Billabong
International
Limited

ABN 17 084 923 946









1 Billabong Place
Burleigh Heads
QLD 4220 Australia

P O Box 283
Burleigh Heads
QLD 4220 Australia

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

www.billabongbiz.com

For personal use only

ASX ANNOUNCEMENT

GENERAL MEETING

GOLD COAST, 23 December 2013: The attached following documents will be despatched to shareholders from today:

- Chairman's Letter
- Notice of Meeting
- Explanatory Memorandum
- Proxy Form
- Independent Expert's Letter and Report

MARIA MANNING
COMPANY SECRETARY

BILLABONG INTERNATIONAL LIMITED ABN 17 084 923 946

NOTICE OF GENERAL MEETING 2014 AND EXPLANATORY MEMORANDUM



For personal use only

Notice is given that a General Meeting of Billabong International Limited is to be held at 10.00 am (Queensland time) on Thursday, 30 January 2014 at Sofitel Gold Coast, Sorrento Room, 81 Surf Parade, Broadbeach, Queensland.

This is an important document and requires your immediate attention. If you are in any doubt as to how to deal with this document, please consult your financial, legal, tax or other professional adviser immediately.

Billabong International Limited
ABN 17 084 923 946

For personal use only

23 December 2013

Dear Fellow Shareholder,

I was delighted to meet a number of you at this year's annual general meeting on Tuesday, 10 December 2013. In my address at the meeting, I explained that for the first time in at least 12 months, the Company is in a position where we can confidently say who our CEO will be for the foreseeable future (Neil Fiske) and we can confidently say who our principal financiers will be for the foreseeable future: Centerbridge Partners, L.P. and Oaktree Capital Management, L.P. (together the "**C/O Consortium**"). With the approval at the annual general meeting of the resolutions recommended by the Board, the membership of our Board is settled and our Company now has in place the leadership, expertise and governance required to assist management in the execution of a significant turnaround in Billabong's performance.

At the annual general meeting, I also stated that shareholders have the opportunity to enhance the turnaround of Billabong's performance with the approval of the proposed equity issue to the C/O Consortium. That is the purpose of the general meeting that this booklet invites you to attend.

To recap, in September this year, Billabong entered into binding agreements with certain entities affiliated with the C/O Consortium in relation to a long term financing to recapitalise the Company. That financing was designed to provide Billabong with a stronger balance sheet and capital structure to allow it to stabilise the business and implement strategies and initiatives required to restore earnings growth.

The financing included a term loan facility from the C/O Consortium of up to US$360 million (the "**New Term Debt**"); a proposed A$135 million share placement to the C/O Consortium (the "**Placement**"); a A$50 million renounceable rights issue to existing shareholders (the "**Rights Issue**"); and the grant of certain options to the C/O Consortium (the "**C/O Options**").

Billabong has already drawn down on the New Term Debt to refinance its previous facility, and has granted the C/O Options to the C/O Consortium as required by the relevant agreements. However, the Placement remains subject to shareholder approval. The Rights Issue will only proceed if the Placement is approved.

I am therefore pleased to extend to you an invitation to participate in a general meeting of Billabong to vote on resolutions to approve the Placement and related matters. The meeting will commence at 10.00 am (Queensland time) on Thursday, 30 January 2014 at Sofitel Gold Coast, Sorrento Room, 81 Surf Parade, Broadbeach, Queensland.

It is the recommendation of all of the non-conflicted directors (being Mr. Howard Mowlem, Mr. Gordon Merchant, Ms. Colette Paull, Mr. Neil Fiske, Dr. Sally Pitkin and myself) ("**Recommending Directors**"[1]) that shareholders vote in favour of the resolutions, as each of us believes that they are in the best interests of shareholders. Each director intends to vote any shares that they own in favour of these resolutions. The recommendation of the Recommending Directors, and their intention to vote in favour, is subject to no superior proposal emerging.

The reasons for our recommendation are set out in full in the accompanying Explanatory Memorandum, but we would highlight the following:

- The Placement and the Rights Issue (together, the **"Equity Raising"**) provide the opportunity to repay up to US$171 million (A$185 million[2]) of the New Term Debt with no prepayment premium. The company can thereby reduce the amount of debt in the Company's capital structure to a more appropriate level to ensure that the business has the financial flexibility it requires, and to lower the risk of future financial constraints. Lower debt levels will result in reduced interest payments, providing greater financial capacity during the turnaround phase and enabling decisions to be taken with a longer term perspective.
- It was important for the stability of the business for the Company to enter into arrangements in relation to the New Term Debt when it did. Furthermore, the Equity Raising and the resultant deleveraging impact were distinguishing features of the proposal that factored into the Board's decision to prefer the proposal from the C/O Consortium over the competing proposal from the Altamont Consortium. Without the Equity Raising, the Company will still have a very high level of debt and interest payments as it rebuilds.

---

1 Mr. Jason Mozingo and Mr. Matt Wilson have not made a recommendation as they are nominees of Centerbridge and Oaktree, respectively.

2 Notwithstanding the actual exchange rate on the day, in respect of the Placement, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the rate of 0.924 AUD/USD, and in respect of the Rights Issue, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the exchange rate at the time of prepayment, namely, the prevailing spot rate of exchange plus the spread charged by the bank through which the currency is exchanged from AUD to USD. The US$171 million has been converted to AUD at an assumed spot rate of 0.9319 AUD/USD.

- The Placement brings Centerbridge and Oaktree, both highly regarded and experienced investors, on to the Billabong share register, signalling confidence to the market in the business and its brands. With the proposed substantial equity investment in the business, the C/O Consortium will be highly incentivised to bring its experience in similar turnaround situations and its resources and expertise in order to assist in effecting the turnaround strategy.

Grant Samuel has prepared an Independent Expert's Report in relation to the proposed Placement and the issue of shares to the C/O Consortium on exercise of the C/O Consortium's Options. While Grant Samuel has concluded that those transactions are **not fair** to Billabong shareholders not associated with the C/O Consortium, Grant Samuel has concluded that those transactions are **reasonable** to shareholders not associated with the C/O Consortium as there are compelling reasons for shareholders to approve such transactions. The Independent Expert's Report is set out at Appendix C and I encourage you to read it in full.

This booklet includes the Notice for the General Meeting, the Explanatory Memorandum and an Independent Expert's Report. A Proxy Form accompanies this booklet. I encourage you to read this booklet carefully as it contains important information and will assist you in making an informed decision.

This booklet is available on the website www.billabongbiz.com. In addition, on the website, you can read the addresses made to shareholders at the 2013 annual general meeting by myself and our CEO, Neil Fiske, which outline recent events in the Company's history, the turnaround task and the broad principles of our strategic direction.

If you are attending the meeting, please bring your Proxy Form with you to assist us in the efficient processing of your registration. Registration will commence at 9.00 am. If you are unable to attend, you may appoint a proxy to vote for you at the meeting by completing the Proxy Form that accompanies this booklet. If you intend to appoint a proxy, please return the completed Proxy Form in accordance with the directions on the form by 10.00 am (Queensland time) on Tuesday, 28 January 2014.

Your directors look forward to seeing you at this meeting.

Yours sincerely

Ian Pollard
Chairman

For personal use only

Billabong International Limited
ABN 17 084 923 946

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Shareholders of Billabong International Limited (**"Billabong"** or the **"Company"**) will be held at 10.00am (Queensland time) on Thursday, 30 January 2014 at Sofitel Gold Coast, Sorrento Room, 81 Surf Parade, Broadbeach, Queensland.

BUSINESS

Approval of acquisition by the C/O Consortium and Billabong of relevant interests in Billabong Shares

To consider, and if thought fit, to pass each of the following resolutions as an ordinary resolution:

1. That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition:

   (a) by CCP II Dutch Acquisition – E, B.V. (**"Centerbridge"**) or its Permitted Nominees[3] of relevant interests in:

      (i) 164,634,147 Billabong shares on completion of the Equity Funding Deed between Centerbridge, Oaktree and the Company dated 18 September 2013 (the **"Equity Funding Deed"**); and

      (ii) up to 14,790,926 Billabong shares as a result of the exercise of options issued under the Equity Funding Deed; and

   (b) by OCM Clean Wave Holdings B.V. (**"Oaktree"**) or its Permitted Nominees of relevant interests in:

      (i) 164,634,147 Billabong shares on completion of the Equity Funding Deed; and

      (ii) up to 14,790,926 Billabong shares as a result of the exercise of options issued under the Equity Funding Deed,

   in each case on the terms summarised in the Explanatory Memorandum accompanying this Notice of Meeting.

2. That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for Billabong to acquire a relevant interest in the Billabong shares issued under the Equity Funding Deed, or on the exercise of options issued under the Equity Funding Deed, as described in Resolution 1, as a result of escrow arrangements over all such shares, as summarised in the Explanatory Memorandum accompanying this Notice of Meeting.

Refresh of placement capacity in relation to the options issued to the C/O Consortium

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

3. That, for the purpose of Listing Rule 7.4 and for all other purposes, the issue and allotment by the Company on 3 December 2013 of the following securities is subsequently approved:

   (a) 14,790,926 options to CCP II Dutch Acquisition – E, B.V.; and

   (b) 14,790,926 options to OCM Clean Wave Holdings B.V.,

   on the terms as summarised in the Explanatory Memorandum accompanying this Notice of Meeting.

By Order of the Board

Maria Manning
Company Secretary

For personal use only

3 "Permitted Nominee" means:

(a) a person that directly or indirectly controls Centerbridge or Oaktree or that is directly or indirectly controlled by:

(i) Centerbridge or Oaktree; or

(ii) a person that directly or indirectly controls Centerbridge or Oaktree;

(each, together with Centerbridge and Oaktree, a "Relevant Person"); or

(b) a trust that is directly or indirectly controlled by or managed by a Relevant Person or the trustee of any such trust.

NOTES TO THE NOTICE OF GENERAL MEETING

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 Proxy Form that accompanies this booklet.

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 the Company. 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. Shareholders are encouraged to direct their proxy how to vote on each item of business. If you wish to direct your proxy to vote in the manner recommended by the Board on the various resolutions, then your Proxy Form should be completed as follows.

Ordinary Business		***For***	***Against***	***Abstain***
1	Approval of acquisition by the C/O Consortium of relevant interests in Billabong Shares	☒	❑	❑
2	Approval of acquisition by Billabong of relevant interests in Billabong Shares	☒	❑	❑
3	Refresh of placement capacity in relation to the options issued to the C/O Consortium	☒	❑	❑

If a proxy is instructed to abstain from voting on an item of business, they are directed not to vote on your behalf, and on a poll or on a show of hands, the Shares that are the subject of the proxy appointment will not be counted in calculating the required majority.

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.

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 each item on the Proxy Form (i.e. 'for', 'against' or 'abstain').

The Chairman of the meeting intends to vote all undirected proxies IN FAVOUR of each item of business in Resolutions 1, 2 and 3.

The Proxy Form must be received by the Company or the Company's share registry, Computershare Investor Services Pty Limited, by 10.00 am (Queensland time) on Tuesday, 28 January 2014.

The completed Proxy Form may be:

- mailed to the Company at PO Box 283, Burleigh Heads, Queensland, 4220;
  faxed to the Company at +61 7 5589 9654; or
  e-mailed to secretary@billabong.com.au; or
- mailed to the Company's share registry, Computershare Investor Services Pty Limited, at GPO Box 242, Melbourne, Victoria, 3001, Australia; or
- faxed to Computershare Investor Services Pty Limited on 1800 783 447 or
  +61 3 9473 2555; or
- 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)).

For personal use only

Voting Exclusion Statements

The following voting exclusions specifically apply under the ASX Listing Rules.

Resolution 1 - Approval of acquisition by the C/O Consortium of relevant interests in Billabong Shares

The Company will disregard any votes cast on Resolution 1 by Centerbridge, Oaktree and Billabong and any associates[4] of Centerbridge or Oaktree. However, the Company need not disregard a vote if it is cast:

- as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form; or
- by the Chairman of the meeting as a proxy for a person who is entitled to vote, in accordance with an express authority to vote undirected proxies as the Chairman sees fit.

Resolution 2 - Approval of acquisition by Billabong of relevant interests in Billabong Shares

The Company will disregard any votes cast on Resolution 2 by Centerbridge, Oaktree, Billabong and any of their respective associates[5]. However, the Company need not disregard a vote if it is cast:

- as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form; or
- by the Chairman of the meeting as a proxy for a person who is entitled to vote, in accordance with an express authority to vote undirected proxies as the Chairman sees fit.

Resolution 3 – Refresh of placement capacity in relation to the options issued to the C/O Consortium

The Company will disregard any votes on this resolution by Centerbridge and Oaktree as the grantees of the options and any of their respective associates. However, the Company need not disregard a vote if it is cast:

- as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form; or
- by the Chairman of the meeting as a proxy for a person who is entitled to vote, in accordance with an express authority to vote undirected proxies as the Chairman sees fit.

Further details in respect of the resolutions to be put to the meeting are set out in the accompanying Explanatory Memorandum.

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the Corporations Regulations will be 7.00 pm (Queensland time) on Tuesday, 28 January 2014.

Approval thresholds

In this Notice of Meeting, Resolutions 1, 2 and 3 are ordinary resolutions and will be passed if more than 50% of the votes cast by Shareholders entitled to vote on each such ordinary resolution are in favour of the resolution.

For personal use only

4 "Associates" has the meaning given in section 12 of the Corporations Act.

5 "Associates" has the meaning given in section 12 of the Corporations Act.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is dated Monday 23 December 2013 and has been prepared for Shareholders in connection with the General Meeting.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. Accordingly, it should not be relied on solely in determining how to vote on the resolutions.

The purpose of this Explanatory Memorandum is to provide Shareholders with information that the Board believes to be material to Shareholders in deciding whether or not to approve the resolutions detailed in the Notice of Meeting. To assist Shareholders, the voting recommendations of the Recommending Directors are to vote **IN FAVOUR** of Resolutions 1, 2 and 3.

Resolutions 1 and 2 – Approval of acquisition by the C/O Consortium and Billabong of relevant interests in Billabong Shares

Background

On 19 September 2013, Billabong announced that it had entered into binding agreements with the C/O Consortium in relation to a long term financing to recapitalise the Company and provide Billabong with a stronger balance sheet and capital structure to allow it to stabilise the business, address its cost structure, and pursue a growth strategy. These agreements included:

(a) a 6 year senior secured term loan facility of up to US$360 million (A$386 million) with an interest rate of 11.9% (at least 5.9% cash / up to 6.0% payable in kind). Key terms of the New Term Debt are summarised in Appendix A. The Company announced on 4 November 2013 that a US$300 million tranche of such term loan facility funded on 1 November 2013 (New York time). The Company also drew an additional US$20 million on 29 November 2013 and an additional US$40 million on 31 December 2013;

(b) subject to Billabong Shareholder approval[6], a placement of 329,268,294 Billabong Shares to the C/O Consortium at A$0.41 per Share (total subscription price of A$135 million) (the **"Placement"**). If the Placement is approved by Billabong Shareholders at the General Meeting, the Company will announce a A$50 million non-underwritten, renounceable rights issue at A$0.28 per Share available to existing Shareholders[7] (**"Rights Issue"**). The proceeds of the Placement and the Rights Issue will be used to repay[8] up to US$171 million (A$185 million[9]) of the New Term Debt with no prepayment premium. As announced on 18 December 2013, Billabong intends to launch the Rights Issue on the date of the release of the half year results for the period ending 31 December 2013, expected to be on or around Friday, 21 February 2014; and

(c) the grant to the C/O Consortium of 29,581,852 options exercisable at A$0.50 per Share[10], and expiring 7 years from the date of grant (the **"C/O Options"**). As previously announced, the C/O Options were granted on 3 December 2013. Key terms of the C/O Options are summarised in Appendix A and the Independent Expert's valuation of the C/O Options is summarised on page 10 of this Explanatory Memorandum.

These agreements also permitted the C/O Consortium to nominate directors to the Billabong Board. As announced on 4 November 2013, Mr. Jason Mozingo and Mr. Matt Wilson were appointed to the Board. Further information on the C/O Consortium's nomination rights is included in the section headed *"Information About the C/O Consortium"* on page 12 of this Explanatory Memorandum.

As also announced on 4 November 2013, the New Term Debt was used in part by Billabong to replace the US$294 million (A$315 million) loan facility provided by the Altamont Consortium (see below). In addition to this financing, as previously announced, the asset-based multi-currency revolving credit facility of up to US$100 million from GE Capital has now been agreed and the first drawdowns were made on 16 December 2013 (New York time).

The background to the entry into the agreements with the C/O Consortium is that Billabong had, over the previous seven months, undertaken an extensive and competitive process through which it had sought to obtain proposals from a number of parties for a long term financing solution for the Company. This process included the following:

- On 16 July 2013, following a detailed review of competing proposals from the Altamont Consortium and the Sycamore Consortium, Billabong announced that it had entered into a binding bridge facility agreement and asset sale agreement with the Altamont Consortium. At that time, Billabong also announced that it had entered into a commitment letter with the Altamont Consortium in relation to a proposed long term debt facility and, subject to shareholder approval, the issue of shares to Altamont. The Altamont Consortium agreements were later revised on 20 August 2013.

---

6 There are additional conditions precedent to the Placement including that none of the Recommending Directors changes their recommendation to vote in favour, and their intention to vote any Shares that they own in favour, of the Resolutions. These additional conditions are expected to be satisfied.

7 As announced on 18 December 2013, the C/O Consortium has confirmed that it will not take up its rights in the Rights Issue in respect of any shares received under the proposed Placement.

8 Billabong has the discretion to determine whether to apply the proceeds from the Rights Issue in excess of $20 million to repay the New Term Debt.

9 Notwithstanding the actual exchange rate on the day, in respect of the Placement, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the rate of 0.924 AUD/USD, and in respect of the Rights Issue, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the exchange rate at the time of prepayment, namely, the prevailing spot rate of exchange plus the spread charged by the bank through which the currency is exchanged from AUD to USD. The US$171 million has been converted to AUD at an assumed spot rate of 0.9319 AUD/USD.

10 The A$0.50 per C/O Option exercise price may be satisfied (at the C/O Consortium's election) either by paying Billabong the exercise price or by way of cashless settlement. Cashless settlement means the surrender of C/O Options to the Company where the value of those C/O Options is applied by the Company towards satisfying the exercise price payable by the C/O Consortium.

For personal use only

- On 23 August 2013, the Company announced that it had received a competing proposal from the C/O Consortium. This was followed by detailed review of competing proposals from the Altamont Consortium and the C/O Consortium, which culminated in the announcement on 19 September 2013 of entry into the agreements referred to above with the C/O Consortium.

The New Term Debt provided by the C/O Consortium has provided immediate and long-term funding certainty. The New Term Debt offered the most attractive terms of any executable refinancing proposal Billabong received during the extensive and competitive process. In comparison with the Altamont Consortium competing proposal, these terms provided a lower cost of debt, additional liquidity and longer maturity, lower prepayment premiums and less equity dilution for existing Shareholders. In addition, the New Term Debt provided funding on terms that were substantially superior to the terms originally offered by the C/O Consortium, including a lower cost of debt (11.9% vs. 13.5%), additional upfront liquidity (up to US$360 million vs. US$300 million) and a longer maturity (6 years vs. 5 years). Furthermore, by accepting the New Term Debt funding proposal, the Company secured the appointment of Mr. Neil Fiske as Chief Executive Officer and Managing Director of Billabong. Mr. Fiske brings a wealth of experience in brand building, retail operations and turnarounds, all of which should help to ensure that Billabong can rapidly gain momentum in the coming months and years.

Purpose of Resolution 1

The purpose of Resolution 1 is to approve, for the purposes of section 606 of the Corporations Act and for all other purposes, the acquisition by Centerbridge and Oaktree or their respective Permitted Nominees of relevant interests in the Placement Shares and any Shares issued as a result of the exercise of the C/O Options.

Section 606(1) of the Corporations Act provides that, subject to certain exceptions,[11] a person must not acquire a relevant interest in issued voting shares of a listed company if, as a result of that acquisition, that person's or some other person's voting power in the listed company increases from:

- 20% or below to more than 20%; or
- a starting point that is above 20% and below 90%.

The issue of the Placement Shares (164,634,147 Shares to each of Centerbridge and Oaktree) would result in each of them acquiring a relevant interest in 164,634,147 Shares, being 20.4% of the issued share capital of Billabong[12]. As Billabong considers that Centerbridge and Oaktree are 'associates' for the purposes of the Corporations Act, they each have voting power in the other's Shares. Accordingly, on issue of the Placement Shares, each of them would have voting power in 329,268,294 Shares, being 40.8% of the issued share capital of Billabong.

In addition, the issue of Billabong Shares as a result of the exercise of all of the C/O Options (14,790,926 C/O Options are held by each of Centerbridge and Oaktree) would result in each of them acquiring a relevant interest in 14,790,926 Billabong Shares, and again because they are considered to be associates, each of them has voting power in each other's Shares. Accordingly, on issue of the Billabong Shares as a result of the exercise of all of the C/O Options (if that were to occur), if they remain associates at that time, each of them would have voting power in an additional 29,581,852 Billabong Shares. Assuming that all of the C/O Options are exercised immediately after the issue of the Placement Shares, and that no other Shares have been issued by the Company at the time of exercise, each of Centerbridge and Oaktree's voting power would, upon exercise of all of the C/O Options, increase from 40.8% to up to 42.8% of the issued share capital of Billabong. This percentage will be reduced as a result of the issue of Shares under the Rights Issue, the launch of which is conditional on Shareholder approval of the Placement.

In the absence of a relevant exemption, the issue of the Placement Shares and the issue of Shares upon the exercise of the C/O Options (if occurring after the Placement), would result in Centerbridge and Oaktree contravening section 606(1) of the Corporations Act. Under item 7 of section 611, an acquisition that is approved by a resolution passed at a general meeting of the Company is exempt from section 606(1). Accordingly, Resolution 1 seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act for the acquisition by Centerbridge and Oaktree or their respective Permitted Nominees of relevant interests in the Placement Shares and any Shares issued as a result of the exercise of the C/O Options.

It should be noted that the C/O Options can be exercised up to 7 years after their date of grant and accordingly Shareholders are being asked to approve the acquisition of relevant interests in Shares as a result of the exercise of the C/O Options which may not occur for up to 7 years.

It should also be noted that, whether or not Resolution 1 is approved, the C/O Consortium can increase its voting power in other lawful ways eg, by 3% 'creep' acquisitions every 6 months.

Purpose of Resolution 2

Billabong, Centerbridge and Oaktree have entered into escrow arrangements under which Centerbridge and Oaktree each agree that, subject to certain limited exceptions[13] , for the period commencing on the date of issue of the Placement Shares and any Shares issued as a result of the exercise of the C/O Options, and ending on 18 September 2015, neither of them will do any of the following:

---

11 These exceptions include an acquisition as a result of acceptance of a takeover offer; an acquisition with shareholder approval; and an acquisition by a person who holds 19% or more of the shares of up to 3% in any six month period (known as the 'creep rule').

12 At the date of this Explanatory Memorandum, there are 478,944,292 Shares on issue. This percentage assumes that no further Shares are issued, including as a result of exercise of any options prior to the date of the Placement.

13 For example, the escrow deed does not prevent Centerbridge or Oaktree accepting a takeover bid made for all of the shares of the Company where at least half of the shares in the bid class that are not subject to escrow have already accepted; or from voting in favour of a scheme of arrangement. Centerbridge and Oaktree are also able to transfer their Shares that are subject to escrow to their respective Permitted Nominees, on the basis that the transferee agrees to the same escrow terms.

For personal use only

- dispose of, or agree or offer to dispose of the Placement Shares and Shares issued on exercise of the C/O Options, including to each other;
- create or agree or offer to create any security interest in such shares; or
- do, or omit to do, anything that would have the effect of transferring effective ownership or control of such shares.

Resolution 2 is a technical approval for the relevant interest that Billabong will acquire in the Placement Shares and any Shares that may be issued upon exercise of the C/O Options, upon the issue of such Shares. Billabong will acquire that relevant interest because it will, under the escrow arrangements, have the capacity to exercise control over the disposal of such Shares. It should be noted that there are no restrictions on how the members of the C/O Consortium vote their respective Shares that are the subject of the escrow.

The escrow restrictions will result in Billabong acquiring a relevant interest in up to a maximum of 42.8% of its Shares. This is a maximum based on the Placement proceeding and assuming the issue of Shares upon the exercise of all of the C/O Options and no take-up of Shares under the Rights Issue or exercise of the Altamont Consortium options.

Rights Issue

Billabong has agreed that, subject to the Placement being approved, there will be a non-underwritten, renounceable rights offering of A$50 million at A$0.28 per Share (a significant discount to the Placement Share price of A$0.41 per Share). As announced on 18 December 2013, Billabong intends to launch the Rights Issue on the date of the release of the half year results for the period ending 31 December 2013, expected to be on or around Friday, 21 February 2014. The Rights Issue will be offered to existing Shareholders and, as also announced on 19 September 2013, the C/O Consortium has agreed that it will not participate in the Rights Issue in respect of the Placement Shares. Assuming full take-up, the Rights Issue will result in the issuance of up to 178,571,429 Shares to eligible Shareholders, which would result in the C/O Consortium's maximum ownership of Billabong shares on a fully diluted basis being approximately 33.9%.

Impact on equity ownership

The table below shows the change of ownership of Billabong as a result of the Placement and the exercise of the C/O Options, together with the impact of the Rights Issue.

	Ownership prior to Placement		Ownership after Placement		**Ownership after Placement and Rights Issue (assuming 100% take up)**	
	# Shares (m)	**% diluted ownership**	**# Shares (m)**	**% diluted ownership**	**# Shares (m)**	**% diluted ownership**
Current Shares on issue	478.9	87.0%	478.9	54.4%	478.9	45.2%
Rights Issue					178.6	16.9%
Existing Shareholders	478.9	87.0%	478.9	54.4%	657.5	62.1%
C/O Options	29.6	5.4%	29.6	3.4%	29.6	2.8%
Placement			329.3	37.4%	329.3	31.1%
C/O Consortium	29.6	5.4%	358.9	40.8%	358.9	33.9%
Altamont Consortium options[14]	42.3	7.7%	42.3	4.8%	42.3	4.0%
Diluted Shares outstanding	550.8	100.0%	880.1	100.0%	1,058.6	100.0%

Note: Totals do not add due to rounding

Maximum voting power which Centerbridge and Oaktree would have as a result of the acquisitions

The maximum voting power in Billabong which Centerbridge and Oaktree would have on a combined basis as a result of the Placement and the exercise of the C/O Options would be 42.8%. This maximum assumes, however, that there is no take-up of Shares under the Rights Issue and that the Altamont Consortium options have not been exercised. If there is 100% take-up by existing Shareholders under the Rights Issue, the maximum voting power which Centerbridge and Oaktree would have on a combined basis as a result of the Placement and the exercise of the C/O Options would reduce from 42.8% to 35.3% (again assuming that the Altamont Consortium options have not been exercised). The actual maximum voting power will be between 35.3% and 42.8%, depending on the level of take-up by existing Shareholders under the Rights Issue.

It should also be noted that these maximum percentages (42.8% where there is no-take up under the Rights Issue and 35.3% where there is full take-up) differ from the maximums shown in the table above (40.8% where there is no-take up under the Rights Issue and 33.9% where there is full take-up) because the percentages in the table are calculated on the basis that the Altamont Consortium options have been exercised, which may or may not occur.

Impact of New Term Debt and Equity Raising

The table below shows the change in gross leverage, net leverage and interest coverage as a result of the New Term Debt and the Equity Raising.

14 The Altamont Consortium continues to hold 42,259,790 options which expire on 16 July 2020.

For personal use only

A$m	Actual 30-Jun-13	Adj. for New Term Debt	Pro forma for New Term Debt 30-Jun-13	Adj. for Equity Raising	Pro forma for New Term Debt and Equity Raising 30-Jun-13
Cash	113.8	65.8	179.7		179.7
Current borrowings	314.6	(314.6)	0.0		0.0
Non-current borrowings	5.9	380.4	386.3	(183.9)	202.5
Net debt	206.6		206.6	(183.9)	22.8
Gross debt	320.5	65.8	386.3	(183.9)	202.5

A$m	Actual 30-Jun-13	Adj. for New Term Debt	Pro forma for New Term Debt 30-Jun-13	Adj. for Equity Raising	Pro forma for New Term Debt and Equity Raising 30-Jun-13
EBITDA	72.6		72.6		72.6
Gross interest expense	13.4	32.5	46.0	(21.9)	24.1
Gross debt	320.5		386.3		202.5
EBITDA	72.6		72.6		72.6
Gross leverage ratio	4.4 x		5.3 x		2.8 x
Net debt	206.6		206.6		22.8
EBITDA	72.6		72.6		72.6
Net leverage ratio	2.8 x		2.8 x		0.3 x
EBITDA	72.6		72.6		72.6
Gross interest expense	13.4		46.0		24.1
Interest coverage ratio	5.4 x		1.6 x		3.0 x

Note 1: The above pro forma entries do not adjust for any fees and expenses or for any pro forma impact of the sale of Dakine.

Note 2: The information presented in the table above has been prepared and is based on the financial statements as at 30 June 2013 as announced to the ASX on 27 August 2013 but adjusted for (i) the financing of the New Term Debt of US$360 million; and (ii) the subsequent pay down of the New Term Debt via the Equity Raising, as if this had occurred on 1 July 2012. The pro forma assumptions are indicative only and do not reflect the interest expenses, other financial costs or debt balances that may be associated with additional debt facilities such as any asset-backed loan facilities.

Note 3: Neither the historical financial information or the pro forma financial information presented in the table above should be taken to represent the views of Billabong or any other person as to future financial performance or forward looking statements.

Note 4: Reported and pro forma net debt figures as at 30 June 2013 do not reflect peak seasonal requirements and do not incorporate non-cash credit requirements.

Note 5: The above analysis assumes combined proceeds of A$185m from the Equity Raising, being $135m proceeds from the Placement and A$50m proceeds from the Rights Issue, assuming 100% take up. After adjusting for the Equity Raising, the Pro forma debt balances reflect a scenario where the Company elects to apply all proceeds from the Rights Issue to repay New Term Debt. In the event that the Company exercises its right to only use a portion of Rights Issue proceeds to repay the New Term Debt, the gross and net debt balances would increase correspondingly.

Note 6: The above analysis does not distinguish cash that is securing various performance obligations of the Billabong group in relation to obligations to third party landlords or suppliers etc.

Independent Expert's Report

In accordance with ASIC policy, the Company has commissioned the Independent Expert's Report from Grant Samuel which appears at Appendix C to this Explanatory Memorandum.

The Grant Samuel report notes that Australian regulatory policy requires that the fairness of the Placement and the issue of Shares to the C/O Consortium on exercise of the C/O Options be assessed in the same way as if Billabong were the subject of a takeover offer. This must be done by comparing an estimated trading range for Shares following the the Placement (the notional "consideration" delivered to Shareholders) with the estimated underlying value of Billabong immediately before the Placement. To make this comparison, Grant Samuel is required to adopt a post-Placement trading range for Shares calculated by discounting the estimated full underlying value of Billabong after the Placement. This methodology indicates a post-Placement trading range for Billabong shares of $0.30-0.35. This range is below or at the very bottom end of the range of Grant Samuel's estimates of Billabong's full underlying value ($0.33-0.43 per Share). On this basis, the Placement and the issue of Shares to the C/O Consortium on exercise of the C/O Options is not fair.

