

SurfStitch Group announces the acquisition of Surf Hardware International and Institutional Placement

- SurfStitch Group Limited (“SurfStitch Group”) has agreed to acquire 100% of the shares of SHI Holdings Pty Ltd (“Surf Hardware International” or “SHI”) – the “Acquisition” – at an Enterprise Value of A\$23.7 million. The total consideration for the Acquisition will be paid 100% in cash
- Compelling acquisition multiple of 7.5x FY16E EBITDA with 10%+ earnings accretion in FY16E on a full year pro forma basis
- SHI is a global designer, marketer and distributor of innovative and high performance water board sports products and accessories, and houses four highly recognised water board sports brands: FCS, Gorilla, Hydro and Softech
- SHI’s brands are ubiquitous in the global surf industry and broader water board sports market, such as SUP and Kitesurfing, and appeal to SurfStitch Group’s core demographic
- The Acquisition aligns with SurfStitch Group’s strategic objective of creating a destination capable of capturing and influencing customers at all points of the surf and action sports lifecycle
- SurfStitch Group also announced a fully-underwritten institutional placement to raise approximately A\$50 million (the “Placement”)
- Proceeds from the Placement will be used to fund the repayment of certain debts of SHI as part of the Acquisition and transaction costs, as well as to provide SurfStitch Group with the flexibility to pursue further strategic growth initiatives including complementary acquisition opportunities. Proceeds will also be used for working capital and general corporate purposes
- Reaffirms FY16E guidance of A\$15–18 million EBITDA for the business, excluding SHI, and provides FY16E guidance of A\$18–22 million EBITDA¹, including the contribution of SHI on a full year pro forma basis

Overview

Burleigh Heads, Australia – SurfStitch Group (ASX:SRF) today announced that it had entered into definitive agreements to acquire 100% of the shares of SHI Holdings Pty Ltd (“Surf Hardware International” or “SHI”) – the “Acquisition” – at an Enterprise Value of A\$23.7 million. The total consideration for the Acquisition will be paid 100% in cash. A fully-underwritten institutional placement of ordinary shares to raise approximately A\$50 million has also been launched, with proceeds being used to fund the repayment of certain debts of SHI as part of the Acquisition and transaction costs, as well as to provide SurfStitch Group with the flexibility to pursue further strategic growth initiatives including complementary acquisition opportunities, and for working capital and general corporate purposes.

About the Acquisition

SHI is a global designer, marketer and distributor of innovative and high performance water board sports products and accessories. SHI’s philosophy and reputation for innovation, and the creation of high performance products, has driven SHI to become the leading player in the global water board sports accessory market, with numerous

¹ Excludes transaction costs and one-time non-recurring expenses

products that have broad appeal to all types of surfers, from the elite level professional tour athlete to the everyday surfer.

SHI houses four distinct, highly recognised global brands, which provide market leading products across a number of different water board sports including Surf, SUP and Kitesurfing:

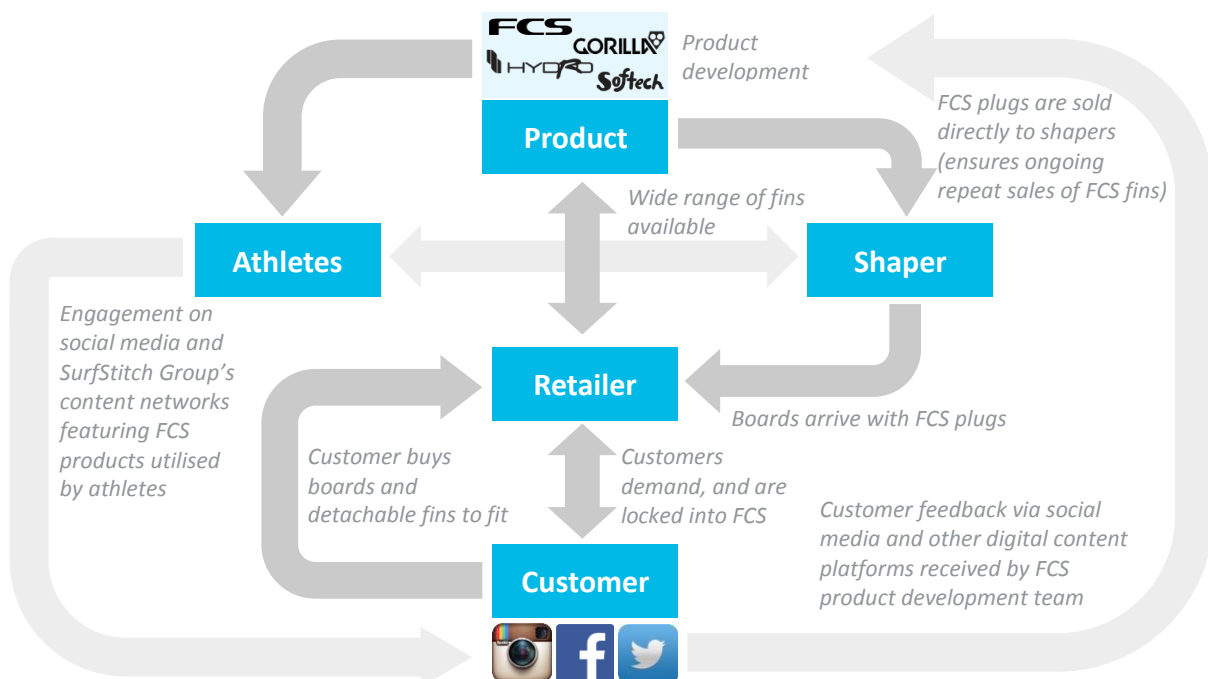
- **FCS**, SHI's flagship performance brand, is globally renowned for the invention of its highly regarded detachable surfboard fin systems.
- **Gorilla**, SHI's lifestyle oriented surf brand, develops vibrant functional traction pads, grips, leashes, fins, board covers, apparel and other surf accessory products.
- **Hydro**, SHI's swim fin and bodyboard brand, develops functional body boards and swim propulsion fins, catering to a broad audience of ocean enthusiasts.
- **Softtech**, SHI's softboard brand, develops premium quality softboards for the surf specialty market.

Strategic Rationale

The acquisition of SHI strategically aligns with SurfStitch Group's core objective to create an environment capable of capturing and influencing customers at all points of the surf and action sports lifestyle cycle. SHI's continuous innovation has created a portfolio of globally recognised brands and high performance products that have immense appeal to SurfStitch Group's youth demographic. SHI's product portfolio also delivers SurfStitch Group greater exposure to the action sports hard goods market, which has proven to be one of SurfStitch Group's fastest growing and most resilient categories.

SHI's products engage with all major SurfStitch Group stakeholders throughout the business model, creating a highly beneficial and virtuous cycle. Product innovation is at the core of the operations. Working with athletes, SHI ensures products are performance and experience enhancing for every level of user, from the novice to the world class athlete. Aligning with board shapers, SHI has been able to grow a leading market share in the key markets of Asia-Pacific, the US, Europe and Japan, and just as importantly, has developed key relationships with major manufacturers in surf.

