



16 December 2016

MARKET UPDATE: SALE OF SHI HOLDINGS PTY LIMITED

SurfStitch Group Limited (ASX: SRF) announced today that it has completed the sale of Surf Hardware International (SHI) to a wholly owned subsidiary of Gowing Bros Limited (ASX: GOW) for A\$17 million on a cash free, debt-free basis.

As reported at the full year results announcement on 30 August 2016, SHI is a good business but not a strategic fit. This strategic decision to divest SHI enables the Group to focus management's attention and financial resources on its core business, e-commerce retailing.

Commenting on the transaction, Chairman Sam Weiss said, "The sale is another step in the Group's renewal process. Whilst SHI is a sound business, operated by a passionate team with an outstanding knowledge of their category, it is appropriate to free up funds that are better utilised in our e-commerce businesses."

SurfStitch Chief Executive Mike Sonand said that, while SHI was profitable, it was not a strategic fit and the sale is a good outcome for the Company.

"Over recent months we have undergone a robust sale process, handled by Deloitte Corporate Finance, and after discussions with many local and global potential buyers, we have now finalised a deal with Gowing Bros Limited which provides the best outcome for shareholders," Mr Sonand said.

SurfStitch Group Earnings and Cash Outlook

SurfStitch's FY17 outlook of an underlying EBITDA loss of \$2m to \$3m, included SHI's forecast earnings of approximately \$2.2m for the seven months ended June 2017. As a direct result of the sale of SHI, the Company's underlying EBITDA for FY2017 is now expected to be an underlying EBITDA loss of \$4m to \$5m excluding any impairment charge arising from this transaction.

SurfStitch's FY17 cash outlook will materially improve compared to that disclosed to the market at the time of the AGM, as a direct result of this transaction.

Transaction Highlights

- Consideration of A\$17 million comprising a payment of A\$10.0 million (\$11 million less A\$1 million of net debt and working capital adjustments) at completion and A\$6 million of deferred non-contingent consideration payable at 30 June 2017
- Deferred consideration of A\$6 million is secured by a fixed and floating charge over the share capital of SHI
- The transaction was signed and completed simultaneously and is not subject to any conditions precedent
- The carrying value of SHI is approximately \$17.8m.

About Gowing Bros Limited

The Company's focus is to preserve and grow the value of its underlying financial and real assets and to grow net income from ordinary activities as the principal source of income to pay ordinary dividends.

Gowings is an investment company whose investment horizon is intergenerational. In fact, Gowings has had only four managing directors since its establishment in 1868. Being a shareholder in Gowings is for investors who share a similar investment philosophy who wish to invest alongside the Gowing family.

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About SurfStitch

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.