Grant Samuel does however conclude that there are compelling reasons for Shareholders to approve the Placement and the issue of Shares to the C/O Consortium on exercise of the C/O Options and on that basis the Placement and the issue of Shares to the C/O Consortium on exercise of the C/O Options is reasonable. Grant Samuel's evaluation noted:

For personal use only

- Billabong has a pressing need for additional equity. Billabong is highly geared, with limited capacity to cope with any external shocks or further business downturn, and its debt is expensive. Without a significant reduction in debt it will be at risk of breaching the gearing covenant contained in its senior debt facility.

- To generate any meaningful recovery in the business, Billabong will need to invest in a range of growth initiatives, including a renewed focus on its key brands and enhancement of business capabilities in key areas such as merchandising, marketing, distribution and supply chain management. Given its current gearing, Billabong's capacity to make these investments is limited. The terms of its debt facilities impose significant restrictions on its ability to re-shape the business while gearing is at current levels.

- The prospects of an alternative equity raising appear remote. Billabong's financial position and the need for a recapitalisation have been apparent for some time. Billabong and its advisers have conducted a wide-ranging process seeking change of control and/or recapitalisation proposals. A number of parties have made indicative offers but have withdrawn following detailed due diligence.

- Completion of the Placement and the associated Rights Issue will allow Billabong to materially lower its gearing, reduce its financial risk and improve its profitability and free cash flow. It will provide a "breathing space" for Billabong, allowing Board and management to focus on stabilising and then re-building the business rather than dealing continuously with ownership and financing issues.

- The pricing of the Placement at $0.41 per share represents a substantial premium relative to the Billabong share price prior to the announcement of the Altamont recapitalisation proposal (i.e to the price at which Billabong shares were trading when there was no assurance that Billabong would be able to achieve a recapitalisation). Existing Billabong shareholders will have an opportunity to acquire shares through the Rights Issue at $0.28 per share, materially lower than the Placement price.

- Billabong Shareholders' holding in Billabong will be diluted by the Placement, with existing shareholders holding around 55-62% of the diluted shares on issue (depending on the take-up of shares by existing shareholders under the Rights Issue and assuming the subsequent exercise by the C/O Consortium of its options). However, Billabong shareholders will retain exposure to the potential for a turnaround in the Billabong business.

You should read the report in full.

In relation to the C/O Options, Grant Samuel noted that:

- The C/O Options are currently out of the money. However, the C/O Options are long dated, expiring on 3 December 2020. Valuation of the C/O Options requires the estimation of Billabong's future share price volatility. This is essentially a subjective judgement. Grant Samuel has valued the C/O Options in the range $7-9 million, on the basis of assumed share price volatility of 60-80%[15] .

- The value of the C/O Options, while not trivial, is not significant in the context of Billabong's enterprise value and is not material having regard to the broader benefits of the proposed Equity Raising. The C/O Options are an integral part of the proposed Equity Raising and the Placement cannot proceed independently. The C/O Options represent no more than 2.8-3.4% of the diluted Shares on issue and will only be exercised in circumstances in which there has been a material strengthening in the Billabong Share price.

Further information in relation to the valuation of the C/O Options can be found at section 5.3.7 of the Independent Expert's Report. You should read the report in full.

Issue of Placement Shares
If Resolution 1 is approved by Shareholders and all of the other conditions to the Equity Funding Deed have been satisfied at that time, it is expected that the issue of the Placement Shares to the C/O Consortium will occur five business days after the date of the General Meeting.

Exercise of C/O Options
As discussed above, the C/O Options can be exercised up to 7 years after their date of issue.

Board Recommendation
It is the recommendation of all of the non-conflicted directors (being Dr. Ian Pollard, Mr. Howard Mowlem, Mr. Gordon Merchant, Ms. Colette Paull, Mr. Neil Fiske and Dr. Sally Pitkin) (**"Recommending Directors"**[16]) that Shareholders vote in favour of Resolutions 1 and 2, as each believes that they are in the best interests of Shareholders. Each Recommending Director intends to vote their own shareholdings in favour of these resolutions. The recommendation of the Recommending Directors, and their intention to vote in favour, is subject to no superior proposal emerging.

The reasons of the Recommending Directors for their recommendation are set out below in the section headed "Reasons Why You May Consider Voting in Favour of Resolutions 1 and 2".

Reasons Why You May Consider Voting in Favour of Resolutions 1 and 2
Unless Resolution 1 is approved, the A$135 million Placement to the C/O Consortium and the A$50 million Rights Issue to existing shareholders (together, the **"Equity Raising"**) will not proceed. The Recommending Directors believe that the Equity Raising is in the best interests of Billabong shareholders for the following reasons:

15 The C/O Options were valued using the Black-Scholes option valuation model.

16 Mr. Jason Mozingo and Mr. Matt Wilson have not made a recommendation as they are nominees of Centerbridge and Oaktree, respectively.

For personal use only

1. It provides the opportunity to reduce the amount of debt in the Company's capital structure to a more appropriate level to ensure that the business has the financial flexibility it requires, and to lower the risk of future financial constraints. Lower debt levels will result in reduced interest payments, providing greater financial capacity during the turnaround phase and enabling decisions to be taken with a longer term perspective. This is illustrated in the table above under the heading *"Impact of New Term Debt and Equity Raising"*.

   On this point, the Board wishes to emphasise that, while it was important for the Company to enter into arrangements in relation to the New Term Debt when it did, the Equity Raising, and the resultant deleveraging impact, was a distinguishing feature of the proposal that factored into the Board's decision to prefer the proposal from the C/O Consortium over the competing proposal from the Altamont Consortium. Without the Equity Raising, the Company will still have a very high level of debt and interest payments as it rebuilds.

2. It provides the opportunity to repay up to approximately US$171 million (A$185 million)[17] of New Term Debt with no prepayment premium. Under the terms of the New Term Debt, if Billabong wants to repay all or part of the outstanding debt before its due date, it is required to pay a prepayment premium except in limited circumstances (see the summary in Appendix A for details of these premiums). Billabong is, however, permitted to use the proceeds of the Equity Raising to repay part of the New Term Debt without any such prepayment premium. If the prepayment premium applied to this repayment, it would result in an additional cost of up to approximately A$38 million[18].

3. The Equity Raising represents the most favourable overall equity terms received by Billabong compared to other competing refinancing proposals. It involves a significantly higher premium payable by the C/O Consortium for the Placement Shares, as well as the lowest overall equity dilution for existing Shareholders.

4. As part of the Equity Raising, existing Shareholders will have the ability to participate via a $50 million non-underwritten, renounceable rights offer at a price 13 cents per Share lower than (a 32% discount to) the C/O Consortium Placement price.

5. It provides the opportunity to align and partner with Centerbridge and Oaktree, two internationally recognised investment firms with a proven track record of executing turnaround strategies, with their equity being invested alongside existing Shareholders.

6. It is expected to result in a supportive Billabong share register, securing two stable investors in Centerbridge and Oaktree, signalling confidence in the Board, management and the strength of the business and its brands.

7. The Independent Expert has concluded that the Placement to the C/O Consortium is **not fair but reasonable** to Shareholders not associated with the C/O Consortium.

The Recommending Directors also recommend that Shareholders vote in favour of Resolution 2. If the Placement proceeds, the passage of Resolution 2 will allow Billabong to get the benefit of the escrow arrangements over the C/O Consortium's Shares that are the subject of escrow, as described above.

Reasons Why You May Consider Voting Against Resolutions 1 and 2

Reasons why you may consider voting against Resolution 1 are as follows:

1. The aggregate percentage holding of existing Billabong Shareholders will be diluted by both the Placement and the issue of Shares on the exercise of the C/O Options. If the Rights Issue proceeds, some of that dilution will be offset. As shown in the table above under the section headed *"Impact on equity ownership"*, existing Billabong Shareholders will have 54.4% of the fully diluted ownership of the Company following the Placement, and, if there is 100% take up under the Rights Issue, 62.1% of the fully diluted ownership of the Company following the Rights Issue.

2. You may consider that the issue of the Placement Shares and the issue of Shares on exercise of the C/O Options constitutes a change of control in favour of the C/O Consortium without Billabong Shareholders being afforded the opportunity to sell their Shares to the C/O Consortium at a control premium.

3. If the Placement proceeds and the C/O Options are exercised, then the C/O Consortium will have an increased shareholding in Billabong and any bidder for Billabong under a takeover bid would, in effect, require the C/O Consortium's support for the bid to be successful. This may be a deterrent to potential takeover bidders.

4. You may disagree with the Recommending Directors and/or the findings of the Independent Expert as to reasonableness and believe that the Placement and the exercise of the C/O Options are not in your best interests. However, if Resolutions 1 and 2 are not passed then the majority of the benefits outlined in the previous section will not be realised including the benefits of lower debt levels which the Directors consider a critical factor in the operational turnaround of Billabong.

Despite these reasons set out immediately above as to why you may consider voting against Resolution 1, the Recommending Directors believe that the advantages outlined above in 'Reasons Why You May Consider Voting in Favour of Resolutions 1 and 2' outweigh these considerations.

---

17 Notwithstanding the actual exchange rate on the day, in respect of the Placement, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the rate of 0.924 AUD/USD, and in respect of the Rights Issue, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the exchange rate at the time of prepayment, namely, the prevailing spot rate of exchange plus the spread charged by the bank through which the currency is exchanged from AUD to USD. The US$171 million has been converted to AUD at an assumed spot rate of 0.9319 AUD/USD.

18 A$38 million comprises the applicable prepayment premium of 11.9% on the Net Issuance Proceeds of US$171 million, as well as the present value of interest that would have otherwise been payable on the US$171 million Term Loan portion from the date of prepayment until the first anniversary date on 1 November 2014, discounted at the applicable US Treasury Rate + 0.5%. This reflects the funding of the Term Loans occurring on 1 November 2013, and assumed that the prepayment using the proceeds from the Placement occurred on 6 February 2014 and that the prepayment using the proceeds from the Rights Issue (occurred on 26 March 2014).

For personal use only

The Recommending Directors are not aware of any reason why Shareholders would vote against Resolution 2 as it will allow Billabong to get the benefit of the escrow arrangements over the C/O Consortium's Shares that are the subject of escrow, as described above.

Interests of Directors

As at the date of this Explanatory Memorandum, the Directors had the following relevant interests in Billabong's Shares and options. The Recommending Directors do not have any material personal interest in the outcome of Resolutions 1 and 2 other than their interests arising solely in their capacity as Shareholders.

Director	Number of Shares	Number of Options
Dr. Ian Pollard	7,329	Nil
Mr. Gordon Merchant	70,605,521	Nil
Mr. Howard Mowlem	100,000	Nil
Ms. Colette Paull	5,521,824	Nil
Dr. Sally Pitkin	70,000	Nil
Mr. Neil Fiske	Nil	Nil
Mr. Jason Mozingo	Nil	Nil
Mr. Matt Wilson	Nil	Nil

Information about the C/O Consortium

General information

The C/O Consortium is comprised of Centerbridge Partners, L.P. (**"Centerbridge Partners"**) and Oaktree Capital Management, L.P. (**"Oaktree Capital"**).

As further explained below, both Centerbridge Partners and Oaktree Capital have strong track records of investing in companies and working with management to improve performance and enhance shareholder value. This includes companies in distressed situations, where Centerbridge Partners and Oaktree Capital are able to draw on their extensive resources and networks and their deep industry knowledge and experience, to support execution of successful turnarounds.

Centerbridge Partners

Centerbridge Partners is a private investment firm with approximately US$20 billion in capital under management as of May 2013. Centerbridge Partners focuses on private equity and credit investments and is dedicated to partnering with world-class management teams across industry sectors to help companies achieve their operating and financial objectives.

Centerbridge Partners was established in 2005 and currently has 56 investment professionals across its headquarters in New York and office in London.
Centerbridge Partners has significant experience in the retail and consumer sectors, including the following recent investments:

- privatisation of P.F. Chang's China Bistro in 2012; and
- concurrent acquisitions and merger of Rock Bottom Restaurants and Gordon Biersch Brewery Restaurant Group to create CraftWorks Restaurants & Breweries, Inc. in 2010.

Centerbridge Partners has also made substantial investments in the following sectors: financial services; media, telecom and technology; industrials; transportation and logistics; real estate, gaming and lodging; building materials; energy.

Oaktree

Oaktree Capital is a leader among global investment managers specialising in alternative investments, with US$76.4 billion in assets under management as of June 2013. Oaktree Capital emphasises an opportunistic, value-oriented and risk-controlled approach to investments in private equity, corporate debt, convertible securities, real estate and listed equities.

Oaktree Capital was founded in 1995 and is headquartered in Los Angeles, with over 750 employees working across offices in 13 cities throughout the United States, Europe and Asia.

Like Centerbridge Partners, Oaktree Capital has significant experience in the retail and consumer sectors, including the following recent investments:

Like Centerbridge Partners, Oaktree Capital has significant experience in the retail and consumer sectors, including the following recent investments:

- acquisition of a significant stake in Diamond Foods (NASDAQ:DMND) in 2012;
- acquisition of Advance Foods in 2008, with the subsequent acquisition of Pierre Foods in 2010 and Barber Foods in 2011 to create AdvancePierre Foods; and
- acquisition of Tumi in 2002 and subsequent transformation of a luggage business into a lifestyle brand, culminating in a successful IPO in 2011.

For personal use only

Oaktree Capital has also made substantial investments in the energy, power, healthcare, technology, media, telecommunications, financial services, business services, and industrial sectors.

Acquisition structure

The following information is provided on the acquisition structure of Centerbridge Partners and Oaktree Capital.

Centerbridge Partners

Centerbridge Partners has nominated CCP II Dutch Acquisition – E, B.V. (**"Centerbridge"**) as the entity through which it will acquire the Centerbridge Placement Shares. Centerbridge may itself nominate a Permitted Nominee to be issued the Centerbridge Placement Shares.

Centerbridge is the holder of the Centerbridge Options.

Centerbridge is a special purpose vehicle registered in the Netherlands.

The directors of Centerbridge are Amar Doshi, Kevin Fusco, Jason Mozingo, Marcus Hollander, Ingrid Mulder, Sidney Stacie, and Hendrikus Zuidema.

Oaktree Capital

Oaktree Capital has nominated OCM Clean Wave Holdings B.V. (**"Oaktree"**) as the entity through which it will acquire the Oaktree Placement Shares. Oaktree may itself nominate a Permitted Nominee to be issued the Oaktree Placement Shares.

Oaktree is the holder of the Oaktree Options.

Oaktree is a special purpose vehicle registered in the Netherlands.

The directors of Oaktree are Ntsakisi Dawn Chuma, Joseph William Myrtetus, and Roelof Langelaar.

Equity commitments

The following information is provided on the equity commitments provided for Centerbridge and Oaktree.

Centerbridge

Pursuant to a commitment letter dated 18 September 2013 (**"Centerbridge Commitment Letter"**), Centerbridge Capital Partners II (Cayman), L.P. (**"CCP Investor 1"**) and Centerbridge Capital Partners SBS II (Cayman), L.P. (**"CCP Investor 2"**) have each given a commitment to provide (or procure the provision of) up to A$67,012,650 (in the case of CCP Investor 1) or A$487,350 (in the case of CCP Investor 2) for the purpose of Centerbridge satisfying its obligation to pay the subscription amount for the Centerbridge Placement Shares (i.e. A$67,500,000, being the aggregate of the commitments of CCP Investor 1 and CCP Investor 2), on and subject to the terms of the Centerbridge Commitment Letter.

Each of CCP Investor 1 and CCP Investor 2 has given a covenant that, during the term of the Centerbridge Commitment Letter, it will maintain unfunded capital commitments in an aggregate amount not less than 100% of its maximum commitment minus the amount previously funded by it under the Centerbridge Commitment Letter.

Oaktree

Pursuant to a commitment letter dated 18 September 2013 (**"Oaktree Commitment Letter"**), Oaktree Principal Fund V, L.P. (**"Oaktree Investor 1"**) and Oaktree Principal Fund V (Parallel), L.P. (**"Oaktree Investor 2"**) have each given a commitment to provide (or procure the provision of) up to A$53,169,750 (in the case of Oaktree Investor 1) or A$14,330,250 (in the case of Oaktree Investor 2) for the purpose of Oaktree satisfying its obligation to pay the subscription amount for the Oaktree Placement Shares (i.e. A$67,500,000, being the aggregate of the commitments of Oaktree Investor 1 and Oaktree Investor 2), on and subject to the terms of the Oaktree Commitment Letter.

Each of Oaktree Investor 1 and Oaktree Investor 2 has given a covenant that, during the term of the Oaktree Commitment Letter, it will maintain unfunded capital commitments in an aggregate amount not less than 100% of its maximum commitment minus the amount previously funded by it under the Oaktree Commitment Letter.

Intentions for Billabong

This section sets out the intentions of Centerbridge Partners and Oaktree Capital regarding the future of Billabong if Shareholders approve the issue of the Placement Shares.

The statements of intention in this section must be read subject to the following:

- the statements are based on the information concerning Billabong and the circumstances affecting the business of Billabong that are known to Centerbridge Partners and Oaktree Capital at the date of this Explanatory Memorandum;
- Centerbridge Partners and Oaktree Capital are not aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out below – accordingly, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change;
- Centerbridge Partners and Oaktree Capital expect to be supportive of the turnaround strategy for Billabong and the steps that are involved in executing it, and they are prepared to assist the company in formulating and implementing this strategy in the shortest possible timeframe;

For personal use only

- the directors nominated by Centerbridge and Oaktree to the Board of Billabong will not represent a majority of the Board (see further below) and therefore will not be able to themselves determine decisions of the Board;
- the directors nominated by Centerbridge and Oaktree to the Board of Billabong will have a duty to act in good faith in the best interests of Billabong for a proper purpose, and in doing so will need to have regard to the interests of all Shareholders. They will also have a duty to avoid conflicts of interest; and
- laws regarding related party transactions (in particular under the Corporations Act and ASX Listing Rules) may place restrictions on the ability of Billabong to enter into certain transactions with Centerbridge Partners or Oaktree Capital or their respective associates.

Nature and conduct of business	To the extent that Centerbridge Partners and Oaktree Capital will have influence over the nature and conduct of the business of Billabong, neither of them intends to make any changes to it other than where this would be consistent with the turnaround strategy of the Board of Billabong. Both Centerbridge Partners and Oaktree Capital are supportive of Billabong's new chief executive officer, Mr Neil Fiske.
Injection of further capital	To the extent that Centerbridge Partners and Oaktree Capital will have influence over the capital management of Billabong, neither of them intends to inject further capital into Billabong.
Future employment of employees	To the extent that Centerbridge Partners and Oaktree Capital will have influence over the employment of the present employees of Billabong, neither of them intends to make any changes to the workforce other than where this would be consistent with the turnaround strategy of the Board of Billabong.
Transfers of assets	Neither Centerbridge Partners nor Oaktree Capital intend to propose any transfer of assets between Billabong and them (or their associates).
Redeployment of fixed assets	To the extent that Centerbridge Partners and Oaktree Capital will have influence over the deployment of the fixed assets of Billabong, neither of them intends to redeploy any of those assets.
Financial or dividend policies	To the extent that Centerbridge Partners and Oaktree Capital will have influence over the financial or dividend policies of Billabong, both of them intend to support the continuation of Billabong's efforts to build a healthy balance sheet, the maintenance of appropriate levels of debt capital, and dividend levels commensurate with the health and cash flow generation of the Company (and any necessary changes to the Company's financial and dividend policies to give effect to these things).

Board nominees

Pursuant to the terms of the Equity Funding Deed, upon funding of the New Term Debt (which occurred on 1 November 2013 (New York time)), Centerbridge and Oaktree both became entitled to nominate one person to be appointed to the Board. In each case, this nomination right lasts until the first to occur of:

(a) the date on which both no monies are outstanding under any New Term Debt and no C/O Options or Placement Shares are held by Centerbridge or Oaktree (as applicable), or by their Permitted Nominees; and

(b) 18 September 2020,

(with the date on which the first of these events occurs being the **"Nomination Expiry Date"**).

As previously announced on 4 November 2013, now that funding of the New Term Debt has occurred, Mr. Jason Mozingo (as nominee of Centerbridge) and Mr. Matt Wilson (as nominee of Oaktree) have each been appointed to the Board. These nominees represent 2 of the 8 current members of the Board. As announced on 4 November 2013, Ms. Colette Paull has decided to retire from the Board effective from the conclusion of the General Meeting.

The Equity Funding Deed also provides that, if prior to the Nomination Expiry Date, the number of Directors is greater than 7 for any reason, and the Directors who have been either nominated by Centerbridge or Oaktree under the deed or otherwise nominated for election as a Director by Centerbridge, Oaktree or their respective associates (**"Centerbridge/Oaktree Nominees"**) do not collectively represent at least 2/7ths of the Board, Centerbridge and Oaktree will have the right to jointly nominate the minimum number of additional Directors as would result in the Centerbridge/Oaktree Nominees collectively representing at least 2/7ths of the Board. As set out above, because the Centerbridge/Oaktree Nominees constitute 2 of the 8 members of the Board, the C/O Consortium has the right to jointly nominate a third Centerbridge/Oaktree Nominee, however, as of the date of this Explanatory Memorandum, they have not done so.

The Equity Funding Deed further provides that, if prior to the Nomination Expiry Date, the number of Centerbridge/Oaktree Nominees is more than the minimum number required in order to collectively represent 2/7ths of the Board, unless the Company agrees otherwise, Centerbridge and Oaktree must procure that such number of Centerbridge/Oaktree Nominees resign so that, following such resignation, the number of Centerbridge/Oaktree Nominees is equal to the minimum number required in order to collectively represent at least 2/7ths of the Board.

As noted above, the nominees of Centerbridge and Oaktree will have a duty to act in good faith in the best interests of Billabong for a proper purpose, and in doing so will need to have regard to the interests of all Shareholders. They will also have a duty to avoid conflicts of interest.

For personal use only

Resolution 3 – Refresh of placement capacity in relation to the options issued to the C/O Consortium

Purpose of Resolution 3

Listing Rule 7.1 provides that a listed company may not issue equity securities in any 12 month period where the total number of equity securities to be issued exceeds 15% of the number of fully paid ordinary securities on issue 12 months before the date of issue, other than where an exception applies or with the prior approval of members of the Company.

Listing Rule 7.4 provides that an issue of securities made without approval under Listing Rule 7.1 is treated as having been made with approval for the purpose of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 and Shareholders subsequently approve the issue.

For the purpose of refreshing Billabong's placement capacity pursuant to Listing Rule 7.4, Resolution 3 seeks Shareholder approval for the issue on 3 December 2013 to Centerbridge and Oaktree of a total of 29,581,852 options that were issued as part of the New Term Debt and long term financing.

Listing Rule 7.5 requires that the following information be provided to Shareholders for the purpose of obtaining Shareholder approval pursuant to Listing Rule 7.4:

- The number of securities issued:
  - 14,790,926 options to Centerbridge; and
  - 14,790,926 options to Oaktree.
- The options were allotted and issued for nil consideration however the options were issued as part of the transactions announced with the C/O Consortium and described above.
- If exercised, the proceeds from the exercise of the options will be used by Billabong for general working capital purposes.
- The Shares issued on exercise of the options will rank equally in all respects with the fully paid ordinary shares of the Company.
- Each option grants the grantee in respect of that option the right to subscribe for one Share at $0.50 per Share.
- The options are not redeemable by the Company and will lapse seven years after the date of grant unless exercised prior to such time.

Board Recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 3[19] . The Board considers that it is important for Billabong to have available to it access to its full placement capacity to provide additional flexibility in the event that it is necessary to undertake an equity raising, without the need for further approval in accordance with the ASX Listing Rules. The Chairman of the Meeting intends to vote all available proxies in favour of Resolution 3.

For personal use only

19 The Board's recommendation on Resolution 3 is a recommendation of all of the Directors other than Mr. Jason Mozingo and Mr. Matt Wilson as they are nominees of Centerbridge and Oaktree, respectively.

Appendix A Key Terms of Finance Facilities

New Term Debt and Options		
Commitment size	•	Up to US$360 million (A$386 million)
Applicable interest rate	•	11.9% (at least 5.9% cash / up to 6.0% payment in kind)
Final maturity date	•	16 September 2019
Prepayment premiums	•	No prepayment premium for US$171 million (A$185 million)[20] of Term Debt if prepaid directly from proceeds of the Placement or Rights Issue or mandatory prepayments from excess cash flow
	•	Fixed interest rate instrument with make-whole premium on a prepayment prior to the first anniversary of the closing date[21].Thereafter prepayments are subject to a prepayment premium of 11.0%, 6.0% and 3.0% for any prepayment prior to the second, third and fourth anniversary after the closing date respectively
	•	No mandatory prepayment event upon a change of control but Billabong required to offer to prepay the loans at a 1% prepayment premium on change of control plus any accrued interest
C/O Options	•	29,581,852
C/O Option exercise price	•	A$0.50 per C/O Option, satisfied (at the C/O Consortium's election) either by paying Billabong the exercise price or by way of cashless settlement
	•	Cashless settlement means the surrender of C/O Options to the Company where the value of those C/O Options is applied by the Company towards satisfying the exercise price payable by the C/O Consortium
C/O Options' maturity	•	7 years from grant
Ranking of Shares issued upon exercise	•	Shares issued upon the exercise of the C/O Options will rank equally with the then Shares on issue. Billabong will promptly apply for official quotation on ASX for any Shares issued on exercise of the C/O Options after the Shares are allotted. Any shares issued on exercise of the C/O Options will be subject to escrow for the period commencing on the date of issue of such shares and ending on 18 September 2015.
Adjustments	•	The exercise price of each C/O Option (and/or the number of Shares over which each C/O Option is exerciseable) may be adjusted as permitted by (and otherwise in accordance with) the ASX Listing Rules if there is a pro rata issue of Shares, a bonus issue of Shares or a reorganisation of the capital of Billabong however it is agreed that no adjustment will be made as a result of the Rights Issue.
Use of proceeds	Billabong intends that the funds raised from the exercise of any C/O Options would be used for general working capital purposes.	
Placement		
Issuance size	•	A$135 million
Issuance price	•	A$0.41 per share
Issuance shares	•	329,268,294
Escrow	•	The Placement Shares will be subject to escrow for the period commencing on the date of issue of such shares and ending on 18 September 2015.
Rights Issue		
Terms	•	Non-underwritten, renounceable
Issuance size	•	Up to A$50 million
Issuance price	•	A$0.28 per share
Issuance shares	•	Up to 178,571,429
Asset-Based Revolver		
Commitment size	•	up to US$100 million (A$107 million)
Applicable interest rate	•	Base rate plus 2.00% margin
Accounts Receivable Advance Rate		up to 85%
Inventory Advance Rate		up to 90%
Maturity		5 years

20 Notwithstanding the actual exchange rate on the day, in respect of the Placement, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the rate of 0.924 AUD/USD, and in respect of the Rights Issue, the New Term Debt will be deemed to be prepaid by the amount of the net issuance proceeds converted into USD at the exchange rate at the time of prepayment, namely, the prevailing spot rate of exchange plus the spread charged by the bank through which the currency is exchanged from AUD to USD. The US$171 million has been converted to AUD at an assumed spot rate of 0.9319 AUD/USD.

21 If the Term Loans are prepaid or repaid for any reason (including, without limitation, as a result of an acceleration of the Term Loans following an event of default or a bankruptcy or insolvency of Billabong) within 1 year after the closing date, such repayment will be subject to a "make whole" premium equal to 11.9% plus interest that would have accrued on the Term Loan through to the 1st anniversary date (discounted at the applicable US Treasury Rate + 0.5%).

For personal use only

Appendix B Other Information

Forward looking statements
Certain statements in this Explanatory Memorandum relate to the future. These statements reflect views only as of the date of this Explanatory Memorandum. While Billabong believes that the expectations reflected in the forward looking statements are reasonable, neither Billabong nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur.

Financial information
The information presented in this Explanatory Memorandum has been prepared and is based on the financial statements as at 30 June 2013 as announced to the ASX on 27 August 2013 but adjusted for (i) the financing of the New Term Debt up to US$360 million; and (ii) the subsequent pay down of the New Term Debt via the Equity Raising, as if this had occurred on 1 July 2012. The pro forma assumptions are indicative only and do not reflect the interest expenses, other financial costs or debt balances that may be associated with additional debt facilities such as any asset-backed loan facilities.

Neither the historical financial information or the pro forma financial information presented in this Explanatory Memorandum should be taken to represent the views of Billabong or any other person as to future financial performance or forward looking statements.

Notice to persons outside Australia
This Explanatory Memorandum has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Disclaimer
No person is authorised to give any information or make any representation in connection with any matter which is not contained in this Explanatory Memorandum. Any information or representation not contained in this Explanatory Memorandum may not be relied on as having been authorised by Billabong or the Board in connection with any matter which is contained in this Explanatory Memorandum.

No Investment Advice
This Explanatory Memorandum has been prepared without reference to the investment objectives, financial situation or particular needs of any Shareholder or any other person. The information contained in this Explanatory Memorandum does not constitute financial product advice. If you are in doubt as to the course you should follow, you should consult your investment, taxation or other professional advisor without delay.

Privacy
To assist Billabong in conducting the General Meeting, Billabong may collect personal information including names, contact details and shareholding information of Shareholders and the names of persons appointed by Shareholders to act as proxy at the General Meeting. Personal information of this nature may be disclosed by Billabong to its share registry, print and mail service providers, and Billabong's agents for the purposes of implementing the Transaction. Shareholders have certain rights to access their personal information that has been collected and should contact the Company Secretary, Ms Maria Manning, on +61 7 5589 9805 if they wish to access their personal information.

Responsibility for information
Other than the Independent Expert's Report and the C/O Information, the information contained in this Explanatory Memorandum has been provided by Billabong and is its responsibility alone. Neither the C/O Consortium nor its Directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the information provided by Billabong.

The C/O Consortium has prepared, consented to the inclusion of, and is responsible for, the C/O Information. To the maximum extent permitted by law, none of Billabong nor its Directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the C/O Information.

Grant Samuel has provided, consented to the inclusion of and is responsible for the information contained in the Independent Expert's Report. Neither Billabong or the C/O Consortium or any of their respective Directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report.

Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

ASIC and ASX involvement
A copy of the Notice of Meeting, Explanatory Memorandum, Independent Expert's Report and Proxy Form has been lodged with ASIC and with ASX. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the content of the Notice of Meeting, Explanatory Memorandum, Independent Expert's Report or Proxy Form.

Rounding
For convenience, shareholding, relevant interest and voting power percentage figures in this Explanatory Memorandum have been rounded up or down where appropriate to the nearest one decimal place.

Currency conversion
In this Explanatory Memorandum, unless otherwise specified, references to AUD/USD figures have been converted at an illustrative exchange rate of 0.9319 AUD/USD.

Definitions
Capitalised terms used in this Explanatory Memorandum are defined in the Glossary below.

Enquiries
If you have any questions in relation to the subject matter of this Explanatory Memorandum, please contact your stockbroker, accountant or other professional adviser.

Glossary
The meanings of the terms used in this Explanatory Memorandum are set out below.

