme Shares under clause 4, no Billabong Shareholder may deal with Billabong Shares in any way except as set out in this scheme and any attempt to do so will have no effect.
- (f) All statements of holding for Billabong Shares will cease to have effect from the Scheme Record Date as documents of title in respect of those shares (other than statements of holding in favour of any member of the Boardriders Group and its successors in title). As from the Scheme Record Date, each entry current at that date on the Billabong Share Register (other than entries in respect of any member of the Boardriders Group and its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Billabong Shares relating to that entry.
- (g) As soon as possible after the Scheme Record Date and in any event at least four Business Days before the Implementation Date, Billabong will ensure that details of the names, Registered Addresses and holdings of Billabong Shares for each Scheme Shareholder are available to Boardriders in the form Boardriders reasonably requires.

7 QUOTATION OF BILLABONG SHARES

- (a) Billabong must apply for suspension of trading on ASX in Billabong Shares to occur from the close of trading on the Effective Date.
- (b) Billabong must apply:
 - (i) for termination of the official quotation of Billabong Shares on ASX; and
 - (ii) to have itself removed from the official list of ASX,in each case with effect from the Business Day immediately following the Implementation Date.
- (c) Billabong must use its best endeavours to ensure that such termination of official quotation and removal from the official list does not occur before the Implementation Date.

8 GENERAL SCHEME PROVISIONS

8.1 Consent

If the Court proposes to approve this scheme subject to any alterations or conditions, Billabong may, by its counsel or solicitors, consent on behalf of all persons concerned (including Scheme Shareholders) to those alterations or conditions to which Boardriders has consented in writing.

8.2 Agreement of Scheme Shareholders

- (a) Each of the Scheme Shareholders agrees to the transfer of their Scheme Shares in accordance with this scheme and agrees to the variation, cancellation or modification of the rights attached to their Billabong Shares constituted by or resulting from this scheme.
- (b) Each of the Scheme Shareholders acknowledges that this scheme binds Billabong and all Scheme Shareholders (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against this scheme at the Scheme Meeting).
- (c) Each of the Scheme Shareholders irrevocably consents to Billabong and Boardriders doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of this scheme and the transactions contemplated by it.

8.3 Warranties by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to Boardriders and, to the extent enforceable, appointed and authorised Billabong as its agent to warrant to Boardriders that:

- (a) all of its Scheme Shares which are transferred to the Boardriders Sub under this scheme will, on the date on which they are so transferred, be free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind (including any security interests within the meaning of the *Personal Properties Securities Act 2009* (Cth)), and from any restrictions on transfer of any kind (whether legal or otherwise);
- (b) all of its Scheme Shares which are transferred to the Boardriders Sub under this scheme will, on the date on which they are so transferred, be fully paid; and
- (c) it has full power and capacity to sell and to transfer its Scheme Shares (together with all rights and entitlements attaching to such shares) to the Boardriders Sub.

8.4 Beneficial entitlement to Billabong Shares

- (a) Immediately upon the provision of the Scheme Consideration by the Trustee in accordance with clauses 5.3(b) and 5.3(c), the Boardriders Sub will be beneficially entitled to the Scheme Shares transferred to it under this scheme pending registration by Billabong of the Boardriders Sub in the Billabong Share Register as the holder of the Scheme Shares.
- (b) To the extent permitted by law, the Scheme Shares (including the rights and entitlements attaching to such shares) will, at the time of transfer to the Boardriders Sub, vest in the Boardriders Sub free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind (including any security interests within the meaning of the *Personal Properties Securities Act 2009* (Cth)), and from any restrictions on transfer of any kind (whether legal or otherwise).

8.5 Authority given to Billabong

- (a) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Billabong and all of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of executing any document necessary and taking any other necessary or desirable steps to give effect to this scheme including executing a share transfer or transfers in relation to that Scheme Shareholder's Scheme Shares as contemplated by clause 4.2 and giving consent under clause 8.2(c).
- (b) Billabong accepts such appointment on its own behalf and on behalf of all of its directors, secretaries and officers.