SHI'S BUSINESS MODEL

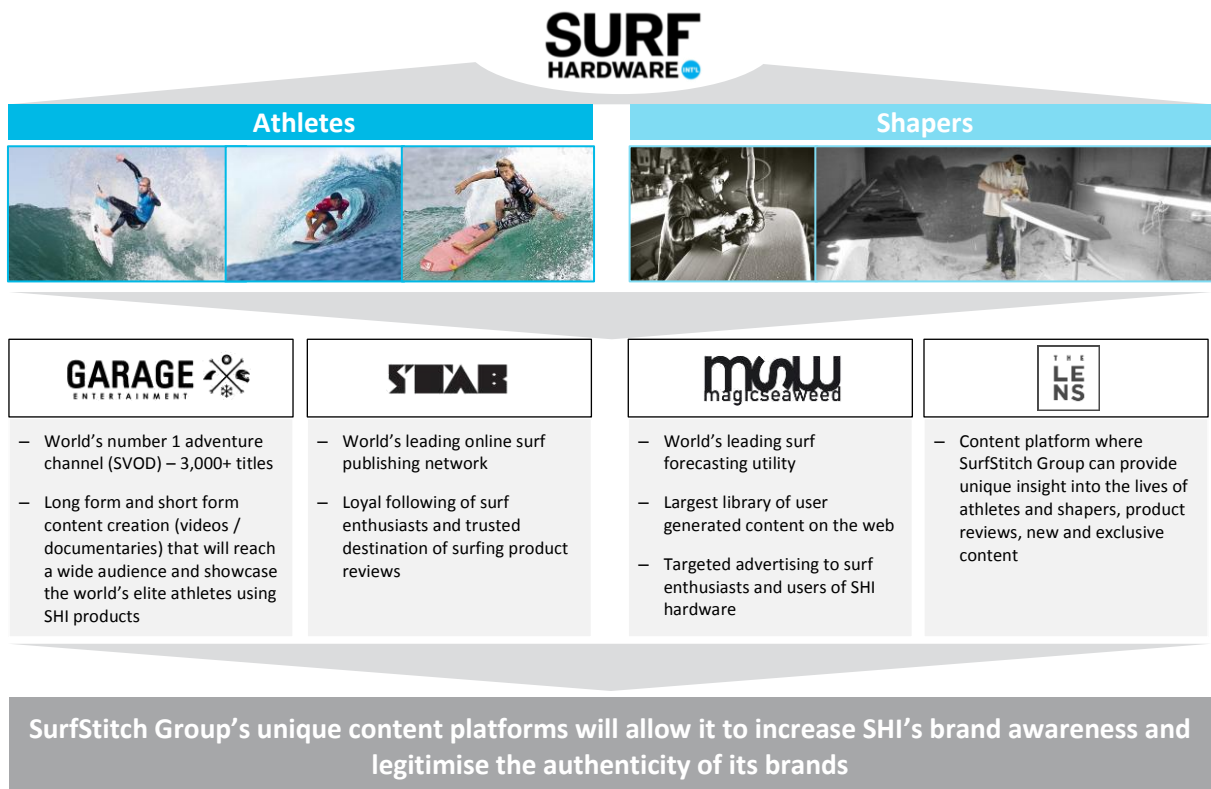


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SurfStitch Group can leverage SHI:

- By accessing its high profile athletes (both sponsored and not sponsored), board shapers and global brands to curate premium and engaging content, which can be displayed on SurfStitch Group’s digital media platforms of over 6 million users;
- Through Garage Entertainment & Production, content creation will showcase the world’s elite athletes using SHI products and reach a wide audience of action sports followers;
- Through athlete participation and engagement on Stab, combined with content co-creation and branding with complementary action sports brands aiming to legitimise their products;
- Through the surf enthusiast and core surfer who repeatedly checks the surf conditions on Magicseaweed and receives targeted product suggestions of SHI hardware to match surf conditions in their targeted regions; and
- Through The Lens, to provide unique insights into the lives of athletes and shapers, product reviews and new and exclusive content.

LEVERAGING CONTENT ACROSS VERTICAL BRANDS



By leveraging relevant content across all these platforms, SurfStitch Group can attract and retain a rapidly evolving and increasingly sophisticated customer base, among all types of action sports consumers.

Importantly, SHI’s products and content that will be leveraged across SurfStitch Group’s media platforms will be monetised through SurfStitch Group’s e-commerce platform. SWELL has the global reach, and capabilities to leverage content and end-user insight to provide SHI with feedback, attained through media platforms and purchasing behaviour analysis, that will enhance product development. As SHI incorporates athlete and mass consumer feedback into their product development, they will be able to further entrench their products among consumers, shapers and manufacturers.