For personal use only

New Term Debt and Options	
$, A$, AUD, cents or c	Australian currency
ACP	ACP Burleigh Holdings, LLC of 400 Hamilton Avenue, Suite 230, Palo Alto, CA 94301, the United States of America
Altamont Consortium	a consortium comprising Altamont Capital Management, LLC, ACP and entities sub-advised by GSO Capital Partners. The entities sub-advised by GSO Capital Partners are FS Investment Corporation I and FS Investment Corporation II.
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or Australian Securities Exchange, as the context requires
Billabong or the Company	Billabong International Limited (ABN 17 084 923 946)
Board	the board of Directors of Billabong
Centerbridge	CCP II Dutch Acquisition – E, B.V.
Centerbridge Options	14,790,926 options over Shares granted to Centerbridge on 3 December 2013, exercisable at A$0.50 per Share, and expiring 7 years from the date of grant
Centerbridge Placement Shares	164,634,147 Shares to be issued to Centerbridge or its Permitted Nominees pursuant to the Placement
C/O Consortium	Centerbridge Partners, L.P. and Oaktree Capital Management, L.P.
C/O Consortium Information	the information regarding the C/O Consortium contained in this Explanatory Memorandum under the heading "Information about the C/O Consortium" (pp 12-14)
C/O Options	the Centerbridge Options and the Oaktree Options
Corporations Act	*Corporations Act 2001 (Cth)*
Director	a director of Billabong
FS Investment I	FS Investment Corporation of 345 Park Avenue, 31st Floor, New York, NY 10154
FS Investment II	FS Investment Corporation II of 345 Park Avenue, 31st Floor, New York, NY 10154
General Meeting	the general meeting of Billabong to be held on Thursday, 30 January 2014
Independent Expert	Grant Samuel
Independent Expert's Report	the report of the Independent Expert which accompanies this document
Listing Rules	the Listing Rules of ASX
New Term Debt	the C/O Consortium providing facilities under which debt of up to US$360 million may be made available by the C/O Consortium
Notice of Meeting	the notice calling the General Meeting
Oaktree	OCM Clean Wave Holdings B.V.
Oaktree Options	14,790,926 options over Shares granted to Oaktree on 3 December 2013, exercisable at A$0.50 per Share, and expiring 7 years from the date of grant
Oaktree Placement Shares	164,634,147 Shares to be issued to Oaktree or its Permitted Nominees pursuant to the Placement
Permitted Nominee	(a) a person that directly or indirectly controls Centerbridge or Oaktree or that is directly or indirectly controlled by: (i) Centerbridge or Oaktree; or (ii) a person that directly or indirectly controls Centerbridge or Oaktree; (each, together with Centerbridge and Oaktree, a "Relevant Person"); or (b) a trust that is directly or indirectly controlled by or managed by a Relevant Person or the trustee of any such trust.
Placement	the placement of 329,268,294 Billabong Shares to the C/O Consortium at A$0.41 per Share (total subscription price of A$135 million)
Placement Shares	the Centerbridge Placement Shares and the Oaktree Placement Shares issued pursuant to the Placement
Proxy Form	the proxy form accompanying this Explanatory Memorandum
Recommending Directors	Dr. Ian Pollard, Mr. Howard Mowlem, Mr. Gordon Merchant, Ms. Colette Paull, Mr. Neil Fiske and Dr. Sally Pitkin[22]
relevant interest	the meaning given to that term in the Corporations Act
Rights Issue	A$50 million non-underwritten, renounceable rights issue at A$0.28 per Share
Share or Billabong Share	a fully paid ordinary share issued in the capital of Billabong
Shareholder	a person registered as the holder of one or more Shares
voting power	the meaning given in the Corporations Act

22 Mr. Jason Mozingo and Mr. Matt Wilson have not made a recommendation as they are nominees of Centerbridge and Oaktree, respectively.

For personal use only

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

LEVEL 6
1 COLLINS STREET MELBOURNE VIC 3000
T: +61 3 9949 8800 / F: +61 3 99949 8838
www.grantsamuel.com.au

20 December 2013

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

Dear Directors

Proposed Recapitalisation by Centerbridge/Oaktree Consortium

1 Introduction

Billabong International Limited ("Billabong" or "the company") is an Australian company with a focus on apparel brands with a surf and board sports heritage. It designs, markets and distributes apparel and related action sport hardware and accessories, both as a wholesaler and through its own retail outlets. Listed on the Australian Securities Exchange ("ASX"), it has operations in Australia and New Zealand, the Americas (principally the USA), Europe, Asia and South Africa. As at 20 December 2013, it had a market capitalisation of approximately $210 million.

Following a period of sharply deteriorating financial performance and growing financial stress, in February 2012 Billabong received a non-binding acquisition proposal from a private equity firm. Since then, Billabong has received five further acquisition proposals and a number of recapitalisation proposals.

On 16 July 2013, Billabong announced that it had reached agreement with the Altamont Consortium ("Altamont") for a re-financing of the company. The re-financing involved the provision of a bridge facility of US$294 million, a proposed equity issue (subject to shareholder approval), the issue of options, and the sale for $70 million of the DaKine brand and business. Billabong drew down on the bridge facility on 19 July 2013, with the proceeds used to refinance its existing syndicated debt facility. The sale of DaKine completed on 23 July 2013. Altamont was issued 42.3 million options at an exercise price of $0.50 per option, but, following Billabong's receipt of a competing recapitalisation proposal, the equity issue to Altamont did not proceed.

On 19 September 2013, Billabong announced that it had entered into agreements with entities affiliated with Centerbridge Partners, L.P. ("Centerbridge") and Oaktree Capital Management, L.P. ("Oaktree") (together the "C/O Consortium") to recapitalise the company (the "Proposal"). The key features of the Proposal are:

- the provision by the C/O Consortium of a US$360 million debt facility to Billabong;
- a $135 million placement of shares to the C/O Consortium ("Placement") at $0.41 per share;
- a $50 million non-underwritten, renounceable rights issue at $0.28 per share, available to all shareholders other than the C/O Consortium ("Rights Issue"); and
- the issue to the C/O Consortium of 29.6 million options with an exercise price of $0.50 per share ("Option Issue").

The C/O debt facility is already available to Billabong. US$300 million was drawn down on 1 November 2013, with the proceeds used to repay the Altamont bridge facility. A further US$20 million was subsequently drawn down and Billabong expects to draw down the remaining $40 million before 31 December 2013. The options under the Option Issue were issued to the C/O Consortium on 3 December 2013. The Rights Issue will only proceed if the Placement is approved.

For personal use only

For personal use only

The Placement and the exercise of the options issued under the Option Issue (collectively "Proposed Equity Issue") will require the approval of Billabong shareholders under S611 Item 7 of the Corporations Act. The Directors of Billabong have requested that Grant Samuel & Associates Pty Limited ("Grant Samuel") prepare an independent expert's report in relation to the Proposed Equity Issue. The expert's report will state whether the Proposed Equity Issue is fair and reasonable having regard to the interests of the members of Billabong.

2 Summary of Opinion

Grant Samuel has concluded that the terms of the Proposed Equity Issue are not "fair". However, there are compelling reasons for Billabong shareholders to approve the Proposed Equity Issue: they will clearly be better off if the Proposed Equity Issue proceeds than if it does not. Accordingly, the Proposed Equity Issue is reasonable having regard to the interests of the members of Billabong.

Australian regulatory policy requires that the fairness of the Proposed Equity Issue be assessed in the same way as if Billabong was the subject of a takeover offer, by comparing an estimated trading range for Billabong shares following the Placement (the notional "consideration" delivered to Billabong shareholders) with the estimated underlying value of Billabong immediately before the Placement. To make this comparison, Grant Samuel is required to adopt a post-Placement trading range for Billabong shares calculated by discounting the estimated full underlying value of Billabong after the Placement. This methodology indicates a post-Placement trading range for Billabong shares of $0.30-0.35. This range is below or at the very bottom end of the range of Grant Samuel's estimates of Billabong's full underlying value ($0.33-0.43 per share[1]). On this basis, the Proposed Equity Issue is not fair.

Estimates of the underlying value of Billabong and of the trading range for Billabong shares immediately following the Placement are subject to considerable uncertainty. Billabong's share price has been extremely volatile, with the share price increasing by around 30% since Billabong's recent annual general meeting. If Billabong shares continued to trade at current levels above $0.40 after the Placement, the Billabong share price would fall within the range of Grant Samuel's estimates of the underlying value of Billabong. Given the fundamental uncertainties inherent in the analysis, conclusions regarding the "fairness" of the Proposed Equity Issue should be treated with considerable caution. Judgements regarding the reasonableness of the Proposed Equity Issue require an assessment of the benefits and disadvantages of the Proposed Equity Issue in the context of Billabong's current position.

Billabong has a pressing need for additional equity. It is highly geared, with limited capacity to cope with any external shocks or further business downturn, and its debt is expensive. Without a significant reduction in debt it will be at risk of breaching the gearing covenant in its senior debt facility. To generate any meaningful recovery in the business, Billabong will need to invest in a range of growth initiatives, including a renewed focus on its key brands and enhancement of business capabilities in key areas such as merchandising, marketing, distribution and supply chain management. Given its current gearing, Billabong's capacity to make these investments is limited. The terms of its debt facilities impose significant restrictions on its ability to re-shape the business while gearing is at current levels.

The prospects of an alternative equity raising appear remote. Billabong's financial position and the need for a recapitalisation have been apparent for some time. Billabong and its advisers have conducted a wide-ranging process seeking proposals for an acquisition or recapitalisation of Billabong. A number of parties have made indicative offers but have withdrawn following detailed due diligence. The C/O Consortium proposal was one of only two proposals received that were capable of acceptance. The terms of the C/O debt facility (which include substantial pre-payment

[1] The estimated range of underlying values for Billabong of $0.33-0.43 per share adjusts for the dilutionary impact of the Rights Issue, on the simplifying assumption that 100% of the rights are taken up.

For personal use only

premiums[2]) constitute a significant impediment to any alternative recapitalisation proposal or any change of control proposal (at least in the short term).

Completion of the Placement and the associated Rights Issue will allow Billabong to materially lower its gearing, reduce its financial risk and improve its profitability and free cash flow. It will provide a "breathing space" for Billabong, allowing Board and management to focus on stabilising and then re-building the business rather than dealing continuously with ownership and financing issues.

The pricing of the Placement at $0.41 per share represents a substantial premium relative to the Billabong share price prior to the announcement of the Altamont recapitalisation proposal (ie to the price at which Billabong shares were trading when there was no assurance that Billabong would be able to achieve a recapitalisation). Existing Billabong shareholders will have an opportunity to acquire shares through the Rights Issue at $0.28 per share, materially lower than the Placement price.

Billabong shareholders' holding in Billabong will be diluted by the Placement, with existing shareholders holding around 55-62% of the diluted shares on issue (depending on the take-up of shares by existing shareholders under the Rights Issue and assuming the subsequent exercise by the C/O Consortium of its options). However, Billabong shareholders will retain exposure to the potential for a turnaround in the Billabong business. On the other hand, failure to approve the Proposed Equity Issue would leave the business in disarray, with the risk of loss of key management, further damage to the business and the need to identify, negotiate and complete an alternative equity solution.

In Grant Samuel's view there are compelling reasons for Billabong shareholders to approve the Proposed Equity Issue. Billabong shareholders will clearly be better off if the Proposed Equity Issue proceeds. The terms of the Proposed Equity Issue are reasonable.

3 Key Conclusions

- **Billabong has been under severe financial stress.**

  From its origins on the Gold Coast, Billabong has grown to be a substantial multi-national business, with major operations in Australia and New Zealand, North America and Europe, and further businesses in South America, Asia and South Africa. However, following many years of growth, the global financial crisis of 2007/2008 and the subsequent consumer retrenchment marked a dramatic turnaround in the fortunes of the company. Earnings at the EBITDA level have declined from $288 million for the 2009 financial year to $75 million for the year ended 30 June 2013. Billabong's share price has fallen from an all-time high of $18.81 in May 2007 to a low of $0.12 in June 2013, and its shares have recently traded in the range $0.40 - 0.45. While a general fall in consumer demand following the GFC was a major cause of the collapse in Billabong's earnings and market value, a number of other factors also contributed, including:

  - surf brands in general appear to have suffered a loss of appeal;
  - the growth of on-line retailing has put pressure on retail margins;
  - Billabong's response to declining profitability included the slashing of marketing spending, further undermining Billabong's brand positioning;
  - major surfwear chains that were important customers of Billabong have switched an increasing proportion of their business to own label product; and

[2] No pre-payment premium is payable in the event of a pre-payment from the proceeds of the Placement or Rights Issue, or from proceeds on the sale of specified Billabong assets.

For personal use only

- partially in response to pressure on its wholesale business, Billabong aggressively grew its retail business, acquiring a number of retail chains during the second half of 2010. Given Billabong's limited retail capabilities, integration of these businesses proved challenging.

Billabong's retail acquisitions increased its debt load whilst failing to arrest the decline in its earnings. The consequence was a highly geared company under considerable financial stress, with only limited equity value. Since February 2012, the Billabong Board and management have focussed on addressing the company's stressed financial position, whilst responding to six acquisition proposals and three separate recapitalisation proposals. The company has experienced significant management turnover. The inevitable result has been management distraction and lack of focus on the underlying business.

- **Valuation of Billabong is problematic.**

Grant Samuel has valued Billabong in the range $166-232 million, representing value of $0.35-0.49 per share. After adjusting for the dilutionary impact of the Rights Issue, the estimated underlying value is $0.33-0.43 per share.

The valuation of Billabong is summarised as follows:

Billabong - Valuation Summary ($ millions)		
	Value Range	
	Low	High
Business operations	600	650
Non-trading liabilities	(122)	(122)
Adjusted net borrowings	(291)	(279)
Value attributed to the Altamont and C/O options	(21)	(17)
Equity value before rights issue	**166**	**232**
Proceeds from rights issue[3]	50	50
Equity value after rights issue	**216**	**282**
Shares on issue (millions)[4]	478	478
Shares to be issued per rights issue (millions)	179	179
Value per share	**0.35**	**0.49**
Value per share diluted for rights issue	**0.33**	**0.43**

The valuation of Billabong represents Grant Samuel's assessment of the full underlying value of the company. It does not represent an estimate of the price at which Grant Samuel would expect shares in Billabong to trade, given current market conditions. Shares in listed companies typically trade at a discount to full underlying value, although, for reasons set out below, this may not necessarily apply in the case of Billabong.

The valuation of Billabong is based on an estimate of the value of Billabong's operating business less net debt and other non-trading liabilities of the company. Billabong's debt level at year end reflects a low point in its working capital cycle. For the purpose of the valuation, Grant Samuel has adjusted Billabong's debt at 30 June 2013 to reflect an average level of facility utilisation across the year, to take into account the proceeds on sale of the DaKine and West 49 businesses and to adjust for transaction costs and other relevant matters. Similarly, Grant Samuel has

[3] Grant Samuel has assumed that the Rights Issue will be fully subscribed. If Billabong shares continue to trade at current prices above $0.40, it appears reasonable to assume that there will be a substantial uptake of the rights given their pricing at $0.28.

[4] The number of shares on issue has been adjusted for the 1.4 million Billabong shares held as Treasury shares in relation to the Billabong executive performance share plan that have not been allocated to employees.

For personal use only

adjusted Billabong's reported cash at 30 June 2013 for cash that is committed in funding arrangements or otherwise not available to the business.

The valuation of Billabong's business has been estimated by reference to capitalisation of earnings and represents the following multiples of earnings:

Billabong – Implied Valuation Parameters			
	Variable ($ million)	Low	High
Multiple of EBITDA - year ended 30 June 2013 (adjusted[5])	78	7.7	8.3
Multiple of EBIT - year ended 30 June 2013 (adjusted)	39	15.4	16.7

In Grant Samuel's view these multiples are reasonable, having regard to the multiples of earnings on which broadly comparable listed companies are trading and the earnings multiples implied by transaction prices in transactions involving broadly comparable companies.

It should be understood, however, that the valuation constitutes a misleadingly precise estimate of the underlying value of Billabong. In reality, in the current circumstances valuation of Billabong is problematic:

- Billabong has experienced a continuing decline in earnings in recent years. The business appears now to have largely arrested that earnings decline but it is not yet clear whether negative market dynamics (particularly in offshore markets) have significantly improved and whether management has been successful in addressing the ongoing erosion in brand value that Billabong has suffered. It appears reasonable to adopt 2013 actual earnings (adjusted for business divestments, one-off items, exchange rate movements and other factors) as earnings for valuation purposes, but in the circumstances there can only be limited confidence that this is appropriate;

- following a recent change in senior management, Billabong is engaged in a wholesale reassessment of its strategy. Pending the completion of that work, there is no reasonable basis for making judgements regarding the likely time required to return to earnings growth, and the investments, costs and business changes that might be necessary to achieve that turnaround;

- given the relatively high degree of gearing and the limited residual equity value of Billabong, small changes in the estimated value of Billabong's business will have a significant impact on the estimated value of Billabong's equity;

- Billabong's debt facility is expensive and its terms (which include material pre-payment premiums) are likely to be a disincentive to any potential acquirer. On one view, given that Billabong's public and lengthy process of engagement with potential acquirers failed to find a buyer prepared to complete a transaction, it is questionable whether there is any party likely to bid for all the shares in Billabong. This view might imply that the underlying value of Billabong (i.e. the change of control value) is close to zero, or at least well below Grant Samuel's valuation range for Billabong;

- it is appropriate also to consider market based indications of value. In this regard:

    - the decision by the members of Billabong's banking syndicate during mid-2013 to sell their debt at a discount to face value suggests that, at least at that time, those banks believed that there was a risk that the Billabong equity had little or no value; and

[5] EBITDA and EBIT for the year ended 30 June 2013 have been adjusted for the sale of DaKine and West 49, one-off items and exchange rate movements

For personal use only

- Billabong has effectively been "for sale" since the announcement of the original TPG approach in February 2013. The most recent offer received (although it was indicative and non-binding) was a $0.60 per share proposal made in April 2013. The proposal was withdrawn in June 2013. This, together with material transaction costs incurred since that time, the issue of options to Altamont and the C/O Consortium and the likely impact on value of the debt financing arrangements that Billabong has subsequently concluded, suggests an upper bound to the valuation of well below $0.60 per share.

In the context of the valuation uncertainty and in particular Billabong's failure to find any party prepared to make a firm offer for 100% of the company, there are good grounds to argue that the underlying value of Billabong could be lower than the range of $0.33-0.43 per share estimated by Grant Samuel.

- **For the purposes of the analysis required by regulatory policy, a post-Placement trading range for Billabong shares of $0.30-0.35 has been adopted.**

Australian regulatory policy requires that the Proposed Equity Issue be assessed on the basis that Billabong is the subject of a change of control transaction. This reflects the possibility that shareholders in approving the Proposed Equity Issue may give up the opportunity to realise a control premium (because the C/O Consortium will end up jointly holding up to 34-40%[6] of the expanded shares on issue). The assessment involves a comparison of full underlying value with the "consideration" to be received by shareholders, where that consideration is deemed to be shares in Billabong after completion of the Placement. For the purpose of the comparison the shares are to be valued at a trading (non-control) value.

Grant Samuel is required by regulatory policy to estimate the post-Placement trading range by applying a discount to its estimate of the full underlying value of Billabong post-Placement. Shares in listed companies generally (although not always) trade at a discount to full underlying value. This discount is notionally the reciprocal of the control premium commonly paid in takeovers. Control premiums are generally in the range 20-35%. However, control premiums are effectively the outcomes of pricing decisions in change of control transactions. It is generally not appropriate to estimate future share trading prices by applying an arbitrary discount to estimated underlying value.

In the case of Billabong, particular care needs to be taken in applying an arbitrary discount to estimated underlying value as the basis for estimating future share trading prices. Billabong shares have recently traded at prices that fall within the range of Grant Samuel's estimates of the full underlying value.

[6] Before taking into account the exercise of options on issue. If the options issued to the C/O Consortium and Altamont were all exercised, the members of the C/O Consortium would jointly hold 33.9-40.8% of the shares on issue, depending on the take up of shares under the Rights Issue.

For personal use only

Notwithstanding these reservations, Grant Samuel has applied the methodology to determine a trading range for Billabong shares post-Placement as follows:

Post-Placement Trading Range ($ million)		
	Low	**High**
Estimated full underlying value (equity value) prior to Placement	166	232
Proceeds from Placement	135	135
Proceeds from Rights Issue	50	50
Estimated full underlying value after Placement and Rights Issue	351	417
Shares on offer after Placement (478m plus 329m plus 179) [7]	986	986
Estimated full underlying value per share after Placement	$0.36	$0.42
Trading range assuming 16.7% discount[8]	$0.30	$0.35
Trading range assuming 25.9% discount	$0.27	$0.31
Trading range adopted	**$0.30**	**$0.35**

On the basis of a discount of 16.7% (corresponding to a takeover premium of 20%), the methodology indicates a trading range of $0.30-0.35. The discount of 16.7% is at the low end of the range of discounts that would generally be applied. However, the trading range of $0.30-0.35 itself appears low, and perhaps unreasonably low, having regard to current Billabong trading prices above $0.40.

A post-Placement trading range of $0.30-0.35 for Billabong shares has been adopted to satisfy the requirements of the regulatory regime and to allow an assessment as to fairness consistent with regulatory policy. It does not represent and should not be construed as Grant Samuel's estimate of the likely future trading price of Billabong shares immediately following the Placement.

- **The Proposed Equity Issue is not fair.**

Grant Samuel has adopted a trading range for Billabong shares post-Placement of $0.30-0.35. This trading range is below or at the very bottom end of the range of Grant Samuel's estimates of the full underlying value of Billabong ($0.33-0.43). Even the top end of the trading range falls only marginally within the range of estimates of the full underlying value of Billabong. On this basis the Proposed Equity Issue is not fair.

Billabong shareholders should understand that this conclusion does not imply that Billabong is disadvantaged by the Proposed Equity Issue. In the ordinary course it is to be expected that almost any placement that conferred control that was analysed within the regulatory framework would be "not fair". Given that shares in listed companies normally trade at a significant discount to underlying value, simple arithmetic dictates that ordinarily a placement would have to be priced at a massive premium to underlying value to increase the value of a company such that the post placement trading price was greater than the pre placement underlying value.

Billabong shares have recently traded at prices above $0.40, well above the trading range of $0.30-0.35 adopted for the purposes of the fairness analysis. Grant Samuel's judgement is that Billabong shares have been trading on the basis that the Proposed Equity Issue will be approved. The market is fully informed as to the terms of the Proposed Equity Issue. Accordingly, it would be reasonable to expect that recent Billabong share prices provide the most reliable evidence as to the price at which Billabong shares are likely to trade immediately after the Placement.

[7] The number of shares on issue has been adjusted for the 1.4 million Billabong shares held as Treasury shares in relation to the Billabong executive performance share plan that have not been allocated to employees.

[8] The discounts adopted of 16.7% and 25.9% represent the inverse of the range of takeover premiums of 20-35% commonly seen in takeover transactions.

For personal use only

However, Billabong's share price has been extremely volatile. For the fortnight before Billabong's annual general meeting on 10 December 2013, Billabong shares traded in the range $0.30-0.35, with a VWAP of $0.33. The closing share price on 9 December 2013 was $0.325. Following the annual general meeting Billabong's share price increased sharply on heavy trading volumes, reaching $0.47 on 12 December 2013. For the period 11-17 December 2013 the VWAP for Billabong shares was $0.43.

Share prices in the range $0.30-0.35 (ie. the trading range immediately prior to Billabong's annual general meeting) are broadly consistent with Grant Samuel's valuation range for Billabong of $0.35-0.49 per share (before adjusting for the dilutionary impact of the Rights Issue). It is more difficult to rationalise trading prices above $0.40 per share, because they suggest that Billabong shares are trading at prices approximating full underlying value.

It is nevertheless conceivable that share trading in Billabong could be an exception to the expectation that shares in listed companies generally trade at a discount to underlying value. Having regard to Billabong's position, a wide variety of views can reasonably be held as to the company's prospects and value. In these circumstances it is possible that sharemarket investors could be prepared to attribute more value to Billabong than are potential acquirers of the company. Billabong has been unable to find any party prepared to bid for all the shares in the company. The fact that Billabong shares were trading at $0.73 immediately before the announcement of the non-binding acquisition proposal for Billabong of $0.60 per share strongly suggests that in the recent past Billabong shares have traded above underlying value. The disincentive that the C/O Consortium debt facility presents to potential acquirers of the company also suggests that Billabong may be more valuable to sharemarket investors.

Overall, recent trading in Billabong shares at prices above $0.40 suggests that Billabong's post-Placement share trading range could fall within the estimated range of full underlying values for Billabong. Such an outcome would indicate that the Proposed Equity Issue was actually fair.

- **Billabong has a pressing need for additional equity.**

Billabong is highly geared. Balance sheet measures of gearing understate the company's economic gearing, because 30 June debt balances reflect seasonal working capital lows and a significant proportion of the cash shown on its balance sheet is not available to Billabong. Based on adjusted net debt for valuation purposes, Billabong's other non-trading liabilities and Grant Samuel's estimate of the underlying value of the company, Billabong's economic gearing is of the order of 65%.

Based on current debt levels, Billabong will have limited head room in its facilities when it has to fund seasonal working capital highs. It has little capacity to deal with any further decline in its business that could result from a downturn in business conditions or other external shocks. At current gearing levels and given recent trading performance, Billabong could not be confident of complying with the gearing covenant in its senior loan facility[9]. While it remains in "High Leverage" for the purposes of its senior debt facility, there are constraints on Billabong's ability to make acquisitions and investments and otherwise to re-shape the business.

Billabong needs to significantly lower its debt levels to reduce its overall financial risk. A reduction in debt will also provide more flexibility under its senior debt facility, and allow the funding of the investments and costs that will be required to initiate a turnaround of the business. Finally, regularisation of the capital structure will provide the stability required to allow Billabong management to focus on managing the business and its turnaround rather than on dealing with ongoing funding issues.

For all these reasons, Billabong has an urgent need for significant additional equity.

[9] The first testing date for the gearing covenant is 31 December 2014.

For personal use only

- **There is no reason to believe that there are superior options available to Billabong.**

  Since the initial approach by a private equity firm in February 2012, Billabong has effectively been "in play". In total, it has received six separate non-binding acquisition proposals, at progressively lower prices, from four separate potential acquirers. In each case, the proposal was ultimately withdrawn following due diligence. In addition, Billabong has received a number of recapitalisation proposals. The proposal from C/O Consortium followed a binding agreement between Billabong and Altamont for a recapitalisation of Billabong, with proceeds from the C/O Consortium debt facility subsequently used to refinance a facility provided by Altamont.

  The process by which Billabong has engaged potential acquirers and providers of recapitalisation solutions has been widely reported. Billabong and its advisers have conducted an exhaustive global search for parties that might have been interested in an acquisition or recapitalisation of Billabong. Billabong and its brands are well known across major markets in North America and Europe. It appears highly unlikely that there is any party that could potentially have been interested in Billabong that has not become aware that Billabong is in play.

  Billabong was unable to secure any binding offer to acquire all of the company, with the final indicative offer at $0.60 per share withdrawn following due diligence. The terms of the C/O Consortium recapitalisation proposal represented the culmination of what was effectively a competitive process between the C/O Consortium and Altamont. At the time that the final C/O Consortium offer of recapitalisation was made, there were few impediments to a counter-proposal to Altamont's recapitalisation proposal, with a ruling from the Takeovers Panel having effectively obliged Altamont to remove aspects of its proposal that might otherwise have been a disincentive to a competitive proposal.

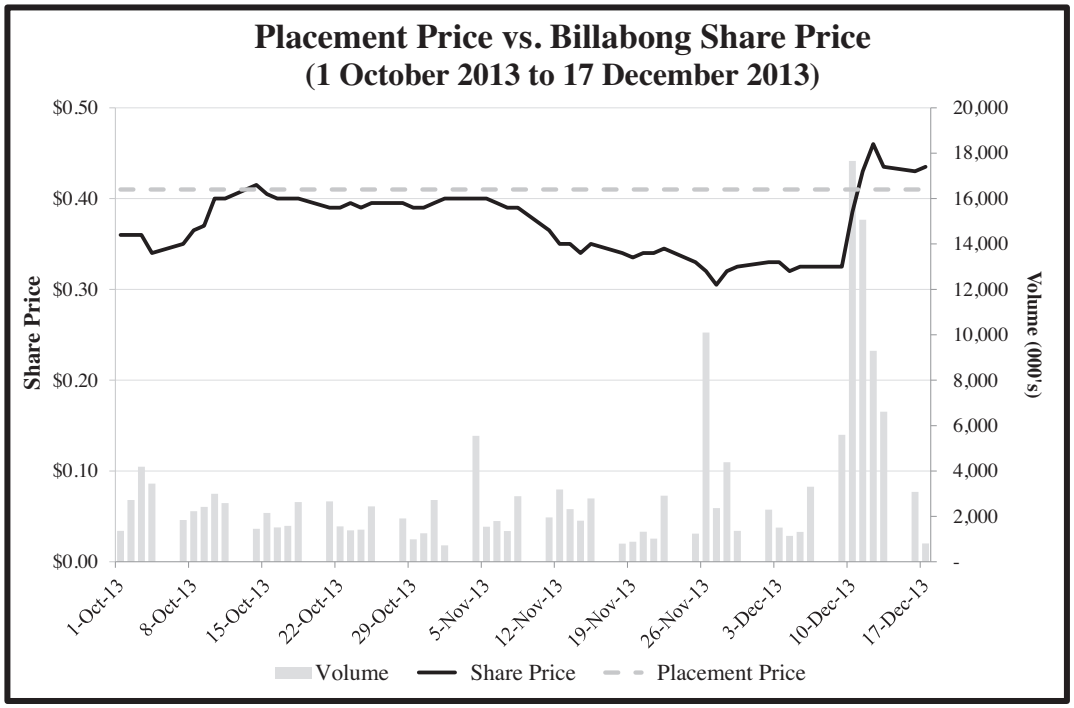
  In short, the process leading to the final C/O Consortium recapitalisation proposal was public and competitive and strongly suggests that the Proposal from the C/O Consortium is the most favourable available to Billabong given its current position. This conclusion is reinforced by the terms of the C/O Consortium's debt facility. The facility terms effectively have the result that any material debt reduction in the first two years of the facility (of the sort that would be contemplated through an alternative recapitalisation or by a potential acquirer of the business[10]), is likely to trigger a significant prepayment premium obligation. The consequence is effectively a poison pill that would discourage any competing proposal for Billabong (at least in the short to medium term). In Grant Samuel's view there is no reason to believe that there are superior options available to Billabong.

[10] The prepayment premium does not apply to a debt reduction funded from the proceeds of the Placement or Rights Issue, or from the proceeds on divestment of specified Billabong assets.

For personal use only

- **The pricing of the Placement is favourable to Billabong shareholders.**

Since the announcement by Billabong on 4 June 2013 that previously announced discussions regarding potential change of control transactions had been terminated, Billabong shares have traded in a wide range of $0.12-0.72, with a volume weighted average price ("VWAP") to 17 December 2013 of $0.36. During the period 1 October to 9 December 2013 (ie the day before Billabong's annual general meeting) Billabong shares generally traded at $0.40 and below (VWAP from 1 October to 9 December 2013 of $0.36), although in the two weeks before the annual general meeting the shares traded at prices below $0.35. Following the annual general meeting, Billabong's share price rose sharply. Billabong's recent share price performance is compared with the Placement price in the chart below:



Source: IRESS

During the period 4 June 2013 to 16 July 2013 (i.e. before the announcement of the Altamont recapitalisation proposal), Billabong shares traded at a VWAP of $0.21. Immediately before the announcement of the Altamont recapitalisation proposal, Billabong shares closed at $0.25. The Placement price of $0.41 represents a substantial premium to the price at which Billabong shares were trading in the absence of a firm proposal to recapitalise the company. The Placement Price represents a smaller but still significant premium to the price at which Billabong shares were trading in the weeks before the Billabong annual general meeting on 10 December 2013. Since the annual general meeting, the Billabong share price has strengthened substantially, with a VWAP for the period 11-17 December 2013 of $0.43. The Placement price of $0.41 represents a small discount to this VWAP. The Placement price is towards the top end of the range of estimated full underlying values for Billabong of $0.33-0.43 per share. Overall, the pricing of the Placement is favourable (and arguably highly favourable) to Billabong shareholders.