8.6 Appointment of sole proxy

Immediately upon the provision of the Scheme Consideration by the Trustee in accordance with clauses 5.3(b) and 5.3(c), and until Billabong registers the Boardriders Sub as the holder of all the Scheme Shares in the Billabong Share Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Boardriders as its attorney and agent (and directed Boardriders in such capacity) to appoint any director, officer, secretary or agent nominated by Boardriders as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings of Billabong, exercise the votes attaching to the Scheme Shares registered in its name and sign any Billabong Shareholders' resolutions, and no Scheme Shareholder may attend or vote at any of those meetings or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than as pursuant to this clause 8.6(a);
- (b) must take all other actions in the capacity of a registered holder of Scheme Shares as Boardriders reasonably directs; and
- (c) acknowledges and agrees that, in exercising the powers referred to in clause 8.6(a), Boardriders and any director, officer, secretary or agent nominated by Boardriders under clause 8.6(a) may act in the best interests of Boardriders as the intended registered holder (or the agent of the intended registered holder) of the Scheme Shares.

9 GENERAL

9.1 Stamp duty

Boardriders must (pursuant to its obligations under the Deed Poll) pay all stamp duty payable in connection with the transfer of the Scheme Shares to the Boardriders Sub.

9.2 Definition of 'sending'

For the purposes of clause 5 the expression 'sending' means, in relation to each Scheme Shareholder:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of that Scheme Shareholder as at the Scheme Record Date; or
- (b) delivery to the Registered Address of that Scheme Shareholder as at the Scheme Record Date by any other means at no cost to the recipient.

9.3 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this scheme is sent by post to Billabong, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the place where Billabong's Share Registry is kept.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Billabong Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

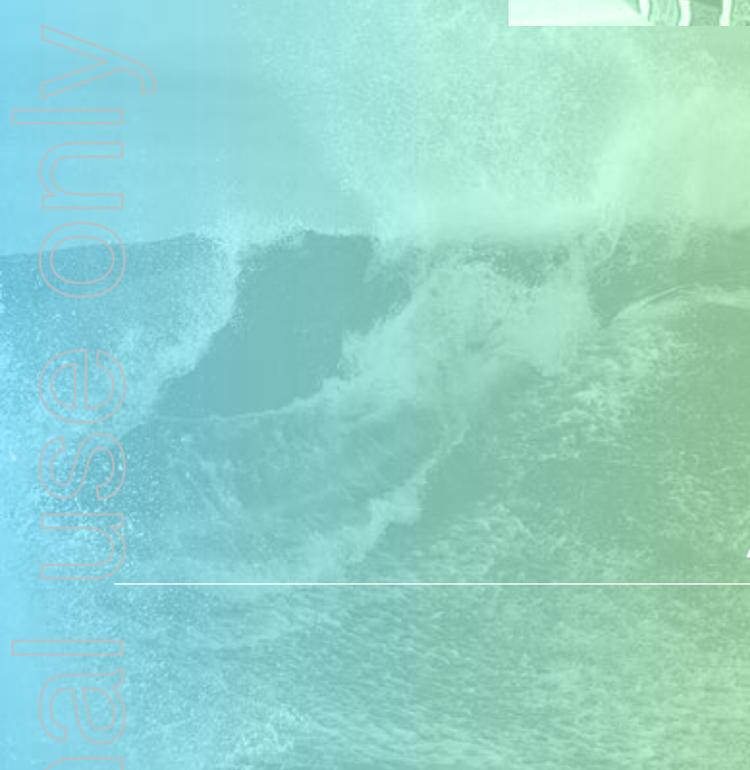
9.4 Governing law and jurisdiction

This scheme is governed by the laws of New South Wales. In relation to it and related non-contractual matters each party irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there.

9.5 Further assurances

Billabong must do all things necessary or desirable (including executing agreements and documents) to give full effect to this scheme and the transactions contemplated by it.