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“SHI’s brands and products are globally renowned in the surfing and water board sports industries. We are extremely excited by the Acquisition and to strengthening our long-standing relationship with SHI. We look forward to collaborating with SHI on the design and sale of new and innovative products, as well as creating premium and engaging content that can be shared with surfers and fans around the world via SurfStitch Group’s digital ecosystem,” said Justin Cameron, Chief Executive Officer of SurfStitch Group.

Integration and Business Structure

Upon completion of the Acquisition, SurfStitch Group will seek to integrate and scale-up SHI’s e-commerce capabilities. SHI’s significant brand equity, intellectual property and ongoing innovation efforts will offer opportunities to create new products in existing and adjacent categories, which can be leveraged across SurfStitch Group’s commerce businesses.

As part of the strategy, SurfStitch Group over the next 12-24 months will also open 3 flagship SWELL stores in key cities across the globe. The performance based flagship doorways will become the global destination for the action sports and youth demographic, with an enhanced shopping experience that will leverage content and commerce across physical doorways. The stores will provide SurfStitch Group's 600+ Brands unique and exclusive opportunities to launch products globally in a combined bricks, digital and content world. In addition, SurfStitch Group’s full media and content spectrum will be on display with the stores featuring ‘doorways’ into each section of the SurfStitch Group ecosystem.

PERFORMANCE BASED FLAGSHIP DOORWAYS



- ✓ Enhanced shopping experience leveraging content and e-commerce across physical doorways
- ✓ Providing Group's 600+ Brands unique and exclusive opportunities to launch products globally in a combined bricks, digital and content world



- ✓ SurfStitch Group and SHI’s athlete partnerships and SHI’s brand ambassadors will draw customers to the stores



SurfStitch Group

- ✓ SurfStitch Group will open 3x flagship SWELL stores in key cities across the globe
- ✓ The stores will be **the** destination for the action sports and youth demographic
- ✓ The stores will feature ‘doorways’ into each section of the SurfStitch Group ecosystem



- ✓ The hardware section will showcase a full range of action sports hardware and consumer participation opportunities