The Rights Issue will give Billabong shareholders, excluding the C/O Consortium, an opportunity to subscribe for $50 million of new shares at $0.28 per share, a substantial discount to the pricing of the Placement.

The 29.6 million options granted to the C/O Consortium have an exercise price of $0.50 per share. The exercise price represents a modest premium (around 14-19%) relative to recent Billabong share prices in the range $0.42-0.44, although it represents a substantial premium to the price at which Billabong shares were trading prior to the announcement of the Altamont Proposal (ie. in the absence of a firm proposal to recapitalise the company).

For personal use only

- **Billabong shareholders will have a diluted exposure to the turnaround potential of Billabong.**

  The Proposed Equity Issue will reduce the collective interest of current Billabong shareholders in the company. Before taking into account the exercise of options on issue, current Billabong shareholders will collectively hold 59.3-66.6% of the total shares on issue, depending on the take-up of shares under the Rights Issue. After allowing for the potential dilution from exercise of options, the collective interest of current Billabong shareholders will fall to 54.4-62.1%[11].

  As a result, Billabong shareholders' exposure to the turnaround potential of Billabong will be diluted. However, the reality is that there can be no confidence in Billabong's ability to turn around its business without a substantial raising of new equity. At best, any turnaround would likely take significantly longer to achieve. Absent a recapitalisation, there would be a real risk of a significant reduction in the value of Billabong. Billabong's share price before the announcement of the Altamont recapitalisation proposal (in the range $0.12-0.31) represented a market view at the time of the potential value of the business in the absence of a recapitalisation.

- **The disadvantages of the Proposed Equity Issue are not material having regard to the benefits.**

  The Proposed Equity Issue has a number of disadvantages:

  - shareholders' exposure to Billabong's turnaround potential will be diluted (although absent the Proposed Equity Issue or some alternative equity raising any turnaround would be subject to considerable additional risk);

  - the Proposed Equity Issue includes exercise of the options granted under the Option Issue. The Option Issue has no direct benefit for Billabong (i.e. there is no equity injection until the options are exercised, at which time Billabong may no longer have a pressing need for new equity). The Option Issue effectively represents a further dilution of the interests of existing Billabong shareholders and a value transfer to the C/O Consortium. Grant Samuel has valued the options at $5-7 million. However, the Option Issue is an integral part of the Proposed Equity Issue and the Placement cannot proceed independently. The options represent no more than 2.8-3.4% of the expanded capital and will only be exercised in circumstances in which there has been a material strengthening in the Billabong share price; and

  - the Proposed Equity Issue has implications for the control of Billabong. Given that the C/O Consortium will jointly hold (before taking into account the options on issue) around 33-40% of the Billabong shares on issue, the Consortium members in most circumstances would be in a position to influence the outcome of any proposed change of control transaction (although they would not necessarily act in concert in relation to such a proposal). On the other hand, as financial investors both Centerbridge and Oaktree are likely to be focussed on maximising value and ultimately crystallising that value and their incentives should be broadly aligned with those of other shareholders. The C/O Consortium is entitled to appoint two directors to the Board of Billabong. The majority of directors will be independent and the C/O Consortium will not be able to exercise Board control of Billabong.

  In Grant Samuel's view these disadvantages are not material by comparison with the benefits of the Proposed Equity Issue:

  - the proceeds from the Placement and the associated Rights Issue will allow Billabong to materially reduce its gearing and overall level of financial risk. Billabong will enjoy greater facility headroom and its reduced debt level will significantly reduce the risk of a covenant breach;

[11] The dilution of Billabong shareholders' interests through the potential exercise of options takes into account the 42.3 million options exercisable at $0.50 held by Altamont. These options have already been issued and are exercisable by Altamont, regardless of whether the Proposed Equity Issue is approved.

For personal use only

- the reduction in gearing will result in a loosening of the restrictive conditions of Billabong's senior debt facility, giving Billabong far more flexibility in terms of how it conducts its business;

- Billabong's interest cost will be reduced, improving earnings and free cash flow;

- the Placement and associated Rights Issue will provide the financial capacity required to maximise Billabong's prospects of achieving a successful turnaround of the business. There can be no guarantee that Billabong will be able to achieve a meaningful turnaround (although the investment by the C/O Consortium members presumably suggests that they believe that there are good prospects of a significant turnaround). It is not inconceivable that Billabong could achieve a turnaround without raising new equity. However, a turnaround in those circumstances would be riskier and, even if achieved, is likely to take far longer. The Placement and associated Rights Issue will allow Billabong to more aggressively undertake the restructuring required to reinvigorate its brands, simplify the business and position the company for growth; and

- the consequences for the business if the Proposed Equity Issue is not approved are uncertain. However, they would potentially involve further management destabilisation, the need to re-assess turnaround initiatives and a need to identify, negotiate and complete an alternative equity solution.

It is not possible to be definitive as to the price at which Billabong shares would trade if the Proposed Equity Issue was not approved. The Billabong share price in the period prior to the announcement of the Altamont recapitalisation proposal (during which Billabong shares traded at prices between $0.12 and $0.31) suggests that if the Proposed Equity Issue was not approved then there would be a risk of a significant fall in the Billabong share price (absent some alternative equity raising proposal).

- **Billabong shareholders will be better off if the Proposed Equity Issue is approved.**

Grant Samuel has concluded that the Proposed Equity Issue is not fair, on the basis that the range of post-Placement share prices adopted for the analysis falls below or is at the very bottom end of Grant Samuel's range of estimates of the underlying value of Billabong prior to the Placement. However, shareholders should understand that in any event they are unlikely to be giving up a realistic prospect of realising Billabong's full underlying value, as evidenced by Billabong's inability to conclude any change of control transaction over the last 18 months. Moreover, shareholders will presumably have at least some opportunity to realise underlying value in the future, as Oaktree and Centerbridge can be expected to seek to maximise the value of their investments.

Regardless of whether the Proposed Equity Issue is deemed to be fair, in Grant Samuel's view there are compelling reasons for Billabong shareholders to approve the Proposed Equity Issue. Billabong shareholders will clearly be better off if the Proposed Equity Issue proceeds. The new equity will allow Billabong to significantly reduce its high level of gearing. It will provide the funding required for Billabong to embark on a turnaround of the business. The pricing of the Placement is at a meaningful premium to the price at which Billabong shares were trading in the absence of any concrete recapitalisation proposal. If the Proposed Equity Issue was not approved, there would be a risk of a significant fall in the Billabong share price. Accordingly, the Proposed Equity Issue is reasonable.

For personal use only

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 Explanatory Memorandum issued by Billabong in relation to the Proposed Equity Issue.

Voting for or against the Proposed Equity Issue is a matter for individual shareholders, based on their own views as to value, their expectations about future 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 Proposed Equity Issue should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Billabong, and whether to participate in the Rights Issue. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Equity Issue. Shareholders should consult their own professional adviser in this regard.

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.

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.

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

Grant Samuel & Associates

For personal use only



Financial Services Guide
and
Independent Expert's Report
in relation to the
Proposed Equity Issue to the
Centerbridge/Oaktree Consortium

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

20 December 2013

GRANT SAMUEL

GRANT SAMUEL & SSOCIATES

LEVEL 6
1 COLLINS STREET MELBOURNE VIC 3000
T: +61 3 9949 8800 / F: +61 3 9949 8838
www.grantsamuel.com.au

For personal use only

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 Ltd ("Billabong") in relation to the Proposed Equity Issue to the Centerbridge/Oaktree Consortium ("the 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 in order 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 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 Proposed Equity Issue.*
>
> *Grant Samuel had no part in the formulation of the Proposed Equity Issue. 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 Proposed Equity Issue. 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 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.

Table of Contents

1 Terms of the Proposal 1

2 Scope of the Report 2
- **2.1 Purpose of the Report 2**
- **2.2 Basis of Evaluation 3**
- **2.3 Sources of the Information 5**
- **2.4 Limitations and Reliance on Information 5**

3 Profile of Billabong 8
- **3.1 Background 8**
- **3.2 Brands and Business Structure 9**
- **3.3 Business Strategy 12**
- **3.4 Australasia 13**
- **3.5 Americas 14**
- **3.6 Europe 15**
- **3.7 Financial Performance 17**
- **3.8 Financial Position 19**
- **3.9 Cash Flow 20**
- **3.10 C/O Consortium Debt Facility 20**
- **3.11 Taxation Position 21**
- **3.12 Capital Structure and Ownership 21**
- **3.13 Share Price Performance 22**

4 Valuation of Billabong 26
- **4.1 Summary 26**
- **4.2 Methodology 28**
- **4.3 Value of Business Operations 31**
- **4.4 Non-trading Liabilities 38**
- **4.5 Net Borrowings 38**
- **4.6 Options 39**

5 Evaluation of the Proposed Equity Issue 40
- **5.1 Conclusion 40**
- **5.2 Fairness 41**
- **5.3 Reasonableness 45**
- **5.4 Shareholder Decision 51**

6 Qualifications, Declarations and Consents 52
- **6.1 Qualifications 52**
- **6.2 Disclaimers 52**
- **6.3 Independence 52**
- **6.4 Declarations 53**
- **6.5 Consents 53**
- **6.6 Other 53**

Appendices

1 Market Evidence - Transactions
2 Market Evidence - Comparable Listed Companies

For personal use only

For personal use only

1 Terms of the Proposal

Billabong International Limited ("Billabong" or "the company") is an Australian company with a focus on apparel brands with a surf and board sports heritage. It designs, markets and distributes apparel and related action sport hardware and accessories, both as a wholesaler and through its own retail outlets. Listed on the Australian Securities Exchange ("ASX"), it has operations in Australia and New Zealand, the Americas (principally the United States of America), Europe, Asia and South Africa. As at 20 December 2013 it had a market capitalisation of approximately $210 million.

Following a period of sharply deteriorating financial performance and growing financial stress, in February 2012 Billabong received a non-binding acquisition proposal from a private equity firm. Since then, Billabong has received five further acquisition proposals, all of which were highly conditional and non-binding, and a number of recapitalisation proposals.

On 16 July 2013, Billabong announced that it had reached agreement with the Altamont Consortium ("Altamont") for a re-financing of the company. The re-financing involved the provision of a bridge facility of US$294 million, a proposed equity issue (subject to shareholder approval), the issue of options, and the sale for $70 million of the DaKine brand and business. Billabong drew down on the bridge facility on 19 July 2013, with the proceeds used to refinance its existing syndicated debt facility. The sale of DaKine completed on 23 July 2013. Altamont was issued 42.3 million options at an exercise price of $0.50 per option. However, following Billabong's receipt of a competing recapitalisation proposal, the equity issue to Altamont did not proceed.

On 19 September 2013, Billabong announced that it had entered into agreements with entities affiliated with Centerbridge Partners, L.P. ("Centerbridge") and Oaktree Capital Management, L.P. ("Oaktree") (together the "C/O Consortium") for an alternative recapitalisation of the company (the "Proposal"). The key features of the Proposal are:

- the provision by the C/O Consortium of a US$360 million debt facility to Billabong;
- a $135 million equity placement to the C/O Consortium ("Placement") at $0.41 per share;
- a $50 million non-underwritten, renounceable rights issue at $0.28 per share, available to all shareholders other than the C/O Consortium ("Rights Issue"); and
- the issue to the C/O Consortium of 29.6 million options with an exercise price of $0.50 per share ("Option Issue").

The debt facility is already available to Billabong and US$300 million was drawn down on 1 November 2013. The proceeds were used to repay the Altamont bridge facility. A further US$20 million has subsequently been drawn down and Billabong plans to draw down the remaining $40 million before 31 December 2013. The options under the Option Issue were issued to the C/O Consortium on 3 December 2013. The Rights Issue will only proceed if the Placement is approved. The Placement and the exercise of the options issued under the Option Issue (collectively "Proposed Equity Issue") will require the approval of Billabong shareholders in general meeting under S611 Item 7 of the Corporations Act. The Proposed Equity Issue must be approved by a majority in number of the Billabong shareholders who vote at the meeting (in person or by proxy).

For personal use only

2 Scope of the Report

2.1 Purpose of the Report

The Proposed Equity Issue is subject to the approval of Billabong shareholders in accordance with Item 7 of Section 611 of the Corporations Act.

Section 606 of the Corporations Act effectively prohibits a person from acquiring a relevant interest in a public company where that person's voting power increases from 20% or below to in excess of 20% or, if that person already has voting power in excess of 20%, their voting power would increase further, except in certain limited circumstances. Item 7 of Section 611 allows non associated shareholders to waive the Section 606 prohibition by passing a resolution in a general meeting. The Placement will result in the members of the C/O Consortium collectively acquiring a relevant interest in approximately 33.4-40.7% of the shares in Billabong (depending on the extent to which existing shareholders subscribe for shares under the Rights Issue). The exercising of options issued under the Options Issue would further increase the relevant interest in Billabong shares of the members of the C/O Consortium. Consequently, Billabong is seeking shareholder approval for:

- the issue of shares in excess of 20% of the issued capital of Billabong to the members of the C/O Consortium under the Placement; and
- the future exercise of options issued to the members of the C/O Consortium under the Option Issue.

Shareholders voting pursuant to Item 7 of Section 611 of the Corporations Act are to be provided with a comprehensive analysis of the proposed transaction. The directors of the company may satisfy their obligations to provide such an analysis by commissioning an independent expert's report.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the 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 Proposed Equity Issue is fair and reasonable having regard to the interests of Billabong shareholders, and to state reasons for that opinion.

The report will accompany the notice of meeting and explanatory memorandum (the "Explanatory Memorandum") 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 Explanatory Memorandum issued by Billabong in relation to the Proposal.

Voting for or against the Proposed Equity Issue is a matter for individual shareholders based on their views as to value, their expectations about future 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 Proposed Equity Issue should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Billabong, including whether to participate in the Rights Issue. These are investment decisions upon which Grant Samuel does not offer an opinion, and are independent of a decision to vote for or against the Proposed Equity Issue. Shareholders should consult their own professional adviser in this regard.

For personal use only

2.2 Basis of Evaluation

The Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG 111") which establishes guidelines in respect of independent expert's reports. RG 111 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.

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the shareholders are likely to be better off if the proposal is implemented than if it is not. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

RG 111 provides that a proposal pursuant to Item 7 of Section 611 involving the issue of securities should be analysed by an expert as if it were a takeover offer. In this case, the Proposed Equity Issue involves the issue of shares in Billabong to the members of the C/O Consortium in return for cash. The effect of the transaction is to increase the interest in Billabong of the C/O Consortium members to 33.4-40.7%. Similarly, the effect of a future exercise of the options issued under the Options Issue would be further increase the interest of the members of the C/O Consortium beyond 20%. Accordingly, Grant Samuel has evaluated the Proposed Equity Issue as a control transaction and formed a judgement as to whether the Proposed Equity Issue is "fair and reasonable" to the existing shareholders of Billabong.

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 is "reasonable" if it is fair. RG 111 provides that an offer could be "reasonable" if, despite being "not fair", there were sufficient reasons for shareholders to accept an offer in the absence of any higher bid before the close of the offer. ".

Fairness is a more demanding criteria. 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 in excess of the 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.

The regulatory framework requires that the Proposed Equity Issue be evaluated on the basis of takeover analysis, as if it were a takeover of Billabong by the members of the C/O Consortium. The Proposed Equity Issue does not involve the direct provision of any consideration to Billabong shareholders by the members of the C/O Consortium. Following the Proposed Equity Issue,

For personal use only

Billabong shareholders will continue to hold shares in Billabong, although the value and likely trading price of those shares will be affected by the Placement. Given that the members of the C/O Consortium will not provide any consideration directly to Billabong shareholders, application of takeover analysis to the Proposal is problematic. The regulatory framework requires that the "consideration" be taken to be the shares in Billabong following implementation of the Proposed Equity Issue. Conceptually, this approach implies that Billabong shareholders will be surrendering the opportunity to realise full underlying value (i.e. a value including a control premium) and so "fairness" from their perspective would require that they are compensated by an adjustment to the trading price of Billabong shares such that the trading price of Billabong shares immediately after the completion of the Proposed Equity Issue matches or exceeds the full underlying value of Billabong immediately before the Proposed Equity Issue.

Accordingly, on this formulation of fairness the Proposed Equity Issue would be fair if the expected trading price of shares in Billabong following the Proposed Equity Issue was equal to or greater than the estimated full underlying value of Billabong before the Proposed Equity Issue.

In considering whether the Proposed Equity Issue is reasonable, the factors that have been considered include:

- Billabong's current financial position and its requirement for additional equity;
- Billabong's recent financial performance and the certainty of expectations regarding trading performance and cash flow from operations;
- the terms of Billabong's finance facilities, including in particular the prepayment premiums (penalties) associated with prepayments funded by equity issues other than the Placement and the Rights Issue;
- the inter-conditionality of the Placement and the Option Issue;
- the relationship between the Placement and the Rights Issue;
- the pricing of the Placement relative to recent Billabong share prices and to Grant Samuel's estimate of the full underlying value of Billabong;
- the dilution of the interests of existing shareholders caused by the Placement;
- the extent to which the Proposed Equity Issue is likely to enhance the prospects of a turnaround of the Billabong business;
- the potential consequences if the Proposed Equity Issue is not approved by shareholders; and
- any other benefits and disadvantages of the Proposed Equity Issue.

For personal use only

2.3 Sources of the Information

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

Publicly Available Information

- Billabong's Explanatory Memorandum (including earlier drafts);
- annual reports of Billabong for the five years ended 30 June 2013;
- 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
- 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 industry.

Non Public Information provided by Billabong

- management accounts for Billabong for the period ended 30 June 2013 and the months ended 30 September and 31 October 2013;
- budgets and updated forecasts for the year ending 30 June 2014 prepared by Billabong management;
- monthly profitability data for the 2013 financial year and year-to-date 31 October 2013;
- consolidated historical profit and loss information normalised for divestments and on a constant currency basis for the five years ended 30 June 2013;
- cash flow forecasts for Billabong;
- various consultants' reports in relation to Billabong's financial position;
- transaction documents relating to the C/O Consortium Proposal; and
- other confidential documents, board papers, presentations and working papers.

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 Proposed Equity Issue is fair and reasonable having regard to the

For personal use only

interests of the shareholders of Billabong. However, Grant Samuel does not warrant that its inquiries have identified or verified all of 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. Grant Samuel is not in a position nor is it practicable to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers.

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 consists 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. 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).

The information provided to Grant Samuel included:

- the budget for Billabong for the year ending 30 June 2014 ("Billabong Budget"), prepared by Billabong management; and
- revised forecasts for Billabong for the period ending 30 June 2014, prepared by Billabong management.

Billabong is responsible for the information contained in the Billabong Budget and the revised forecasts ("the forward looking information"). Billabong has advised that changes to the business (including asset divestments), changes in exchange rates and changes in expected trading performance are such that the Billabong budget is no longer an appropriate basis for estimating the likely financial performance of Billabong for the year ended 30 June 2014. Revised forecasts prepared by Billabong management reflect the current structure of the business, the effect of changes in exchange rates, actual trading to date and current expectations regarding trading for the remainder of the financial year. However, Billabong is currently undertaking a strategic review of the business. The conclusions of this review, the consequent decisions as to what business restructuring initiatives are required, and the consequences for the business in terms of restructuring costs and on-going profitability, are all outstanding. Moreover, Billabong remains exposed to uncertain consumer sentiment, particularly in the US and Europe, and volatile exchange rate movements, and its earnings are seasonally concentrated around the Christmas trading period. These factors suggest that extreme caution needs to be applied in considering any earnings forecast prepared by the company in its current circumstances. In light of these matters, Grant Samuel, while giving due consideration to the forecast financial information (in part to assess the degree of uncertainty relating to Billabong's short term financial performance) has concluded that it is not appropriate to rely on the revised forecasts for the purposes of this report.

The directors of Billabong have decided not to include any of the forecast financial information in the Explanatory Memorandum and therefore neither the Billabong budgets nor the revised forecasts have been disclosed in this report.

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 with regard to legal, regulatory, tax and accounting matters relating to the Proposed Equity Issue are accurate and complete;
- the information set out in the Explanatory Memorandum 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 Proposed Equity Issue will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposed Equity Issue 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.

For personal use only

For personal use only

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 holds a portfolio of ten brands, including its flagship Billabong brand. It has major businesses in Australasia, the Americas and Europe[1].

Billabong was founded in 1973 by Gordon and Rena Merchant in Gold Coast, Queensland, as a board short manufacturer. Billabong 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 expanded into Japan, and Europe. In August 2000, Billabong listed on the ASX, issuing 192 million shares at $2.30 per share to retail investors and $2.60 per share to institutional investors.

Between 2000 and 2010, Billabong acquired eleven brands and expanded its retail presence[2]. 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. Between the 2009 and 2011 financial years Billabong aggressively grew its retail business, in part in response to pressure on its wholesale business. Billabong acquired a number of retail chains, growing its store numbers from 335 retail outlets at 30 June 2009 to 639 outlets by 30 June 2011. Retail sales increased from $288 million in the 2009 financial year to $618 million in the 2011 financial year[3]. 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 of America 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. Its share price fell from a high of $18.51 in May 2007 to $1.77 at the end of 2011. In February 2012, the company received a non-binding acquisition proposal from a private equity firm. Since then, Billabong has received five further acquisition proposals and a number of recapitalisation proposals, culminating in the recapitalisation proposal from the C/O Consortium announced on 19 September 2013. The company has experienced significant change at a senior management level and has announced a number of strategic initiatives. It continues to review its strategic options. However, it has already commenced a process of simplification and rationalisation, including through the divestment or closure of underperforming retail operations. As at 30 June 2013, Billabong distributed its own brands and other product through over 10,000 retail sites ("doors") across all regions through its wholesale operations, 562 retail outlets, and two primary online retail platforms.

---

1 Billabong's Australasian business includes operations in Australia, New Zealand, South Africa, Japan and elsewhere in Asia.

2 VonZipper (2001), Element (2001), Honolua (2003), Kustom and Palmers (2004), Nixon (2006), Xcel and Tigerlily (2007), Sector 9 and DaKine (2008) and RVCA (2010). In addition, Billabong has exclusive global licensing rights for the Plan B brand. These rights will terminate in 2014.

3 Retail sales shown on a constant currency basis.

For personal use only

3.2 Brands and Business Structure

3.2.1 Brands

Billabong owns a portfolio of brands in the surf, skate, and snow apparel and hard goods markets. Billabong's portfolio consists of ten brands: Billabong, Element, RVCA, VonZipper, Kustom, Xcel, Tigerlily, Sector 9, Honolua and Palmers.

Billabong's brands are managed through direct operations in Australia, Brazil, Canada, France, Indonesia, Japan, New Zealand, Singapore, South Africa and the United States of America ("USA"). The brands are distributed, either directly or indirectly, through more than 100 countries.

A brief overview of each of Billabong's brands 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 focused on its culturally relevant association with board sport athletes and events. The brand health of Billabong remains strong notwithstanding a reduction in marketing spend in recent years, with the brand being the preferred board sport lifestyle brand in Australia and in the top three for under 21 year olds in the USA.

Element

Element was founded in 1992 in California, USA, and is a global skateboard brand. Billabong acquired Element in 2001. Element focuses on street lifestyle apparel, with an emphasis on organic, sustainable and environmentally friendly materials, and is generally competitively priced. Element is a major brand within the portfolio and is a key focus for the company.

RVCA

RVCA was established in 2000 and acquired by Billabong in 2010. RVCA is a design-driven youth lifestyle brand. RVCA is built around its Artist Network Program, which gives a unique cast of artists, athletes and advocates a platform for creative expression, which is utilised to create graphics for its apparel. It is a premium youth brand which generally commands strong prices. RVCA presents a growth opportunity for Billabong, as the brand has performed well in the USA and Billabong plans to increase awareness of the RVCA brand in Australasia.

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, defined by its unique mix of products, novel advertising and imagery, and iconic athletes.

Kustom

Kustom was established in 2000 in Australia, and was acquired by Billabong in 2004. Kustom is a footwear brand that focuses on the casual beach and surf lifestyle market and places an emphasis on environmentally sustainable materials and production methods.

Xcel

Xcel was established as a speciality wetsuit brand in 1982 in Hawaii and acquired by Billabong in 2007. Xcel has established itself as premium international brand and produces

For personal use only

surf, dive, and military wetsuits and accessories, with surf wetsuits being its primary revenue generator.

Tigerlily

Tigerlily was founded in 2000 in Australia and acquired by Billabong in 2007. Tigerlily is a premium women's swimwear and apparel brand that utilises unique fabrics and design aesthetics focusing on the Australian swimwear market. The brand has performed well in the Australian market and is recognised as having further growth potential.

Sector 9

Sector 9 was founded in 1994 and acquired by Billabong in 2008. Sector 9 is an established brand in the skateboard and skate lifestyle products segments and is a market leader in the long board segment of the skateboard market.

Honolua

Billabong acquired the Honolua brand and associated chain of Hawaii-based retailed stores in 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.

Billabong's top three brands by revenue are Billabong, Element, and RVCA, with Billabong representing more than 50% of wholesale standalone revenue for the company. The Billabong and Element brands have experienced declining sales in recent years. This has been partially offset by strong growth in sales for the RVCA and Sector 9 brands.

The following table shows the product mix for each brand:

Billabong Brand Matrix

	Billabong	Element	Kustom	RVCA	Sector9	Tigerlily	VonZipper	Xcel	Honolua	Palmers
Geography										
Australasia	✓	✓	✓	✓	✓	✓	✓	✓		✓
The Americas	✓	✓		✓	✓		✓	✓	✓	
Europe	✓	✓	✓	✓	✓		✓	✓		
Brand mix										
Men's apparel	✓	✓		✓	✓		✓	✓	✓	
Ladies apparel	✓	✓		✓		✓	✓	✓	✓	
Youth apparel	✓	✓		✓	✓			✓		
Outerwear	✓	✓								
Hard goods	✓	✓			✓					
Wetsuits	✓							✓		
Sunglasses							✓			
Watches	✓									
Accessories	✓	✓		✓	✓		✓	✓		✓
Ladies swimwear	✓			✓		✓			✓	
Footwear	✓	✓	✓							

Source: Billabong

For personal use only

3.2.2 Business Structure

Billabong's management classifies its operating segments into three geographical regions:

- Australasia: consists of Australia, New Zealand, Asia and South Africa. The two largest geographies by revenue are Australia and Japan.
- Americas: includes the USA, Canada and Brazil. In addition, Billabong recently moved to a distribution model in Peru and Chile.
- Europe: operates in the following ten countries: Austria, Belgium, Czech Republic, England, France, Germany, Italy, Luxemburg, the Netherlands, and Spain.

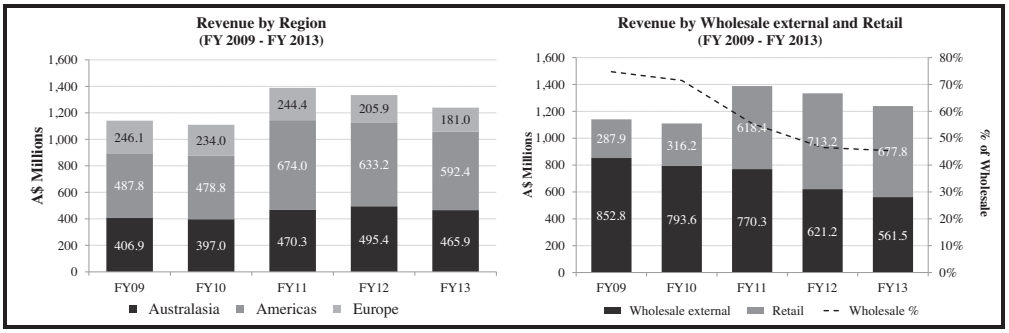
Billabong's products are sold via three main commercial channels:

- 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: the company owned a total of 554 retail stores as at 31 October 2013. 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. Outlet stores facilitate the sale of previous season inventory, predominantly for the wholesale business.
- Online: Billabong sells its products online through brand-specific websites and two main multi-brand platforms, SurfStitch and Swell. Swell, acquired by Billabong in November 2009, operates as Billabong's online platform for the Americas region and generated approximately 8% of the region's retail revenue in the 2013 financial year. SurfStitch is Billabong's primary online platform for Australia and the European region. Billabong acquired 20% of SurfStitch in December 2009 and has subsequently increased its interest to 51% in Australia, with options to acquire the remaining 49%. In Europe, Billabong has owned 51% of Surfstitch since its establishment. SurfStitch generated approximately 15% of retail revenue in the Australasian region and 12% of retail revenue in the European region in the 2013 financial year.

Billabong has aggressively increased its retail sales in recent years, primarily via the acquisition of a number of retail chains. While Billabong's total revenue has remained relatively flat, the proportion of total revenue constituted by retail sales has increased over time. Billabong's wholesale business supplies both Billabong and third party retail outlets. Billabong's total wholesale revenue in the 2013 financial year was approximately $755 million, of which approximately $562 million was supplied to third party retail outlets and the balance was supplied to Billabong owned retail stores. As Billabong's retail presence has expanded, its external (third party) wholesale revenue as a proportion of total revenue has fallen significantly, from approximately 75% in the 2009 financial year to 45% in the 2013 financial year. The growing proportion of retail sales has contributed to the fall in the company's margins, given the inherently lower margins of the retail business.

The chart below presents Billabong's revenue by channel between financial year 2009 and 2013[4]:

[4] The information set out below has been normalised for the divestment of the Nixon and DaKine businesses, and presented on a constant currency basis based on average annual exchange rates. Accordingly, it will not reconcile to Billabong's reported results.



Source: Billabong

3.3 Business Strategy

Billabong has historically been a predominantly wholesale business with a focus on building the value of its brand. The rapid expansion of its retail business was partially in response to, but ultimately exacerbated the effects of, the challenging trading conditions faced by Billabong in recent years, including:

- the broad weakening in consumer confidence following the global financial crisis. This effect was particularly apparent in the USA and European markets;
- a decline in the appeal of surf lifestyle apparel;
- the margin pressure caused by the growth of online retailing; and
- the growing focus on the part of major wholesale customers on own label rather than branded products.

Billabong's response, including the acquisition of a number of retail chains and a reduction in marketing expenditure relative to sales, compounded the effect of these factors. The focus on retail growth diverted management attention from the core business and the performance of the key Billabong brand deteriorated. Billabong had become a complex multi-national business, with a broad range of brands, extensive merchandise range, multiple distribution channels and a costly management infrastructure, facing falling earnings and high levels of debt.

During 2012, Billabong responded with various initiatives to rationalise the business, improve profitability and reduce leverage.

