



SurfStitchGroup

SURFSTITCH GROUP

ACQUISITION OF MAGICSEAWEED AND STAB MAGAZINE
AND CAPITAL RAISING

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TRANSACTION OVERVIEW

The Acquisitions

- SurfStitch has entered into agreements in relation to the acquisition of Magicseaweed (“MSW”) and Stab Magazine (“Stab”), collectively “the Acquisitions”
- Total consideration for the Acquisitions of A\$13.8 million in cash and up to 4.8 million shares in SurfStitch
- Acquisitions are expected to be earnings accretive, revenue growth and margin enhancing in FY16, with nominal impact in FY15. SurfStitch reaffirms recently upgraded FY15 guidance of A\$199 million in revenue and A\$7 million in EBITDA

The Companies

- MSW, based in the UK, is the world’s leading user generated surf content network and surf forecaster, serving the key markets of North America, Europe and Australasia
- Stab, based in the USA and Australia, is the world’s leading online surf publishing network. 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

Strategic Rationale

- Accelerates SurfStitch’s development into a Global Action Sports content business with market leading retail attribution
- Deepens consumer engagement levels and delivers SurfStitch legitimacy with its core audience
- Creates significant barriers to entry
- Combined over 2.75 million unique monthly visitors providing significant cross-promotional benefits, multiplying SurfStitch’s traffic and visitation

Capital Raising

- Fully-underwritten placement of 25.0 million shares at A\$1.50 per share to institutional investors to raise A\$37.5 million (referred to as the “Capital Raising”)
- Share Purchase Plan (“SPP”) to provide participation benefits for all shareholders with the amount raised capped at A\$5 million
- Proceeds used to fund the cash component of the Acquisitions, to provide SurfStitch with the flexibility to pursue further strategic growth initiatives including the continued build-out of SurfStitch’s content strategy, working capital and general corporate purposes

MAGICSEAWEED



Company overview

Overview

- Founded in 2002 and headquartered in the UK, MSW owns a proprietary long range surf forecasting model
- Users are able to receive live information on wind and ocean buoy, direct beach reports and view HD web cams
- Significant user generated content with over 650mm photo and feature views

User engagement

- Over 1mm app downloads and over 2mm unique users monthly log onto the site
- 500mm photo views, 150mm feature views and over 3,000 new submissions each week
- Used by surfers and water enthusiasts in over 200 countries

Wide coverage

- Largest library of surf content on the web
- Forecasting and live reporting of over 4,000 beaches across the globe

Subscription model

- 'Pro experience' gives users 15 days of surf forecasts (up from 7 days for free users), additional charts, advanced tools and improved mobile app functionality

Community engagement

Welcome to the world's greatest collection of surf photos, uploaded by you.

Browse or vote on the web's biggest collections of surfing photos. All photos are submitted by magicseaweed users, just like you, you can [upload yours](#) or browse the latest pics by date, region, break or photographer.

VIDEO

OF THE DAY

PHOTO

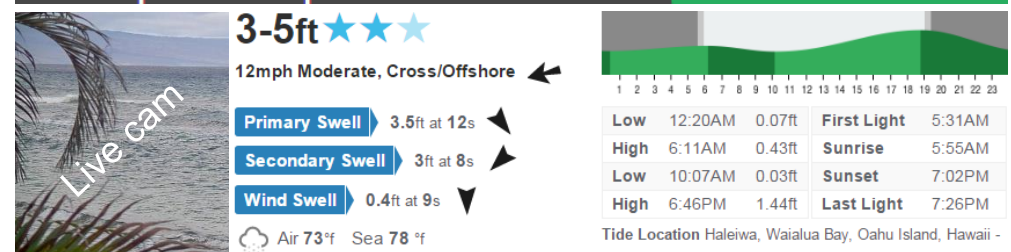
OF THE DAY

Surf Photos Popular Right Now

	Popoyo 504 views
	Praia da Pipa 356 views

Webcams and surf forecasts around the world

Surf Report for Pipeline & Backdoor

[Add a Surf Report](#)

	Surf	Swell Rating	Primary Swell	Secondary Swell	Wind	Weather	Prob.
Friday 05/08							
12am	3-5ft	★★★★	3.5ft 12s	2.5ft 8s	0.5ft 9s	12 ²² mph	73°F (50%)
3am	3-5ft	★★★★	3.5ft 12s	2.5ft 8s	0.4ft 9s	12 ²² mph	73°F (50%)

STAB MAGAZINE



Company overview

Overview

- Stab is the world's leading online surf publishing network
- Founded in Sydney in 2004, Stab began as a print style and surf magazine before launching its own website and transitioning into the digital domain