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ANNEXURE C DEED POLL



Date

9 February 2018

Deed Poll by

1. **Boardriders, Inc.** of 5600 Argosy Avenue, Building 100, Huntington Beach, California 92649, United States of America (**Boardriders**).

in favour of the Scheme Shareholders.

Recitals

- | | |
|---|---|
| A | On 5 January 2018, Boardriders and Billabong entered into the Scheme Implementation Deed to provide for the implementation of the Scheme. |
| B | The effect of the Scheme will be to transfer all Scheme Shares to the Boardriders Sub in return for the Scheme Consideration. |
| C | Boardriders enters this deed poll to covenant in favour of Scheme Shareholders to pay or procure payment of the Scheme Consideration in accordance with the Scheme. |

It is declared as follows.

1 Definitions and interpretation

1.1 Definitions

The following definitions apply unless the context requires otherwise.

Boardriders Sub means Quiksilver Australia Pty Ltd (ACN 091 136 195).

Scheme Implementation Deed means the scheme implementation deed dated 5 January 2018 between Boardriders and Billabong.

Trustee means Billabong as trustee for the Scheme Shareholders.

1.2 Terms defined in Scheme Implementation Deed

Words defined in the Scheme Implementation Deed and not in this deed poll have the same meaning in this deed poll as in the Scheme Implementation Deed unless the context requires otherwise.

1.3 Incorporation by reference

The provisions of clauses 1.2, 1.3 and 1.4 of the Scheme Implementation Deed form part of this deed poll as if set out at length in this deed poll but with 'deed poll' substituted for 'deed' and with any reference to 'party' being taken to include the Scheme Shareholders and not include Billabong.

1.4 Nature of this deed poll

Boardriders acknowledges that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it.

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2 Conditions

2.1 Conditions

Boardriders' obligations under clause 3 are subject to all conditions precedent to the Scheme being satisfied or waived.

2.2 Termination

Boardriders' obligations under this deed poll will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Scheme Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme is not Effective by the End Date,

unless Billabong and Boardriders otherwise agree.

2.3 Consequences of termination

If this deed poll terminates under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) Boardriders is released from its obligations to further perform this deed poll; and
- (b) Scheme Shareholders retain the rights they have against Boardriders in respect of any breach of this deed poll which occurred before it terminated.

3 Scheme Consideration

- (a) Subject to clause 2, Boardriders undertakes in favour of each Scheme Shareholder to procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme.
- (b) The obligation of Boardriders to procure the provision of the Scheme Consideration under paragraph (a) will be satisfied if, on or before 12 noon on the Implementation Date, Boardriders does those things contemplated of it under clause 5.3(a) of the Scheme.

4 Warranties

Boardriders represents and warrants to each Scheme Shareholder that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation;
- (b) **(power)** it has the power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into and performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is its valid and binding obligation enforceable in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (i) a law or treaty or a judgment, ruling, order or decree of a Government Agency binding on it; or
 - (ii) its constitution or other constituent documents; and

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- (f) (**solvency**) it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

5 Continuing Obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until Boardriders has fully performed its obligations under it.

6 Notices

Any notice, demand or other communication (a **Notice**) to Boardriders in respect of this deed poll:

- (a) must be in writing and signed by the sender or a person duly authorised by it;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or email to the address or email address below:
- Address: 5600 Argosy Avenue, Building 100, Huntington Beach, California
92649, United States of America
- Email: Ilene.Eskenazi@boardriders.com
- Attention: Ilene Eskenazi
- (c) will be conclusively taken to be duly given or made:
- (i) in the case of delivery in person, when delivered;
- (ii) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and
- (iii) in the case of delivery by email, the earlier of:
- (A) the time that the sender receives an automated message from the intended recipient's information system confirming delivery of the email;
- (B) the time that the email is first opened or read by the intended recipient, or an employee or officer of the intended recipient; and
- (C) two hours after the time the email is sent (as recorded on the device from which the sender sent the email) unless the sender receives, during that two hour period, an automated message that the email has not been delivered,
- but if the result is that a Notice would be taken to be given or made:
- (iv) on a day that is not a business day in the place to which the Notice is sent or is later than 5pm (local time) it will be taken to have been duly given or made at the start of business on the next business day in that place; or
- (v) before 9am (local time) on a business day in the place to which the Notice is sent, then it will be taken to have been duly given or made at 9am (local time) on that business day in that place.