- On 17 February 2012, Billabong announced the results of a "Strategic Capital Structure Review", which included:
  - the partial sale of Nixon, a sports watch business, to Trilantic Capital Partners ("Trilantic"), with net proceeds of US$285 million used to reduce debt;
  - the planned closure of underperforming stores. At the time, Billabong had 677 owned stores. By 30 June 2013, 158 underperforming stores had been closed and on 4 November 2013, the company announced the sale of the West 49 retail business; and
  - a cost reduction program to generate expected savings of approximately $30 million. These savings were to come from rationalising all regions and all areas of the business, including a reduction of head office costs, supply chain rationalisation, retail overhead reduction and a streamlining of the company's marketing expenditure.
- On 27 August 2012, Billabong announced a transformation plan, which included:
  - simplification of the business;
  - a focus on re-building the Billabong brand and other key brands;
  - the development of a global e-commerce platform; and
  - globalisation and integration of the supply chain.

For personal use only

For personal use only

During the 2012 and 2013 financial years, Billabong's ability to turn around its business was hampered by a number of factors:

- numerous changes at a senior management level;
- the need for Billabong's board and management to respond to multiple acquisition and recapitalisation proposals, reducing their capacity to focus on the business; and
- capital constraints that have limited Billabong's ability to invest in the business.

Since the announcement of the C/O Consortium proposal and the appointment of a new chief executive, Billabong has commenced work on a further review of the business. This is expected to result in a brand focussed strategy with merchandising, marketing, distribution channels, supply chain management and organisational structure all to be reviewed to align with the positioning of Billabong's brands.

3.4 Australasia

Billabong's Australasian business ("Australasia") contributed 37.6% of Billabong's total revenue in the 2013 financial year. The Australasian segment includes operations in Australia, New Zealand, Japan, Singapore, South Africa, Indonesia and other Asian countries. As at 31 October 2013, Australasia's retail business operated 126 multi-brand stores, 82 mono-brand stores, and 38 outlet stores. Product sold by Australasia's wholesale operations is distributed through approximately 2,000 doors, with the major wholesale customers being City Beach, General Pants, Murasaki, David Jones, Ozmosis, Edgars, and North Beach. There are nine online retail platforms across the Australasian region, with SurfStitch being the primary revenue generator.

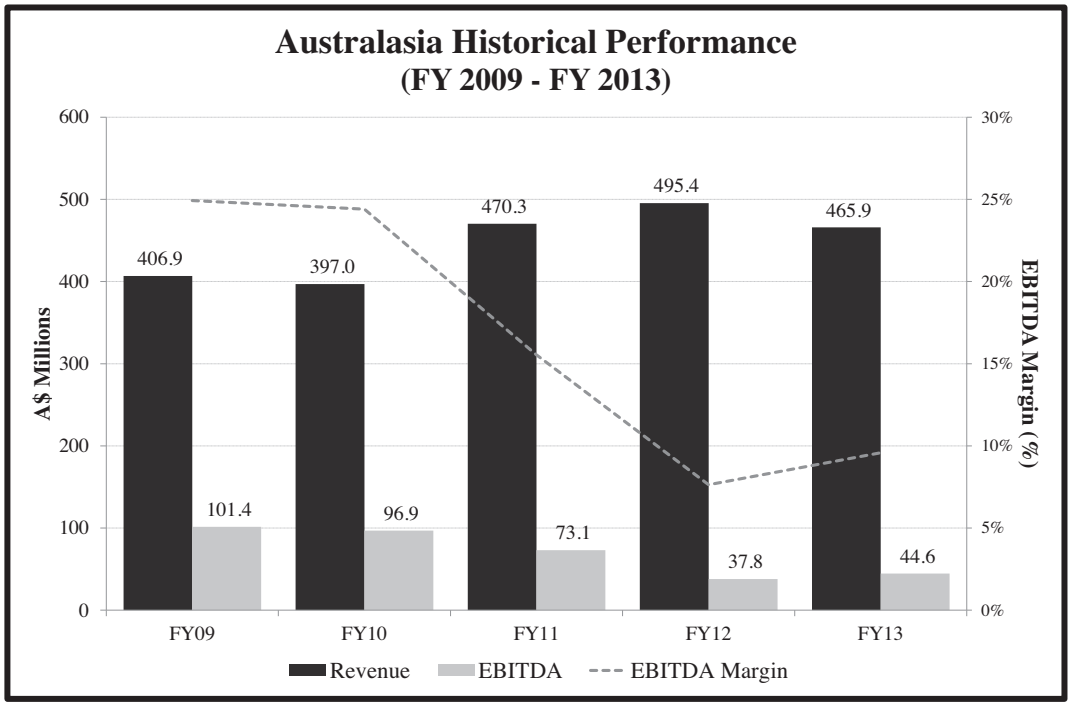
The Australian business is the largest of the businesses in the Australasian segment. Historically focussed on wholesaling, the Australian business was significantly re-shaped in November 2010 through the acquisitions of the Surf Dive 'n' Ski, Jetty Surf and Rush Surf retail chains. After early integration challenges, these chains are now supported by a single retailing system, which should allow Billabong to continue to deliver incremental earnings. The Australian retail business is heavily skewed towards multi-brand stores (reflecting the retail chain acquisitions of late 2010). It has relatively few mono-brand stores, providing an opportunity for future growth.

Between the 2009 and 2013 financial years Australasian revenue grew at around 3.4% per annum, while the EBITDA margin fell from 24.9% to 9.6%. Wholesale (internal and external) revenues and margins fell significantly, reflecting weak consumer sentiment, the need for promotional pricing, increased competition from online shopping, the appreciation in the Australian dollar, the failure of many smaller retailers and the loss of revenue from major wholesale customers such as City Beach. Retail revenues more than doubled as a result of Billabong's retail chain acquisitions, but the increased retail revenue has delivered lower margins.

The result was a fall in EBITDA from $101.4 million for the year ended 30 June 2009 to $37.8 million for the year ended 30 June 2012. The subsequent turnaround to EBITDA of $44.6 million for the 2013 financial year reflected a number of factors, including the completion of the integration of the retail chains acquired in Australia in late 2010, the closure of loss making stores and an increase in online sales. The online sales channel for Australian retail, SurfStitch, generated $48.8 million of revenue in 2013, up from $31.2 million in the 2012 financial year.

Australasia's revenue, EBITDA, and EBITDA margin between the 2009 and 2013 financial years are presented below[5]:

[5] The information regarding revenue, EBITDA and EBITDA margin has been normalised for the divestment of Nixon and DaKine and other significant items, excludes global overhead allocation, and is presented on a constant currency basis. Accordingly, it will not reconcile to Billabong's reported results.



Source: Billabong

3.5 Americas

Billabong's business in the Americas ("Americas") represented 47.8% of Billabong's total revenue in financial year 2013. The Americas segment includes operations in the USA, Canada, and Brazil, and recently moved to a distribution operation in Peru and Chile. As at 31 October 2013, the Americas retail business operated 134 multi-brand stores, 44 mono-brand stores, and 17 outlet stores. The major wholesale customers for the region include Buckle Incorporated, Zumiez, Pacific Sunwear, Tilly's Incorporated, Zappos.com, Nordstrom Incorporated and Boathouse. The primary online platform for the Americas is Swell. In addition, there are eleven branded online retail platforms and five multi-branded websites corresponding to "bricks and mortar" retail banners.

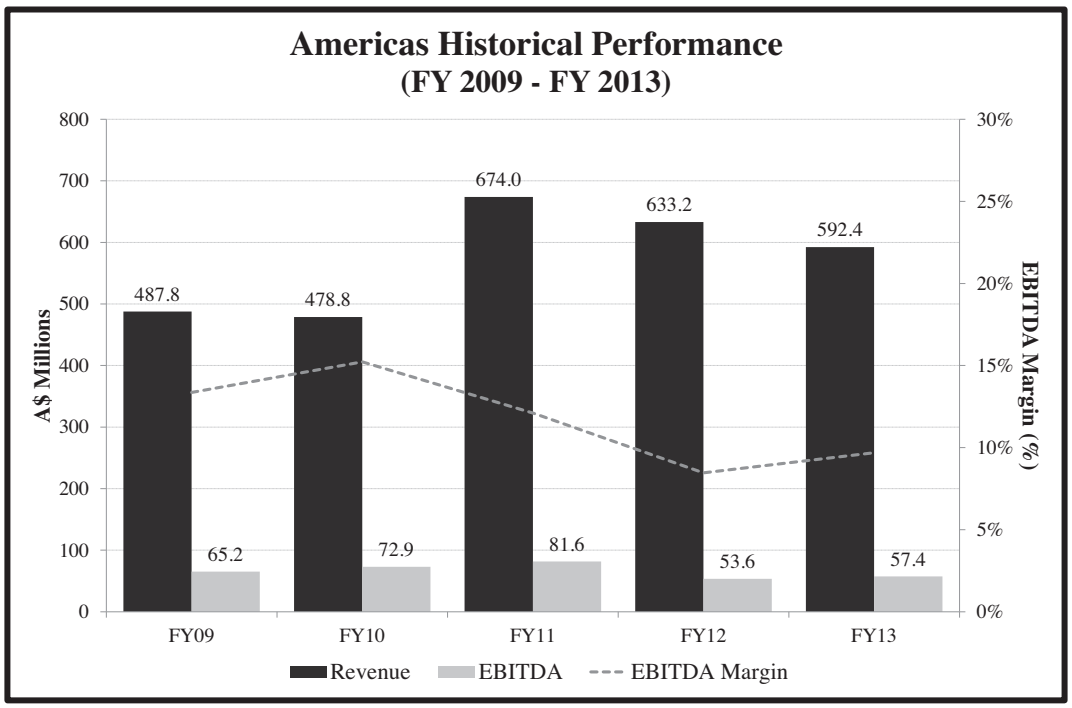
In September 2010 Billabong acquired the West 49 retail business in Canada, which operated 138 stores under various banners. Since then, however, it has been forced to rationalise the Americas business. Since the announcement of a capital structure review in February 2012, the Americas has closed 73 underperforming retail stores to 30 June 2013, curtailed wholesale sales to 'close out' channels, and will largely exit the Canadian market when the sale of West 49 is completed.

Between the 2009 and 2013 financial years, revenue for the Americas grew by 5.0% per annum while the EBITDA margin fell from 13.4% to 9.7%. The revenue growth was largely the result of the acquisition of the West 49 retail chain and the RVCA brand. Challenging economic conditions, poor consumer sentiment and high levels of promotional pricing all contributed to the margin decline, which was exacerbated by the shift towards lower margin retail sales. EBITDA margins improved in the 2013 financial year, in part due to the rationalisation of the store network and the reduction in sales to close out channels.

For personal use only

For personal use only

Revenue, EBITDA, and EBITDA margins for the Americas region between the 2009 and 2013 financial years are presented below[6]:



Source: Billabong

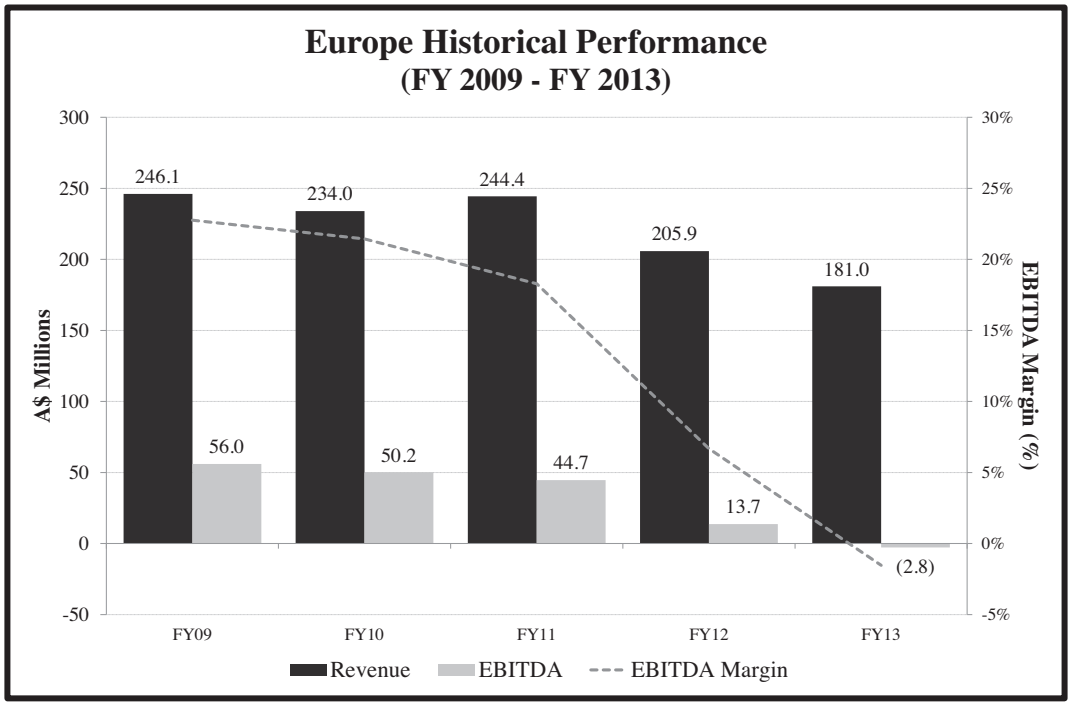
3.6 Europe

Billabong's European business ("Europe") contributed 14.6% of Billabong's total revenue in the 2013 financial year and generated a modest loss at the EBITDA level, before corporate charges. Europe includes operations in Austria, Belgium, Czech Republic, England, France, Germany, Italy, Luxemburg, the Netherlands, and Spain. As at 31 October 2013, the European retail business operated 17 multi-brand stores, 72 mono-brand stores, and 24 outlet stores. The major wholesale customers are Intersport, Amazon.com, United Brands, Despomar, Blue-Tomato and Planet Sports. The primary online platform for Europe is SurfStitch. In addition, there are four branded online retail platforms and three multi-branded websites.

Between the 2009 and 2013 financial years Europe suffered falling revenues and a sharp drop in earnings, with EBITDA falling from $56.0 million to a loss of $2.8 million. Europe's poor performance has primarily been the result of the major economic downturn that has followed the global financial crisis and sovereign debt concerns across the region, with high levels of unemployment (particularly in Billabong's target youth market), weak consumer confidence and spending, and wholesale account closures. Billabong has been particularly affected given its strong presence in Spain, which has experienced a severe economic downturn and high levels of unemployment. EBITDA for the 2013 financial year was affected by the start-up losses of SurfStitch of approximately $7.6 million. Management has responded to the difficult trading conditions by closing a number of underperforming stores and, in the current financial year, rationalising the workforce. Further rationalisation opportunities are being considered. Billabong's management have identified that future growth in Europe will rest on further brand investment and Europe's mono-brand e-commerce platforms.

[6] The information regarding revenue, EBITDA and EBITDA margin has been normalised for the divestment of Nixon and DaKine and other significant items, excludes global overhead allocation, and is presented on a constant currency basis. Accordingly, it will not reconcile to Billabong's reported results.

The revenue, EBITDA, and EBITDA margin for the European region for the 2009 to 2013 financial years are presented below[7]:



Source: Billabong

[7] The information regarding revenue, EBITDA and EBITDA margins has been normalised for the divestment of the Nixon and DaKine businesses and for other significant items, excludes global overhead allocation and is presented on a constant currency basis. Accordingly, it will not reconcile to Billabong's reported results.

For personal use only

For personal use only

3.7 Financial Performance

The financial performance of Billabong as reported for the five years ended 30 June 2013 is summarised below:

Billabong – Financial Performance ($ millions)

	Year Ended 30 June				
	2009	**2010**	**2011[8]**	**2012**	**2013**
Sales revenue	1,669.1	1,482.3	1,554.0	1,439.0	1,340.6
Cost of goods sold	(780.4)	(675.5)	(728.3)	(691.6)	(656.5)
Gross profit	**888.6**	**806.8**	**825.7**	**747.4**	**684.1**
Other income	4.8	9.8	5.3	8.7	4.8
Selling, general and admin expenses	(525.4)	(469.8)	(552.4)	(527.6)	(496.1)
Other expenses	(77.9)	(85.5)	(107.0)	(150.4)	(115.6)
Provision: unwinding of discount	(2.7)	(2.8)	(4.6)	(3.6)	(2.3)
EBITDA	**287.5**	**258.5**	**167.1**	**74.5**	**74.9**
Depreciation and amortisation	(38.1)	(35.6)	(37.8)	(44.6)	(41.9)
EBIT	**249.4**	**222.9**	**129.3**	**29.9**	**33.0**
Net finance costs	(33.8)	(19.9)	(30.8)	(36.0)	(18.3)
Operating profit before tax	**215.5**	**203.0**	**98.4**	**(6.0)**	**14.7**
Share of net (loss)/profit of associates (Nixon)[9]	-	-	-	0.3	(5.0)
Significant items – Continuing operations	(9.5)	-	(9.8)	(516.9)	(837.6)
Profit/(Loss) before tax – Continuing operations	**206.0**	**203.0**	**88.7**	**(522.7)**	**(827.8)**
Tax (expense)/benefit on continuing operations	(53.2)	(57.9)	3.8	40.0	(32.8)
Profit/(Loss) after tax – Continuing operations	**152.8**	**145.2**	**92.5**	**(482.7)**	**(860.6)**
Profit/(Loss) from discontinued operations after income tax	-	-	25.5	206.0	(2.4)
NPAT	**152.8**	**145.2**	**118.0**	**(276.7)**	**(863.0)**
Outside equity interests	-	0.8	1.1	1.0	3.5
NPAT attributable to shareholders	**152.8**	**146.0**	**119.1**	**(275.6)**	**(859.5)**
Statistics					
Basic earnings/(loss) per share (cents)	*0.69*	*0.58*	*0.40*	*(0.87)*	*(1.73)*
EBITDA margin	*17.2%*	*17.4%*	*10.8%*	*5.2%*	*5.6%*
EBIT margin	*14.9%*	*15.0%*	*8.3%*	*2.1%*	*2.5%*

Source: Billabong and Grant Samuel analysis

Billabong's financial performance has been in decline since the 2009 financial year, reflecting (with regional variations) the following factors:

- the broad weakening in consumer confidence following the global financial crisis. This effect was particularly apparent in the USA and European markets;
- a decline in the appeal of surf lifestyle apparel;
- the margin pressure caused by the growth of online retailing; and
- the growing focus on the part of major wholesale customers on own label rather than branded products.

Billabong's reported earnings in recent years have been significantly affected by impairment losses. Significant items for the 2012 financial year included $117 million of selling, general and

8 Presented as per restated accounts, which exclude Nixon from continuing operations.

9 Nixon is included in continuing operations for financial years 2009 and 2010.

For personal use only

administration expenses, primarily relating to early termination of leases, onerous lease/restructuring expense and doubtful debts expense, and an intangible impairment of $329.9 million, primarily consisting of a charge of $237.5 million against the Billabong brand and goodwill. Impairment charges in the 2013 financial year primarily comprise an impairment charge of $252.1 million against the Billabong brand and business, $113.4 million against the North American business relating to retail intangibles, $81.3 million relating to the sale of DaKine, $129.6 million in relation to the carrying value of the residual investment in Nixon, $57.5 million against the Australian business relating to retail intangibles, and $29.5 million against the Element brand.

A summary of Billabong's significant items for the five years ended 30 June 2013 is shown below:

Billabong – Significant Items ($ millions)

	Year Ended 30 June				
	2009	**2010**	**2011**	**2012**	**2013**
Continuing operations					
Cost of goods sold	-	-	-	73.7	25.9
Adjustment to contingent consideration	-	-	(1.0)	(22.5)	(0.8)
FX translation adjustment	-	-	-	0.0	(13.8)
Fair value adjustment to derivatives	-	-	(1.5)	(0.3)	9.9
Selling, general, and administration expenses	-	-	12.3	117.4	48.9
Impairment of intangibles	-	-	-	329.9	604.3
Impairment of PPE	9.5	-	-	13.0	32.6
Impairment of investment in Nixon	-	-	-	0.0	129.6
Loss from asset disposal	-	-	-	5.7	0.9
Sub-total continuing operations	**9.5**	**-**	**9.8**	**516.9**	**837.6**
Discontinued operations					
Adjustment to onerous supply agreement provision	-	-	-	-	3.5
Gain on sale net of transaction costs	-	-	-	(201.4)	-
Sub-total discontinued operations	**-**	**-**	**-**	**(201.4)**	**3.5**
Total	**9.5**	**-**	**9.8**	**315.5**	**841.0**

Source: Billabong

For personal use only

3.8 Financial Position

The reported financial position of Billabong as at 30 June 2013 is summarised below:

Billabong – Financial Position ($ millions)					
	As at June 30				
	2009	2010	2011	2012	2013
Debtors and prepayments	423.4	420.6	398.8	268.0	223.9
Inventories	253.7	240.4	348.7	293.2	266.8
Creditors, accruals and employee provisions	(240.7)	(240.1)	(268.2)	(266.4)	(241.0)
Net working capital	**436.4**	**420.8**	**479.4**	**294.7**	**249.7**
Intangible assets	999.5	1,118.3	1,268.5	795.9	212.7
Property, plant and equipment	161.8	170.5	184.9	160.2	118.6
Deferred tax assets (net)	(32.0)	(37.4)	3.1	42.6	22.0
Investment accounted for using the equity method	-	-	-	134.6	0.0
Provisions and payables	(21.3)	(22.3)	(42.7)	(129.0)	(85.8)
Deferred payments	(159.4)	(241.2)	(250.3)	(131.9)	(58.2)
Other (net)	17.0	25.6	22.4	21.1	14.8
Total funds employed	**1,401.9**	**1,434.3**	**1,665.1**	**1,188.2**	**473.7**
Cash and deposits	332.9	208.7	144.9	317.3	113.8
Interest bearing liabilities	(557.9)	(425.5)	(613.2)	(478.2)	(320.5)
Net borrowings	(225.0)	(216.7)	(468.3)	(160.9)	(206.6)
Net Assets	**1,176.9**	**1,217.6**	**1,196.8**	**1,027.3**	**267.1**
Outside equity interest	0.0	(0.8)	(3.4)	1.3	4.8
Equity attributable to Billabong's shareholders	**1,176.9**	**1,216.8**	**1,193.5**	**1,028.6**	**271.8**
Statistics					
Weighted average number of ordinary shares (million)	*220.7*	*250.5*	*301.1*	*317.4*	*496.7*
Net assets per share	*5.3*	*4.9*	*4.0*	*3.2*	*0.5*
NTA per share	*0.8*	*0.4*	*(0.2)*	*0.7*	*0.1*
Gearing	*16.0%*	*15.1%*	*28.1%*	*13.5%*	*43.6%*

Source: Billabong and Grant Samuel analysis

The following should be noted in relation to Billabong's financial position as at 30 June 2013:

- Intangible assets primarily represent brands and goodwill generated on acquisition. The balance has reduced considerably from $1,269 million as at 30 June 2011 to $213 million as at 30 June 2013, due to impairment charges against brands and goodwill. These included a $182.4 million impairment charge against the carrying value of the Billabong brand in the 2012 financial year and a further $252.1 million impairment charge against the carrying value of the Billabong brand in 2013. In addition, impairment charges due to retail intangibles in Australia and North America amounted to $170.8 million in the 2013 financial year;
- Billabong's property, plant, and equipment primarily consist of land and buildings, and furniture and fittings. Impairment charges of approximately $32.6 million are reflected in the reduced balance as at 30 June 2013;
- the provisions and payables balance primarily relates to onerous lease contracts and restructuring provisions of approximately $36.0 million, a Nixon make good payment provision of $15.3 million, and employee benefits of $16.8 million;
- the deferred payment balance of $131.9 million as at 30 June 2012 related primarily to the acquisition of Sector 9, RVCA, DaKine, Surf Dive 'n Ski and Jetty Surf , and the balance of $58.2 million as at 30 June 2013 relates primarily to RVCA, Surf Dive 'n Ski and Jetty Surf; and

For personal use only

- Billabong's interest bearing liabilities as at 30 June 2013 were made up of its secured current borrowings of approximately $300 million and unsecured current and non-current borrowings of $19.7 million.

3.9 Cash Flow

Billabong's cash flow for the five years ended 30 June 2013 is summarised below:

Billabong – Cash Flow ($ millions)

	Year ended 30 June				
	2009	**2010**	**2011[10]**	**2012**	**2013**
EBITDA	287.5	258.5	167.1	74.5	74.9
Changes in working capital and other adjustments[11]	(26.6)	(2.6)	(64.6)	52.7	(44.4)
Capital expenditure (net)	(71.5)	(56.2)	(51.9)	(54.8)	(39.0)
Operating cash flow	**189.5**	**199.7**	**50.6**	**72.4**	**(8.5)**
Divestments/ (Acquisitions)	(143.8)	(49.6)	(215.1)	189.9	(69.7)
Tax paid	(50.9)	(49.2)	(44.7)	(15.4)	0.6
Net finance costs	(34.4)	(19.5)	(33.4)	(32.9)	(19.2)
Proceeds from share sales (net of expenses)	316.9	0.0	0.0	157.8	66.8
Proceeds from/ (repayments of) borrowings (net)	32.3	(110.5)	284.3	(156.9)	(176.4)
Dividends paid	(92.2)	(78.1)	(79.0)	(39.3)	0.0
Payments for treasury shares held by employee share plan trusts	(7.2)	(3.5)	(4.4)	(2.7)	(2.7)
Net cash generated (used)	**210.3**	**(110.6)**	**(41.6)**	**172.9**	**(209.1)**
Cash and deposits – opening	*125.9*	*332.9*	*208.7*	*144.4*	*315.7*
Effects of exchange rate movements	*(3.2)*	*(13.6)*	*(22.7)*	*(1.6)*	*6.8*
Cash and deposits – closing	*332.9*	*208.7*	*144.4*	*315.7*	*113.3*

Source: Billabong and Grant Samuel analysis

Billabong's falling profitability resulted in a significant reduction in operating cash flows from the 2011 financial year onwards, notwithstanding the reduction in capital expenditure during the 2013 financial year. Billabong acquired a number of retail businesses and brands during the 2009, 2010 and 2011 financial years, before selling the Nixon business in the 2012 financial year. Acquisitions in 2013 reflect payments of deferred consideration relating to prior year acquisitions. Interest payments for the year ended 30 June 2013 fell, as Billabong reduced its debt following the sale of Nixon and its capital raising in 2012.

3.10 C/O Consortium Debt Facility

The Proposal includes the provision by the C/O Consortium of a US$360 million syndicated loan facility. US$320 million has already been drawn against the facility (with the majority of proceeds used to repay the Altamont debt facility). The remaining US$40 million must be drawn before 31 December 2013, or will cease to be available.

Keys terms of the facility agreement include the following:

- an 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;

[10] Presented as per restated accounts, which exclude Nixon from continuing operations.

[11] Comparability between financial years 2009 – 2010 and financial years 2011 – 2013 is limited due the sale of Nixon and other items.

For personal use only

- prepayment premiums payable in the event that the facility is repaid ahead of scheduled maturity. For a prepayment in the first year of the facility funded through an equity raising (other than the Placement and Rights Issue), refinancing or asset sale (other than in relation to specified assets), a make-whole premium of 11.9% plus interest that would otherwise have accrued on the loan through to the first end of period date, discounted at the applicable US Treasury rate plus 0.5%, will apply. In the following year, the premium is 11%. Thereafter the premium declines;
- restrictions on asset sales (excluding the sale of certain specified assets), acquisitions and investments and other borrowings, depending upon Billabong's gearing; and
- a single leverage covenant, to be first tested on 31 December 2014.

The effect of these provisions, broadly, is that:

- in the absence of a material reduction in the amount outstanding under the loan facility (as would be achieved through the proceeds from the Placement and Rights Issue), there will be significant restrictions on Billabong's ability to conduct its business and compliance with the leverage covenant may be problematic; and
- any reduction in gearing in the first two years of the facility through an equity raising other than the Placement or Rights Issue, through a re-financing or through asset sales (other than those specified) will attract significant prepayment penalties. This is likely to be a material deterrent to change of control or recapitalisation proposals from third parties.

3.11 Taxation Position

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

At 30 June 2013, Billabong had carried forward income tax losses of approximately $278.4 million and carried forward Australian capital losses of approximately $18.8 million.

At 30 June 2013, Billabong had no accumulated franking credits.

3.12 Capital Structure and Ownership

3.12.1 Capital Structure

As at 6 December 2013, Billabong had the following securities on issue:

- 478,944,292 ordinary shares; and
- 72,470,648 options over unissued ordinary shares.

The 478.9 million ordinary Billabong shares on issue include 3.7 million shares held as Treasury shares pursuant to executive performance share plans. Of these, 2.3 million shares have been allocated to Billabong employees and 1.4 million have not yet been allocated.

Each option on issue is exercisable into one ordinary share and has no dividend entitlement or voting right before exercise. The options on issue are summarised below:

For personal use only

Billabong – Options on Issue as at 6 December 2013			
Securities	**Expiry Date**	**Exercise Price**	**Issued Options**
BBGAI	31/10/2015	11.08	314,503
BBGAK	24/11/2015	10.80	314,503
Altamont Consortium	16/07/2020	0.50	42,259,790
C/O Consortium	3/12/2020	0.50	29,581,852
Total			**72,470,648**

Source: Billabong

3.12.2 Ownership

At 30 November 2013 there were 21,318 registered shareholders in Billabong. The top 10 shareholders accounted for approximately 61.7% of the ordinary shares on issue:

The top 10 shareholders were principally institutional nominee or custodian companies. The largest shareholder, Gordon Merchant, is the co-founder of Billabong. The company's top 10 shareholders are shown below.

Billabong - Major Shareholders as at 30 November 2013		
	Number of Shares	**Percentage**
Gordon Merchant	70,605,521	14.7%
Citicorp Nominees Pty Limited	47,359,332	9.9%
JP Morgan Nominees Australia Limited <Cash Income A/C>	40,392,227	8.4%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	38,929,685	8.1%
JP Morgan Nominees Australia Limited	24,406,072	5.1%
HSBC Custody Nominees (Australia) Limited	23,082,056	4.8%
National Nominees Limited	22,577,143	4.7%
UBS Nominees Pty Ltd	17,099,773	3.6%
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	5,661,291	1.2%
Colette Paull	5,521,824	1.2%
Subtotal - Top 10 shareholders	**295,634,924**	**61.7%**
Remaining shareholders	183,309,368	38.3%
Total	**478,944,292**	**100.0%**

Source: Billabong

As at 6 December 2013, Billabong had received substantial shareholder notices from Gordon Merchant (14.7%) and Coastal Investment Management, LLC (7.6%).

