Lovisa

LOVISA HOLDINGS LIMITED

APPENDIX 4E
PRELIMINARY FINAL REPORT 2023

APPENDIX 4E

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Lovisa Holdings Limited
Appendix 4E
Preliminary Final Report
For the year ended 2 July 2023

The following sets out the requirements of Appendix 4E with the stipulated information either provided here or cross referenced to the 2023 Preliminary Final Report which is attached.

1. Company details

Company Name	Lovisa Holdings Limited
ACN	602 304 503
Reporting Period	52 weeks ended 2 July 2023
Prior Period	53 weeks ended 3 July 2022

2. Results for announcement to the market

Comparison to the prior period (Appendix 4E items 2.1 to 2.3)	**Increase/ Decrease**	**Change %**	**To A$'000s**
Revenue from ordinary activities	**Increase**	**30.0%**	**596,456**
Results from operating activities	**Increase**	**27.9%**	**105,742**
Profit before tax	**Increase**	**21.2%**	**92,898**
Profit after tax attributable to the members	**Increase**	**16.7%**	**68,164**

Dividends / distributions (Appendix 4E item 2.4)	**Amount per security**	**Franked amount per security**
Final dividend for the year ended 2 July 2023 to be paid on 19th October 2023	**31.0 cents**	**21.7 cents**

Record date for determining entitlement to the dividend (Appendix 4E item 2.5)	**13th September 2023**

Brief explanation of the figures reported above necessary to enable the figures to be understood (Appendix 4E item 2.6)

For the year ended 2 July 2023 the Group reported a statutory net profit after tax of $68.2 million. This is a result of the continued growth of the store network as the store rollout continued, with a net increase of 172 stores for the financial year.

3. Income statement with notes to the statement

Please refer to the attached preliminary final report for the income statement for the 52 weeks ended 2 July 2023.

4. Balance sheet with notes to the statement

Please refer to the attached preliminary final report for the balance sheet as at 2 July 2023.

5. Cash flow statement with notes to the statement

Please refer to the attached preliminary final report for the cash flow statement for the 52 weeks ended 2 July 2023.

6. Dividends

Please refer to note A7 of the attached preliminary final report for details of dividends paid in the reporting period and prior period.

7. Dividend reinvestment plans

Not applicable.

8. Statement of changes in equity

Please refer to the attached preliminary final report for the statement of retained earnings for the period ended 2 July 2023.

9. Net tangible asset per security

	Current period	**Previous period**
Net tangible asset backing per ordinary share	**$0.72**	**$0.56**

10. Entities over which control has been gained or lost during the period

Not applicable.

11. Details of associates and joint ventures

Not applicable.

12. Other significant information

All significant information has been included within this Appendix, or the preliminary final report which should be read in conjunction with this document.

13. For foreign entities, which set of accounting standards has been used in compiling the report

The results of all foreign entities have been compiled using International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

14. Commentary on the results

Please refer to the Directors' Report in the preliminary final report for commentary on the results for the period.

15. Status of the audit

This report should be read in conjunction with the Preliminary Final Report. The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. In accordance with the *Corporations Act 2001*, the Preliminary Final Report is unaudited and contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 2 July 2023. The Annual Financial Report is in the process of being audited.

16. Dispute or qualification arising from audit

Not applicable.

Signed on behalf of Lovisa Holdings Limited, on 23 August 2023

Chris Lauder
Chief Financial Officer and Company Secretary

1. DIVIDENDS

Dividends paid to members during the financial year were as follows:

	2023	2022
	$000's	$000's
Final ordinary dividend for the year ended 3 July 2022 of 37.0 cents per fully paid share 30% franked paid on 20 October 2022 (2021: 18.0 cents, 50% franked)	39,898	19,343
Interim ordinary dividend for the year ended 2 July 2023 of 38.0 cents per fully paid share fully franked paid on 20 April 2023 (2021: 37.0 cents, 30% franked)	40,976	39,760
Total dividends paid	80,874	59,103

