For personal use only

ASX Announcement

21 August 2024

Lynch continues to make strong progress in Australia offset by challenging economic conditions in China

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 30 June 2024 (FY24).

FY24 Key Metrics:

- Revenue of $397.7m, up 1% on FY23 or up 2% excluding the additional week, in line with guidance, underpinned by stable domestic demand for floral products in Australia, offset by a cautious consumer in China
- EBITDA of $39.6m in line with guidance, down 7% on FY23, with Australia performing strongly and China weaker over the year
- NPATA of $9.2m, down 41% on FY23, with Australia positive and China loss making
- Australia revenue increased 1.8% on FY23, or up 3% after excluding the additional week in FY23, with stable demand for floral products against the backdrop of a cautious consumer environment
- China revenue fell 12% impacted by subdued consumer demand with higher volumes offset by lower domestic and export prices
- Cash conversion was close to 100%, with the unwind of working capital in the second half of FY24
- Final dividend for FY24 of 8.0 cents declared, bringing the full year dividend to 12.0 cents

Hugh Toll, Chief Executive Officer, commented: *"Our business continues to show great resilience in the face of a generally challenging environment, especially in China. Our focus on the things we can control has delivered greater efficiencies across our business, reflected in margin improvement domestically, and we are well prepared for future growth.*

In Australia, despite the challenging economic conditions facing consumers, we continue to see the relevance and durability of the floral segment. The growth in revenues, whilst modest, reflects the continuing penetration of our product category in the supermarket channel, with key event windows further adding to the awareness of our in-store offer. Earnings have rebounded strongly over the year, in part due to the normalising of logistics costs, but also underpinned by initiatives around procurement and labour management. SOR sales growth continues to outperform core store growth.

The Australian supermarket channel penetration of the floral market continues to grow towards levels of penetration we have seen in other markets globally. The increased penetration reflects the attractiveness of the category to customers in supermarkets, but also the compelling value proposition and quality of our floral products on offer.

In China, revenue was weaker with material price declines combined with moderating volume growth from our farms. The pricing change, down 18% in FY24, reflects two things; increased product volume *generally available in the market from new producers, but also evidence of weak consumer demand. Despite the challenging environment, our team on the ground performed incredibly well, ensuring all production was sold and controllable costs were well managed.*

Looking ahead, we expect revenue in Australia to continue to grow, underpinned by further category penetration in supermarkets with EBITDA margins to be similar to FY24 levels. In China, we expect the current conditions to continue for at least the early part of FY25.

We continue to progress sustainability projects across the business, and will release the Group's updated progress via our sustainability report in October as part of our annual report."

Financial Overview

FY24 produced modest revenue growth overall with China's revenue declines creating a drag on overall growth. The Australian revenue performance reflected stable and continuing growth in supermarkets. China was impacted by the difficult consumer environment causing material price declines. Group EBITDA of $39.6m was in line with guidance but down 7% on FY23, comprised of a strong rebound in Australian EBITDA up 50% on FY23, and China EBITDA down 61% on FY23. NPATA of $9.2m reflected increased depreciation from capital deployed principally in China, and higher interest charges on debt. Cash conversion was 99% with a substantial unwind of working capital in 2H. The final dividend was 8.0 cents for FY24 with full year dividends of 12.0 cents declared.

Operational Overview

Australia

Revenue was up 2% on FY23, or up 3% when excluding the additional week in FY23, demonstrating the continued resilience of consumer demand in the floral category. The Group's sale or return store network is now 26% of the store network. EBITDA was up 50% on FY23, with the EBITDA margin recovering to 9.4%. Drivers included moderation in logistics costs, improved labour availability and some efficiency gains following targeted cost reductions.

In FY24 the key customer events were once again successfully delivered with supermarket customers pleased with the growth, and the growing awareness of the product category within the channel. The Group's NSW production facility at Ingleburn continues to add to efficiencies with product flow and labour management further adding to overall performance.

The supermarket share of the Australian floral market has increased further in FY24. The floral category continues to be a significant source of growth for our customers with value, quality and service increasingly known by consumers. Supermarket channel share in Australia remains below many global markets including the UK, which has a share greater than 50%.

China

In China, revenue declined 12% primarily impacted by lower domestic pricing with rose pricing down 18% on FY23. Volume growth moderated with maturation of previous greenhouse expansion, with the rate of increase beginning to slow, in line with the deliberate slowing of development plans for additional hectares. China EBITDA fell 61% with weak demand combined with largely fixed costs translating to a reduction in EBITDA. Production costs, including heating, fertilisers, packaging, freight and labour, remained well controlled over the year.

Customer demand, while impacted by the weaker economic backdrop, remained solid for the 2H events including Valentines Day, International Women's Day and Mother's Day.

China farm operations saw an additional 2 ha added during the year, bringing the total productive areas to 84 ha. Some moderate expansion is planned in FY25 with larger expansion currently paused until conditions improve.

Outlook

Hugh Toll, Chief Executive Officer, commented: *"While the current market challenges in China have impacted these results, we remain focused on the things we can control. We see opportunity for growth in our local market and remain confident that the China floral market offers significant opportunity for the Group over time. Australia will make further progress this year, as the category continues to demonstrate resilience and penetration of the supermarket channel increases. Revenue over the first seven weeks trading of the new financial year is up 5% on the same period last year. In China we will continue to further develop our downstream sales capabilities, but we feel it is appropriate to pause substantial expansion plans at this time, until we can see a sustained improvement in market conditions. The operating leverage in our business in China is significant, with any improvement in pricing from current levels expected to rapidly translate to improved earnings."*

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

-ENDS-

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.