3.13 Share Price Performance

3.13.1 Share Price History

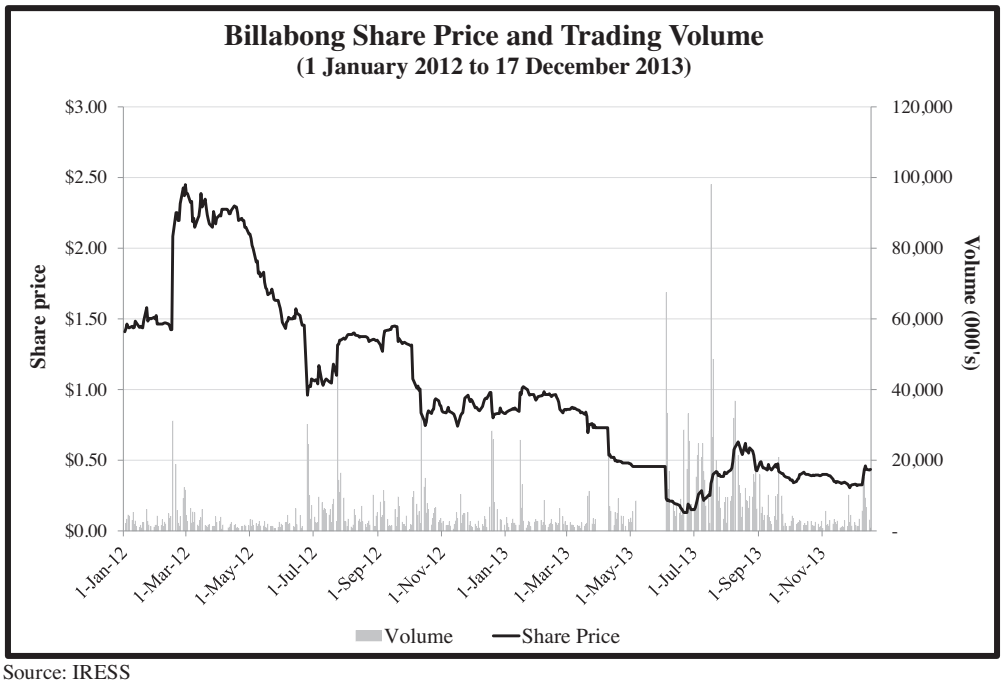
A summary of the price and trading history of Billabong since 1 January 2009 is set out below:

For personal use only

Billabong - Share Price History[12]				
	Share Price ($)			Average Weekly Volume (000's)
	High	Low	Close	
Year ended 31 December				
2009	9.70	4.63	8.71	8,004
2010	9.80	5.82	6.48	7,807
2011	7.22	1.35	1.41	14,200
2012	2.51	0.74	0.83	21,054
Quarter ended				
31-Dec-12	1.33	0.74	0.83	25,927
31-Mar-13	1.02	0.63	0.73	5,133
30-Jun-13	0.55	0.12	0.15	31,556
30-Sep-13	0.72	0.15	0.38	64,771
Month ended				
31-Jul-13	0.43	0.15	0.41	93,326
30-Aug-13	0.72	0.40	0.43	63,920
30-Sep-13	0.53	0.37	0.38	31,303
31-Oct-13	0.43	0.34	0.40	12,463
30-Nov-13	0.43	0.30	0.33	14,179
Week ended				
6-Dec-13	0.34	0.32	0.33	11,089
13-Dec-13	0.47	0.32	0.44	54,225

Source: IRESS

The following graph illustrates the movement in the Billabong share price and trading volumes since 1 January 2012:



Source: IRESS

[12] Share prices adjusted for the May 2009 and June 2012 rights issues.

For personal use only

Following a short term strengthening after the announcement of TPG's indicative and non-binding acquisition proposal in February 2012, Billabong's share price has fallen steadily, largely reflecting the following key events:

Billabong – Recent History

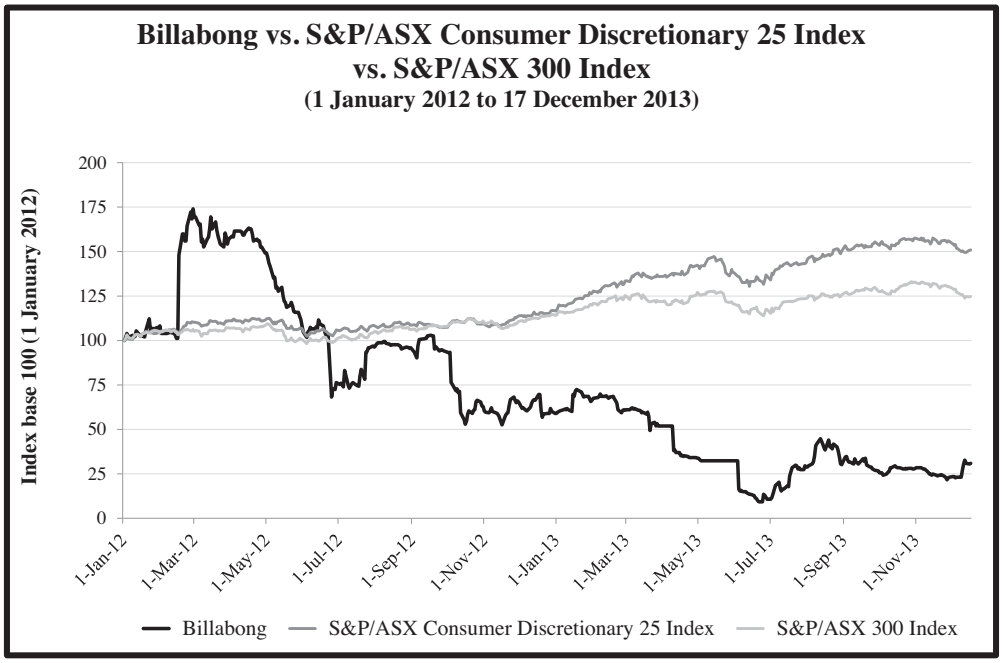
Date	Comments
20/02/12	Billabong announces TPG indicative & non-binding proposal valuing BBG at $3.00 per share
28/02/12	Billabong directors indicate that offer does not reflect true value. TPG proposes increasing offer to $3.30 to facilitate due diligence
17/04/12	Partial sale of Nixon complete for US$285m
09/05/12	Launa Inman replaces Derek O'Neill as Managing Director
21/06/12	Billabong announces a fully underwritten non-renounceable pro-rata entitlement offer at $1.02 (44% discount on closing price of $1.83) to raise $225 million
24/07/12	TPG reduces indicative offer to $1.45 per share and non-exclusive due diligence is agreed on 27/07/12
06/09/12	Billabong announces an indicative cash offer of $1.45 per share from a confidential party and grant access to due diligence
20/09/12	Party announced on 06/09/12 withdraws from the process
12/10/12	TPG proposal withdrawn
19/12/12	Sycamore Consortium, with Merrill Lynch (debt financier) makes a confidential, non-binding, and conditional offer on 14/12/12 to acquire Billabong's issued capital for $1.10 per share and was granted due diligence 24/12/12
14/01/13	Consortium of Altamont Capital & VF Corporation offers an alternative indicative, non-binding and conditional offer of $1.10 per share and is granted due diligence
09/04/13	Billabong enters exclusivity period (10 days) with Sycamore Consortium on a revised indicative offer of $0.60 cash per share or scrip in a Sycamore affiliate
24/04/13	Exclusivity period extended to Wednesday 8 May 2013
07/05/13 – 04/06/13	Trading halt and suspension in relation to bid process
04/06/13	Change of control discussions with Sycamore Partners and Altamont Capital Partners now concluded. In discussions with both consortiums regarding alternative refinancing and asset sales, with proceeds used to pay down debt
16/07/13	Enters into agreements with Altamont Consortium for refinancing and announced DaKine sale
18/07/13	Receives proposal from C/O Consortium. Details of proposal not disclosed, offer not capable of acceptance as proposal was received after entering agreements with Altamont Consortium
19/07/13	Takeover panel application made by C/O Consortium, however later declined 21/08/13
23/07/13	Altamont Bridge facility and DaKine sale completed
21/08/13	Enters into revised commitment letter with Altamont
23/08/13	Board can consider other proposals (i.e. C/O Consortium)
19/09/13	Announces recapitalisation with C/O Consortium
04/11/13	New term debt drawn down, Billabong enters into contract for sale of West 49 for c.CAD$10 million
10/12/13	New Billabong CEO announces turnaround strategy at AGM

3.13.2 Liquidity

Billabong has been a reasonably liquid stock. The average weekly volume over the twelve months prior to the announcement of the C/O Consortium Proposal represented approximately 6% of average shares on issue or annual turnover of around 312% of total average issued capital.

3.13.3 Relative Performance

Billabong is a member of various indices including the S&P/ASX Consumer Discretionary 25 Index and the S&P/ASX 300 Index. At 6 December 2013 its weighting in these indices was approximately 0.18% and 0.01% respectively. The following graph illustrates the performance of Billabong shares since 1 January 2012 relative to the two indices:



Source: IRESS

For personal use only

For personal use only

4 Valuation of Billabong

4.1 Summary

Billabong has been valued in the range $166-232 million, which corresponds to a value of $0.35-0.49 per share. After adjusting for the dilutionary impact of the Rights Issue, the estimated underlying value is $0.33-0.43 per share. 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 for Billabong is the aggregate of the estimated market value of Billabong's operating business and other assets less external borrowings and non-trading liabilities. The valuation is summarised below:

Billabong - Valuation Summary ($ millions)

	Report Section Reference	Value Range	
		Low	High
Business operations	4.3	600	650
Non-trading liabilities	4.4	(122)	(122)
Adjusted net borrowings	4.5	(291)	(279)
Value attributed to the Altamont options	4.6	(12)	(10)
Value attributed to the C/O options	4.6	(9)	(7)
Equity value before rights issue		**166**	**232**
Proceeds from rights issue[13]		50	50
Equity value after rights issue		**215**	**282**
Shares on issue (millions)[14]		478	478
Shares to be issued per rights issue (millions)		179	179
Value per share before rights issue		**0.35**	**0.49**
Value per share diluted for rights issue		**0.33**	**0.43**

Assessments of the value of Billabong are subject to considerable uncertainty given Billabong's current circumstances. Valuation is fundamentally concerned with judgements regarding the future earnings and cash flow generation potential of an enterprise. In this regard:

- Billabong's EBITDA has fallen from $288 million for the year ended 30 June 2009 to $75 million for the year ended 30 June 2013;
- although the 2013 earnings appeared to show a stabilisation of the business (EBITDA before significant items were essentially flat relative to EBITDA for the year ended 30 June 2012), Billabong's trading for the first four months of the 2014 financial year suggests continued weakness in the North American market, which could mean earnings for the 2014 financial year could be lower than for 2013;
- there is no doubt that underinvestment in Billabong's major brands and the significant disruptions of the last eighteen months constituted by the various acquisition and recapitalisation proposals put to the Company have been damaging to the business. The long term impact of this damage is unclear;

[13] Based on the Rights Issue price of $0.28 and current Billabong share prices of greater than $0.40, Grant Samuel has made the simplifying assumption that 100% of the rights under the Rights Issue will be taken up.

[14] The number of shares on issue has been adjusted for the 1.4 million Billabong shares held as Treasury shares in relation to the Billabong executive performance share plan that have not been allocated to employees.

For personal use only

- there is clearly an opportunity for a turnaround of the business, as evidenced by the willingness of the C/O Consortium to make a significant investment in Billabong. This suggests at least a possibility of a strong rebound in earnings;
- Billabong management, led by a new CEO, is currently undertaking a further review of the Company's strategic direction. Pending completion of this strategic review, there are no reliable estimates of the costs and investments that might be required in a turnaround, and the likely timing and extent of any earnings recovery; and
- even once Billabong has a clear internal view as to how to implement a turnaround, there can be no certainty that the turnaround will be achieved as expected. Billabong will continue to be exposed to both internal risks (including those stemming from its recent history and the turnaround process itself) and external risks relating to economic conditions and consumer sentiment in the major markets in which it operates.

Accordingly, a very wide range of views regarding Billabong's future earnings could reasonably be held. Uncertainty regarding the prospects for the business is exacerbated by the Company's capital structure. Billabong is highly leveraged, with significant net debt and other non-trading liabilities (principally relating to restructuring costs and deferred payments of business acquisition costs). Even relatively small changes in the valuation of the business operations will have a substantial impact on the estimated value of the company's equity.

In the context of uncertainty regarding 2014 earnings and no clarity on likely future business structure, longer term earnings or the costs and investments required for a turnaround, there is no reasonable basis for valuation based on discounted cash flow analysis. Grant Samuel has considered valuation evidence based on capitalisation of earnings. However, given the uncertainties relating to Billabong's earnings profile, Grant Samuel has also had regard to valuation evidence inferred from the process by which a number of parties made acquisition and recapitalisation proposals to Billabong.

The valuation is broadly consistent with the market evidence in terms of earnings multiples implied by the acquisitions of branded apparel companies and the share prices of listed branded apparel companies. The valuation reflects the particular attributes of Billabong's business and takes into account factors such as:

- Billabong's recent financial performance has been poor and the short to medium term outlook for the business is in large part dependent on the successful implementation of a turnaround strategy the details of which have still to be resolved;
- there is a risk that events in the business in recent years have resulted in a permanent impairment of Billabong's major brands; and
- no formal acquisition proposal for the Company has emerged notwithstanding an extensive 18 month sale process. Several indicative and non-binding offers to acquire the company were made and then withdrawn in the context of a slide in earnings. The last indicative offer to acquire 100% of the Company, at $0.60 per share, was withdrawn in June 2013. Since then, significant transaction costs and the restrictive terms of the C/O debt facility have probably reduced the value of Billabong (at least from the perspective of a potential third party acquirer). The company's former lenders were prepared to sell their debt at a discount to face value in mid-2013, which suggests a view that the Company at that time had little or no equity value.

On the other hand:

- there is a real opportunity for a turnaround of the business, given an appropriate capital structure and the new management team that has been put in place;
- despite underinvestment in Billabong's brands over the past few years, Billabong's brands still enjoy strong consumer recognition; and

For personal use only

- the C/O Consortium, which consists of sophisticated investors that have conducted detailed due diligence, is prepared to investment $135 million in Billabong at $0.41 a share through the Placement.

4.2 Methodology

4.2.1 Overview

Grant Samuel's valuation of Billabong has been estimated by deducting from the estimated market value of its operating business net borrowings and non-trading liabilities as at 30 June 2013. Net borrowings have been estimated after adjusting for the seasonality of Billabong's facility utilisation and for cash not available to the business. The value of the operating business 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.

The valuation of Billabong is appropriate for the acquisition of the company as a whole.

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 some circumstances, the price at which offers to buy the business have been made can also provide useful evidence as to value, although care needs to be taken in assessing the circumstances in which such offers were made and the reasons that the offers did not proceed. 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.

Nevertheless, valuations are generally based on either or both discounted cash flow or multiples of earnings. In the case of Billabong, in the absence of reliable cash flow forecasts on which to base a discounted cash flow analysis, Grant Samuel has primarily had regard to the capitalisation of earnings methodology and to the events of the process that has been underway since the company received the first offer from TPG in February 2012.

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 net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket.

For personal use only

EBITDA and EBIT 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.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

In determining a value for Billabong's business, 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.

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. This range will generally reflect the growth prospects and risks of those businesses. Mature, low

For personal use only

growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

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%, but it does not always apply.

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 give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures 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.

In determining values for Billabong's business operations, Grant Samuel has considered multiples of EBITDA and EBIT. However, the analysis is subject to a high level of uncertainty because the business is engaged in a turnaround and even projections of EBITDA and EBIT for the 2014 financial year are subject to considerable uncertainty.

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 is able to 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

For personal use only

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.

However, in the case of Billabong, the level of uncertainty associated with forecasts for the 2014 and subsequent financial years is such that, in Grant Samuel's view, those forecasts cannot be adopted as the basis for a valuation of Billabong using discounted cash flow analysis. The uncertainty associated with the forecasts is in large part due to the fact that Billabong is currently contemplating a substantial transformation that may involve the implementation of a number of measures that are yet to be fully assessed and prioritised and for which implementation costs, financial impacts and timing are yet to be properly estimated.

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. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of Billabong. 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. Such an approach is not appropriate in Billabong's case.

4.3 Value of Business Operations

Grant Samuel has valued Billabong's business operations in the range $600-650 million. This value range is consistent both with the market evidence as to multiples and evidence as to value from the process by which various parties have made change of control or recapitalisation proposals to Billabong over the past 21 months.

Summary of Implied Multiples

The directors of Billabong have decided not to include forecasts or projections for the year ending 30 June 2014 in the Explanatory Memorandum. This information has therefore not been disclosed in this report. Grant Samuel has based its analysis on EBITDA and EBIT for the year ended 30 June 2013 adjusted for discontinued operations (DaKine and West 49) and movements in foreign exchange rates:

For personal use only

Billabong – Implied Valuation Parameters		
$ million	**EBITDA**	**EBIT**
FY13 - As reported	**73**	**31**
Reclassification of other borrowing costs	2	2
FY13 - Grant Samuel	**75**	**33**
Less: contribution from DaKine	(10)	(10)
Add back: losses from West 49	9	13
Constant currency adjustment[15]	4	2
FY13 - Adjusted	**78**	**39**

Source: Billabong and Grant Samuel analysis

In reviewing the capitalisation of earnings analysis for Billabong, the following should be taken into account:

- Billabong's financial performance is dependent on a number of external factors, including economic conditions, consumer confidence and movements in exchange rates, over which the Company has no control and which can be volatile, as evidenced by Billabong's four earnings downgrades in the past 21 months;
- the Billabong business has changed substantially in the past five years. Following a period of strong growth through acquisition, both of retail chains and brands, a rationalisation of the business has seen the sale of Nixon, DaKine and West 49 and the closure of underperforming retail stores in 2012 and 2013, which complicates the estimation of EBITDA forecast for the continuing operations; and
- following the recent appointment of a new CEO, Billabong management is reassessing the strategic direction of the business. Until the new strategic direction has been confirmed and a detailed implementation plan has been settled, setting out likely costs, timing and earnings benefits, there is no reasonable basis for developing reliable short and medium term earnings and cash flow forecasts.

In this context, Grant Samuel believes it is reasonable to use the adjusted 2013 EBITDA and EBIT as set out above for the purposes of its capitalisation of earnings analysis. The valuation of $600-650 million implies the following multiples of adjusted EBITDA and EBIT:

Billabong – Implied Valuation Parameters			
	Variable ($ million)	**Low**	**High**
Multiple of EBITDA - year ended 30 June 2013 (adjusted)	78	7.7	8.3
Multiple of EBIT - year ended 30 June 2013 (adjusted)	39	15.4	16.7

Grant Samuel has reviewed these multiples having regard to trading multiples for comparable listed companies and multiples implied by the prices at which transactions involving companies with comparable businesses have been completed.

Transaction Evidence

The following table sets out the EBITDA and EBIT multiples implied by selected transactions involving the acquisition of global branded apparel companies in the past three years:

[15] Based on average monthly exchange rates provided by Billabong.

For personal use only

Recent Transaction Evidence – Branded Apparel Companies							
Date	Target	Transaction	Equity Consid-eration[16] (million)	EBITDA Multiple[17] (times)		EBIT Multiple[18] (times)	
				Historical[19]	Forecast	Historical[19]	Forecast
Jul 13	DaKine	Acquisition by Altamont	AUD70	7.0	n.a.	7.3	n.a.
May 13	True Religion	Acquisition by TowerBrook	USD824	6.6	6.5	7.7	7.7
Nov 12	J Brand	Acquisition of 80.1% stake by Fast Retailing	USD362	n.a.	n.a.	11.4	n.a.
Oct 12	Warnaco	Acquisition by PVH	USD2,850	9.7	8.2	14.7	10.4
Aug 12	Vilebrequin	Acquisition by G-III Apparel	EUR108	14.0	n.a.	18.8	n.a.
May 12	Collective Brands	Acquisition by a consortium[20]	USD1,344	8.3	n.a.	22.8	n.a.
Feb 12	Kenneth Cole	Acquisition of remaining 53% by founder	USD279	10.5	7.9	18.8	11.8
Feb 12	Nixon	Acquisition of 48.5% stake by Trilantic	USD464	9.2	n.a.	n.a.	n.a.
Feb 12	Benetton	Acquisition of remaining 32.92% by Benetton family	EUR840	5.6	5.8	8.5	10.8
Dec 11	Hang Ten	Acquisition by Li & Fung	HKD2,652	7.2	n.a.	8.2	n.a.
Jun 11	Moncler	Acquisition of 45% stake by Eurazeo	EUR929	11.8	n.a.	n.a.	n.a.
May 11	VOLCOM	Acquisition by PPR	USD608	14.1	11.0	17.0	13.3
Nov 10	J Crew	Acquisition by TPG and Leonard Green	USD2,981	9.8	9.0	12.4	11.1

Source: Grant Samuel analysis

Further details on these transactions are set out in Appendix 1. The transactions set out above imply a relatively wide range of multiples, reflecting factors including the strength of the brands, the relative contribution of retail operations, the companies' growth expectations and the level of competition for the asset.

There have been a number of significant transactions in the branded apparel sector over the past three years. While there is some variability in the multiples reflecting, among other factors, the historical performance and the outlook of the selected companies, prices paid implied enterprise value to historical EBITDA multiples broadly in the range of 7.0-9.0 times. Generally speaking, integrated or wholesale players with strong brands seem to have been acquired at higher multiples than those companies with a greater focus on retail and lesser known brands.

Several companies in the sample had been performing poorly in the period leading up to their acquisition:

- the consideration paid by Altamont 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 distressed seller (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, True Religion Apparel, Inc. had been losing ground in the premium denim market, experiencing a slide in EBITDA and

16 Implied equity value if 100% of the company or business had been acquired.

17 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

18 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, amortisation, investment income and significant and non-recurring items.

19 Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

20 Consortium consisting of Wolverine Worldwide, Blum Capital Partners and Golden Gate Capital

EBIT margins in the previous three years and had announced results for the March 2013 quarter substantially lower than brokers expected; and

- Edizione, the Benetton family investment company and controlling shareholder of 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 reflecting the group's poor performance and uncertain outlook, in part due to its exposure to weak European markets.

Other transactions in the sample were priced at higher multiples reflecting strong brand positioning and outlook for the target companies as well as favourable transaction features:

- the acquisition of Warnaco Group Inc. ("Warnaco"), a Calvin Klein licensee, by PVH Corp. ("PVH"), owner of the Calvin Klein brand, resulted in the consolidation of the entire Calvin Klein brand under the ownership of PVH, which was expected to result in substantial revenue and cost synergies;
- the high multiples implied by the price paid for Vilebrequin, a leading provider of luxury swimwear and accessories, in part reflected the approximately 20% share of the consideration that was contingent on three year growth targets being achieved;
- the value of the high-end private sportswear company Moncler implied by the acquisition of a 45% interest by French investment group Eurazeo is likely to have reflected the strong growth prospects for the company. It followed a dual-track trade sale/IPO process, with Moncler due to list on the Milan stock exchange two weeks after the announcement of the Eurazeo transaction; and
- Volcom, a designer, distributor and retailer of action sports lifestyle products benefitting from a strong brand, was expected to generate substantial growth in earnings in 2011 and 2012 following subdued performance in 2008 and 2009. It had announced results for the first quarter of 2011 largely in line with expectations when the takeover offer by PPR was announced in May 2011.

Sharemarket Evidence

There are numerous listed branded apparel companies operating globally. The following table sets out the implied earnings multiples for a range of listed comparable companies:

For personal use only

For personal use only

Sharemarket Ratings of Selected Listed Branded Apparel Companies[21]

Company	Market Capitalisation[22] ($ million)	EBITDA Multiple[23] (times)			EBIT Multiple[24] (times)		
		Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2
Wholesalers							
Adidas	EUR18,555	14.1	12.3	10.2	17.6	15.1	12.3
Columbia	USD2,448	12.4	12.3	10.7	16.3	16.6	14.0
Esprit	HKD31,076	n.m.	17.7	10.8	n.m.	38.5	15.9
The Jones Group	USD1,120	12.8	8.3	7.4	28.1	13.5	10.9
Nike	USD73,907	18.3	16.4	14.9	21.2	18.8	16.9
PVH	USD10,781	18.0	12.0	10.8	21.9	14.8	13.2
Quicksilver	USD1,477	19.2	17.3	12.8	35.0	28.1	18.1
Ralph Lauren	USD16,066	11.1	11.0	9.7	13.3	13.4	11.6
Under Armour	USD8,751	34.1	27.5	22.2	41.2	32.7	26.4
VF Corporation	USD26,304	16.9	14.6	13.1	19.2	16.9	14.9
Integrated							
Abercrombie & Fitch	USD2,664	4.0	5.7	4.5	6.5	12.7	7.4
Aeropostale	USD706	3.9	n.m.	11.9	6.7	n.m.	n.m.
American Eagle Outfitters	USD2,911	4.4	6.2	5.4	5.7	9.0	7.1
Chico's	USD2,998	6.6	7.2	6.3	9.1	10.5	9.0
Guess	USD2,813	6.8	7.8	7.1	9.0	10.2	9.4
Hennes & Mauritz	SEK459,282	17.5	17.0	13.9	20.6	20.1	16.4
Inditex	EUR70,841	17.2	16.4	14.6	21.3	20.7	18.3
Lululemon Athletica	USD8,075	17.8	16.5	13.3	19.8	18.5	14.6
Puma	EUR3,507	17.4	11.6	10.3	25.1	14.8	12.5
The Gap	USD18,710	7.2	6.8	6.3	9.3	8.3	7.6
Retailers							
Pacific Sunwear	USD225	n.m.	19.0	12.7	n.m.	n.m.	n.m.
The Buckle	USD2,478	7.9	7.9	7.6	8.9	8.9	8.6
Urban Outfitters	USD5,445	9.3	8.0	6.9	12.3	10.4	9.0
Zumiez	USD789	7.5	6.8	5.8	10.0	9.2	8.0

Source: Grant Samuel analysis

A detailed analysis of these entities is set out in Appendix 2.

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

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- the relative contribution of retail to total earnings varies between the companies and the ownership structure of the retail footprint (owned vs. leased) affects how associated costs are brought to account, which results in discrepancies in reported EBITDA;

[21] The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

[22] Market capitalisation based on sharemarket prices as at 6 December 2013.

[23] 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, investment income and significant and non-recurring items.

[24] Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

For personal use only

- while there is some variability in the multiples, companies with a strong focus on wholesale generally trade at higher multiples than integrated companies or specialist retailers of branded apparel:
  - wholesalers with strong but not dominant brands, such as Adidas, Columbia, Puma, PVH Corp. (owner of the Calvin Klein and Tommy Hilfiger brands among others) and Ralph Lauren, are trading in the broad range 11.0-12.0 times forecast year 1 EBITDA and 14.0-15.0 times forecast year 1 EBIT. The trading multiples of VF Corporation, which owns a diverse portfolio of approximately 25 brands, including The North Face, Napapijri, Lee and Wrangler, apparently reflect the market's expectations that its transformation strategy (increased focus on outdoor and action sports apparel and on wholesale and growth outside of the US) will generate higher margins in the short to medium term;
  - integrated companies (Abercrombie & Fitch, American Eagle Outfitters, Chico's, Guess, The Gap) and retailers (The Buckle, Urban Outfitters and Zumiez) trade in a broad range of 7.0-9.0 times year 1 forecast EBITDA and 9.0-11.0 times forecast year 1 EBIT;
- mono brand companies that either have a very strong athletic positioning (Under Armour, Lululemon), are the dominant player in their market globally (Nike) or are leaders in the fast moving, affordable, fashion space (H&M, Inditex/Zara) with an increasing international footprint, trade at a substantial premium to their peers; and
- the high multiples implied by the share prices of Esprit, Pacific Sunwear and Quiksilver reflect expectations of significant earnings improvements, with the earnings of these companies expected to recover following recent substantial falls in profitability.

Analysis and Commentary

In Grant Samuel's view, the multiples implied by the valuation of Billabong's operating business are reasonable having regard to the following factors:

- the valuation needs to balance the opportunity for a turnaround of the business with the likely costs and uncertainties associated with such a turnaround. In Grant Samuel's view the multiples implied by the valuation of Billabong (7.7-8.3 times adjusted historical EBITDA) are reasonable having regard to the multiples of historical earnings for comparable transactions and for comparable listed companies, particularly given that recent trading suggests that Billabong's earnings for the 2014 year may be weaker than for 2013 (after adjusting for divestments and currency movements);
- the process by which Billabong engaged with various parties that made takeover or recapitalisation proposals provides some evidence as to the value of the Company. It has been 21 months since Billabong announced the offer from TPG Capital on 20 February 2012 and Billabong and its advisors have conducted a wide-ranging process to secure change of control and/or recapitalisation proposals. It is reasonable to assume that any party with a potential interest in acquiring Billabong would have been aware that the company was "in play". The last indicative takeover proposal received, announced on 9 April 2013, was to acquire all the shares in Billabong for $0.60 per share. On 4 June 2013, Billabong announced that discussions in this regard had concluded and that no agreement on a takeover proposal had been reached. Since then Billabong has incurred more than $50 million in transaction costs in relation to the recapitalisation proposal from the Altamont Consortium and the Proposal from the C/O Consortium. These costs would represent in excess of $0.10 per share. In addition, the terms of the C/O Consortium debt facility are likely to impose significant costs on any potential acquirer and would be a disincentive to any change of control proposal, at least in the short term. It appears reasonable to conclude that the value of the Company is well below $0.60 per share;
- there are grounds to argue that the value of Billabong is below the valuation range of $0.37-0.50 share:

For personal use only

- although four separate parties made indicative, non-binding acquisition proposals to Billabong, all of these proposals were subsequently withdrawn. Billabong has been unable to find any party prepared to make an unconditional offer for 100% of the company;
- at least two of the parties that had made proposals to acquire the company withdrew these proposals and entered into discussions regarding alternative refinancing and asset sale transactions; and
- Billabong's bankers sold their debt at a discount to face value in mid-2013, suggesting that at the time their view was that Billabong's equity had little or no value.

- Billabong's high level of gearing would be a disincentive for potential bidders. The C/O facility is relatively expensive. Unless substantial equity was contributed to meaningfully reduce the level of gearing, a new owner's ability to effect substantial change could be hampered by the terms of the facility. However, any prepayment of the facility (other than from proceeds of the Placement and Rights Issue, or proceeds on sale of specified assets) would attract a significant prepayment penalty, at least in the short to medium term.

Given Billabong's inability to secure any unconditional takeover offer, the preparedness of its bankers to accept a discount when selling their debt, and the disincentive constituted by its debt facilities, it could be argued that Billabong currently has little prospect of securing an acquisition proposal for 100% of the company and that, on this basis, the equity value (on a full underlying value basis) is negligible.

On the other hand:

- while Billabong's two largest brands in terms of contribution to earnings, Billabong and Element, have performed poorly over the last few years, there is a clear opportunity that with renewed focus and reinvigorated marketing they can underpin a turnaround in the business. Billabong's emerging brands provide further growth potential;
- the reduction in the scope of activities following the sale of West 49 and DaKine, the scale back of operations in Europe, Asia and South America and the implementation of other initiatives are expected to lead to a release of working capital over the 2014 financial year, which should result in the reduction of funding requirements. On the other hand, depending on the results of the strategic review currently underway, Billabong may need to incur further one-off cash costs associated with ongoing restructuring initiatives;
- Billabong's online business is still in start-up. While the online business generates limited earnings, given its high rate of revenue growth it is likely to be relatively valuable (i.e. if separated it would be expected to be valued on high multiples of earnings);
- at 30 June 2013, Billabong had carried forward income tax losses of approximately $278.4 million; and
- the C/O Consortium, which comprises sophisticated investors that have had the benefit of conducting extensive due diligence, is prepared to invest $135 million in subscribing for new Billabong shares at $0.41 a share through the Placement. The Placement price is not of itself direct evidence as to the value that a party might be prepared to attribute to 100% of Billabong (the Placement is part of a package of transactions, in terms of which the C/O Consortium also has a high yield, lower risk debt investment in Billabong, and will be the beneficiary of the Option Issue). However, it suggests that the members of the C/O Consortium attribute significant value to the company's equity.

For personal use only

4.4 Non-trading Liabilities

Billabong's non-trading liabilities as at 30 June 2013 were $122 million as follows:

Billabong – Non-trading Liabilities as at 30 June 2013 ($ million)	
Nixon make good payment	(15)
Restructuring provisions	(38)
Deferred payments	(68)
Other assets and liabilities	**(122)**

The Nixon make good payment obligation of $15.3 million results from the restructuring of Billabong's investment in Nixon. The restructuring provisions largely relate to costs associated with the early termination or renegotiation of leases or onerous contracts. The total deferred payments of $68 million represent the net present value of the deferred consideration payable on the RVCA, SDS/Jetty Surf and DaKine acquisitions over the 2014, 2015 and 2016 financial years. The amounts brought to account reflect Billabong management's view that the contingent components of the payments will be payable.