Brand strategy

- Through its original print magazine, Stab gained credibility and a loyal following of surf enthusiasts
- Works with brands to help launch new products via marketing campaigns
- Sells advertising space on its website, having embraced Stab's paid search offering

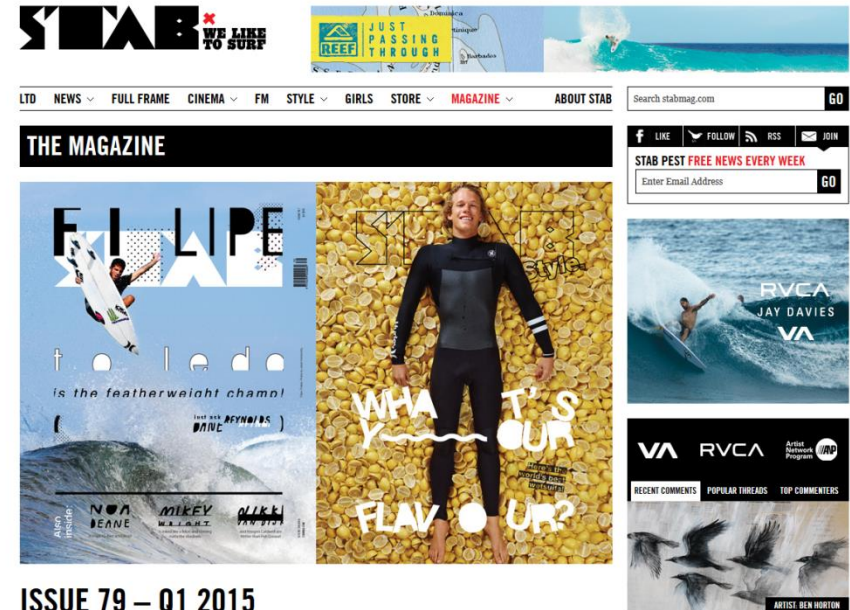
User engagement

- Dedicated following in North America and Australasia
- Europe represents a significant growth opportunity
- Over 750k unique monthly users

Trusted source

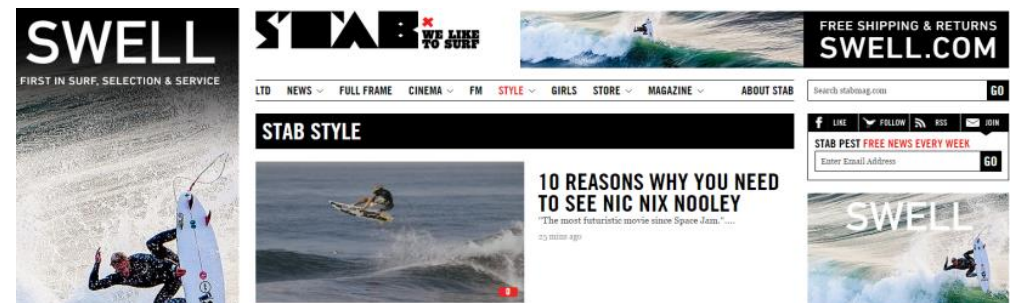
- Trusted source of product reviews and exclusive content which drives user engagement
- Leverages the relationships built with brands, athletes and consumers to become a social media hub in surf

Stab Magazine front page



ISSUE 79 – Q1 2015

Strong cross-promotional opportunities



SURFSTITCH'S CONTENT DRIVEN STRATEGY

SurfStitch's strategic objectives

- Become the global leader in content and user generated engagement in action sports and youth lifestyle
- Increase consumer engagement and traffic to the SurfStitch suite of e-commerce websites by encouraging greater frequency and return visits
- Harness the power of communities to provide an improved product offering and embrace the growth potential of the increasingly connected world

Role of content

- Provides relevant, authentic, entertainment that connects with consumers' personality, interests and friends
- Connects consumers at their most likely point of engagement with SurfStitch's products
- Constant access and engagement of core audience provides a multitude of cross-selling opportunities

Why Magicseaweed and Stab?