2. REVIEW OF OPERATIONS

The following summary of operating results and operating metrics reflects the Group's performance for the year ended 2 July 2023:

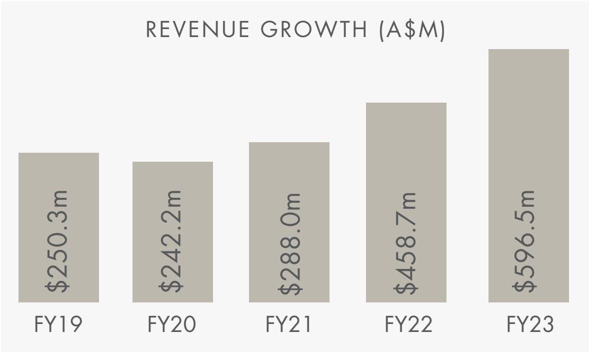
2.1 Financial Performance

Revenue for the year ended 2 July 2023 was up 30% on FY22 (+33.1% on a 52-week comparable basis for FY22) with improved performance across all markets driven by growth in the store network and comparable store sales up 6.3%. Both comparable store and total sales remained solid throughout the period, with the first quarter of the year cycling COVID disruptions from prior year and then the remainder of the year delivering well despite cycling stronger sales in prior year.

This resulted in Earnings Before Interest and Tax of $105.7m, up 27.9% on FY22, and up 31.5% on a 52-week comparable basis.

Consolidated $'000	2023 (52 weeks)	2022 (53 weeks)	Change
Sales	596,456	458,712	30.0%
Gross profit	476,714	361,828	31.8%
Gross Margin	79.9%	78.9%	1.0%
EBIT	105,742	82,684	27.9%
Net profit after tax (NPAT)	68,164	58,387	16.7%
Basic Earnings per share	63.3	54.3c	16.6%

2.1.1 Sales



Revenue was $596.5m up 33.1% on FY22 (on a 52-week basis) with comparable store sales up 6.3%.

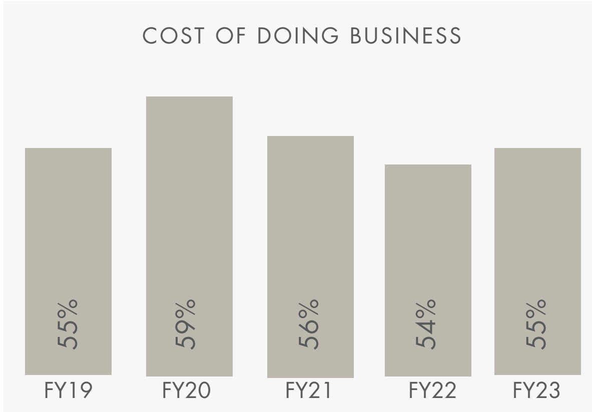
The business was able to deliver strong growth in the store network for the financial year, with 801 stores now trading globally across 39 countries at financial year end, a net increase of 172 stores including 12 new markets.

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 the first 3 quarters FY23, with minimal impact experienced in sales volumes. As we began to cycle these price increases in the second half of FY23 we saw comparable store sales soften. All markets were able to deliver strong sales growth across the financial year with the combination of an acceleration in store network growth and strong comparable store sales.

2.1.2 Gross Profit Margin

The Group's Gross Profit increased by 31.8% to $476.7m. Gross Margin was higher at 79.9%, an increase of 100bps on prior year, with the benefit of increases to selling prices implemented in the second half of FY22 impacting on the current year, along with tight management of price and promotions with limited visible impacts on sales volumes.

2.1.3 Cost Of Doing Business



* CODB % has been adjusted to remove the effect of AASB 16 and CEO LTI expense on FY2020, FY2021, FY2022 and FY2023 to ensure comparability with prior years.

The Group's control of Cost of Doing Business (CODB) was again effective despite inflationary pressures, benefiting from strong comparable store sales growth and tight cost control offsetting continuing investment in support structures to drive future store network growth and expansion into new markets. CODB % was also impacted by the CEO long-term incentive plan, with a $27m expense recognised in the current period, compared to $18m in the prior year.

