ASX Announcement

23 August 2023

Upgraded guidance achieved on strong 2H revenue and EBITDA margin improvement

Lynch Group Holdings Limited (ASX:LGL) ('Lynch' or 'the Group'), Australia and China's leading vertically integrated wholesaler and grower of flowers and potted plants announces its full year results for the 12 months ended 2 July 2023 (FY23).

FY23 Key Metrics:

- **Revenue of $395.3m**, 8% up on FY22 and in line with upgraded guidance due to continued resilience of consumer demand in Australia and volume growth in China
- **EBITDA of $42.7m** in line with upgraded guidance, down 11% on FY22 impacted by slower supply chain cost recovery in Australia and COVID lockdowns in China in 1H
- **NPATA of $15.7m**, down 37% on FY22
- Australia revenue increased 5% on FY22 due to stable consumer demand for floral product and strong performance of sale or return store network
- China revenue increased 12% driven by increased production volume of roses and expansion of tulip program
- Cash conversion of 102% with substantial working capital unwind in 2H
- Inaugural sustainability report to be released with the annual report in October 2023
- Final dividend reinstated for FY23 with full year dividend of 7.0c declared
- Australian FY24 revenue underpinned by increasing supermarket share of floral industry, growth in China dependent on rebound in consumer confidence and spending.

Hugh Toll, Chief Executive Officer, commented*: "We are pleased to achieve our upgraded guidance in FY23 both for Group EBITDA and 2H EBITDA for Australia and China following a challenging 1H in both markets.*

In Australia, we enjoyed revenue growth due to the continued resilience of consumer demand for floral product, underpinned by particularly strong performance in our sale or return store network. FY23 EBITDA was down 11% on FY22, however 2H EBITDA was up strongly on the previous corresponding period with profit improvement initiatives delivered and reductions in international freight and improving labour availability.

The Australian supermarket channel continues to grow and now accounts for 28% of the overall floral market. Growth in this channel is increasing at a faster rate than the overall market as supermarkets capture share from the florist channel, driven by improving consumer perception of the quality of supermarket floral offers.

In China, revenue was higher due to strong growth in volumes, with pricing generally below FY22. 2H EBITDA and margin were ahead of 2H FY22 as a result of a post-COVID rebound in pricing and well-disciplined cost management.

Looking ahead, we expect revenue performance in Australia to be underpinned by the stability of supermarket floral category demand and continued expansion of the SOR store network. EBITDA margins are expected to continue to trend up from the FY23 rate in Australia through ongoing margin improvement initiatives. In China, EBITDA margins are exposed to ongoing macroeconomic conditions and revenue growth is dependent on a rebound in consumer confidence and spending. Volumes are expected to increase due to recent expansion works and the maturing of existing crops".

Financial Overview

FY23 produced a solid revenue performance with growth in both geographies evidencing stable underlying consumer demand for floral product in Australia and significant growth in volumes in China with robust demand during key event windows in 2H. Group EBITDA of $42.7m was in line with upgraded guidance but down 11% on FY22, impacted by slower supply chain cost recovery in Australia and COVID lockdowns in China in 1H. NPATA of $15.7m was impacted by increased depreciation from capital investment and higher interest charges on debt. Cash conversion was 102% with substantial unwind of working capital in 2H. The final dividend was reinstated for FY23 with a full year dividend of 7.0c declared.

Operational Overview

Australia

Revenue was up 5% on FY22, demonstrating the continued resilience of consumer demand, underpinned by a particularly strong performance in the Group's sale or return store network. Revenues included an additional week in FY23. EBITDA was down 11% on FY22, but 2H EBITDA was up 54% on 2H FY22 and in line with upgraded guidance driven by profit improvement initiatives delivered, moderating international freight rates and improved labour availability. Customer price increases have been implemented to keep pace with inflationary cost increases. Issues with the system implementation from a major customer were largely resolved in 2H after 1H revenue was impacted by material order volatility. Key customer events were successfully delivered with supply side constraints also moderating throughout the year. In the 1H, the Group relocated its NSW production facility to the new purpose-built site in Ingleburn. This site is now fully operational and will be a blueprint for future developments.

Importantly, the supermarket share of the Australian floral market has increased from 19% in FY19 to 28% in FY23. Supermarket market share is also increasing at a faster rate than the overall market as supermarkets capture share despite a lower retail price point compared to florists and as consumer perception of the quality of supermarket floral offers improves. Significant upside remains with UK supermarket penetration at >50%.

China

Revenue growth was driven by volumes from the expansion of the Group's production base, expansion of the tulip program and higher rose volume yields. Pricing was generally below FY22, on softer demand and COVID lockdown impacts, especially in the 1H. China 2H EBITDA increased 21%, in line with upgraded guidance, with both EBITDA and EBITDA margin ahead of 2H FY22 as demand rebounded strongly in the 2H during the COVID exit wave, particularly during the key February to May event window.

Demand slowed post these event windows as economic headwinds dampened consumer spending. Domestic volumes to retail customers, however, have remained stable. The cost base is in line with internal targets with heating (energy) and labour costs well controlled.

China farm operations continued to operate and deliver volume gains despite 1H lockdowns and COVID restrictions. Greenhouse development restarted in 2H with a further 3.5ha developed to increase the total greenhouse production area to 82ha.

Outlook

Hugh Toll, Chief Executive Officer, commented: *"I am pleased with how the Group is performing in Australia heading into FY24 with underlying customer demand stable with the first seven weeks up 4% on the same period in FY23, with SOR growth materially higher. Price increases across major customers have been in place from mid 2H FY23 whilst international freight rates continue to moderate and labour availability improves with rate increases reflecting broader economic trends. In China, softer pricing continues with summer rose pricing currently c.30% down on prior year levels. Growth is dependent on a rebound in consumer confidence and spending. The Group continues to invest in the region given broader confidence in the longer-term floral industry outlook and expectations for consumer demand. We continue with our capital expansion program with a further 4ha planned on existing farms in FY24, the development of further downstream distribution capabilities via an additional processing facility in Guangzhou, and we are advancing negotiations to secure additional land for continued expansion from CY24."*

Authorised for release by the Board of Lynch Group Holdings Limited

For further information please contact:

Lynch Group Holdings Limited
Hugh Toll
Chief Executive Officer
investorrelations@lynchgroup.com.au

Automic Group
Adrian Mulcahy
Investor Relations
adrian.mulcahy@automicgroup.com.au
+ 61 438 630 422

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About Lynch Group Holdings

Lynch Group is a vertically integrated value-added wholesaler and grower of flowers and potted plants with a strong market position in both the Australian and Chinese floral markets. It is the largest wholesaler of floral and potted products to Australian supermarkets and a leading grower of premium flowers with a developed wholesale distribution platform in China.