- ✓ Instant credibility with SurfStitch's core demographic
- ✓ Known and proven content execution and leading industry business models
- ✓ Access to brands and athletes
- ✓ Leverage social channels, EDMs and advertising inventory across a broader platform
- ✓ Access a large group of consumers at their most likely point of engagement with SurfStitch's products

THE NEXT PHASE OF RETAILING

Content
drives core
traffic growth



Increases
repeat
visitation



Increases purchasing
frequency

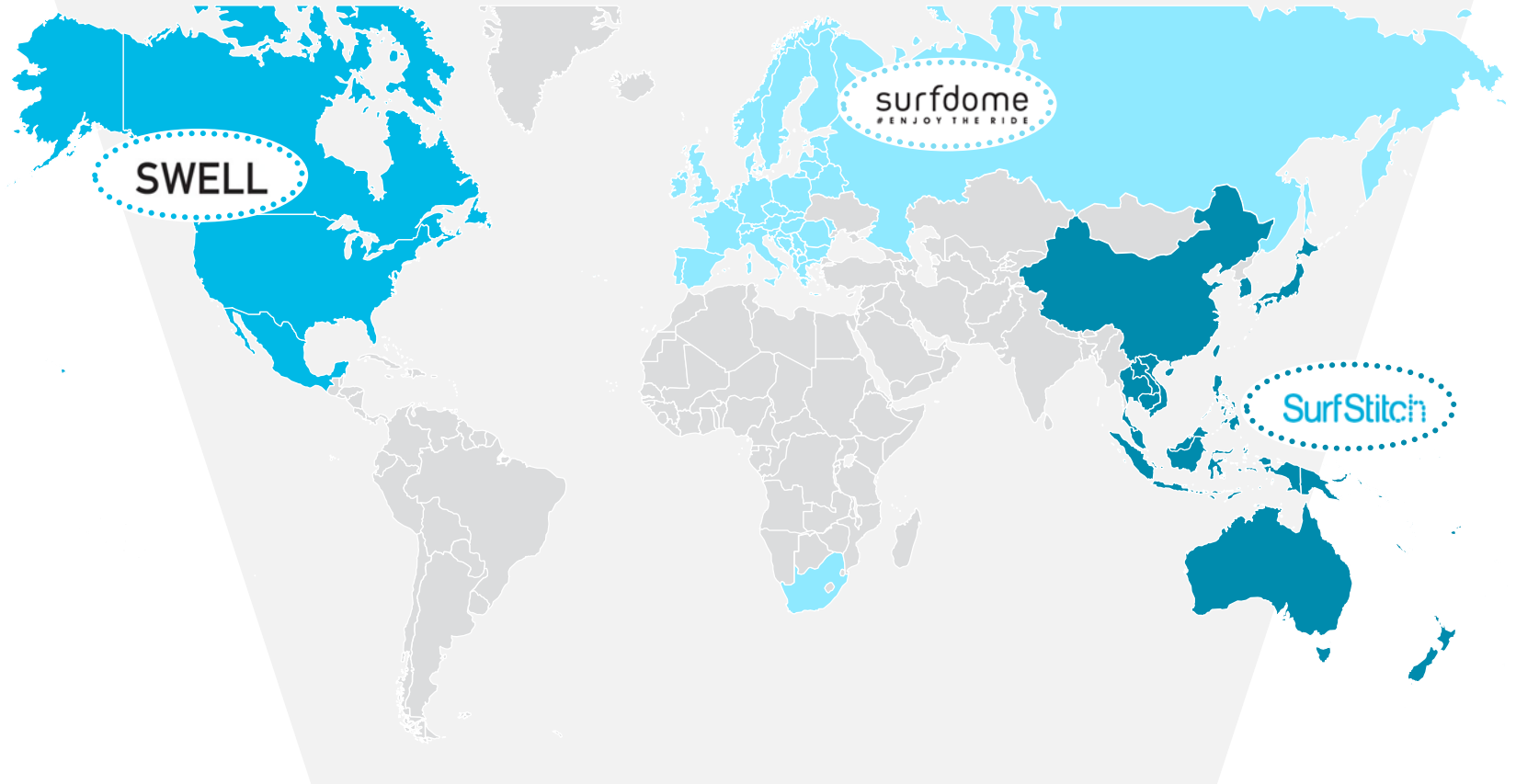


Generates higher
AOV with core action
sports audience
acquiring greater %
of hardgoods