2.1.4 Earnings

Statutory earnings before interest and tax (EBIT) was $105.7m being a 27.9% increase on EBIT from the prior year. Statutory net profit after tax increased 16.7% to $68.2m with EPS at 63.3 cents, impacted by increased net finance costs as a result of an increase in the interest charge on store lease liabilities, with a significant increase in the liability balance year on year due to growth in the store network, as well as higher borrowings.

2.1.5 Cash Flow

The Group's net cash flow from operating activities before interest and tax was $188m. Capital expenditure of $60.7m relates predominately to new store openings and refurbishments of current stores upon lease renewal.

The Group closed the financial year with $33.4m in net debt, with debt facilities increased during the financial year to allow for the introduction of debt into the capital structure of the business, and significantly higher capex and dividends paid for the year.

2.2 Financial Position

Consolidated	Actual 2023 $'000	Actual 2022 $'000	Change 2022/2023 %
Net cash / (debt)	(33,350)	24,153	(238.1%)
Trade receivables and prepayments	23,202	21,587	7.5%
Inventories	60,098	50,215	19.7%
Trade payables and provisions	(57,957)	(62,505)	(7.3%)
Net lease liabilities	(51,846)	(46,335)	11.9%
Property, plant & equipment	121,389	67,255	80.5%
Intangible assets and goodwill	4,274	4,234	0.9%
Net derivative asset/(liability)	915	1,682	(45.6%)
Net current tax liability	(7,660)	(13,288)	(42.4%)
Net deferred tax balances	20,924	17,326	20.8%
Net assets/equity	79,989	64,323	24.4%

Working capital

The Group's net working capital position increased during the year with inventory levels increasing from $50.2m to $60.1m, growing at a slower rate than the store network, adding to a reduction in payables and provisions.

Property, plant and equipment

Capital expenditure during the year reflects fit out costs associated with new stores and refurbishment of existing stores. Fit out costs are depreciated over the expected useful life.

Debt facilities

The Group currently has total debt facilities of $120m, with the existing term debt facility extended by 3 years and increased to $100m during the financial year, combined with our existing $20m multi-option facility.

As at the end of the financial year, $65m remained drawn on the term debt facility, which has been classified as a non-current liability due to the maturity date of the facility not being within the next 12 months.

3. BUSINESS STRATEGIES

Lovisa has achieved rapid growth since it was founded, with revenue growing from $25.5 million in FY2011 to $596.5 million in FY2023. The Group continues to focus on its key drivers to deliver growth in sales and profit.