4.5 Net Borrowings

The valuation of Billabong incorporates net borrowings of $279-291 million. This amount is based on net borrowings of $207 million as at 30 June 2013 adjusted for the following items:

Billabong – Net Debt for the Purpose of the Valuation ($ million)		
	Low	**High**
Cash as at 30 June 2013	**114**	**114**
Cash held as collateral for bank facility	(25)	(25)
Restricted cash (cash in tills and other)	(10)	(10)
Available cash – as at 30 June 2013	**79**	**79**
DaKine – Proceeds from sale (net of costs)	69	69
West 49 – Proceeds from sale (net of costs)	7	9
Recapitalisation transaction costs	(56)	(56)
Restructuring costs	(11)	(11)
Franking deficit tax payment	(9)	(9)
Available cash - adjusted	**79**	**81**
Interest bearing borrowings – as at 30 June 2013	**(320)**	**(320)**
Adjustment to reflect working capital seasonal requirements	(50)	(40)
Interest bearing liabilities - Adjusted	**(370)**	**(360)**
Net Cash / (Debt) – As Reported	**(207)**	**(207)**
Net Cash / (Debt) – Adjusted	**(291)**	**(279)**

Source: Billabong and Grant Samuel analysis

Grant Samuel makes the following comments:

- approximately $25 million of cash is held as collateral against a bank facility to secure supply chain obligations in North America;
- the South American and Asian operations are self-funded and hold cash for working capital purposes. In addition, cash is held in tills across Billabong's retail operations. In total, approximately $10 million of cash is effectively permanent working capital and not available for debt reduction;
- Billabong made a franking deficit tax payment of approximately $9 million to the ATO in July 2013; and

- the seasonality of Billabong's business and its terms of trade result in large fluctuations in the company's working capital requirements. Net debt is typically at seasonal lows at 30 June and 31 December each year. The adjustments set out above reflect both a seasonal adjustment for working capital and intra-month working capital movements, to capture the economic value of Billabong's debt.

4.6 Options

Altamont holds 42 million options which expire in July 2020 and have an exercise price of $0.50. Grant Samuel has valued these options for the purposes of the valuation analysis in the range $10-12 million, based on Billabong share prices in early December 2013 of around $0.42-0.44.

On 3 December 2013 Billabong issued 29.6 million options to the C/O Consortium. The options have a duration of seven years and an exercise price of $0.50. If the Proposed Equity Issue is not approved, the Placement will not take place. In those circumstances there would be nothing to prevent the exercise of the C/O Consortium options, because the Consortium members would have no other Billabong shareholding and there would be no potential breach of S606 of the Corporations Act (ie. the prohibition against acquiring more than 20% of the shares in a company). Accordingly, the C/O Consortium members will be able to exercise their options regardless of whether the Proposed Equity Issue is approved. Grant Samuel has valued these options for the purposes of the valuation analysis in the range $7-9 million, based on Billabong share prices in early December 2013 of around $0.42-0.44.

There are also two series of 0.3 million options each that expire in late 2015 and have exercise prices of $10.80 and $11.08 respectively. The value of these options is immaterial.

For personal use only

For personal use only

5 Evaluation of the Proposed Equity Issue

5.1 Conclusion

Grant Samuel has concluded that the terms of the Proposed Equity Issue are not "fair". However, there are compelling reasons for Billabong shareholders to approve the Proposed Equity Issue: they will clearly be better off if the Proposed Equity Issue proceeds than if it does not. Accordingly, the Proposed Equity Issue is reasonable having regard to the interests of the members of Billabong.

Australian regulatory policy requires that the fairness of the Proposed Equity Issue be assessed in the same way as if Billabong was the subject of a takeover offer, by comparing an estimated trading range for Billabong shares following the Placement (the notional "consideration" delivered to Billabong shareholders) with the estimated underlying value of Billabong immediately before the Placement. To make this comparison, Grant Samuel is required to adopt a post-Placement trading range for Billabong shares calculated by discounting the estimated full underlying value of Billabong after the Placement. This methodology indicates a post-Placement trading range for Billabong shares of $0.30-0.35. This range is below or at the very bottom end of the range of Grant Samuel's estimates of Billabong's full underlying value ($0.33-0.43 per share). On this basis, the Proposed Equity Issue is not fair.

Estimates of the underlying value of Billabong and of the trading range for Billabong shares immediately following the Placement are subject to considerable uncertainty. Billabong's share price has been extremely volatile, with the share price increasing by around 30% since Billabong's recent annual general meeting. If Billabong shares continued to trade at current levels above $0.40 after the Placement, the Billabong share price would fall within the range of Grant Samuel's estimates of the underlying value of Billabong. Given the fundamental uncertainties inherent in the analysis, conclusions regarding the "fairness" of the Proposed Equity Issue should be treated with considerable caution. Judgements regarding the "reasonableness" of the Proposed Equity Issue require an assessment of the benefits and disadvantages of the Proposed Equity Issue in the context of Billabong's current position.

Billabong has a pressing need for additional equity. It is highly geared, with limited capacity to cope with any external shocks or further business downturn, and its debt is expensive. Without a significant reduction in debt it will be at risk of breaching the gearing covenant contained in its senior debt facility. To generate any meaningful recovery in the business, Billabong will need to invest in a range of growth initiatives, including a renewed focus on its key brands and enhancement of business capabilities in key areas such as merchandising, marketing, distribution and supply chain management. Given its current gearing, Billabong's capacity to make these investments is limited. The terms of its debt facilities impose significant restrictions on its ability to re-shape the business while gearing is at current levels.

The prospects of an alternative equity raising appear remote. Billabong's financial position and the need for a recapitalisation have been apparent for some time. Billabong and its advisers have conducted a wide-ranging process seeking change of control and/or recapitalisation proposals. A number of parties have made indicative offers but have withdrawn following detailed due diligence. The C/O Consortium proposal was one of only two proposals received that were capable of acceptance. The terms of the C/O debt facility (which include substantial pre-payment premiums)[25], constitute a significant impediment to any alternative recapitalisation proposal or any change of control proposal (at least in the short term).

Completion of the Placement and the associated Rights Issue will allow Billabong to materially lower its gearing, reduce its financial risk and improve its profitability and free cash flow. It will

[25] No pre-payment premium is payable in the event of a pre-payment from the proceeds of the Placement or Rights Issue, or from proceeds on the sale of specified Billabong assets.

For personal use only

provide a "breathing space" for Billabong, allowing Board and management to focus on stabilising and then re-building the business rather than dealing continuously with ownership and financing issues.

The pricing of the Placement at $0.41 per share represents a substantial premium relative to the Billabong share price prior to the announcement of the Altamont recapitalisation proposal (ie the price at which Billabong shares were trading when there was no assurance that Billabong would be able to achieve a recapitalisation). Existing Billabong shareholders will have an opportunity to acquire shares through the Rights Issue at $0.28 per share, materially lower than the Placement price.

Billabong shareholders' holding in Billabong will be diluted by the Placement, with existing shareholders holding around 55-62% of the diluted shares on issue (depending on the take-up of shares by existing shareholders under the Rights Issue and assuming the subsequent exercise by the C/O Consortium of its options). However, Billabong shareholders will retain exposure to the potential for a turnaround in the Billabong business. On the other hand, failure to approve the Proposed Equity Issue would leave the business in disarray, with the risk of loss of key management, further damage to the business and the need to identify, negotiate and complete an alternative equity solution.

In Grant Samuel's view there are compelling reasons for Billabong shareholders to approve the Proposed Equity Issue. Billabong shareholders will clearly be better off if the Proposed Equity Issue proceeds than if it does not. The terms of the Proposed Equity Issue are reasonable.

5.2 Fairness

5.2.1 Overview

Assessment of the fairness of the Proposed Equity Issue requires a comparison of the post-Placement trading range for Billabong shares with the estimated underlying value of Billabong before the Placement. A post-Placement trading range of $0.30-0.35 for Billabong shares has been adopted to satisfy the requirements of the regulatory regime and to allow an assessment as to fairness consistent with regulatory policy. That range does not represent and should not be construed as Grant Samuel's estimate of the likely future trading price of Billabong shares immediately following the Placement.

The trading range of$0.30-0.35 is below or at the very bottom end of the range of Grant Samuel's estimates of the full underlying value of Billabong ($0.33-0.44). On this basis the Proposed Equity Issue is not fair.

Billabong shareholders should understand that this conclusion does not imply that Billabong is disadvantaged by the Proposed Equity Issue. In the ordinary course it is to be expected that almost any placement that conferred control that was analysed within the regulatory framework would be "not fair". Given that shares in listed companies normally trade at a significant discount to underlying value, simple arithmetic dictates that ordinarily a placement would have to be priced at a massive premium to underlying value to increase the value of a company such that the post placement trading price was greater than the pre placement underlying value.

5.2.2 Approach

Australian regulatory policy requires that the Proposed Equity Issue be assessed as if Billabong was the subject of a change of control transaction. This reflects an implicit assumption that shareholders in approving the Proposed Equity Issue will be giving up the opportunity to realise a control premium (because the C/O Consortium will end up jointly

For personal use only

holding up to 33-40%[26] of the expanded shares on issue). The assessment requires a comparison of the value of the opportunity foregone (i.e. the opportunity to realise full underlying value) with the "consideration" to be received by shareholders, where that consideration is deemed to be shares in Billabong after completion of the Placement. The shares are to be valued at their trading (non-control) value.

5.2.3 Billabong share price after the Placement

Grant Samuel is required by regulatory policy to estimate a post-Placement trading range for Billabong shares by applying a discount to its estimate of the full underlying value of Billabong post-Placement. Shares in listed companies generally (although not always) trade at a discount to full underlying value. This discount is notionally the reciprocal of the control premium commonly paid in takeovers. Control premiums are generally in the range 20-35%. However, control premiums are effectively the outcomes of pricing decisions in change of control transactions, rather than the determinants of value. Accordingly, it is not appropriate to estimate underlying value by merely adding a premium to share trading values. Similarly, estimation of future share trading prices by applying an arbitary discount to estimated underlying value will not necessarily yield reliable results.

In the case of Billabong, particular care needs to be taken in applying an arbitrary discount to estimated underlying value as the basis for estimating future share trading prices. Billabong shares have recently traded at prices that fall within the range of Grant Samuel's estimates of the full underlying value of Billabong. There is strong evidence that Billabong shares have previously traded at prices exceeding full underlying value: immediately before the announcement of the non-binding acquisition proposal of $0.60 per share, Billabong shares were trading at $0.73. Volatile recent trading in Billabong shares suggests that any relationship between Billabong's full underlying value and its share price is not constant.

Notwithstanding these reservations, Grant Samuel has determined a trading range for Billabong shares post-Placement as follows:

Post-Placement Trading Range ($ million)		
	Low	**High**
Estimated full underlying value (equity value) prior to Placement	166	232
Proceeds from Placement	135	135
Proceeds from Rights Issue	50	50
Estimated full underlying value after Placement and Rights Issue	351	417
Shares on offer after Placement (478m plus 329m plus 179) [27]	986	986
Estimated full underlying value per share after Placement	$0.36	$0.42
Trading range assuming 16.7% discount[28]	$0.30	$0.35
Trading range assuming 25.9% discount	$0.27	$0.31
Trading range adopted	**$0.30**	**$0.35**

On the basis of a discount of 16.7% (corresponding to a takeover premium of 20%), the methodology indicates a trading range of $0.30-0.35. The discount of 16.7% is at the low

[26] Before taking into account the exercise of options on issue. If the options issued to the C/O Consortium and Altamont were all exercised, the members of the C/O Consortium would jointly hold 33.9-40.8% of the shares on issue, depending on the take up of shares under the Rights Issue.

[27] The number of shares on issue has been adjusted for the 1.4 million Billabong shares held as Treasury shares in relation to the Billabong executive performance share plan that have not been allocated to employees.

[28] The discounts adopted of 16.7% and 25.9% represent the inverse of the range of takeover premiums of 20-35% commonly seen in takeover transactions.

For personal use only

end of the range of discounts that would generally be applied. However, the trading range of $0.30-0.35 itself appears low, and perhaps unreasonably low, having regard to current Billabong trading prices above $0.40.

A post-Placement trading range of $0.30-0.35 for Billabong shares has been adopted to satisfy the requirements of the regulatory regime and to allow an assessment as to fairness consistent with regulatory policy. It does not represent and should not be construed as Grant Samuel's estimate of the likely future trading price of Billabong shares immediately following the Placement.

5.2.4 Implications of valuation uncertainty

The post-Placement trading range for Billabong shares of $0.30-0.35 (i.e. the notional "consideration" to be received by Billabong shareholders) falls below or at the very bottom end of the range of Grant Samuel's estimates of Billabong's underlying value of $0.33-0.43. Accordingly, the Placement and Proposed Equity Issue are prima facie not fair.

This conclusion is consistent with the general expectation that almost any placement will not be "fair" when evaluated on this basis. However, there are factors that suggest that the case of Billabong and the Proposed Equity Issue could constitute an exception to the general expectation that placements will almost definitionally be "not fair". In particular, there is significant uncertainty inherent in both the judgements regarding Billabong's underlying value and in the approach adopted for the purpose of determining a post-Placement trading range for Billabong shares.

The valuation range for Billabong of $0.33-0.43 per share constitutes a misleadingly precise estimate of the underlying value of Billabong. In reality, in the current circumstances valuation of Billabong is problematic:

- Billabong has experienced a continuing decline in earnings in recent years. The business appears now to have largely arrested that earnings decline but it is not yet clear whether negative market dynamics (particularly in offshore markets) have significantly improved and whether management has been successful in addressing the ongoing erosion in brand value that Billabong has suffered. It appears reasonable to adopt 2013 actual earnings (adjusted for business divestments, one-off items, exchange rate movements and other factors) as earnings for valuation purposes, but in the circumstances there can only be limited confidence that this is appropriate;
- following a recent change in senior management, Billabong is engaged in a wholesale reassessment of its strategy. Pending the completion of that work, there is no reasonable basis for making judgements regarding the likely time required to return to earnings growth, and the investments, costs and business changes that might be necessary to achieve that turnaround;
- given the relatively high degree of gearing and the limited residual equity value of Billabong, small changes in the estimated value of Billabong's business will have significant impacts on the estimated value of Billabong's equity;
- Billabong's debt facility is expensive and its terms (which include material pre-payment premiums) are likely to be a disincentive to any potential acquirer. On one view, given that Billabong's public and lengthy process of engagement with potential acquirers failed to find a buyer prepared to complete a transaction, it is questionable whether there is any party ready to bid for all the shares in Billabong. This view might imply that the underlying value (i.e. change of control value) of Billabong is close to zero, or at least well below Grant Samuel's valuation range for Billabong; and
- the decision by the members of Billabong's banking syndicate during mid-2013 to sell their debt at a discount to face value suggests that, at least at that time, those banks believed that there was a risk that Billabong equity had little or no value.

For personal use only

In the context of the valuation uncertainty and, in particular, Billabong's failure to find any party prepared to make a firm offer for 100% of the company, it is arguable that the underlying value of Billabong could be lower, and potentially significantly lower, than the range of $0.33-0.44 per share estimated by Grant Samuel. Any material reduction in the estimate of Billabong's underlying value would suggest that Billabong's shares post-Placement could trade at prices within the range of estimated underlying values for Billabong, which would in turn suggest that the Proposed Equity Issue could be fair.

Similarly, the approach to determining a post-Placement trading range for Billabong shares, while consistent with regulatory requirements, is also subject to uncertainty. It rests on the particular methodology used to determine a post-Placement trading range for Billabong shares. In turn, this methodology reflects a theoretical construct that shares always trade at a discount to underlying value, and within a particular band of discounts.

Billabong shares in recent weeks have traded at prices greater than $0.40, well above the post-Placement trading range of $0.30-0.35 adopted for the purposes of the fairness analysis. Grant Samuel's judgement is that Billabong shares have been trading on the basis that the Proposed Equity Issue will be approved. The market is fully informed as to the terms of the Proposed Equity Issue. Accordingly, it would generally be reasonable to expect that recent Billabong share prices provide the most reliable evidence as to the price at which Billabong shares are likely to trade immediately after the Placement.

However, Billabong's share price has been extremely volatile. For the fortnight before Billabong's annual general meeting on 10 December 2013, Billabong shares traded in the range $0.30-0.35, with a VWAP of $0.33. The closing share price on 9 December 2013 was $0.325. Following the annual general meeting Billabong's share price increased sharply on heavy trading volumes, reaching $0.47 on 12 December 2013. For the period 11-17 December 2013 the VWAP for Billabong shares was $0.43.

Share prices in the range $0.30-0.35 (ie. the trading range immediately prior to Billabong's annual general meeting) are broadly consistent with Grant Samuel's valuation range for Billabong of $0.35-0.49 per share (before adjusting for the dilutionary impact of the Rights Issue) (because shares in listed companies generally trade at a discount to full underlying value). It is more difficult to rationalise trading prices above $0.40 per share, because they suggest that Billabong shares are trading at prices approximating full underlying value.

A conclusion that Billabong shares might trade immediately after the Placement at prices approximating full underlying value is not consistent with the general expectation that shares in public companies trade at a discount to full underlying value. In this case, however, there are factors that might explain why Billabong shares could trade at prices approximating or exceeding underlying value. Given Billabong's recent past and current position, judgements regarding value are inherently uncertain. Moreover:

- the complexity of Billabong's business and some of the aspects of its financing may mean that potential acquirers who have the benefit of full information based on detailed due diligence would take a more conservative view than investors who have access only to publicly available information; and

- Billabong's debt facilities are likely to reduce the value of Billabong from the perspective of potential acquirers (who would potentially incur significant costs in repaying Billabong's debt facilities). The debt facilities may be less of a consideration for share market investors in Billabong, who on the basis of the Placement and Rights Issue can reasonably expect that the company will be able to materially reduce its debt without incurring any prepayment costs[29].

[29] A debt reduction funded from the proceeds of the Placement and Rights Issue would not result in any prepayment premium obligation

For personal use only

There is compelling evidence that in the recent past Billabong shares have traded at prices above underlying value. The most recent indicative offer for Billabong of $0.60 per share was made at a time when Billabong shares were trading at $0.73 and above. It may still be the case that Billabong is more valuable for sharemarket investors than for potential corporate acquirers. It is conceivable that Billabong's share price could be negatively affected by (for example) information set out in this report or in Billabong's half year profit announcement regarding the quantum of transaction costs incurred by the company over the last six months. However, there is no compelling evidence that the market in Billabong shares is not reasonably informed. Trading in Billabong shares is liquid and trading volumes since 10 December (the day of the Billabong annual general meeting) have been heavy.

Overall, recent trading in Billabong shares at prices above $0.40 suggests that Billabong's post-Placement share trading range could fall within the estimate range of full underlying values for Billabong. Such an outcome would indicate that the Proposed Equity Issue was actually fair.

5.3 Reasonableness

5.3.1 Overview

Grant Samuel has concluded that the Proposed Equity Issue is not fair, on the basis that the post-Placement trading range that has been adopted for the purposes of the fairness analysis falls below or is at the very bottom of the range of estimates of the full underlying value of Billabong before the Placement. However, there is nothing to suggest that shareholders are foregoing an opportunity to realise full underlying value for their shareholdings. Given Billabong's current financial position, there appears to be little or no opportunity to crystallise value through a takeover offer, as evidenced by Billabong's inability to conclude any change of control transaction over the last 21 months. In any event, shareholders will presumably have at least some opportunity to realise underlying value in the future, as Oaktree and Centerbridge can be expected to seek to maximise the value of their investments and to crystallise that value.

Even if it was the case that the Proposed Equity Issue involved a real opportunity cost (i.e. that the lack of "fairness" was of more than academic relevance), in Grant Samuel's view there would be compelling reasons for Billabong shareholders to approve the Proposed Equity Issue. On that basis the Proposed Equity Issue is reasonable.

5.3.2 Impact on Billabong's financial position

Billabong is highly geared. Balance sheet measures of gearing understate the Company's economic gearing, because 30 June debt balances represent seasonal lows and a significant proportion of the cash shown on its balance sheet is not available to Billabong. Based on adjusted net debt for valuation purposes and Grant Samuel's estimate of the underlying value of the company, Billabong's economic gearing (adjusted debt[30]:enterprise value) is around 65%. For the purposes of the covenants under the senior loan facility provided by the C/O Consortium, Billabong would be deemed to be in a state of "High Leverage" based on its current debt levels.

Based on current debt levels, Billabong will have limited head room in its facilities when it has to fund seasonal working capital highs. It has little capacity to deal with any further decline in its business that could result from a downturn in business conditions or other external shock. At current gearing levels and given recent trading performance, Billabong

[30] For this purpose, adjusted debt includes non-trading liabilities.

For personal use only

could not be confident of complying with the gearing covenant in its core debt facility[31]. While it remains in "High Leverage" for the purposes of its senior debt facility, there are constraints on its ability to make acquisitions and investments and otherwise to re-shape the business.

Billabong needs to significantly lower its debt levels to reduce its overall financial risk. A reduction in debt will also provide more flexibility under its senior debt facility, and allow the funding of the investments and costs that will be required to initiate a turnaround of the business.

Finally, regularisation of the capital structure will provide the stability required to allow Billabong management to focus on managing the business and its turnaround rather than on dealing with an ongoing funding crisis.

For all these reasons, Billabong has an urgent need for significant additional equity.

The Placement and associated Rights Issue will substantially reduce Billabong's gearing. The following table compares Billabong's actual balance sheet at 30 June 2013 with a pro-forma balance sheet assuming that the Placement and the Rights Issue (fully subscribed) had been completed on that date:

Impact of Placement and Rights Issue on Billabong's Financial Position

	Actual 30 June 2013	Adjustment for new Term Debt	Pro-forma 30 June 2013	Equity Raising	Pro-forma post equity raising
Ungeared net assets[32]	473.7		473.7		473.7
Gross debt	(320.5)	(79.5)[33]	(400.0)	(183.9)	(216.1)
Cash	113.8	79.5	193.3		193.3
Net debt[34]	(206.7)		(206.7)	183.9	(22.8)
Net assets	267.0		267.0	183.9	450.9
Gearing (book values) (Net debt/ungeared net assets)	*44%*		*44%*		*5%*
EBITDA[35]	74.9		74.9		74.9
Gearing ratio (gross debt to EBITDA)	4.3		5.3		2.9
Billabong enterprise value (Grant Samuel valuation)	625.0		625.0		625.0
Adjusted net debt for valuation purposes[36]	(406.9)		(406.9)	183.9	(223.0)
Economic gearing	*65%*		*65%*		*36%*

The Placement and associated Rights Issue will materially improve Billabong's financial position and prospects:

31 The first testing date for the gearing covenant is 31 December 2014.

32 Ungeared net assets at 30 June 2013 do not reflect the significant recapitalisation transaction costs incurred during the 2014 financial year.

33 Adjustment for new term debt is to increase gross debt to US$360 million (A$400 million at an exchange rate of A$1.00 = US$0.90), corresponding to the limit on the C/O facility.

34 Net debt at 30 June 2013 does not make any adjustment for seasonal working capital funding requirements, restricted cash not available to the business or non-trading liabilities of Billabong.

35 2013 EBITDA as set out in section 3.7.

36 Includes non-trading liabilities of Billabong and adjusts for seasonal working capital funding requirements, restricted cash not available to the business and other cash adjustments. Numbers shown reflect the mid-point of the range. Refer to page 38 for more detail.

For personal use only

- the reduction in Billabong's gearing will significantly reduce Billabong's overall level of financial risk. Billabong will enjoy greater facility headroom and its reduced debt level will materially reduce the risk of covenant breach;

- the reduction in gearing will result in a loosening of the restrictive conditions of Billabong's senior debt facility, giving Billabong far more flexibility in terms of how it conducts its business;

- Billabong's interest cost will be reduced, improving earnings and free cash flow; and

- most importantly, the Placement and associated Rights Issue will provide the financial capacity required to maximise Billabong's prospects of achieving a successful turnaround of the business. There can be no guarantee that Billabong will be able to achieve a meaningful turnaround (although the investment by the C/O Consortium members presumably suggests that they believe that there are good prospects of a significant turnaround). It is not inconceivable that Billabong could achieve a turnaround without raising new equity. However, a turnaround in those circumstances would be riskier and, even if achieved, is likely to take far longer. The Placement and associated Rights Issue will allow Billabong to more aggressively undertake the restructuring required to reinvigorate its brands, simplify the business and position the company for growth.

5.3.3 Ownership and Control

The Proposed Equity Issue will reduce current Billabong shareholders' collective interest in the company. Before taking into account the exercise of options on issue, current Billabong shareholders will collectively hold 59.3-66.6% of the total shares on issue, depending on the take-up of shares under the Rights Issue. After diluting for the potential exercise of options, Billabong shareholders' collective interest will fall to 54.4-62.1%[37].

As a result, Billabong shareholders' exposure to the turnaround potential of Billabong will be diluted. However, the reality is that there can be no confidence in Billabong's ability to turn around its business without a substantial raising of new equity. At best, any turnaround would likely take significantly longer to achieve. Absent a recapitalisation, there would be a real risk of a significant reduction in the value of Billabong. Billabong's share price before the announcement of the Altamont Consortium recapitalisation proposal (in the range $0.12-0.31) represents a market view of the potential value of the business in the absence of a recapitalisation.

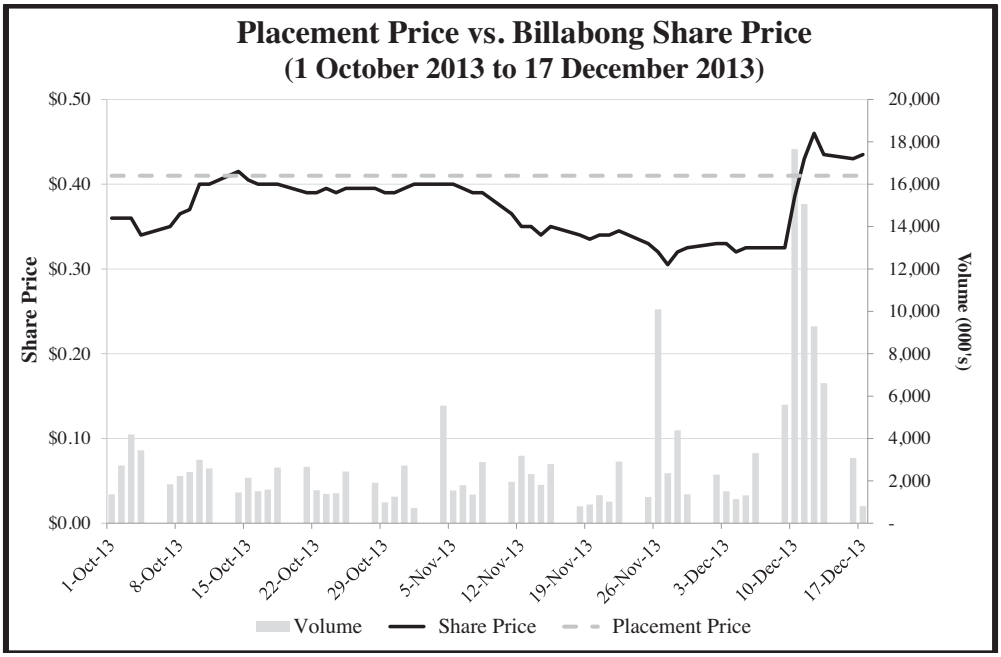
The Proposed Equity Issue has implications for the control of Billabong. Given that the C/O Consortium will jointly hold (before taking into account the options on issue) around 33-40% of the Billabong shares on issue, the Consortium members in most circumstances would be in a position to influence the outcome of any proposed change of control transaction (although they will not necessarily act jointly in relation to such a change of control transaction). On the other hand, as financial investors both Centerbridge and Oaktree are likely to be focussed on maximising and ultimately crystallising the value of their investments and their incentives should be broadly aligned with those of other shareholders. The C/O Consortium is entitled to appoint two directors to the Board of Billabong. The majority of directors will be independent and the C/O Consortium will not be able to exercise Board control of Billabong.

[37] The dilution of Billabong shareholders' interests through the potential exercise of options takes into account the 42.3 million options exercisable at $0.50 held by the Altamont Consortium. These have already been issued and are exercisable by the Altamont Consortium, regardless of whether the Proposed Equity Issue is approved.

For personal use only

5.3.4 Pricing of the Placement

Since the announcement by Billabong on 4 June 2013 that previously announced discussions regarding potential change of control transactions had been terminated, Billabong shares have traded in a wide range of $0.12-0.72, with a volume weighted average price ("VWAP") to 17 December 2013 of $0.36. Between 1 October and 9 December 2013 (ie. the day before Billabong's annual general meeting), Billabong shares generally traded at $0.40 and below (VWAP of $0.36), although in the two weeks before the annual general meeting shares traded at prices below $0.35. Following the annual general meeting, Billabong's share price rose sharply, on significant trading volumes. Billabong's recent share price performance is compared with the Placement price in the chart below:



Source: IRESS

During the period 4 June 2013 to 16 July 2013 (i.e. before the announcement of the Altamont recapitalisation proposal), Billabong shares traded at a VWAP of $0.21. Immediately before the announcement of the Altamont recapitalisation proposal, Billabong shares closed at $0.25. The Placement price of $0.41 represents a substantial premium to the price at which Billabong shares were trading in the absence of a firm proposal to recapitalise the company. The Placement Price represents a smaller but still significant premium to the price at which Billabong shares were trading in the weeks before the Billabong annual general meeting on 10 December 2013. Since the annual general meeting, the Billabong share price has strengthened substantially, with a VWAP for the period 11-17 December 2013 of $0.43. The Placement price of $0.41 represents a small discount to this VWAP.

For personal use only

Placement Price – Premium Analysis		
Period	**Share Price ($)**	**Premium**
Closing price pre-Altamont recap announcement	0.25	64%
VWAP[38] 4 June to 16 July 2013	0.21	97%
Closing price 6 December 2013	0.33	26%
1 month prior to 6 December - VWAP	0.34	22%
3 months prior to 6 December – VWAP	0.39	4%
Closing price 17 December 2013	0.44	(6%)
VWAP 11-17 December 2013	0.43	(5%)

The concept of a "control premium" is of only limited applicability in the context of Billabong and the Proposed Equity Issue, given the following:

- control is not passing in an absolute sense. Billabong shareholders will retain an opportunity to realise a control premium in the future;
- to the extent that any premium is being paid, it is paid to the Company rather than Billabong shareholders;
- there is no clear reference share price against which to measure any premium; and
- any premium calculation does not take into account the value transfer to the C/O Consortium member constituted by the issue of options under the Options Issue.

Notwithstanding these limitations, it could be argued that the pricing of the Placement implies the payment of a meaningful control premium.

The Rights Issue will give Billabong shareholders, excluding the C/O Consortium, an opportunity to subscribe for $50 million of new shares at $0.28 per share, further emphasising the attractiveness of the pricing of the Placement.

The Proposed Equity Issue also involves the potential exercise of options issued under the Option Issue. The C/O Consortium has been issued 29.6 million options with an exercise price of $0.50 per share**.** The exercise price represents a premium of around 13-19% relative to recent Billabong share prices of around $0.42-0.44, but is a 100% premium relative to Billabong's closing share price before the announcement of the Altamont recapitalisation proposal ($0.25).