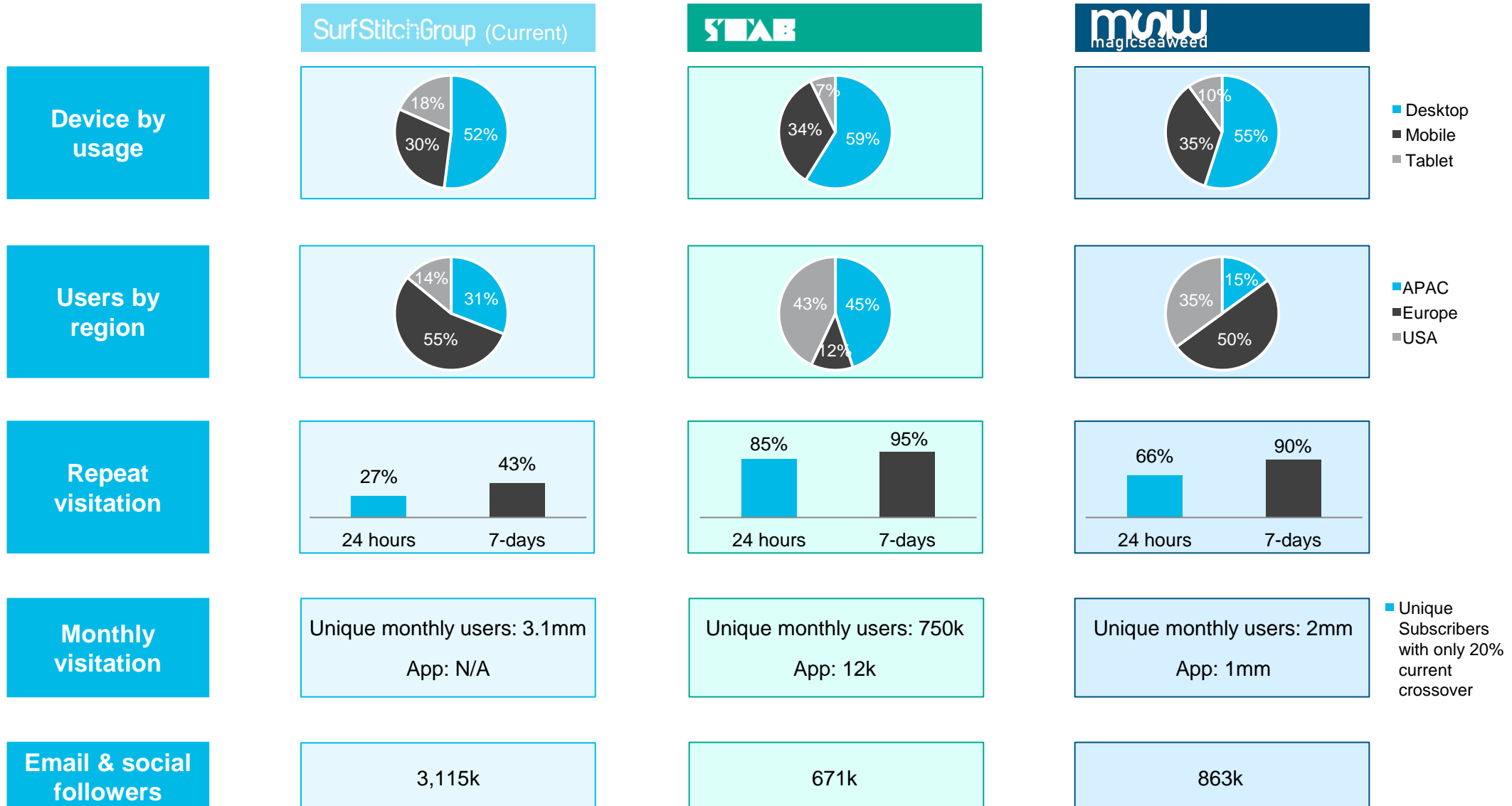
msw
magicseaweed

STAB WE LIKE TO SURF

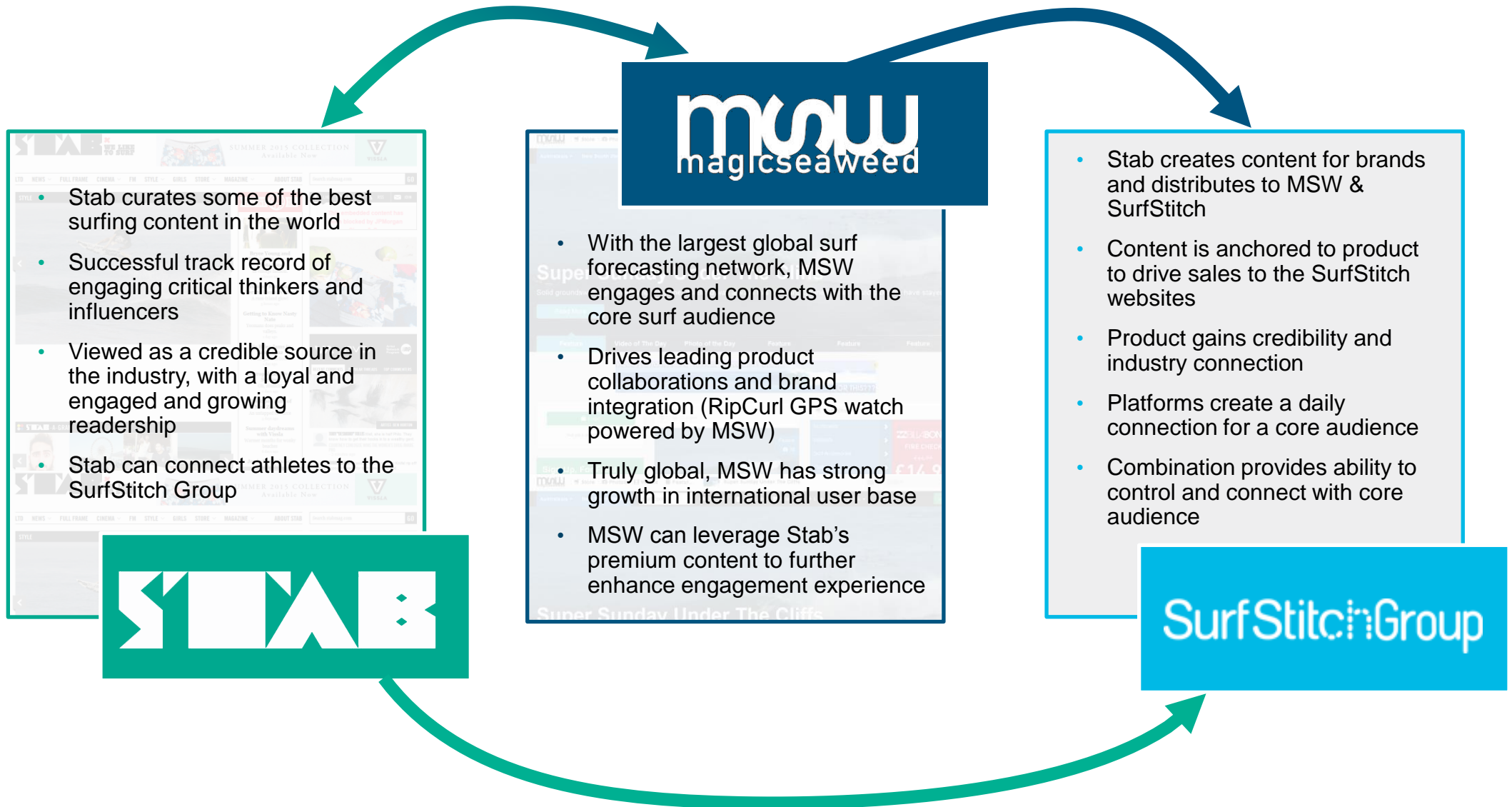
THE
LENS



COMPLEMENTARY BUSINESSES IN NUMBERS



COMPLEMENTARY BUSINESSES



CUSTOMER ENGAGEMENT IN A DIGITALISED WORLD

Key media trends

- 16% of each week is spent consuming digital media by adults¹
- 50% of Millennial smartphone owners are mobile dominant in their internet usage²
- Average time US adults spend on their mobile device daily has grown from 48 minutes in 2011 to 2 hours and 51 minutes in 2015³
- Over 71% of US internet users ignore online banner ads while over 58% ignore online search engine ads⁴

Key takeaways

- Digital media is quickly overtaking print and television with the core youth audience and is capable of inspiring consumer values, perceptions and desires with convenient retail attribution
- Mobile friendly strategies are expected to gain traction among SurfStitch's core audience. 50% of the Group audiences engages on mobile
- Brands that successfully engage with customers through mobile are well positioned for growth due to the ubiquity of mobile devices
- Traditional forms of advertising are frequently ignored by internet users. SurfStitch is quickly transitioning to a content network strategy