Growth pillar	Business Strategy Section	Strategy	Risks	Achievements
Global expansion	3.2	• Continue to leverage current global territories including continued rollout in newer territories and filling remaining gaps in other existing markets • Expansion into new global markets • Leverage the Company's capital in large international markets • Consider franchise partners for selected territories • Continue to develop our digital capability and ensure that all markets we trade in have access to a digital sales channel	• Competition (4.1) • Retail environment and general economic conditions (4.2) • Failure to successfully implement growth strategies (4.4) • Availability of appropriately sized sites in good locations with satisfactory cost structures	• We were able to accelerate the store opening program during the financial year with net 172 new Lovisa stores (including 210 new and 38 closed stores). This included 12 new markets opened during the year across Europe, the Americas, Africa and Asia, with 94 new stores in the Americas region, including our first stores in Mexico, Colombia and Peru, 60 new stores in Europe including our first stores in Italy, Hungary, Romania and a retun to Spain. Almost 80% of the store network is now outside Australia. • We now have dedicated e-commerce sites across all key markets in which we operate, as well as presence on a number of popular online marketplaces globally.
Streamline global supply chain	3.3	• Streamline and optimise supply base in Asia • Optimise air and sea freight whilst maintaining speed to market operating model • Ongoing review of size, location and number of warehouses globally to ensure most efficient movement of products to our stores	• Exchange rates (4.5) • Product sourcing or supply chain disruptions • Fluctuations in global freight costs as a result of market disruptions experienced by Logistics providers	• Chinese warehouse operates to support our Asian, Americas and African stores, Australian warehouse to support Australia/ New Zealand, and Poland warehouse operational to support Europe. • Dedicated warehouses now operational in the UK (3PL), South Africa (3PL), Spain (3PL) and the USA to support e-commerce sales
Enhance existing store performance	3.4	• Optimise and improve existing store network • Continue to target high traffic shopping precincts • Judicious pricing	• Competition (4.1) • Retail environment and general economic conditions (4.2) • Prevailing fashions and consumer preferences may change (4.6)	• Global roll-out of in-store piercing service, now including nose piercing • We continue to close stores in sub-optimal locations • Investment in regional support team structures to ensure consistent high quality retail execution
Brand proliferation	3.5	• Continue to leverage social media to connect with customers and increase brand loyalty	• Prevailing fashions and consumer preferences may change (4.6) • Privacy breaches	• Continued focus on online execution across all existing markets • Presence on online marketplaces in key markets • Increased social media engagement
Lead and pre-empt trends	3.1	• Stay on trend with shifts in jewellery and accessory market • Continue to provide a high quality and diverse product offering	• Prevailing fashions and consumer preferences may change (4.6)	• Continued strong performance being testament to an ability to identify trends • Implementation of Buying teams in the UK and USA to complement central team in Australia

3.1 Lead and Pre-Empt Trends

Product innovation is a core component of Lovisa's competitive advantage. Our customers expect a broad range of fashionable products that are in line with the latest global fashion trends. In order to meet this expectation, Lovisa employs a large and experienced product team who are responsible for Lovisa's forward range planning, designs, product development, production, visual merchandising and merchandise planning, ensuring Lovisa is continually meeting market demand. Whilst the product team is primarily based in Melbourne, teams are now also in place in London and Los Angeles to provide more constant localised intelligence to the global buying process, with the team also travelling the world to identify global trends. In addition, its product teams meet with suppliers in China, India, Thailand and other parts of Asia frequently.

As Lovisa is frequently developing new products in response to evolving fashion trends, it does not register patents on its product designs. This is consistent with practices in the fast fashion industry.

3.2 New Store Rollouts & International Expansion

One of the key attributes of the Group's success has been the ability to identify and secure quality retail store sites in locations with high pedestrian traffic. This typically involves securing leases in AA, A or B grade rating shopping centres and malls. Lovisa has refined its global store model based on what it understands to be the optimal store size, location and format. The combination of a target 50-80 square metre floor space and a homogenised layout allows Lovisa to have strict criteria when identifying and securing potential store sites in new regions, facilitating the roll-out of stores quickly, at low cost. On average, it takes between 2-4 weeks to fit out a new Lovisa store depending on local conditions.

The key driver of future growth for Lovisa is the continued global store roll-out. Lovisa has proven it is capable of successfully operating profitably globally, having established a portfolio of company owned stores in 29 countries and supporting franchised stores across 10 additional countries in the Middle East, Africa and South America bringing the total countries Lovisa is represented in to 39. Lovisa will continue to explore other markets, with our first stores opened during the year in Hong Kong, Taiwan, Namibia, Botswana, Italy, Hungary, Romania and Mexico, as well as re-entry into Spain and the beginning of the conversion of the UAE from a franchise territory to company owned.

The Group plans to remain nimble and opportunistic in expanding and moving into new markets, such that if opportunities arise, the Group may accelerate its plans to enter a new market or continue to grow an existing market. Likewise it will defer its entry into a new market if it considers that appropriate opportunities are not presented at the relevant time.

