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Half Year 2023 Results Announcement Strong Sales and Profit Growth Continues

- Revenue up 44.8% to \$315.5m with strong performance continuing through the period
- Comparable store sales up 12.5% on HY22
- 86 net new stores opened during the period, 715 at period end
- Gross Margin 80.3% with Gross Profit up 48.4% to \$253.2m
- Net Profit Before Tax up 35.9% to \$65.1m
- Net Profit After Tax up 31.9% to \$47.7m
- Operating cash flow of \$115.8m up 49.4%
- Net Cash of \$24.0m at period end
- Interim Dividend of 38.0 cents per share, fully franked

Results Highlights

(A\$m)	HY23 (Statutory)	HY22 (Statutory)	Variance
Revenue	315.5	217.8	44.8%
Gross profit	253.2	170.7	48.4%
EBIT	70.1	50.8	38.1%
NPBT	65.1	47.9	35.9%
NPAT	47.7	36.2	31.9%
EPS (cents)	44.3c	33.7c	10.6c
Net Cash	24.0	52.7	-54.4%
Interim dividend (cps)	38.0c	37.0c	1.0c

Chief Executive Officer Victor Herrero said, “We are very pleased that we have been able to increase the momentum of our store rollout during the half which has again delivered us strong top line sales growth, and combined with continued double-digit comparable store sales has resulted in an excellent financial result for the period”.

“The company has been able to continue to invest in the structures to support our global expansion ahead of the growth curve while continuing to deliver profit growth, which leaves us well placed as we move forward with store rollout in both existing and new markets. I want to thank the entire global Lovisa team for the amazing work they are doing to deliver these outstanding results.”



Results

Revenue was \$315.5m up 44.8% on HY22 with comparable store sales up 12.5%. Both comparable store and total sales remained strong throughout the period, with first quarter sales cycling COVID disruptions from prior year and Q2 delivering well despite comping stronger sales in prior year.

In response to inflationary pressures, we implemented price increases during Q3 of FY22, which helped to deliver strong sales growth through Q4 of FY22 and which continued through H1 FY23, with minimal impact experienced in sales volumes. All markets continued to grow strongly for the half year with Asia in particular recovering well from disrupted sales in prior years.

Store network growth was a major driver of the total growth in sales, with a net 86 new stores for the period.

Gross Profit was up 48.4% on HY22 with Gross Margin at 80.3%, benefiting from price increases implemented in prior year and strong focus on product costs, offsetting an unfavourable exchange rate environment.

We were able to continue to invest in rolling out new markets, new stores in existing markets, and the structures required to manage them effectively on an ongoing basis, including support teams, logistics and technology to drive a more efficient operating model. Despite this ongoing investment Cost of Doing Business (CODB) remained well controlled, helping mitigate inflationary pressures on labour and other costs. Also impacting on CODB year on year is the impact of the CEO long-term incentive plan, with a \$15m expense recognised in the current period, compared to \$0.5m in the first half of FY22.

Depreciation and interest expense both reflect the growth in the store network, with depreciation of lease right of use assets increasing as a result of the increase in store numbers, and interest expense increasing due to the associated increase in lease liabilities combined with a higher interest rate environment. It should be noted that lease interest expense is higher in the early years of a lease, therefore with the faster store rollout the impact on this line is proportionally higher than store network growth.

Cash flow was again strong, with cash from operations before interest and tax of \$115.8m, up 49.4% on HY22. Lease payments were up 26.8% on prior year, reflecting the growth in the store network, with the associated growth in balance sheet lease liabilities resulting in a large increase in lease payments classified as interest payments.

Capital expenditure for the period was \$31.9m predominantly from new store fit outs, up \$18m on prior year as the pace of new store opening increased with 101 new company owned stores built for the period. Cash tax payments for the period were higher as tax instalments began to normalize after abnormally low instalment payments in prior periods.

Our continued strong balance sheet and cash flow position has enabled the Board to announce an interim dividend of 38.0 cents, reflecting the strong cash outcome for the period and the ongoing strength of our balance sheet.