Developing a closed loop attribution cycle from impression to purchase will elevate strong revenue growth by linking SurfStitch with every aspect of the surf and action sports lifestyle in the eyes of the consumer

¹ Experian, *Cracking the Code* pg 1, June 2014; ² Experian, *The 2015 Digital Marketer* pg 79, December 2014; ³ eMarketer, April 2015;

⁴ See Goo Technologies and Harris Interactive study, as reported in eMarketer, *Traditional or Digital Ads?* pg 2, 15th April 2014

COMPELLING STRATEGIC RATIONALE

- ✓ Accelerates SurfStitch's development into a Global Action Sports content business with market leading retail attribution
- ✓ Combine the three businesses to create a digital ecosystem capable of capturing and influencing consumers at all points on the action sports-lifestyle cycle
- ✓ Engage with SurfStitch's core audience through content to connect, influence and understand their preferences and purchasing behaviour more effectively and more economically
- ✓ Gain access to the biggest names in the surf industry (both athletes and non-endemic brands) through Stab providing the opportunity to lock in exclusives
- ✓ Creates significant barriers to entry
- ✓ Acquisitions are forecast to be earnings accretive in FY16, with nominal impact in FY15. No change to recently upgraded FY15 guidance of A\$199 million in revenue and A\$7 million in EBITDA