The history of Lovisa stores is as follows:

	2019	2020	2021	2022	2023
Australia	154	152	153	154	168
New Zealand	22	23	24	25	27
Singapore	18	19	18	17	16
South Africa	61	62	64	69	75
Malaysia	25	27	28	32	41
United Kingdom	38	42	41	42	44
Spain	9	-	-	-	1
France (i)	8	21	52	59	68
Germany (ii)	-	-	38	40	47
Belgium (ii)	-	-	8	11	11
Netherlands (ii)	-	-	6	5	7
Austria (ii)	-	-	3	3	7
Luxembourg (ii)	-	-	2	2	2
Switzerland (ii)	-	-	8	6	9
Poland	-	-	-	1	18
USA	19	48	63	118	190
Canada	-	-	-	1	7
Hong Kong	-	-	-	-	8
Taiwan	-	-	-	-	1
Botswana	-	-	-	-	1
Namibia	-	-	-	-	2
Mexico	-	-	-	-	4
Hungary	-	-	-	-	2
Romania	-	-	-	-	1
Italy	-	-	-	-	7
UAE	-	-	-	-	1
Middle East (iii)	28	34	36	44	28
Africa (iii)	-	-	-	-	2
South America (iii)	-	-	-	-	6
Vietnam (iii)	8	7	-	-	-
Total	**390**	**435**	**544**	**629**	**801**

(i) Of these stores, 22 were acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021

(ii) These stores were acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021

(iii) Franchise stores

3.3 Streamline Global Supply Chain

Lovisa's third party suppliers are currently located in mainland China, India and Thailand. Stock is inspected by Lovisa's quality control team in China. Once manufactured, stock is transported to Lovisa's company operated warehouses in Melbourne, Australia (for stock to be sold in Australia and New Zealand) or Wroclaw, Poland (for stock to be sold in Europe), or our 3PL warehouse in Qingdao China (for stock to be sold in all other countries).

Lovisa constantly reviews its supply chain process for potential efficiency gains and cost reductions in order to generate higher gross margins. This includes improvements in its global warehouse and logistics program and the consolidation and rationalisation of its supplier base. As a result of this constant review the company has implemented warehouses in Spain (3PL), USA, South Africa (3PL) and the UK (3PL) to better support our online customers in these markets.

3.4 Enhance Existing Store Performance

Lovisa is constantly reviewing the efficiency of its existing store network to ensure that stores are run as profitably as possible, with stores closed if they are not performing to expectations and new sites continuing to be identified. Whilst some of the markets Lovisa operates in are mature and have less opportunities for new store openings, our leasing team continues to assess new sites as they arise. The global roll-out of piercing services into stores has been successful in driving enhanced customer loyalty and providing new customers an additional reason to choose to shop at Lovisa.

3.5 Brand Proliferation

Lovisa supports the growth of its brand through social media and promotional activity that matches our customer base and our international footprint. Efforts are focused on social media, rather than traditional media, as we believe it connects us directly to our customers in a way that suits their lifestyle.

The brand is also developed through the customer in-store experience – on trend product, cleanly merchandised, focused imagery, and the store "look and feel". Stores are located in high foot traffic areas, in high performing centres. The Group's online stores and presence on 3rd party marketplaces operate to service the markets in which the Group operates company-owned stores.

4. MATERIAL BUSINESS RISKS

The business risks faced by the Group and how it manages these risks are set out below. Further information surrounding how the Group monitors, assesses, manages and responds to risks identified is included within Principle 7 of the Company's Corporate Governance statement.

4.1 Competition

The fast fashion jewellery sector in which Lovisa operates is highly competitive. While the costs and time that would be required to replicate Lovisa's business model, design team, IT systems, global store network, warehouse facilities and level of brand recognition would be substantial, the industry as a whole has relatively low barriers to entry. The industry is also subject to ever changing customer preferences.

Lovisa's current competitors include:

- specialty retailers selling predominately fashion jewellery;
- department stores;
- fashion apparel retailers with a fashion jewellery section; and
- smaller retailers (i.e. less than five stores) that specialise in the affordable jewellery segment.

Competition is based on a variety of factors including merchandise selection, price, advertising, new stores, store location, store appearance, online presence and execution, product presentation and customer service.

Lovisa's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors or a failure by Lovisa to successfully respond to changes in the industry.

