

ASX ANNOUNCEMENT

22 May 2017

Market Update: FY17 Forecast update and planned closure of North American operation

SurfStitch Group Limited (ASX:SRF) (Company) provides the following update to the market:

Guidance Update

The SurfStitch Group advises that the Company has made substantial progress with its plans to reduce costs, streamline operations and transfer its core SurfStitch.com website to a new platform in the second half of FY 2017. However, the general business environment for apparel and footwear has been very difficult in each of the Group's key markets, particularly in the UK, where the SurfDome business has experienced intense margin and sales pressure. These factors have resulted in a deterioration in the forecast underlying EBITDA loss for FY 2017 to a range of \$10.5m to \$11.5m from the range of \$5m to \$6.5m previously advised to the market.

Mike Sonand, CEO stated:

"The work to transform our business model; through improved operational capabilities, enriched customer engagement and a reduced cost base, is going well. However, the retail environment has made it difficult to deliver the planned sales and gross margin improvements as quickly as we would like, resulting in the revised forecast for the Group's underlying EBITDA."

New eCommerce Platform

Mr Sonand said that the recent re-platform of the SurfStitch Australia business to an industry leading, multi brand and multi region technology has been successful and will enable the Company to develop considerably more sophisticated techniques for consumer engagement.

"Our new platform in Australia is a responsive solution that materially improves functionality, reduces the cost of operating the site and will improve customer experience. Its core pillar is "mobile first", which aligns with our strategy of optimising customer engagement."

North American Operating Infrastructure

The Company also announces the planned transfer of the management of the SWELL ecommerce platform from the US to Australia and the wind down and closure of its North American operational infrastructure by January 2018.

Mr Sonand commented:

"Although, considerable progress has been made in arresting losses in North America, the region will continue to be unprofitable for the foreseeable future and so we have made the difficult decision to close our US operating infrastructure. The new technology platform we have implemented in Australia will enable the SWELL site to operate in North America whilst being serviced and managed by our teams in Australia.

These measures will provide for a greater focus on our two largest markets, Australia and the UK, and will materially reduce our operating costs, while still maintaining a consumer presence in North America.”

Strategy

Chairman, Sam Weiss advised that the SRF Board is committed to two strategic aims: delivering a business that is cash flow positive as soon as possible and maximising value for shareholders, including the consideration of the sale of some or all of the businesses assets.

“Notwithstanding the difficult business environment and the operational and external challenges facing SurfStitch, the Board, the Management and the global SurfStitch team are highly engaged and enthusiastic about the opportunity to deliver on the significant potential of our business.”

Further details will be provided by the full year results release.

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