- ✓ SurfStitch Group’s full media and content spectrum will be on display

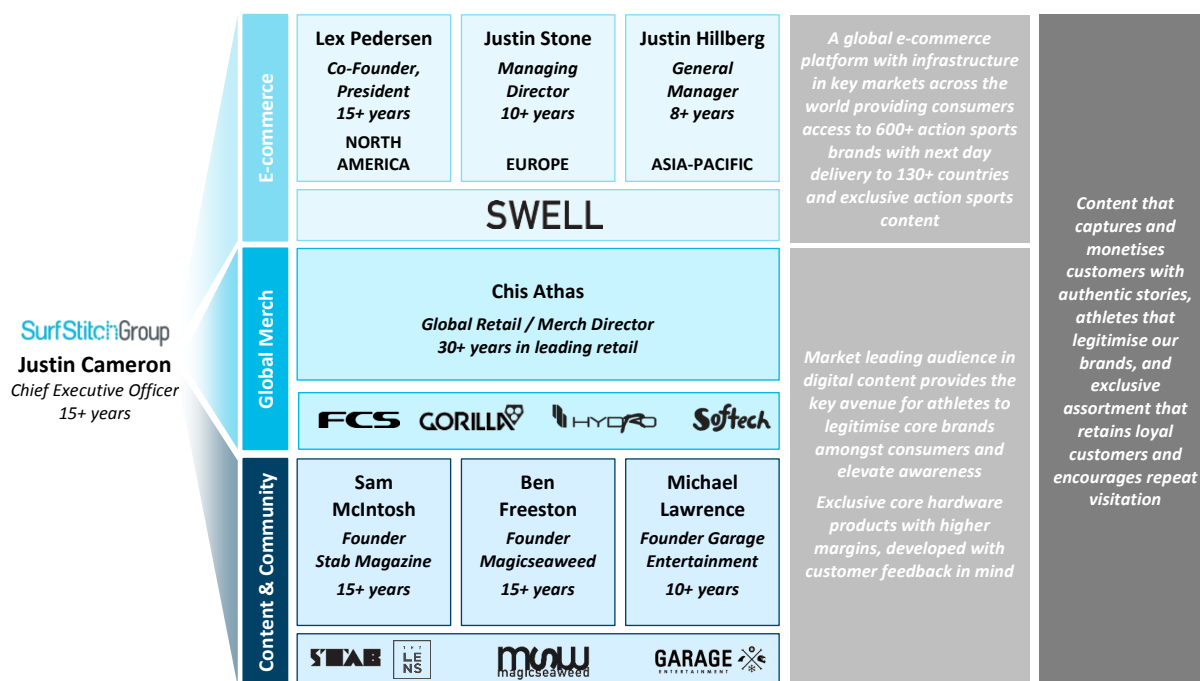


SurfStitch Group recently appointed Chris Athas, who has 30+ years of leading retail experience as the Founder and Owner of Surffection (a large Australian surf retail chain which was successfully sold to both Billabong and Quiksilver Groups), to run SurfStitch Group’s global merchandising business. Mr. Athas will be responsible for global merchandising, including expanding the vertical line of SHI brands within the SurfStitch Group. Working closely with Mr. Athas, SurfStitch Group quickly identified the opportunity to improve margins and legitimise a vertical brand strategy by leveraging an established hard goods brand that resonates with our core youth demographic. SHI products not only appeal, in mass, to the SurfStitch Group demographic, but also align with SurfStitch Group’s

ambitions to grow a vertical line to 20–30% of SurfStitch Group’s revenue and expand the hard goods selection of its commerce sites.

Mr. Athas will complement an experienced global e-commerce and media team that communicates with consumers at all points of the action sports lifecycle.

HIGHLY EXPERIENCED MANAGEMENT TEAM TO DRIVE GROWTH AMBITIONS



The acquisition of SHI is expected to be earnings accretive and margin enhancing in FY16E, and is expected to deliver a broad range of synergies and efficiencies across SurfStitch Group’s platform in the areas of distribution, logistics, fulfilment, marketing, shared services and branding.

FY16E Guidance Impact

SurfStitch Group reaffirms that the business, excluding SHI, is on track to achieve the earnings guidance provided at the full year result, and again at its AGM, of A\$15–18 million EBITDA. SurfStitch Group provides FY16E guidance of A\$18–22 million EBITDA², including the contribution of SHI on a full year pro forma basis.

Institutional Placement

A fully-underwritten institutional placement of ordinary shares to qualified and sophisticated institutional investors (the "Placement") to raise approximately A\$50 million has been launched today to fund the repayment of certain debts of SHI as part of the Acquisition and transaction costs, as well as to provide SurfStitch Group with the flexibility to pursue further strategic growth initiatives, including complementary acquisition opportunities, and to accelerate SurfStitch Group’s revenue growth via the addition of incremental working capital.

The Placement has been underwritten by J.P. Morgan Australia Limited and UBS AG, Australia Branch, at an underwritten floor price of A\$1.95 per share, which represents a 5.3% discount to the last closing share price on 24 November 2015 and a 2.3% discount to the 5-day VWAP. Final issue price to be determined via a bookbuild. Approximately 25.6 million shares will be issued under the Placement, representing approximately 10.3% of

² Excludes transaction costs and one-time non-recurring expenses

SurfStitch Group's issued capital. New shares issued under the Placement will rank equally with existing shares of SurfStitch Group.

Settlement of the Placement is scheduled to take place on 1 December 2015, with allotment and quotation of shares expected to occur on the ASX on 2 December 2015. No shareholder approval is required to be sought for the Placement, as the Company will utilise, in part, its placement capacity under Listing Rule 7.1.