To mitigate this risk, Lovisa employs a large product team to meet market demands as described in section 5.1. Management believes it would take a number of years for a new entrant to establish a portfolio of leases comparable with Lovisa in premium store locations due to substantial barrier to entry costs as detailed above.

4.2 Retail Environment and General Economic Conditions

As Lovisa's products are typically viewed by consumers to be 'discretionary' items rather than 'necessities', Lovisa's financial performance is sensitive to the current state of, and future changes in, the retail environment in the countries in which it operates. However, with a low average retail spend per transaction, macro market performance is less likely to have a material impact on our business compared to other discretionary categories.

Lovisa's main strategy to overcome any downturn in the retail environment or economic conditions is to continue to offer our customers quality, affordable and on trend products.

4.3 Public health crises, political crises and other catastrophic events outside of our control affect our sales or supply of inventory

Natural disasters, such as hurricanes, earthquakes, tsunamis, power shortages or outages, or floods; public health crises, such as pandemics and epidemics (including the ongoing COVID-19 pandemic); social unrest; political crises, such as terrorism, war, political instability or other conflict; or other events outside of our control, could damage or destroy our stores or our products, make it difficult for our employees or customers to travel to our stores, result in delays or disruptions in the production and/or delivery of merchandise to our distribution centres or our stores or in the fulfillment of e-commerce orders to our consumers, or require us to incur substantial additional costs to ensure timely delivery.

Moreover, these types of events could negatively impact consumer spending in the impacted regions or, depending upon the severity, globally, which could adversely impact our operating results.

Factors mitigating these risks include the significant geographical diversity of our operations, continued investment in e-commerce channels to offset temporary inability to trade from physical stores, and business continuity plans and experience developed during the COVID-19 pandemic.

4.4 Failure to Successfully Implement Growth Strategies

Lovisa's growth strategy is based on its ability to increase earnings contributions from existing stores and continue to open and operate new stores on a timely and profitable basis.

Lovisa's store roll-out program is dependent on securing stores in suitable locations on acceptable terms, and may be impacted by factors including delays, cost overruns and disputes with landlords.

The following risks apply to the roll-out program:

- new stores opened by Lovisa may be unprofitable;
- Lovisa may be unable to source new stores in preferred areas, and this could reduce Lovisa's ability to continue to expand its store footprint;
- new stores may reduce revenues of existing stores; and
- establishment costs may be greater than budgeted for.

Factors mitigating these risks are that fit-out costs are low with minimal standard deviation in set-up costs across sites and territories through our small store format and homogeneous store layout, minimising potential downside for new stores. The Group assesses store performance regularly and evaluates store proximity and likely impact on other Lovisa stores as part of its roll-out planning.

When entering new markets, Lovisa assesses the region, which involves building knowledge by leveraging a global network of industry contacts as well as our significantly globally experienced senior leadership team, and aims to secure a portfolio of stores in order to launch an operating footprint upon entry. The Group plans to remain nimble and opportunistic in expanding and moving into new markets, such that if opportunities arise, the Group may accelerate its plans to enter a new market or continue to grow an existing market. Likewise it will defer its entry into a new market if it considers that appropriate opportunities are not presented at the relevant time. Regular investigation and evaluation of new stores and territories is undertaken by management to ensure that the Group's store footprint continues to expand.

4.5 Exchange Rates

The majority of inventory purchases made by Lovisa are priced in USD. Lovisa is exposed to movements in the exchange rate in the markets it operates in. Adverse movements could have an adverse impact on Lovisa's gross profit margin and overall profitability of non-AUD denominated markets.

The Group's foreign exchange policy is aimed at managing its foreign currency exposure in order to protect profit margins by entering into forward exchange contracts specifically against movements in the USD rate against the AUD associated with its cost of goods. The Group does not currently hedge its foreign currency earnings. The Group monitors its working capital in its foreign subsidiaries to ensure exposure to movements in currency is limited.