CAPITAL RAISING

SurfStitch is undertaking a fully-underwritten A\$37.5 million institutional placement and SPP capped at A\$5 million

Institutional Placement	<ul style="list-style-type: none">– Placement of 25.0 million new ordinary shares, representing 11.7% of issued capital– Priced at A\$1.50 per share, representing a 7.9% and 3.2% discount to 5-day VWAP of A\$1.63 and last close of A\$1.55, respectively
Use of proceeds	<ul style="list-style-type: none">– To fund the cash component of the Acquisitions, future growth initiatives including the continued build-out of SurfStitch's content strategy, working capital and general corporate purposes
Share purchase plan	<ul style="list-style-type: none">– Up to A\$15,000 per shareholder– Maximum proceeds capped at A\$5 million– SPP booklet to be lodged with the ASX on or around 22 May 2015
Bookrunner	<ul style="list-style-type: none">– J.P. Morgan is Sole Bookrunner, Lead Manager and Underwriter
Timetable	<ul style="list-style-type: none">– Settlement of the placement is currently scheduled for 19 May 2015– Allotment and quotation of shares expected to occur on the ASX on 20 May 2015– Record date of 12 May 2015

Note: IRESS, FactSet market data as at 13 May 2015

APPENDIX



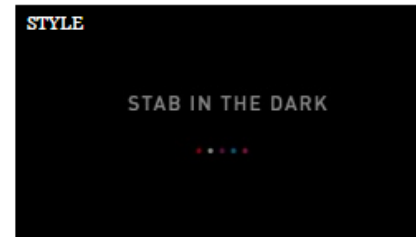
CONTENT DRIVEN STRATEGY IS MORE THAN JUST A STAB IN THE DARK



WELCOME TO STAB IN THE DARK

Is it possible to call a surfboard the best in the world?

Content produced by
Stab Magazine



WATCH: STAB IN THE DARK, STARRING
JULIAN WILSON

Now playing here.

Links sponsored
athletes to Stab...



WATCH: STAB IN THE DARK, STARRING JULIAN
WILSON



DHD WINS STAB IN THE DARK!

As chosen by our surfer, Julian Wilson.



WATCH: STAB IN THE DARK, STARRING JULIAN
WILSON

...and to our retail
stores

Consumer engagement

SWELL **swelldotcom**
7 days ago

The #stabinthedark unlabeled board project presented by Swell.

Which mysto board will @Julian_Wilson Pick Tonight?
@dhdsurf @cisurfboards @dahlbergsurfboards @simonanderson_surfboards

SWELL **Swell.com**
May 6 at 5:12pm · 🌐

Party Pics: Stab in the Dark
Julian Wilson's Party Announcing the Winning Surfboard
See Who Won: blog.swell.com/STAB-SURFBOARD
Shop the SWELL Boardroom: <http://www.swell.com/Boards>