SurfStitch Group is advised by J.P. Morgan and Herbert Smith Freehills in relation to the Acquisition. SHI is advised by Deloitte Corporate Finance and Sparke Helmore Lawyers in relation to the Acquisition.

Webcast

A briefing will be hosted by the Chief Executive Officer, Justin Cameron, at 11:00AM (Australian Eastern Daylight Saving Time) on 25 November 2015. The conference call will be available to interested parties through a live audio webcast (<http://webcast.openbriefing.com/2529/>). Please visit the website at least 15 minutes prior to the start of the call to register.

SurfStitch Group Resources

For more information on the SurfStitch Group and SHI, please visit:

- Investor Centre: <https://www.surfstitchgroup.com/investors/>
- SurfStitch Group Website: <https://www.surfstitchgroup.com/>
- SurfStitch Website: <http://www.surfstitch.com/>
- SurfDome Website: <https://www.surfdome.com/>
- SWELL Website: <http://www.swell.com/>
- Magicseaweed Website: <http://magicseaweed.com/>
- Stab Magazine Website: <http://www.stabmag.com/>
- Garage Entertainment Website: <http://www.garageentertainment.com.au/>
- Surf Hardware International Website: <http://www.surfhardware.com/>
- FCS Website: <http://www.surffcs.com/>
- Gorilla Website: <http://www.gorillasurf.com/>
- Hydro Website: <http://www.hydrosportz.com/>
- Softech Website: <http://www.softtechsoftboards.com/>

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About SurfStitch Group

SurfStitch Group is an industry leading online global action sports and youth culture network. SurfStitch Group has evolved from a pure-play online action sports retailer to become a destination for customers to connect with everything action sports related. Together, SurfStitch Group's websites serve a unique customer audience of over 6 million, representing a digital ecosystem capable of capturing and influencing all points of the surf and action sports lifestyle cycle.

SurfStitch Group's global retail business is now home to over 50,000 styles from over 600 of the world's leading and unique action sports and street fashion brands. SurfStitch Group's media businesses consist of:

- ***Magicseaweed*** – Magicseaweed is the world's leading user generated surf content network and surf forecaster.
- ***Stab*** – As the leading surf content player, Stab represents a platform for athletes to engage consumers, for brands to inspire consumers with new and exclusive products, for users to engage in video and social environments, and broader events and industry updates.
- ***Garage Entertainment and Production*** – Garage Entertainment and Production produces and digitally distributes premium action and extreme sports long form films and TV content through SVOD and linear channels.
- ***'The Lens'*** – 'The Lens' is SurfStitch.com's content publishing platform created for customers to engage in and experience everything action sports and youth lifestyle related.

Headquartered in Burleigh Heads, Australia, the SurfStitch Group has regional office locations in Australia, the UK and the USA. The Company's ordinary shares trade on the Australian Securities Exchange (ASX) under the ticker SRF.

Disclaimer

All numbers are unaudited. The financial information includes non-IFRS information which has not been specifically audited in accordance with Australian Accounting Standards. This presentation and information communicated verbally to you may contain certain projections and other forward-looking statements with respect to the financial condition, results of operations, businesses and prospects of SurfStitch Group Limited ("SurfStitch Group"). These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Any of the assumptions underlying these forward-looking statements could prove inaccurate or incorrect and therefore any results contemplated in the forward-looking statements may not actually be achieved. Nothing contained in this presentation or communicated verbally should be construed as a profit forecast or profit estimate. Investors or other recipients are cautioned not to place undue reliance on any forward-looking statements contained herein. SurfStitch Group undertakes no obligation to update or revise (publicly or otherwise) any forward-looking statement, whether as a result of new information, future events or other circumstances. Neither this presentation nor any verbal communication shall constitute an invitation or inducement to any person to subscribe for or otherwise acquire securities in SurfStitch Group.