4.6 Prevailing Fashions and Consumer Preferences May Change

Lovisa's revenues are entirely generated from the retailing of jewellery and piercing services, which is subject to changes in prevailing fashions and consumer preferences. Failure by Lovisa to predict or respond to such changes could adversely impact the future financial performance of Lovisa. In addition, any failure by Lovisa to correctly judge customer preferences, or to convert market trends into appealing product offerings on a timely basis, may result in lower revenue and margins. In addition, any unexpected change in prevailing fashions or customer preferences may lead to Lovisa carrying increased obsolete inventory.

To mitigate this risk, Lovisa employs an experienced global product team to meet market demands as described in section 5.1. As the Group responds to trends as they occur, this drives store visits by customers and significantly reduces the risk of obsolete stock.

5. REMUNERATION REPORT - UNAUDITED

5.1 Remuneration Overview

The Board recognises that the performance of the Group depends on the quality and motivation of its team members employed by the Group around the world.

The Group remuneration strategy therefore seeks to appropriately attract, reward and retain team members at all levels of the business, but in particular for management and key executives. The Board aims to achieve this by establishing executive remuneration packages that include a mix of fixed remuneration, short-term incentives and long-term incentives.

In performing this responsibility, the Committee must give appropriate consideration to the Group's performance and objectives, employment conditions and external remuneration relativities in the global market that Lovisa operates in.

Further information surrounding the responsibilities of the People, Leadership, Remuneration and Nomination Committee is included within Principle 8 of the Company's Corporate Governance statement.

5.2 Principles Used to Determine the Nature and Amount of Remuneration

Key Management Personnel

Key Management Personnel (KMP) have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity, and comprise:

- Non-Executive Directors
- Chief Executive Officer
- Chief Financial Officer

Non-Executive Director KMP

Brett Blundy	Chairman
Tracey Blundy	Director
John Charlton	Director
Sei Jin Alt	Director
Bruce Carter	Director (appointed 18 November 2022)
James King	Director (resigned 18 November 2022)
Nico van der Merwe	Alternate Director

Executive KMP

Victor Herrero	Chief Executive Officer
Chris Lauder	Chief Financial Officer

The People, Leadership, Remuneration and Nomination Committee is governed by its Charter which was developed in line with ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and the activities of the Committee and the Charter is annually reviewed by the Committee to ensure it remains consistent with regulatory requirements.

A. Principles Used to Determine the Nature and Amount of Remuneration

(a) Non-Executive Directors KMP Remuneration

Non-executive Directors' fees are determined within an aggregate Non-executive Directors' pool limit of $600,000. Total Non-executive Directors' remuneration including non-monetary benefits and superannuation paid at the statutory prescribed rate for the year ended 2 July 2023 was $462,227. Brett Blundy, the Non-executive Chairman, is entitled to receive annual fees of $150,000. Other Non-executive Directors are entitled to receive annual fees between $70,000 to $81,000 inclusive of superannuation.

The Non-executive Directors' fees are reviewed annually to ensure that the fees reflect market rates. There are no guaranteed annual increases in any Directors' fees. None of the non-executive Directors participate in the short or long term incentives.

(b) Executive remuneration

Lovisa's remuneration strategy is to:

- Offer a remuneration structure that will attract, focus, retain and reward highly capable people;
- Have a clear and transparent link between performance and remuneration;
- Build employee engagement and align management and shareholder interest; and
- Ensure executive remuneration is set with regard to the size and nature of the position with reference to global market benchmarks (in the context of the Group operating in a global marketplace) and the performance of the individual.

Remuneration will incorporate at risk elements to:

- Link executive reward with the achievement of Lovisa's business objectives, continued growth and financial performance; and
- Ensure total remuneration is competitive by global market standards.

The Board strongly believes that the remuneration structures in place for the executive team, and in particular the Chief Executive Officer, Victor Herrero are appropriate. The Board were therefore disappointed to receive votes against the Remuneration Report at the 2022 Annual General Meeting totalling 32.9% of votes cast.