7 General Provisions

7.1 Amendment

This deed poll may be amended only by another deed poll entered into by Boardriders and then only if the amendment is agreed to by Billabong in writing and the Court indicates that the amendment would not itself preclude approval of the Scheme.

7.2 Assignment

The rights of each Scheme Shareholder under this deed poll are personal and cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of Boardriders.

7.3 Cumulative rights

The rights, powers and remedies of Boardriders and each Scheme Shareholder under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

7.4 Governing law and jurisdiction

This deed poll is governed by the laws of New South Wales. In relation to it and related non-contractual matters Boardriders irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there, and waives any right to object to the venue on any ground.

7.5 Further assurances

Boardriders must do anything necessary (including executing agreements and documents) to give full effect to this deed and the transactions contemplated by it.

7.6 No waiver

If a Scheme Shareholder does not exercise a right arising from a breach of this deed poll at a given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.

7.7 Stamp duty

Boardriders must:

- (a) pay or procure the payment of all stamp duty (including fines, penalties and interest) in respect of the Scheme and this deed poll, the Scheme Implementation Deed, the performance of this deed poll, the Scheme Implementation Deed and each transaction effected by or made under the Scheme, this deed poll and the Scheme Implementation Deed; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.7(a).

Executed and delivered as a deed poll

Signed Sealed and Delivered by Boardriders, Inc. in the presence of:



Signature of Witness
Kimberly Jarcay

Name of Witness



Signature of Authorised Signatory
Rene Estenari

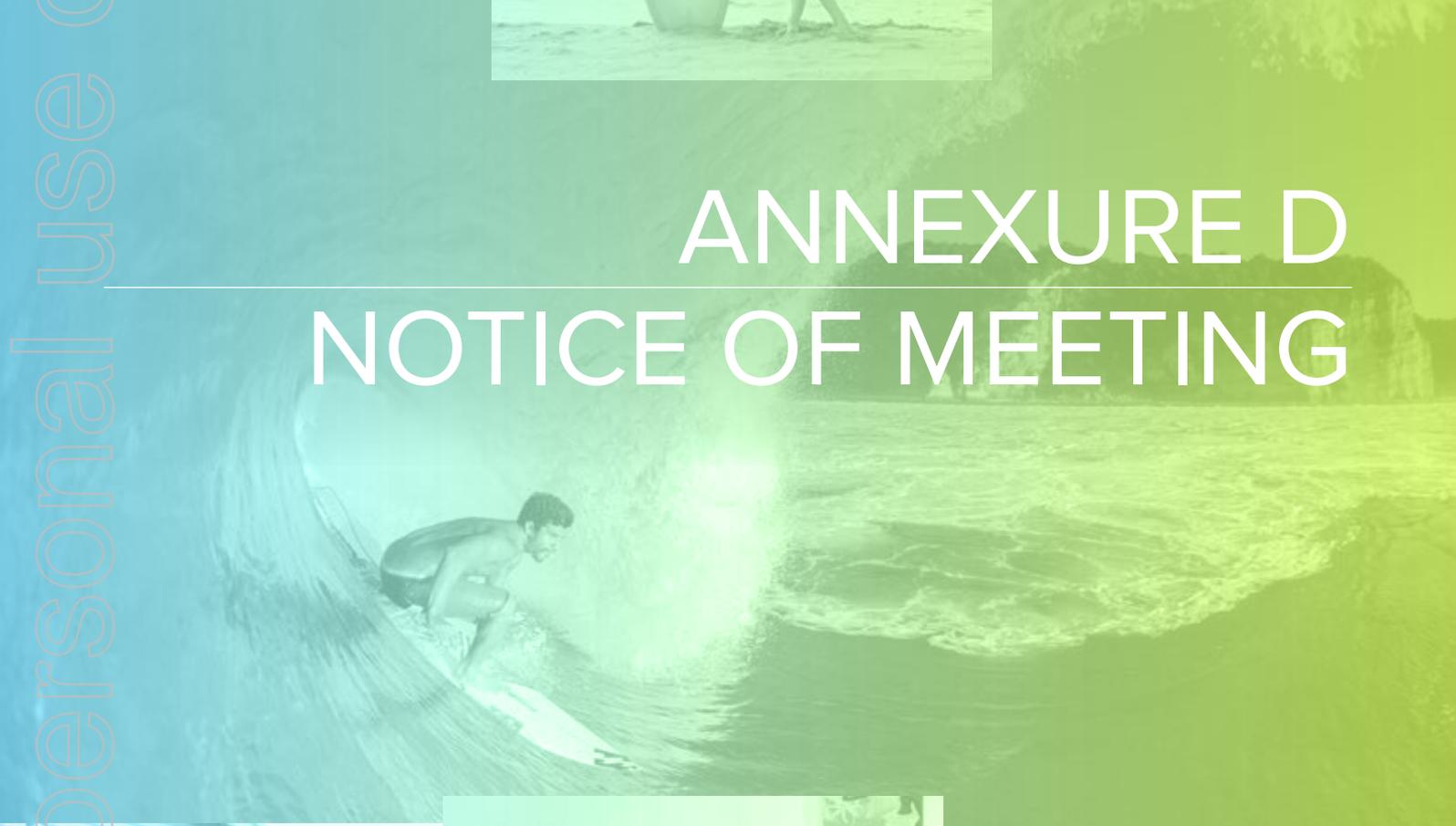
Name of Authorised Signatory

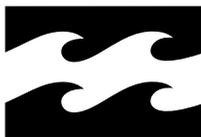
For personal use only

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ANNEXURE D NOTICE OF MEETING





**BILLABONG
INTERNATIONAL
LIMITED**
ABN 17 084 923 946

NOTICE OF SCHEME MEETING

Notice is hereby given that, by order of the Federal Court of Australia made on 13 February 2018, a Scheme Meeting of Billabong Shareholders (other than Excluded Shareholders) will be held at 10.00am (Queensland time) on 28 March 2018 at Billabong International Limited, Burleigh A & B Rooms, 1 Billabong Place, Burleigh Heads, Queensland.

The Court has directed that Ian Alfred Pollard, or, failing him, Howard Leonard Mowlem act as chair of the meeting and has directed the chair to report the result of the meeting to the Court.

BUSINESS

The purpose of the Scheme Meeting to be held pursuant to this Notice of Meeting is to consider, and if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between Billabong and Billabong Shareholders (other than Excluded Shareholders).

SCHEME RESOLUTION

To consider and, if thought fit, to pass the following resolution:

That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between Billabong International Limited and the holders of its fully paid ordinary shares (other than certain excluded shareholders), the terms of which are contained in and more particularly described in the Scheme Booklet of which the notice convening the Scheme Meeting forms part, is approved (with or without alterations or conditions as approved by the Federal Court of Australia) and, subject to approval of the Scheme by the Court, the Billabong Board is authorised to implement the Scheme with any such alterations or conditions.

By Order of the Court

Tracey Wood
Company Secretary

NOTES TO THE NOTICE OF SCHEME MEETING

These notes should be read in conjunction with the Notice of Scheme Meeting and the information in the Scheme Booklet of which that notice forms part. Unless the context requires otherwise, terms used in the Notice of Scheme Meeting and in these notes have the same meaning as set out in section 9 (Glossary and interpretation) of the Scheme Booklet.