The Board will continue to assess dividend levels each half year and determine the appropriate level of dividend based on profitability, cash flows, and future growth capex requirements. The Board do not currently have a specific dividend payout ratio and will continue to base dividends on the cash flow needs of the company and the structure of the balance sheet.

Store Growth

A key driver of growth for Lovisa is the continued global store roll out. The company opened a further net 86 stores during the period, 1 more than opened in the whole of FY22, taking the store network to 715 stores globally across over 30 countries. This includes 7 new markets opened in the half year in Namibia, Hong Kong, Mexico, Italy, Hungary, Romania and Colombia (franchise), adding to the two new markets opened at the end of FY22 in Poland and Canada.

Store number growth							
Country	HY23	FY22	HY22	Var 6 mths	New Stores	Closures	Var YOY
Australia	163	154	158	9	11	(2)	5
New Zealand	26	25	24	1	1	0	2
Singapore	15	17	18	(2)	1	(3)	(3)
Malaysia	39	32	29	7	7	0	10
Hong Kong	3	0	0	3	3	0	3
South Africa	73	69	67	4	8	(4)	6
Namibia	2	0	0	2	2	0	2
United Kingdom	42	42	41	0	0	0	1
France	62	59	58	3	4	(1)	4
Germany	47	40	38	7	7	0	9
Belgium	10	11	10	(1)	0	(1)	0
Switzerland	8	6	7	2	2	0	1
Netherlands	5	5	6	0	0	0	(1)
Austria	4	3	3	1	1	0	1
Luxembourg	2	2	2	0	0	0	0
Italy	4	0	0	4	4	0	4
Poland	8	1	0	7	7	0	8
Hungary	1	0	0	1	1	0	1
Romania	1	0	0	1	1	0	1
USA	155	118	81	37	39	(2)	74
Canada	1	1	0	0	0	0	1
Mexico	2	0	0	2	2	0	2
South America*	1	0	0	1	1	0	1
Middle East*	41	44	44	(3)	1	(4)	(3)
Total	715	629	586	86	103	(17)	129

* Franchise markets

The USA market was again the main driver of store network growth with 39 new stores opened in the period. Europe also provided strong growth with 27 new stores opened including 8 stores now trading in Poland and 4 in Italy, and a platform of 12 countries in the region to grow from. Since the end of the half year, further store openings in the USA now place it as our largest individual market.

Our ongoing focus on the quality of the store network resulted in 17 stores being closed during the period, including 5 relocations where we have closed our existing store and moved to a better location within the same mall.

With a footprint now in over 30 countries and increased support structures in place we are well placed to continue our global rollout across both existing and new markets.



Digital Update

Our focus on our digital capabilities has improved our execution in this area over the past 2 years, with this sales channel becoming a more important part of our overall customer offering. We continue to focus on improving our overall digital capability, and whilst we have made progress we still have a lot of opportunity to improve in this space and we are continuing to invest to support and drive ongoing growth whilst remaining focused on maintaining profitability levels. Importantly, we are also focused on partnering with online marketplaces globally and were able to open our first marketplaces during the half year in Europe (Zalando, Kaufman) and the USA (Simon Premium Outlets). We will continue to develop further opportunities to expand our global brand reach using this channel.

Trading Update and Outlook

Trading for the first 7 weeks of the second half saw comparable store sales for this period up 12.3% on FY22. Total sales for this period are 24% up on the same period in FY22. Since the end of the half year, we have opened our first 2 stores in new franchise market Peru, with the store network currently at 746 including 31 net new stores opened for the second half to date. We continue to focus on opportunities for expanding both our physical and digital store network, with structures in place to drive this growth in existing and new markets, and expect rollout momentum to increase going forward.

Our balance sheet remains strong with available cash and debt facilities supporting continued investment in growth, and since the end of the half year we have received conditional approval from our financiers (subject to execution of facility documents) for extension of our existing cash debt facilities for a further 3 years and increase in the facility limit to \$100 million to support future growth in the store network.

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