



**SURFSTITCH GROUP LIMITED (ASX: SRF)
2016 ANNUAL GENERAL MEETING
16 NOVEMBER 2016**

**Chairman's Address
By Sam Weiss**

Good morning ladies and gentlemen.

My name is Sam Weiss. I am the Chairman of SurfStitch Group and it is my pleasure to welcome you to the second Annual General Meeting of the Company and thank you for your attendance here today.

I would like to introduce my fellow non-executive directors, Ms Jane Huxley and Mr Stephen Goddard, Chairman of our Audit and Risk Committee and our executive directors, Mr Mike Sonand, CEO and Managing Director and Mr Lex Pederson, founder of SurfStitch. Justin Stone, founder of SurfDome, is unable to make it here from the UK and is an apology. I am also pleased to introduce our Company Secretary, Ms. Stephanie Belton.

Ms Julie Cleary of KPMG, the Company Auditor, is with us today, as is Ms Shannon Finch from our lawyers, King and Wood Mallesons, Allan Murray from our financial advisers 333 Capital and Debbie Austin from Link Market Services, our Share Registrar. SurfStitch management is represented by our CFO, Mr. Nigel Phillips and Head of Investor Relations, Ms. Clover Chambers. I would like as well to acknowledge the presence of our recently retired CFO, Ms. Karen Birner.

In my presentation, I will address the significant events and challenges that the Company has faced and continues to deal with under its new management team.

Mike Sonand, our CEO, will provide an overview of the business and outlook.

Following Mike's presentation, I will formally submit the Company's Annual Report for 2016, including the Financial Report, Directors' Report and Auditors' Report for consideration by registered shareholders or their registered representatives.

CROWN FINANCIAL

The Board is in receipt of several lists of questions from Mr. Kim Sundell, Managing Director of Crown Financial Pty Limited, a substantial shareholder in the Company. The most recent list of questions numbered 19 and covered a wide range of topics. The majority of Mr Sundell's questions cannot be appropriately addressed in the context of our Annual General Meeting. Many have been adequately answered by the Company's periodic and continuous disclosures to the market or have been specifically addressed in the Company's recent public response to Mr Sundell's last public letter to the Board. Several of the questions require disclosure of financial, strategic and management information at a granular level. This information has not previously been made available and will not be provided in this instance. Finally, a number of

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the questions relate to aspects of the ongoing litigation raised by Mr Sundell against the Company. It is not appropriate for these questions to be addressed outside of the ongoing legal proceedings nor is it in the best interests of the Company to address such questions from an active litigant.

Mr Sundell will, of course, be afforded a reasonable opportunity to put any other questions to the meeting, in accordance with the protocols.

OVERVIEW

The 2016 financial year was marked by the sudden and unexpected departure of SurfStitch Co-Founder and CEO, Justin Cameron and by subsequent downgrades to profit expectations, culminating in the Company delivering a significant loss for the full year. These results are directly reflected in the Company's share price and represent an unacceptable and disappointing outcome for everyone.

As the new Company Chairman, one of my key responsibilities is to lead and support the SurfStitch Board as we work through the impact of poor financial performance, management disruption and ongoing litigation. Whilst your Board has the skills and commitment required for this task I have begun discussion with my colleagues about the ideal composition of the Board to fulfil the future needs of the business.

The SurfStitch leadership team has been considerably strengthened with the recent appointments of Mike as CEO, Nigel as CFO and Stephanie as General Counsel. At its core, SurfStitch is a strong and credible business and it is the job of our management and our Board to leverage this strength and rebuild confidence in our Company. In all of our markets we are fortunate to have dedicated team members led by capable management teams. I consider it my obligation to lead the Board in the job of getting the Company back on track.

LEGAL UPDATE

The Company's Annual Report provides a summary of legal proceedings commenced against the Company and its subsidiaries by Three Crowns Investments Pty Ltd and Coastalcoms Pty Ltd. These proceedings remain on foot; initial defences have been filed and further defences are under consideration. The aggregate potential liability and costs in respect of the proceedings cannot be accurately assessed at this time. Further updates will be provided to our shareholders and to the market as required.

The litigation raised by Crown and Coastalcoms against the Company relates to a series of contracts entered into by those companies with SurfStitch. As noted in the Company's market announcement of 10 November 2016, ASIC has commenced an investigation into the disclosures issued in respect of these contracts and the Company is cooperating fully with this investigation.

STRATEGIC UPDATE

In stage 1 of our strategic review, we identified that our Surf Hardware business was a non-core asset and explored divestment opportunities. A sale process is underway and is on-going. We will update the market when appropriate.

In stage 2, we have received unsolicited interest in the Group as a whole, as well as individual business units. 333 Capital has been engaged to advise on strategic options. The Board is committed to preserve and enhance value for all shareholders.

It now gives me great pleasure to hand over to Mike Sonand for the CEO's address.

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CEO's Address
By Mike Sonand

Thank you Sam. Good morning ladies and gentlemen, and a warm welcome.