Majorities required

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme Resolution must be passed by:

- more than 50% in number (unless the Court orders otherwise) of eligible Billabong Shareholders who are present and voting, either in person or by proxy, by attorney or, in the case of a corporation, by its duly appointed corporate representative, at the Scheme Meeting; and
- at least 75% of the total number of votes cast by eligible Billabong Shareholders on the Scheme Resolution.

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the Corporations Regulations will be 7:00pm (Sydney time) on 26 March 2018.

Voting at the Scheme Meeting

You may vote in person at the Scheme Meeting, or appoint a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote on your behalf.

Voting will be conducted by poll.

Proxies

If you are unable to attend the meeting, you are encouraged to appoint a proxy to attend and vote on your behalf. If you wish to appoint a proxy, please complete the enclosed proxy form.

Shareholders are notified that:

- a member who is entitled to attend and cast a vote at the meeting may appoint a proxy to attend and vote for the member;
- the appointment may specify the proportion or number of votes that the proxy may exercise;
- a member who is entitled to cast two or more votes at the meeting may appoint two proxies and may specify the proportion or number of votes each proxy is entitled to exercise. If you appoint two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes; and
- a proxy may be an individual or a body corporate and need not be a member of Billabong. If a Shareholder appoints a body corporate as proxy, the body corporate will need to ensure that it appoints an individual as corporate representative and provides satisfactory evidence of that appointment.

You can direct your proxy how to vote by following the instructions on the proxy form.

If the Chairman of the meeting is appointed as your proxy (or is appointed your proxy by default), he can be directed how to vote by ticking the relevant boxes next to the Scheme Resolution on the proxy form (i.e. 'for', 'against' or 'abstain'). The Chairman of the meeting intends to vote all available proxies in favour of the Scheme Resolution.

Any directed proxies that are not voted on a poll at the meeting by a Shareholder's appointed proxy will automatically default to the Chairman of the meeting, who is required to vote proxies as directed on a poll.

Lodgment of proxies

The proxy form must be received by the Company or the Company's share registry, Computershare Investor Services Pty Limited, by 10:00am (Queensland time) on 26 March 2018.

The completed proxy form may be:

- mailed to the Company's share registry, Computershare Investor Services Pty Limited, at GPO Box 242, Melbourne, Victoria, 3001, Australia;
- faxed to Computershare Investor Services Pty Limited on 1800 783 447 or +61 3 9473 2555;
- submitted online to the Company's share registry by visiting the website, www.investorvote.com.au. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and Control Number as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website; or
- submitted online by visiting www.intermediaryonline.com (for Intermediary Online Subscribers only (Custodians)).

Further details in respect of the Scheme Resolution to be put to the meeting are set out in the accompanying Scheme Booklet.

Voting by attorney

Powers of attorney must be received by Billabong's share registry by no later than 10:00am (Queensland time) on 26 March 2018.

Persons attending the Scheme Meeting as an attorney should bring to the Scheme Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the Scheme Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the resolution put to this Scheme Meeting is passed by the requisite majorities and the other conditions are satisfied or waived (if applicable), Billabong intends to apply to the Court on or around 6 April 2018 for approval of the Scheme.

For personal use only

Billabong International Limited
(ABN 17 084 923 946)
1 Billabong Place
Burleigh Heads QLD 4220

Billabong Directors

Ian Pollard (Non-Executive Chairman)
Neil Fiske (Executive Director)
Gordon Merchant (Non-Executive Director)
Howard Mowlem (Non-Executive Director)
Kim Anderson (Non-Executive Director)
Elliott Weinstein (Non-Executive Director)

CORPORATE DIRECTORY

Billabong Registry

Computershare Investor Services Pty Limited
Level 1, 200 Mary Street
Brisbane QLD 4000

Financial Adviser

Goldman Sachs Australia Pty Ltd
Level 46, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Legal Adviser

Allens
Level 28, Deutsche Bank Place
Corner Hunter and Phillip Streets
Sydney NSW 2000

Independent Expert

Grant Samuel & Associates Pty Limited
Level 19, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000



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