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## ASX ANNOUNCEMENT

#### STRATEGIC CAPITAL STRUCTURE REVIEW UPDATE

GOLD COAST, 17 February, 2012: Billabong today unveils a number of initiatives as a result of the strategic capital structure review announced on 19 December, 2011.

The review assessed measures to strengthen the company's capital structure in light of the difficult operating environment in retail markets worldwide. Alternatives considered included full and partial brand sales, pro rata and non-pro rata ordinary equity raisings, convertible equity raisings and operational improvements.

The review has resulted in initiatives that include:

- the partial sale of Nixon Inc. ("Nixon");
- a review of the Group's retail network with a view to closing loss-making stores and stores performing below expectations;
- a cost-cutting program; and
- a reduced dividend and fully underwritten dividend reinvestment plan.

The outcomes of the review will significantly strengthen the company's financial position.

#### Partial sale of Nixon

Billabong has entered into definitive agreements with Trilantic Capital Partners ("TCP") to establish a joint venture for Nixon. Under the joint venture, Billabong will retain 48.5% of Nixon, while TCP will purchase 48.5% and Nixon's management will purchase 3.0%.

There are numerous strategic benefits of the transaction to Billabong:

- Addresses Billabong's capital structure issues: The partial sale represents an enterprise value of approximately US\$464 million for Nixon and results in net proceeds to Billabong of approximately US\$285 million<sup>1</sup>. 100% of net proceeds will be used to pay down debt. This transaction is expected to result in a significant one-off gain in the Group's income statement in the year ending 30 June 2012, which cannot be calculated at this point in time as the transaction has not been completed.
- **Highly attractive multiple:** The offer represents a multiple of approximately 9.2x LTM EBITDA<sup>2</sup>, reflecting the strength of the Nixon brand and the value inherent within Billabong's portfolio of brands.
- Billabong retains exposure to future upside in Nixon: As an ongoing 48.5% shareholder in Nixon, Billabong will continue to benefit from the strong forecast future growth of the Nixon brand. In addition, Billabong has the opportunity to share in proceeds in the future from any potential further sell-down.
- Billabong retains a supply agreement: Billabong has secured a long-term supply agreement with Nixon going forward, providing ongoing access to Nixon product for companyowned retail stores.
- Nixon able to focus on growth: Nixon will be a stand-alone business focussed on continued growth into areas such as Billabong's core action sports channel, as well as high-end department stores, quality electronics stores and other channels.

As a result of the transaction, Nixon will no longer be consolidated in Billabong's accounts. The loss of Nixon's earnings contribution will be more than offset by Billabong's share of JV profits and the benefits which will flow from the other initiatives announced today.

<sup>1</sup> Net proceeds are net of all transaction costs and taxes. Net proceeds are pending receipt of final tax opinions and may reduce by up to US\$45 million. Billabong has sought advice in advance from the relevant tax authorities.

<sup>&</sup>lt;sup>2</sup> Last twelve months earnings before interest, tax, depreciation and amortisation to 31 December, 2011 of US\$50.6 million.



The transaction is expected to close within 90 days, subject to certain anti-trust approval and customary closing conditions.

#### Closure of underperforming retail stores

Billabong continues to believe in its multi-brand retail strategy that complements the company's wholesale business.

Billabong has 677 company owned stores worldwide and more than 11,000 wholesale doors. The company's profitable stores had an average EBITDA margin of 17.8% in the first half of FY 2012. However, there are also a number of loss-making or under-performing stores, whose weak performance has been largely driven by the challenging retail environment.

As such, Billabong is undertaking a review of its retail network with a view to closing loss-making stores and stores performing below expectations. While the review remains a work in progress, it is expected that the number of store closures will fall somewhere in the range of 100 to 150 stores.

It is expected that some of the leases associated with the stores to be closed are due for renewal by 30 June, 2013. Billabong will either not renew or accelerate the exit from these leases.

As part of this review, Billabong is targeting a range of A\$20 million to A\$30 million reduction in rent expense and a resultant increase in EBITDA in the range of A\$5 million to A\$10 million for FY 2013. The closures will result in a one-off charge in the company's income statement in FY 2012, which cannot be calculated at this point in time.

#### **Cost reduction program**

From and including FY 2013, Billabong will reduce annual costs by approximately A\$30 million. The savings will come from all regions and all areas of the business, including head office overheads; supply chain rationalisation; retail corporate overheads; and streamlining the company's marketing expenditure.

The store closures mentioned above and the cost reduction program will result in full-time and casual job losses. Full-time job losses will be approximately 400 worldwide, including up to 80 in Australia. The company will seek to minimise forced job losses by redeploying staff from closed stores to other Billabong retail stores wherever possible and through natural staff attrition. The fluctuating nature of seasonal retail and the timing of store closures will impact the ultimate number of casual job losses.

### Dividend reduction and underwritten dividend reinvestment plan

Given the uncertain operating environment, Billabong will reduce its dividend payout ratio for the FY 2012 interim dividend to approximately 25% and re-implement its dividend reinvestment plan, which will be fully underwritten.

#### Recent events

The Board considers it needed a certain transaction to address Billabong's balance sheet issues, in particular to avoid any potential breach of its bank covenants. It was concluded that the partial sale of Nixon was the best of the actionable available alternatives and hence in the best interest of the company and its shareholders. Billabong undertook a competitive process over several months in order to achieve a binding and definitive agreement for the partial sale of Nixon.

Earlier this week, the company received a non-binding, indicative proposal from TPG Capital to acquire all of the shares in the company for A\$3.00 cash per share. That proposal was not certain – it was subject to due diligence, subject to finance and conditional on a number of other matters, including Billabong not selling down its ownership interest in any of its brands, and exclusivity. In the absence of certainty, Billabong has proceeded with the partial sale of Nixon in order to stabilise its balance sheet.



The Board continues to be prepared to engage with any party that makes a proposal which is in the best interest of the company and its shareholders.

Goldman Sachs is acting as financial advisor to Billabong.

## **MARIA MANNING**

**COMPANY SECRETARY** 

# Appendix: Nixon sources and uses and pro forma adjustments (excluding impact of cost-outs, store closures and dividend changes)

#### Transaction sources and uses (US\$m)

Sources		Uses	
	US\$m		US\$m
Trilantic investment	140 .4	Billabong rolled equity	140.4
Management investment	8.3	Purchaser and lender fees	14.0
Billabong rolled investment	140.4	Proceeds payable to Billabong <sup>1</sup>	309 .6
Total equity	289.0		
Total acquisition debt	175.0		
Total sources of funds	464.0	Total uses of funds	464.0

Note: Does not add due to rounding

#### Billabong debt coverage ratio impact at 31-Dec-2011 (A\$m)

	Billabong status quo	Pro forma ex-Nixon
Net debt	525.6	258.7
Adj. LTM EBITDA¹	184.0	135.4
Net debt / EBITDA	2.9 x	1.9 x

<sup>1.</sup> Adjusted for one-off items.

#### Billabong profit and loss impact for the 12 months to 31-Dec-2011 (A\$m)

	Billabong status quo	Pro forma ex-Nixon <sup>1</sup>
Revenue	1,695.5	1,548.9
LTM EBITDA	171.3	130.7
LTM EBIT	112.7	76.1

<sup>1.</sup> Including assumed JV contribution of A\$8.0 million.

<sup>1.</sup> Gross proceeds before transaction costs and taxes.