GENERAL OVERVIEW

The past year has not been an easy one for our Group. Several projects and transactions were undertaken in FY16 to deliver on an ambitious accelerated strategy, aimed at transforming the business structure and platform into a digital ecosystem. Projects of this magnitude require significant investment of funds and management time, but were set against high buying and revenue plans that targeted triple digit profit growth.

As we all know we fell well short of our ambitions, culminating in reporting a post impairment after-tax loss of \$154m in FY16. An extremely disappointing outcome for shareholders, as it was for your Board and management.

After my appointment as CEO in June 2016, I prioritised two key objectives. 1) Stabilise the business by stemming the losses and the cash burn; and 2) Refocus the business on core revenue drivers. Over the last five months, we have been successful in reducing costs and restructuring our businesses, but it does remain work in progress.

OPERATIONAL UPDATE

The management team and I have been validating the business practices that work well, as well as identifying the elements in our operations and business model that require improvement.

It is evident that there are many things we do very well, including fulfilment, managing our content to communicate effectively with consumers across all devices, and a strong competency in data analytics and business intelligence. We offer customers and suppliers an unparalleled international network in the branded action sports industry and this point of difference provides a competitive advantage that we intend to nurture and build on.

To materially improve our business, we need to deliver improved retail margins and reduce our high variable cost structure. To improve margins we are expanding our vertical and own brand programs as well as developing closer strategic alliances with key brands in our category. Reducing variable costs, comprising digital marketing and product delivery, will continue to be an absolute focus of management.

Surf/skate/snow will always be part of our proposition, but our business model must be adaptable in order to grow in this competitive and changing environment, where technology choices, brand interests and shopping behaviours are in a state of continuous transformation. Our challenge and goal must be to remain relevant to the youth demographic as their interests evolve and as technology changes their purchasing behaviour and profile.

Through a combination of our long standing relationships with key brands and our big data analytic competencies we have an incomparable global view of what our action sport and youth lifestyle customers want, enabling SurfStitch Group to deliver the right products, services and solutions direct to consumers.

The Group's media assets, comprising Garage, STAB and Magicseaweed, are leaders in their respective fields and provide significant strategic support, relevance and credibility to the Group's retail business and vice versa. They also broaden our understanding of, and engagement with, our youth lifestyle customer base.

Going forward, these businesses will work to gain traction and popularity within their own space, and generate income in their own right, while Group retail management focuses on how those relationships can translate, and convert their competency, into retail sales on our retail platforms.

We do not believe it is necessary to own the media businesses to gain the sort of benefits they bring to our content strategy and so whilst we remain committed to our investment in these assets, we are open minded and flexible as to their future ownership.

The Board and management are placing greater emphasis on cash management, sustainability and self-financing initiatives. As part of this process, we have reassessed three key initiatives that were in place early last financial year.

Firstly, we deferred the one-brand initiative. Whilst we remain committed to having one global brand strategy, this strategy will be deployed over a longer period of time, to ensure that the long term benefits can be fully realised and short term impact on sales are effectively mitigated.

Secondly, the cost and risk involved in developing an in-house ecommerce system were simply too high. Backend IT development will now be left to a leading and proven third party e-commerce platform, while we apply our resources and knowledge towards front end development, to improve customer experience. This plan has less risk and higher functionality at a lower cost.

And finally the global support teams have had their key functions de-centralised to smaller teams in our key markets, reducing overheads and, more importantly, ensuring that we align activity and decision making with regional specific issues, trends and the e-commerce sites.

Although, there had already been a material investment in the platform, brand and global support initiatives, with these adjustments we can support our strategy, contain our overheads, and redeploy the cost savings towards projects that will have the greatest positive financial impact including: major marketing initiatives, a more aggressive vertical product program and a comprehensive well managed business intelligence and insights strategy.

TRADING UPDATE

Heading into FY17 all three SurfStitch Group regions held significant aged inventory positions, principally as a result of ambitious growth plans that never materialized. To ensure the Company is well placed to return to a higher proportion of full price sales and a healthy inventory mix, this aged inventory has been aggressively discounted.

In addition, the retail market for apparel and footwear in general, and the action sport category in particular, have been challenging in all regions we operate, especially in North America. There has been a saturation of off-price and discounting activities in all of our key markets by both bricks and mortar and online retailers, placing significant pressure on full-price sales.

These trends are expected to continue as we head into the key trading periods of late-November and December.

Outlook:

Since the FY17 outlook was provided to the market in August, there have been additional pressures on the Company's cash position, caused principally by legal costs associated with the ASIC request for information and investigation, and on-going litigation against the Company by Coastalwatch and other members of the Crown group, and the additional cash requirements of our payment gateway provider in Europe. As a result of these additional demands on cash, the forecast decline in cash from operations for FY17 has been increased from a range of \$6m - \$7m to a range of \$9m - \$10m.

The remainder of our outlook is unchanged.

CONCLUSION

In conclusion, I would like to thank our Chairman and my fellow directors for their strong support and guidance over the last five months. But in particular, I would like to thank everyone working within the SurfStitch Group. We have such an enthusiastic and engaged team of people. Despite the issues we have faced in recent months they have remained focused and highly committed to the business, doing incredible work and making a real difference. I would also like to thank you, our shareholders, for your continued support.

ENDS