5.3.5 Share Price absent the Proposed Equity Issue

If the Proposed Equity Issue was not approved, it would be reasonable to expect Billabong's share price to fall. Such a fall would reflect a deterioration in the Company's risk profile and an effective downgrading of the prospects for a turnaround of the business (in terms of certainty, the quantum of any earnings recovery and timing), as well as the ongoing need to raise new equity. Even if some alternative recapitalisation could be secured, there would likely be a loss of value as a result of further management distraction, transaction costs and costs associated with the C/O debt facility (e.g. prepayment premiums).

It is not possible to be definitive as to the price at which Billabong shares would trade if the Proposed Equity Issue was not approved. This will depend, amongst other matters, on specific factors relating to Billabong, its business and its trading performance, as well as overall equity market sentiment. However, absent a recapitalisation there would be a real

[38] VWAP is volume weighted average price.

For personal use only

risk of a significant loss of shareholder value. Billabong's share price before the announcement of the Altamont Consortium recapitalisation proposal (in the range $0.12-0.31) represented a market view at the time of the potential value of the business in the absence of a recapitalisation.

5.3.6 Alternatives

Since the initial approach by a private equity firm in February 2012, Billabong has effectively been "in play". In total, it has received six separate conditional and non-binding acquisition proposals, at progressively lower prices, from four separate potential acquirers. In each case, the relevant party did not agree transaction terms with Billabong during due diligence. In addition, Billabong has received a number of recapitalisation proposals. The proposal from C/O Consortium followed a binding agreement between Billabong and the Altamont Consortium for a recapitalisation of Billabong, with proceeds from the C/O Consortium debt facility used to refinance a facility provided by the Altamont Consortium.

The process by which Billabong has engaged potential acquirers and providers of recapitalisation solutions has been widely reported. In addition, Billabong and its advisers have conducted an exhaustive global search for parties that might have been interested in an acquisition or recapitalisation of Billabong. Billabong and its brands are well known across major markets in North America and Europe. It appears highly unlikely that there is any party that could potentially have been interested in Billabong that has not become aware that Billabong is in play.

Billabong was unable to secure any binding offer to acquire all of the company, with the final indicative offer at $0.60 per share withdrawn following due diligence. The terms of the C/O Consortium recapitalisation proposal represented the culmination of what was effectively a competitive process between the C/O Consortium and the Altamont Consortium. At the time that the final C/O Consortium offer of recapitalisation was made, there were few impediments to a counter-proposal to the Altamont Consortium's recapitalisation proposal, with a ruling from the Takeovers Panel having effectively obliged the Altamont Consortium to remove aspects of its proposal that might otherwise have been a disincentive to a competitive proposal.

In short, the process leading to the final C/O Consortium recapitalisation proposal was public and competitive, and strongly suggests that the Proposal from the C/O Consortium is the most favourable available to Billabong given its current position. This conclusion is reinforced by the terms of the C/O Consortium's debt facility. The facility terms effectively have the result that any material debt reduction in the first two years of the facility (of the sort that would be contemplated through an alternative recapitalisation or by a potential acquirer of the business)[39], is likely to trigger a significant prepayment premium obligation. The consequence is effectively a poison pill that would discourage any competing proposal for Billabong (at least in the short to medium term). In Grant Samuel's view there is no reason to believe that there are superior options available to Billabong.

5.3.7 Option Issue

The Proposed Equity Issue includes the exercise of options issued under the Option Issue. The Option Issue has no direct benefit for Billabong (i.e. there is no equity injection until the options are exercised, at which time Billabong may no longer have a pressing need for new equity). The Option Issue effectively represents a further dilution of the interests of existing Billabong shareholders and a value transfer to the C/O Consortium.

[39] The prepayment premium does not apply to a debt reduction funded from the proceeds of the Placement and Rights Issue, or from the proceeds on sale of specified assets.

The options issued under the Option Issue are currently out of the money. However, the options are long dated, expiring on 3 December 2020. Valuation of the options issued under the Option Issue requires the estimation of Billabong's future share price volatility. This is essentially a subjective judgement. Grant Samuel has valued the options issued under the Option Issue in the range $7-9 million, on the basis of assumed share price volatility of 60-80%[40].

The value of the options, while not trivial, is not significant in the context of Billabong's enterprise value and is not material having regard to the broader benefits of the Proposed Equity Issue. The Option Issue is an integral part of the Proposed Equity Issue and the Placement cannot proceed independently. The options represent no more than 2.8-3.4% of the diluted shares on issue and will only be exercised in circumstances in which there has been a material strengthening in the Billabong share price.

5.4 Shareholder Decision

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 Explanatory Memorandum issued by Billabong in relation to the Proposed Equity Issue.

Voting for or against the Proposed Equity Issue is a matter for individual shareholders, based on their own views as to value, their expectations about future 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 Merger should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Billabong, and whether to participate in the Rights Issue. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Equity Issue. Shareholders should consult their own professional adviser in this regard.

[40] The options issued under the Option Issue were valued using the Black-Scholes option valuation model.

For personal use only

For personal use only

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) and provides marketing and distribution services to fund managers. 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 in excess of 490 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Ross Grant BSc (Hons) MComm (Hons) and Stephen Cooper BCom (Hons) ACA ACMA. Ross and Stephen have a significant number of years of experience in relevant corporate advisory matters. Matt Leroux MEng MBA, Aditya Chibber BCom (Hons) and Hermia Leung BCom LLB 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

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the 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 Proposed Equity Issue is fair and reasonable having regard to the interests of Billabong shareholders, and to state reasons for that opinion

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 Proposed Equity Issue is fair and reasonable to the 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.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Explanatory Memorandum issued by Billabong and has not verified or approved any of the contents of the Explanatory Memorandum. Grant Samuel does not accept any responsibility for the contents of the Explanatory Memorandum (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 any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to Proposed Equity Issue.

Grant Samuel had no part in the formulation of the Proposed Equity Issue. 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 Proposed Equity Issue. 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.

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. Certain changes were made to the drafting of the report as a result of this circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts to Billabong and its advisers.

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 Explanatory Memorandum 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 20 December 2013 and the Appendices 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.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
20 December 2013

Grant Samuel & Associates

For personal use only

For personal use only

Appendix 1

Market Evidence - Transactions

Set out below is a summary of transactions involving global branded apparel businesses over the past three years for which there is sufficient information to calculate meaningful valuation parameters:

Recent Transaction Evidence – Branded Apparel Companies

Date	Target	Transaction	Consid-eration[1] ($ millions)	EBITDA Multiple[2] (times)		EBIT Multiple[3] (times)	
				Historical	Forecast	Historical	Forecast
Jul-13	DaKine	Acquisition by Altamont	AUD70	7.0	n.a.	7.3	n.a.
May-13	True Religion	Acquisition by TowerBrook	USD824	6.6	6.5	7.7	7.7
Nov-12	J Brand	Acquisition of 80.1% stake by Fast Retailing	USD362	n.a.	n.a.	11.4	n.a.
Oct-12	Warnaco	Acquisition by PVH	USD2,850	9.7	8.2	14.7	10.4
Aug-12	Vilebrequin	Acquisition by G-III Apparel	EUR108	14.0	n.a.	18.8	n.a.
May-12	Collective Brands	Acquisition by a consortium	USD1,344	8.3	n.a.	22.8	n.a.
Feb-12	Kenneth Cole	Acquisition of remaining 53% by founder	USD279	10.5	7.9	18.8	11.8
Feb-12	Nixon	Acquisition of 48.5% stake by Trilantic	USD464	9.2	n.a.	n.a.	n.a.
Feb-12	Benetton	Acquisition of remaining 32.92% by Benetton family	EUR840	5.6	5.8	8.5	10.8
Dec-11	Hang Ten	Acquisition by Li & Fung	HKD2,652	7.2	n.a.	8.2	n.a.
Jun-11	Moncler	Acquisition of 45% stake by Eurazeo	EUR929	11.8	n.a.	n.a.	n.a.
May-11	VOLCOM	Acquisition by PPR	USD608	14.1	11.0	17.0	13.3
Nov-10	J. Crew	Acquisition by TPG and Leonard Green	USD2,981	9.8	9.0	12.4	11.1

Source: Grant Samuel analysis[4]

A brief summary of each transaction is set out below:

DaKine/Altamont

On 16 July 2013, the San Francisco based private equity firm Altamont Capital Partners ("Altamont") entered into a binding agreement to purchase the board sports lifestyle brand, DaKine, from Billabong for $70 million. DaKine was a designer and developer of technical bags and accessories for the surf, skate, snowboard, ski, mountain bike, windsurf and kitesurf disciplines. The sale was announced in conjunction with, and was subject to, an agreement to refinance Billabong's existing syndicated debt facilities entered into with the Altamont Consortium (Altamont and entities advised by GSO Capital Partners, the credit arm of Blackstone Group). The DaKine transaction completed on 23 July 2013.

True Religion/TowerBrook

On 10 May 2013, the London and New York based private equity firm TowerBrook Capital Partners L.P. ("TowerBrook") entered into a definitive agreement to acquire all the outstanding shares in True Religion Apparel, Inc. ("True Religion") for $32.00 per share in cash, which corresponded to an equity consideration of

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, investment income and significant and non-recurring items.

3 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

4 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, 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.

For personal use only

approximately $824 million. True Religion was a US-based branded apparel business specialising in jeans and related apparel, with over 100 stores in the United States and approximately 30 stores outside the US. The relatively low implied multiple is likely to 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%.

J Brand/Fast Retailing

On 30 November 2012, Fast Retailing Co., Ltd ("Fast Retailing") entered into a definitive agreement to acquire 80.1% of J Brand Holdings, LLC ("J Brand"), from the US based private equity firm Star Avenue Capital, LLC ("Star Avenue") and J Brand management, for US$290 million. The balance of the shares was to be held by management. J Brand was 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 that generated revenue of ¥928 billion for the 2012 financial year.

Warnaco/PVH

On 31 October 2012, PVH Corp. ("PVH"), owner of the Calvin Klein brand among others, entered into a definitive agreement with The Warnaco Group, Inc. ("Warnaco") to acquire Warnaco for $51.75 cash and 0.1822 PVH share per Warnaco share, which valued Warnaco at USD2.85 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. In the 2011 financial year, Warnaco generated approximately $2.5 billion in revenue. The acquisition resulted in the consolidation of the Calvin Klein brand under PVH and was expected to generate significant synergies and be EPS accretive in the first financial year (excluding integration costs).

Vilebrequin/G-III Apparel

On 7 August 2012, G-III apparel Group, Ltd ("G-III") announced it had acquired Vilebrequin International SA ("Vilebrequin") for a total consideration of €108 million, of which €22.5 million was contingent on the achievement of three year performance targets. Vilebrequin designs luxury swimwear, accessories and resort wear. Vilebrequin sold its products primarily across Europe, the United States, Hong Kong, and Macao. For the 2011 financial year, Vilebrequin generated net sales of approximately €45 million.

Collective Brands/Consortium

On 1 May 2012, Collective Brands, Inc. ("Collective Brands") and a consortium consisting of Wolverine Worldwide, Inc., Blum Capital Partners and Golden Gate Capital (together, "the Consortium") entered into a definitive agreement to acquire Collective Brands for $21.75 per share for a total consideration of US$1.3 billion. Collective Brands' business comprised Payless ShoeSource, one of the world's largest footwear specialty retailers, the Performance and Lifestyle Group, a provider of performance and lifestyle footwear, and Collective Licensing, a brand development and licensing company specialising in the youth lifestyle market. For the financial year ended 28 January 2012, Collective Brands generated revenues of approximately US$3.5 billion. Under the transaction, Wolverine was acquiring the Performance and Lifestyle Group, while Blum Capital Partners and Golden Gate Capital were to jointly acquire Payless ShoeSource and Collective Licensing.

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 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 a definitive 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. For the 2011 financial year, Kenneth Cole Productions generated approximately US$430 million of revenue.

For personal use only

Nixon/Trilantic

On 17 February 2012, Billabong announced that it had entered into a definitive agreement with Trilantic Capital Partners ("Trilantic") for the sale of a 48.5% stake in Nixon. As part of the sale, Billabong sold a further 3% to Nixon management and kept the remaining 48.5%. The net proceeds of approximately US$285 million were used to pay down debt. Nixon was a premium watch and accessories brand targeting the youth market.

Benetton/Edizone

On 1 February 2012, Benetton Group S.p.A. ("Benetton") announced that Edizone S.r.L. ("Edizone"), 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 which implied an equity value for the company of approximately €840 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 low implied earnings 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.

Hang Ten/Li & Fung

On 19 December 2011, Li & Fung (Retailing) Limited ("Li & Fung") announced that it had entered into an irrevocable undertaking with a consortium of shareholders representing approximately 69% of all issued shares in Hang Ten Group Holdings Limited ("Hang Ten") to acquire all outstanding shares in Hang Ten for a cash consideration of HK$2.70 per share. The offer valued Hang Ten at around HK$2,650 million. Hang Ten was principally engaged in the design, marketing and wholesale and retail distribution of apparel and accessories under various brands. The company operated approximately 790 retail stores across Asia. For the financial year ended 31 March 2011, Hang Ten reported turnover of HK$2.4 billion.

Moncler/Eurazeo

On 5 June 2011, Eurazeo SA ("Eurazeo"), a French based investment company, and Moncler S.p.A ("Moncler") signed a definitive agreement for Eurazeo to acquire a 45% stake in Moncler for €418 million from The Carlyle Group, Remo Ruffini (Chairman and Creative Director of Moncler) and Brands Partners 2 S.p.A. Moncler was a high end ski and snow branded apparel business and operated across Europe, Asia and North America. The transaction followed a dual-track trade sale/IPO process, with Moncler due to list on the Milan stock exchange two weeks after the announcement of the transaction. The high implied multiples may have reflected the strong growth prospects for the company.

Volcom/PPR

On 2 May 2011, PPR SA ("PPR") entered into a definitive agreement with Volcom Inc. ("Volcom") to acquire all outstanding shares in Volcom for US$24.50 per share, representing a total consideration of approximately US$600 million. Volcom, a designer, distributor and retailer of action sports lifestyle products benefitting from a strong brand, was expected to generate substantial growth in earnings in 2011 and 2012 following subdued performance in 2008 and 2009. It had announced results for the first quarter of 2011 largely in line with expectations when the takeover offer by PPR was announced in May 2011. PPR, which later became Kering SA, is a global designer, manufacturer and distributer of apparel and accessories. PPR intended to grow Volcom internationally across the United States, Europe and Australia and penetrate untapped markets in Asia.

J. Crew/TPG Capital/Leonard Green

On 23 November 2010, J. Crew Group, Inc ("J. Crew") announced that it had entered into a definitive agreement to be acquired by funds affiliated with TPG Capital and Leonard Green & Partners ("Leonard Green"). The cash offer of US$43.50 per share valued J Crew at approximately US$3.0 billion. J. Crew operated as a multichannel specialty retailer of women's, men's and children's apparel, shoes and accessories. The company operated 334 stores including 229 J. Crew retail stores, 85 factory outlets and 20 Madewell stores. J. Crew also had an online and catalogue business which accounted for approximately 20% of revenues. For the financial year ended 30 January 2010, J. Crew reported revenues of US$1.6 billion.

For personal use only

Appendix 2

Market Evidence - Comparable Listed Companies

The sharemarket ratings of selected listed branded apparel companies are set out below.

Sharemarket Ratings of Selected Listed Branded Apparel Companies

Company	Market Capitalisation ($ million)	EBITDA Multiple[1] (times)			EBIT Multiple[2] (times)		
		Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2
Wholesalers							
Adidas	EUR18,555	14.1	12.3	10.2	17.6	15.1	12.3
Columbia	USD2,448	12.4	12.3	10.7	16.3	16.6	14.0
Esprit	HKD31,076	n.m.	17.7	10.8	n.m.	38.5	15.9
The Jones Group	USD1,120	12.8	8.3	7.4	28.1	13.5	10.9
Nike	USD73,907	18.3	16.4	14.9	21.2	18.8	16.9
PVH	USD10,781	18.0	12.0	10.8	21.9	14.8	13.2
Quiksilver	USD1,477	19.2	17.3	12.8	35.0	28.1	18.1
Ralph Lauren	USD16,066	11.1	11.0	9.7	13.3	13.4	11.6
Under Armour	USD8,751	34.1	27.5	22.2	41.2	32.7	26.4
VF Corporation	USD26,304	16.9	14.6	13.1	19.2	16.9	14.9
Integrated							
Abercrombie & Fitch	USD2,664	4.0	5.7	4.5	6.5	12.7	7.4
Aeropostale	USD706	3.9	n.m.	11.9	6.7	n.m.	n.m.
American Eagle Outfitters	USD2,911	4.4	6.2	5.4	5.7	9.0	7.1
Chico's	USD2,998	6.6	7.2	6.3	9.1	10.5	9.0
Guess	USD2,813	6.8	7.8	7.1	9.0	10.2	9.4
Hennes & Mauritz	SEK459,282	17.5	17.0	13.9	20.6	20.1	16.4
Inditex	EUR70,841	17.2	16.4	14.6	21.3	20.7	18.3
Lululemon Athletica	USD8,075	17.8	16.5	13.3	19.8	18.5	14.6
Puma	EUR3,507	17.4	11.6	10.3	25.1	14.8	12.5
The Gap	USD18,710	7.2	6.8	6.3	9.3	8.3	7.6
Retailers							
Pacific Sunwear	USD225	n.m.	19.0	12.7	n.m.	n.m.	n.m.
The Buckle	USD2,478	7.9	7.9	7.6	8.9	8.9	8.6
Urban Outfitters	USD5,445	9.3	8.0	6.9	12.3	10.4	9.0
Zumiez	USD789	7.5	6.8	5.8	10.0	9.2	8.0

Source: Grant Samuel analysis[3]

The multiples shown above are based on sharemarket prices as at 6 December 2013 and do not reflect a premium for control.

1 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, investment income and significant and non-recurring items.

2 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

3 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, 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.

For personal use only

The companies selected have a variety of year ends and therefore 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:

Abercrombie & Fitch Co.

Abercrombie & Fitch Co. ("A&F") is a vertically-integrated specialty retailer of casual apparel, personal care products and accessories under the brands of Abercrombie & Fitch, abercrombie kids, Hollister and Gilly Hicks. Hollister accounts for approximately half of the company's sales. A&F operates 912 stores in the United States (c.58% of sales), 139 stores outside the United States (c.26% of sales) and an e-commerce platform which provides global reach (c.16% of sales). A&F's long-term growth strategy focuses on international expansion, increase in e-commerce sales, as well as improvement in product and processes domestically in the United States.

Adidas AG

Adidas AG ("Adidas") is the second largest player 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 (c.76% of sales) and Reebok (c.11% of sales) with TaylorMade, Rockport and Reebok CCM making up the balance. Wholesale accounts for approximately 75% of revenues and retail for the remaining 25% (including a marginal contribution from online). Almost 45% of sales are generated from the company's controlled space initiatives (e.g. own stores, mono-branded franchise stores, shop in shops, stores managed with retail partners). Adidas has a worldwide presence with 40% of sales generated in Europe, 27% in Asia and 23% in North America.

Aéropostale, Inc.

Aéropostale, Inc. ("Aéropostale") is a vertically-integrated, mall-based, specialty retailer of casual apparel and accessories principally targeting 14 to 17 year old men (c. 36% of sales) and women (c. 64% of sales) through the Aéropostale brand and 4 to 12 year old children through its P.S. from Aéropostale brand. The company designs, sources, markets and sells its products through its retail stores and e-commerce platform. Aéropostale operates over 980 stores in North America (United States and e-commerce sales account for 94% of total revenue) and 28 stores across the Middle East, Asia and Europe through licensing agreements. In 2012, Aéropostale acquired GoJane.com, Inc., a California based online women's footwear and apparel retailer. Aéropostale's products are generally cheaper than those of its competitors and the company relies heavily on promotions throughout the year.

American Eagle Outfitters, Inc.

American Eagle Outfitters, Inc. ("American Eagle") is a vertically-integrated retailer offering clothing, accessories and personal care products targeting teenagers and young adults (15 to 25-year old). American Eagle's brands are American Eagle Outfitters and aeries by American Eagle Outfitters. American Eagle operates more than 1,000 stores in North America (the United States account for 90% of total revenue) and ships to 81 countries through its e-commerce platform. The company also has franchise agreements with 49 stores operated by its partners in 13 countries across Eastern Europe, Northern Africa and Asia.

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 comprises Chico's, White House | Black Market, Soma Intimates and Boston Proper. Apparel, accessories and related products are offered domestically and internationally through each brand's network of stores (more than 1,350 stores across the United States), e-commerce platform and call-centre. Chico's/Soma Intimates account for 64% of total sales with WH|BM and Boston Proper contributing 31% and 5% respectively.

Columbia Sportswear Company

Columbia Sportswear Company ("Columbia") designs, markets and distributes active outdoor apparel, accessories and equipment (c. 81% of net sales), and footwear (c. 19% of net sales). The flagship brand Columbia accounts for in excess of 80% of sales with Mountain Hardware and Sorel contributing most of the balance. Its brands are distributed through a mix of wholesale, direct to customer (retail stores and e-commerce

For personal use only

platform), independent distributors and licensees across 100 countries. The United States and Canada account for approximately two thirds of sales, Latin America and Asia Pacific around 20% and Europe, the Middle East and Africa the balance.

Esprit Holdings Limited

Esprit Holdings Limited ("Esprit") is a global fashion brand engaged in 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, in more than 1,000 self-operated retail stores and over 9,000 controlled-space wholesale points of sales including franchisees. The company markets its products under two brands, Esprit (c. 75% of sales) and edc, mainly in Europe (c.80% of sales) and Asia Pacific (c.20% of sales) with marginal sales in North America. Retail sales accounted for 60% of group revenue and wholesale and licensing for 39% and 1% respectively. Esprit has performed relatively poorly in recent years and has implemented a number of initiatives to regain market competitiveness.

Guess?, Inc.

Guess?, Inc. ("Guess") is a vertically-integrated retailer of contemporary apparel and accessories for men, women and children, principally targeting the 18 to 30 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. Guess operates over 500 stores in the United States and Canada and over 1,150 stores and 410 concession spaces (both direct and licensee) across 86 countries. North America, Europe and Asia account for c.50%, 35% and 10% of sales respectively.

Hennes & Mauritz

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 (in the Middle East, Morocco and Thailand) and an e commerce platform. The company's flagship brand, H&M, accounted for 2,628 of the 2,776 stores (November 2012) and was present in 48 markets. The group's other brands are COS, Monki, Weekday, Cheap Monday, & Other Stories and H&M Home (home textiles). Germany is the group's largest market with c.20% of sales followed by the United States (c.10%) and the UK (c.7%).

Industria de Diseno Textil SA

Industria de Diseno Textil SA ("Inditex") is a global, vertically-integrated retailer of affordable fast fashion. It designs, sources and markets fashion for women, men and children through a number of formats, including Zara (c.66% of sales), Pull&Bear (c.7% of sales), Massimo Dutti (c.7% of sales), Bershka (c.9% of sales), Stradivarius (c.6% of sales), Oysho, Zara Home and Uterqüe. Inditex sells its products through a network of more than 6,000 stores (c.87% company managed, 13% franchisees) in 86 countries and through an e-commerce platform. Europe represents approximately 70% of sales with Americas and Asia/Rest of the world sharing the balance.

Lululemon Athletica Inc.

Lululemon Athletica Inc. ("Lululemon") is a designer and retailer of athletic apparel operating in the US, Canada, Australia and New Zealand. 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 sold through company-owned stores (c.80% of sales in 2012), an e-commerce platform (c.15% of sales in 2012) and to wholesale clients and franchisees (c.5% of sales). 60% of sales are generated in the United States (135 stores as of February 2013), one third in Canada (51 stores) and c.5% in other international locations (25 stores).

Nike, Inc.

Nike, Inc. ("Nike") is the world's largest sports lifestyle product company with leading market shares in athletic footwear and athletic apparel. Nike designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services in virtually all countries around the world. Its main brands are NIKE, Jordan, Converse and Hurley. Sales are generated through a mix of independent distributors and licensees (c.80% of sales), Nike-

For personal use only

owned retail stores (303 stores in the US and 450 stores overseas as of mid-2013) and an e-commerce platform. The United States accounts for almost half of the company's sales. In the 2013 fiscal year, footwear accounted for 57% of sales and apparel for 27%.

Pacific Sunwear of California, Inc.

Pacific Sunwear of California, Inc. ("Pacific Sunwear") is a US specialty retailer of apparel, accessories and footwear with action sports, fashion and music influences, targeting teens and young adults. Pacific Sunwear sells third party branded products (Billabong, Crooks and Castles, DC Shoes, Diamond Supply Co., etc.) and proprietary branded products (Bullhead, Kirra, LA Hearts, On the Byas, Black Poppy and Nollie), each accounting for approximately half of sales. Almost all sales (93% in 2012) are generated in company-owned stores with the balance generated through its e-commerce platform. In 2012, men's apparel represented 48% of sales, women's apparel accounted for 37% and footwear and accessories for 15%.

Puma SE

Puma SE ("Puma") designs, markets and sells sports and sports lifestyle footwear, apparel, and accessories for men, women and kids worldwide. The company's main brands are PUMA, Cobra Golf and Tretorn. Company-owned stores and factory outlets account for the majority of revenues. In 2012, footwear accounted for 47% of sales, apparel for 36% and accessories for 17%. Europe and Middle East contributed 39% of revenues, Americas 35% and Asia Pacific 25%. Puma has recently launched a new long-term "Back on the Attack" growth plan after completing a five-year restructuring program involving cost reductions, brand and product transformation and corporate efficiency improvement.

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. PVH's products are distributed via company-owned stores and wholesale distribution channels. In 2012, North America accounted for 39% of sales and Calvin Klein and Tommy Hilfiger together contributed 72% of sales.

Quiksilver, Inc.

Quiksilver Inc. ("Quiksilver") designs, develops and distributes branded apparel, footwear, accessories and related products primarily to young-minded people. Its main brands are Quiksilver (39% of sales in 2012), Roxy (26% of sales) and DC (30% of sales), all of which are rooted in the heritage and culture of surfing, skateboarding and snowboarding. Quiksilver sells its products through 605 company-owned stores, 224 licensed stores (October 2012), wholesale accounts and its e-commerce platform, in the United States and internationally. Wholesale contributes approximately three quarters of sales. The United States is the company's largest market with c.40% of sales.

Ralph Lauren Corporation

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 10,625 worldwide wholesale distribution locations, 388 retail stores, 494 concession-based shops and 7 e-commerce websites (March 2013). In 2012, wholesale accounted for 45% of sales, retail for 52% and licensing for the remaining 3%.

The Buckle, Inc.

The Buckle, Inc. ("Buckle") is a retailer of medium to high-priced casual apparel, footwear and accessories for fashion conscious young men and women (15 to 30 year old age group). Buckle offers a selection of brand name (c.66% of sales) and private-label casual apparel through a network of 440 retail stores mostly located in regional, high-traffic shopping malls and lifestyle centres in 43 states across the United States. Buckle also maintains an e-commerce platform (c. 8% of sales). Denim is a significant contributor to the company's revenue accounting for 46% of total sales.

For personal use only

The Gap, Inc.

The Gap, Inc. ("Gap") is a global, vertically-integrated retailer offering apparel, accessories and personal care products for men, women, children and babies under several brands including Gap (c.38% of sales), Old Navy (c.39% of sales), Banana Republic (c.18% of sales), Piperlime, Athleta and Intermix. Gap's products are offered across specialty, outlet, e-commerce and franchise channels with self-operated stores in the United States (c.67% of sales), Canada, United Kingdom, France, Ireland, Japan, China and Italy. Franchise agreements have been entered with franchisees to operate over 300 Gap and Banana Republic stores throughout Asia, Australia, Eastern Europe, Latin America, the Middle East and Africa. Gap's e-commerce platform distributes to customers across 80 countries, accounting for approximately 12% of total sales.

The Jones Group Inc.

The Jones Group Inc. ("Jones") is a designer, marketer, wholesaler and retailer of over 35 premium brands (both owned and licensed) in apparel, footwear, jeanswear, jewellery and handbags in the United States (c. 80% of sales) and internationally. Its main brands are Nine West, Jones New York, Anne Klein and Kurt Geiger. In 2012, wholesale accounted for 73% of sales, retail (direct-to customer, including online sales) for 26% and licensing for 1%. While the company has reduced its retail footprint in the US (594 stores as at 31 December 2012 compared to 672 stores the previous year) it has grown its international retail presence (increase from 315 to 341 retail locations during 2012).

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 (94% of sales in 2012). Under Armour currently owns a number of brands, including UNDER ARMOUR, HEATGEAR, COLDGEAR, ALLSEASONGEAR. Under Armour generates its revenues primarily through wholesale channels with retail and licensing businesses only contributing marginally to sales. Apparel accounts for 76% of revenue, footwear for 13%, accessories for 9% and licensing for the remaining 2%.

Urban Outfitters, Inc.

Urban Outfitters, Inc. ("Urban Outfitters") operates a network of retail stores that offer branded apparel, accessories and home goods in North America and Europe. Urban Outfitters operates 215 Urban Outfitters stores (36% of revenue in 2012), 180 Anthropologie stores (31%), 77 Free People stores (3%), 2 Terrain garden centres (less than 1%) and 2 BHLDN stores (less than 1 %), an e-commerce platform (24%) and sells a private label range of young women's casual wear to approximately 1,400 department and specialty stores (5% of revenue).

V.F. Corporation

V.F. Corporation designs, manufactures, markets and distributes branded apparel, footwear and related products in the United States and Europe. V.F. owns a highly diversified portfolio of brands in the outdoor & action sports sector (e.g. The North Face, Timberland, Vans), jeanswear (e.g. Lee, Wrangler), imagewear, sportswear (Nautica, Kipling) and contemporary segments. Wholesale accounts for approximately 80% of sales with retail (including online) accounting for the balance. The United States contributes almost two thirds of the group's sales. V.F. aims to increase its focus on outdoor and action sports apparel and wholesale and to grow outside the US.

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 the products through 500 company-owned stores (472 in the United States, 20 in Canada and 8 in Europe) and 2 e-commerce websites.

Billabong International Limited

ABN 17 084 923 946

⊢ 000001 000 BBG
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 552 270
(outside Australia) +61 3 9415 4000

Proxy Form

Vote online
Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
Follow the instructions on the secure website to vote.

Your access information that you will need to vote:
Control Number: 999999

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Queensland time) 28 January 2014

How to Vote on Items of Business
All your securities will be voted in accordance with your directions.

Appointment of Proxy
Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms
Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting
Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

This Document is printed on Greenhouse Friendly™ ENVI Laser Carbon Neutral Paper
Personal Use Only

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Billabong International Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** _____

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of Billabong International Limited to be held at **Sofitel Gold Coast, Sorrento Room, 81 Surf Parade, Broadbeach, Queensland, 30 January 2014 at 10:00am (Queensland time)** and at any adjournment or postponement of that Meeting.

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Ordinary Business	For	Against	Abstain
1 Approval of acquisition by the C/O Consortium of relevant interests in Billabong Shares	☐	☐	☐
2 Approval of acquisition by Billabong of relevant interests in Billabong Shares	☐	☐	☐
3 Refresh of placement capacity in relation to the options issued to the C/O Consortium	☐	☐	☐

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	**Director**	**Director/Company Secretary**

Contact Name _____ **Contact Daytime Telephone** _____ **Date** / /

Computershare

For personal use only