ASX Announcement

24 August 2022

Strong underlying revenue growth and in line with NPATA guidance

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 year ended 26 June 2022 (FY22).

FY22 Performance Highlights:

- Revenue of $366.5m, 10.7% up on FY21 due to strong underling customer demand across both Australia and China;
- EBITDA of $48.2m, 17.8% down on FY21 with robust growth in China offset by lower levels in Australia due to supply chain disruption and limited labour availability;
- NPATA of $24.7m, in line with updated earnings guidance provided in May 2022;
- Australia revenue increased 7.6% on FY21 on higher customer demand and wholesale market growth;
- China revenue increased 36.4% on FY21 on increased farm production volumes, strong market demand, and higher year-on-year pricing;
- Cash conversion of 90.4%;
- Fully franked final dividend of 6.0 cents per share declared (interim dividend declared in February of 6.0 cents per share);
- Revenue growth expected to continue across both Australia and China in FY23 with demand in China expected to continue to outstrip supply going forward.

Hugh Toll, Chief Executive Officer, commented: *"Our FY22 results reinforce the underlying strength in our business. We continue to enjoy a leading position in the Australian supermarket channel and are delivering impressive growth in China, underpinned by fast growing consumer demand and volume expansion.*

In Australia, we achieved robust revenue growth due to the strength in underlying consumer demand for floral products across a COVID disrupted year and strong growth in wholesale markets through both organic and acquisition, however supply side constraints impacted margins. We were pleased to report that Mother's Day 2022 was the largest single event in the Group's history with strong customer sell through rates and other key customer events were successfully delivered despite the challenging market conditions.

In China, we continued to strengthen our leading market position in FY22, with household demand for flowers driving volume growth across all customer channels. Encouragingly, the strength of our domestic sales platform mitigated both provincial customer and export risk exposures during east coast lockdown restrictions. In addition, farm production volumes continue to strengthen based on prior year investment in capacity expansion, with an increase in our farm area to 79ha building a strong platform for growth across FY23 and beyond. We are actively engaging to secure additional land for continued investment, with a further 10ha expansion likely in 2H FY23.

Whilst challenges remain in FY23, we are confident of ongoing revenue growth across both regions. Margins in Australia are expected to gradually improve from FY22 levels as a result of already negotiated pricing and range management initiatives and improving freight rates. Growth is also expected in China, with demand continuing to outstrip supply, although margins are exposed to energy pricing, in particular for greenhouse heating. We will continue to execute on our strategic priorities in both Australia and China and react with agility as the operating environment continues to evolve."

Financial Overview

FY22 produced solid revenue performance with underlying revenue on track, with profit impacted by COVID disruptions and supply chain pressures. Overall, revenue benefited from robust growth in China as a result of volume expansion and continued strength in market demand, and growth in Australia driven organically and via acquisition. Group EBITDA of $48.2m was 17.8% down on FY21, impacted by supply chain pressure and labour availability. NPATA of $24.7m was in line with the updated earnings guidance provided in May 2022. Capital expenditure and production expansion in China remains on track with 18ha of productive capacity added during the year increasing the developed land to 79ha as at June 2022.

Operational Overview

Australia

The Group has been executing on key strategic initiatives across its Australian operations in FY22 and delivered strong revenue growth. As a result of strength in supermarket customer demand across a COVID disrupted year and growth in wholesale markets – both organic and via the Market Flowers Brisbane acquisition – revenue was up 7.6% on FY21, with underlying consumer demand for floral products remaining strong. EBITDA was down 36.2% on FY21, with supply chain pressure, labour availability, domestic freight and one off COVID costs negatively impacting margin performance. During FY22 costs increased at a faster rate than the business was able to react and recover margins through price and range management. The Group has been successful in implementing price increases and range modifications to improve and stabilise margins.

Underlying consumer demand for floral products remains strong and key customer events (Spring, Christmas, Valentine's Day and Mother's Day) were successfully delivered despite significant supply side constraints and labour shortages.

In early May, Mother's Day was the largest single event in the Group's history with strong customer sell through rates. However, performance was impacted by some local product shortages (March flooding), and high demand on production teams.

China

In China, the Group was buoyed by increasing household demand for flowers driving volume growth across all customer channels. FY22 presented a strong operating backdrop in China, with the strength of the domestic sales platform mitigating both provincial customer and export risk exposures during east coast lockdown restrictions across cities and airports.

In addition, the Group's differentiated product offering (quality and scaled supply) continued to enable premium customer pricing.

Domestic demand across winter and spring supported a lift in year-on-year market pricing, before Shanghai restrictions impacted demand across final quarter of FY22, resulting in lower realised pricing.

Domestic channels to market in China developed favourably, with increasing household demand for flowers driving volume growth across all customer channels. Revenue increased 36.2% on FY21, while EBITDA was up 12.1% on the previous corresponding period.

The Group's farms remained fully operational during COVID restrictions in China and continue to meet volume targets. The productive farm area increased by 18ha in line with guidance at 79ha as at end FY22.

Outlook

Looking ahead, current performance trends include:

- Revenue growth in both regions is expected to continue across FY23. Australian customer demand remains consistent with FY22 trends (excluding lockdowns). China growth rates will be supported by expansion led volume growth and remain dependent on seasonal customer pricing
- Margins in Australia are expected to gradually improve from FY22 levels throughout FY23 as a result of already negotiated pricing and range management initiatives and improving freight rates
- Margins in China are exposed to energy pricing, in particular for greenhouse heating. Pricing levels are currently expected to be in line with FY22, however remain correlated with economic conditions and household spending levels
- Depreciation and amortisation and interest are both expected to be above FY22 levels as a result of depreciation from growth CAPEX and increases in debt servicing costs

The Group expects to provide further guidance on current conditions at its AGM in November 2022.

Authorised for release by the Board of Lynch Group Holdings Limited

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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.