

ASX RELEASE

3 May 2016

Company Announcements Platform
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

SurfStitch Group Company Update

Update on Trading

SurfStitch Group Limited (“SurfStitch” or the “Company”) (ASX: SRF) has today provided an update on its trading performance for the second half of FY2016 to date and its outlook for the remainder of the year ended 30 June 2016.

Since the half year results in February, revenue growth has continued at strong double digit levels across all the Group’s markets. However, trading conditions in general have been more challenging across its key markets resulting in the need for higher advertising costs and impacting gross margins.

As outlined in previous announcements, SurfStitch is implementing a transformation program including rebranding all SurfStitch ecommerce businesses to a single global brand (SWELL) and centralising them on a common platform. This is part of an integrated content strategy that aims to create a unique digital content-driven ecosystem which engages audiences at every stage of their action sports lifestyle.

While the Company remains confident that this is the right strategy and will underpin its long term, sustainable and profitable growth, it has required considerable near term investment in its platform and processes.

Following the surprise departure of former CEO Justin Cameron, as announced on 10 March 2016, a reorganisation of the Company’s management structure was required. In addition, due to management’s focus on implementing the transformation program, integration of the companies acquired over the last 12 months has been slower than anticipated. This has resulted in benefits in 2H FY2016 being lower than anticipated.

Taking these factors into account and following a thorough appraisal of all SurfStitch businesses, the Company anticipates that pro-forma EBITDA for the year ending 30 June 2016 will be between A\$2 million and A\$3 million¹.

Lex Pedersen, joint-CEO said there has been solid testing and validation with the businesses acquired over the last 12 months but integration has not been as fast as expected.

“These businesses present exciting content and advertising opportunities which will underpin our long term competitive advantage, but the benefits will not flow through into our results until FY17 and beyond. Also, in line with recent experience of a number of retailers in North America, SWELL USA has faced some challenging trading conditions in the second half and as a management team we are implementing a number of initiatives to mitigate their impact,” Mr Pedersen said.

Growth Strategy

SurfStitch management remains firmly focused on implementing its growth strategy which includes the following key initiatives:

- Consolidation of three separate e-commerce websites into one of the most advanced and innovative platforms available in the market today
- Rebranding all three e-commerce units under the one single brand and centralising them on a common platform (SWELL)
- Merging and commercialising its unique content to enable the Group to execute new marketing strategies and capitalise on advertising, licensing and partnership opportunities
- Developing and launching its vertical product program

Joint-CEO, Justin Stone said that the progress on the website integration had been intense and rapid with all sites on track to re-platform by September.

“We are absolutely confident we are on the right path towards becoming the global destination in the action sports and youth lifestyle space. Considerable work has been completed on the SWELL rebranding with a global research and brand communications agency to ensure a clear and unambiguous brand strategy. The launch of the vertical product program has gone live in Europe, and will be followed by the US and Australia in July,” Mr Stone said.

Appointment of new COO

To assist with the implementation of the Company's strategy and as part of the ongoing management reorganisation, the Company has appointed a new Chief Operating Officer, Mike Sonand, with his position effective immediately.

Chairman, Howard McDonald, said Mike was an experienced executive in retail and wholesale omni channels with broad commercial experience and a superior understanding of global and Australasian markets. Mike has had a successful career at executive level previously holding the positions of COO of the Charles Parsons Group, and CEO of M Webster Holdings and Globe International.

"Mike is a valuable addition to the SurfStitch executive team given he has strategically implemented consolidation initiatives, has held executive roles at CEO, CFO and COO levels and has strong financial skills. He has significant retail sector experience with operational responsibility in North America, Europe and Asia. We believe he will work effectively with our team to deliver on the strategic plan for SurfStitch," Mr McDonald said.

Further detail around the Company's strategy and progress will be communicated at the full year results in August 2016.

The Company advises that it has received no communication of any kind from Justin Cameron, private equity or any other entity in relation to offers for acquisition.

For further information, please contact Helen McCombie or Matthew Gregorowski at Citadel-MAGNUS on +61 2 8234 0100.

¹Pro-forma EBITDA is calculated as Statutory EBIT plus D&A plus acquisition and employee share-based payments, acquisition related expenses, and the fair value inventory step-up from the SHI acquisition.