Product promotion

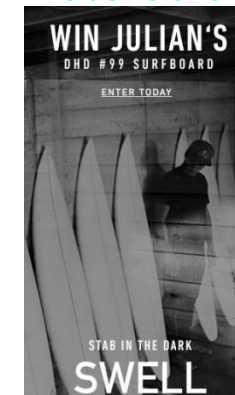
Hurley X

view all Hurley

HURLEY Phantom Julian Elite Mens
Boardshorts



Exclusive offers



Exclusive products



LEADING PRODUCT COLLABORATION



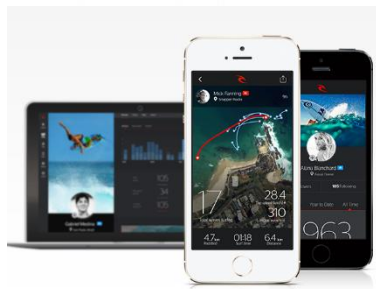
Get The Search GPS Watch



Go surfing



Re-live the session



- World's first GPS watch dedicated to action sports: The Search GPS by Rip Curl is a waterproof GPS made watch specifically for surfing
- Using the accelerometers and GPS signal to determine when a wave has been caught logs everything automatically, it counts the waves caught and tracks top speed and distance
- Shows the user the local tides, how far he's paddled and how long he's been out, uses the GPS to determine where the user is (including the name of the nearby surf breaks) and updates the watch to the right time-zone to give you accurate tide information.
- ***The app pulls in data from Magicseaweed so the user has information about the swell and tide already there***
- Users can check out stats as they go or upload after their surf to an iOS device
- Using the app or the web-based version, users can see the path they took on every ride to determine the best area to surf from the next time they paddle out
- There's also a strong social component: users can share surfs with your friends and follow some pro surfers like 3x world champion Mick Fanning, Matt Wilkinson and current world number one Gabriel Medina
- Endless opportunities: This is a leading product collaboration strengthening the connectedness of the surf world – the next evolution of connected surf would allow users to receive performance enhancing product recommendations on their watch and Go Pro syncing that would allow users to look at their ride data online and play the video of that wave
- "This is the kind of data that a lot of hardcore surfers have been dreaming of having for decades...considered a valuable training tool."

Product review by Brent Rose, *Gizmodo*

KEY RISKS

SurfStitch is subject to risks that are both of a general nature and risks which are specific to its business activities. Any or a combination of these risk factors may have a material adverse effect on SurfStitch's business, financial performance and operations. The following pages outline what SurfStitch considers to be some of the potential risks associated with SurfStitch's business, and general risks associated with an investment in SurfStitch.

Integrity and performance of SurfStitch's Websites, databases and systems

The performance of SurfStitch's Websites and databases is critically important to SurfStitch's ability to attract and retain customers and to make sales to customers. SurfStitch relies upon third party operators for key aspects of maintaining its Websites and databases and selling its products. If a prolonged system failure or corruption were to occur, it could damage SurfStitch's business reputation and brand name thereby reducing the attractiveness of its Websites to visitors and negatively impacting its ability to make sales to customers, which could have a material adverse effect on SurfStitch's business, financial performance and operations.

Continued growth of retail e-Commerce in general and growth in demand for Action Sports products may be affected by factors outside of SurfStitch's control

Whilst e-Commerce sales in the categories in which SurfStitch's business operates have been growing, there can be no guarantee that this growth will continue in the future. The B2C retail e-Commerce market and the Action Sports segment in which SurfStitch's business operates are subject to factors outside SurfStitch's control. This includes factors such as the market outlook for economic growth, the availability and cost of credit, interest rates, taxation, unemployment levels, and consumer confidence and sentiment. If one or more of these factors leads to growth slowing or a contraction in this segment or market, SurfStitch may be unable to meet its business objectives which could have a material adverse effect on SurfStitch's business, financial performance and operations.

The growth of internet penetration and rate of migration to online platforms

A number of factors including the migration from more traditional retailing to online retailing platforms have underpinned growth in e-Commerce. There can be no assurance that the rate of penetration and migration will continue to increase in the future despite increased internet penetration and a migration of retail sales to online platforms in many geographies in recent years. If the rate of penetration and migration does not increase in line with SurfStitch's expectations, it may have a material adverse effect on its business, financial performance and operations.

Competition could adversely affect prices and demand for Action Sports products and decrease its market share

The Action Sports segment is highly competitive. Competition can arise from a number of sources including traditional retailers, omni-channel mono and multi-branded retailers, and pure play e-Commerce competitors. SurfStitch's market share in online Action Sports may decline if its competitors increase their focus on growing online sales through increasing investment in their online operations. In addition, competitors may also merge or form strategic partnerships, which could increase competition and could have a material adverse effect on SurfStitch's business, financial performance and operations.

SurfStitch relies on third party suppliers for its products and IT platform

SurfStitch relies on products and IT platform supplied by third parties. Any disruption to the availability or supply of products and IT services to SurfStitch or any deterioration to the terms on which products and services are supplied to SurfStitch could have a material adverse effect on SurfStitch's business, financial performance and operations.

KEY RISKS (CONT'D)

Changes in technology

SurfStitch's ability to compete effectively in the future may be impacted by its ability to maintain or develop appropriate technology platforms for the efficient delivery of its services. The cost of implementing emerging and future technologies could be significant. No assurance can be given that SurfStitch will have the resources to acquire or the ability to develop new competitive technologies. In addition, maintaining or developing appropriate technologies may require significant capital investment by SurfStitch.

SurfStitch's Websites may experience a reduction in visits if SurfStitch is significantly slower than its competitors to adapt to technological change. This could impact SurfStitch's ability to attract new and retain existing customers, which could materially adversely affect SurfStitch's business, financial performance and operations.

SurfStitch's future growth may place significant demands on management and its infrastructure

In recent periods, SurfStitch has experienced significant revenue growth and SurfStitch intends to continue with the rapid growth of its operations, which may include entering into new markets. SurfStitch expects that this growth will result in an increased level of responsibility for both existing and new management personnel and require the recruitment, training, integration and management of the staff to support this expected growth. Furthermore, as SurfStitch's operations grow further, it will need to continue to improve and upgrade its systems and infrastructure.

If SurfStitch is unable to manage the demands placed onto management and its infrastructure, its business, financial performance and operations may be materially adversely affected.

SurfStitch's expansion into new markets may not be successful

SurfStitch may explore expansion opportunities into new markets. Any expansion into markets outside SurfStitch's key markets would expose it to a number of risks including different regulatory requirements, difficulties managing staffing and foreign operations, differences in consumer behaviour, exchange rates fluctuations, potential political and economic instability, potential difficulties in enforcing contracts and intellectual property rights, the potential for higher rates of fraud and adverse tax consequences.

Any of these factors could materially adversely affect SurfStitch's business, financial performance and operations.

SurfStitch's Websites may be excluded from or ranked lower in organic search results due to changes to search engines' algorithms or terms of services

A significant proportion of SurfStitch's customers access SurfStitch's Websites by clicking on a link in search engines' "organic" listings, which are listings not dependent on advertising or other payments. Search engines rely on algorithms to determine which websites are included in the search results. Search engines often modify their algorithms and ranking criteria to prevent their organic listings from being manipulated, which could hinder SurfStitch's SEO activities. These algorithms and ranking criteria may be confidential or proprietary information, and SurfStitch may not understand or have access to complete information on the methods used to rank its Websites. If SurfStitch is unable to recognise and adapt quickly to such changes in search engine algorithms, or if the effectiveness of SurfStitch's SEO activities is affected for any other reason, SurfStitch could suffer a significant decrease in traffic to its Websites and conversion rates.

In addition, a website can be excluded from a search engine's organic listing if it is found to violate the search engine's terms of services, which could be modified in the future. Such exclusion may significantly affect SurfStitch's ability to direct higher margin customer traffic to SurfStitch's Websites, which could materially adversely affect SurfStitch's business, financial performance and operations.

KEY RISKS (CONT'D)

SurfStitch may experience a significant increase in the cost of, or become more reliant on, SEM

A significant proportion of SurfStitch's revenues are attributable to customers who access SurfStitch's Websites by clicking on links that SurfStitch paid to list on search engines' results pages. SurfStitch frequently places a very large number of bids on key words at a certain cost per click, which is paid to the search engine, in order to place these listings with a search engine. The cost of search engine marketing generally increases as the importance of online advertising increases and competition to be ranked higher in paid listings increases. Furthermore, SurfStitch might have to submit higher bids in order to purchase certain key words to offset a reduction in its click-through rate. In addition, if SurfStitch's Websites were to experience a reduction in natural search visibility in search engines (i.e. a fall in its websites' organic search ranking), it may increase SurfStitch's reliance on SEM. If this were to occur there is no guarantee that SurfStitch's Websites' natural search visibility will improve in a timely manner or at all.

SurfStitch's business, financial performance and operations may be materially adversely affected by any increase in the cost of or in its reliance on SEM, or any decrease in the effectiveness of its SEM.

SurfStitch's acquisition strategy may be unsuccessful

SurfStitch may make acquisitions in circumstances where the Directors believe that those acquisitions are complementary to SurfStitch's strategy and enhances its growth prospects. SurfStitch may encounter a number of issues associated with making acquisitions including the difficulties involved in integrating companies, businesses or assets, as well as the diversion of financial and management resources from SurfStitch's core business.

To the extent that the acquisitions of Magicseaweed and Stab Magazine and future acquisitions are not successfully integrated with SurfStitch's existing business, SurfStitch's business, financial performance and operations could be materially adversely affected

Magicseaweed and Stab Magazine may not be able to obtain or produce suitable content

Magicseaweed's and Stab Magazine's financial performance will depend in part on their ability to provide relevant content which appeals to their target demographic. The success of the content that Magicseaweed and Stab Magazine obtain or create is substantially dependent on consumer tastes and preferences that can change in unpredictable ways. If they cannot obtain or produce relevant or popular content, it may have a material adverse effect on their business, financial performance and operations.

Other key risks

A number of other key risks relating specifically to an investment in SurfStitch include risks associated with changes in customer preferences, changes in seasonal trading patterns, SurfStitch's reliance on the efficient operation of its distribution centres, SurfStitch's dependence on recruiting and retaining experienced and high-performing staff and SurfStitch's dependence on its Executive Directors, reputational and operational risks (such as IT risks) and general risks.

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- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
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SurfStitchGroup