Lovisa is a global business competing for talent in the global market with significant global growth potential, which requires compensation packages competitive in this context to attract and retain the appropriate calibre of executive to deliver the Group's strategy and growth targets.

Whilst the Board understands the concerns of some shareholders in relation to the potential remuneration payable, it is of the view that the structure and at risk remuneration in place for the leadership of the Group is appropriate.

B. Remuneration Structure

The current executive salary and reward framework consists of the following components:

- Base salary and benefits including superannuation
- Short-term incentive scheme comprising cash
- Long-term incentive scheme comprising cash and options or performance rights

The mix and quantum of each of these components is determined by the Board for each individual executive.

The mix of fixed and at risk components for each Senior Executive as a percentage of total target remuneration for the 2023 financial year is as follows:

Senior Executive	Fixed remuneration	At risk remuneration
Victor Herrero	7%	93%
Chris Lauder	39%	61%

Base Salary and Benefits

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and non-cash benefits. Retirement benefits are delivered to the employee's choice of superannuation fund where relevant. The Group has no interest or ongoing liability to the fund or the employee in respect of retirement benefits.

Short Term Incentive plan

The Group operates a short-term incentive (STI) plan that rewards some Executives and Management on the achievement of pre-determined key performance indicators (KPIs) established for each financial year according to the accountabilities of his/her role and its impact on the organisation's performance. KPIs include company profit targets and personal performance criteria. Using a profit target ensures variable reward is paid only when value is created for shareholders.

5.2 Principles Used to Determine the Nature and Amount of Remuneration (continued)

B. Remuneration Structure (continued)

The STI plan structure in place for FY23 was as follows:

KMP	Opportunity	Performance Period	Performance Measures	FY23 Outcome
Victor Herrero Chief Executive Officer	nil	n/a	n/a	n/a
Chris Lauder Chief Financial Officer	$325,000	12 months, subject to continued employment until the date of payment	Discretionary based on the Board's assessment of performance with reference to the following KPI: Delivery of 25% growth in EBIT on FY22 to $104m in FY23 (actual outcome 31% growth) Delivery of 35% growth in Total Sales on FY22 to $619m in FY23 (actual outcome 33% growth) Delivery of cost of doing business as a % to sales 1% lower than FY22 (excluding certain items and on a constant currency basis) (actual outcome -1.8% to sales) Personal KPI's in relation to the performance of the Finance team in meeting internal and external reporting timelines	80%

Victor Herrero, Chief Executive Officer was not eligible to participate in the annual STI program, with his at-risk remuneration comprised entirely of his LTI.

The award of 80% of the Chief Financial Officer's STI was based on the Board's assessment of his performance against the criteria noted above, and therefore $260,000 of the STI opportunity of $325,000 to be paid.

Long Term Incentive plan

The Company operates a long-term incentive (LTI) plan. The plan is designed to align the interests of the executives with the interest of the shareholders by providing an opportunity for the executives to receive an equity interest in Lovisa and in some cases a cash payment. The plan provides flexibility for the Company to grant performance rights and options as incentives, subject to the terms of the individual offers and the satisfaction of performance conditions determined by the Board from time to time.

The key terms associated with the LTI plan are:

- A Performance Option or Right entitles the holder to acquire a share upon payment of an applicable exercise price at the end of the performance period, subject to meeting specific performance conditions (for Performance Rights, the exercise price is nil).
- Options will be granted for nil consideration.

Performance Conditions

The Board considers profit based performance measures such as EPS and EBIT to be the most appropriate performance conditions as they align the interests of shareholders with management.

FY2022 Chief Executive Officer LTI Plan

Following his appointment as Chief Executive Officer of the Group in November 2021, Victor Herrero was granted a 3-year LTI Grant vesting annually over its 3 year term including a Cash Award and a Performance Rights component, with the number of Performance Rights to be granted under the award determined at the date set out in the table below (Grant Date). The table below sets out the maximum LTI opportunity for each performance period, split between a Cash Award and Performance Rights. The number of Performance Rights to be granted to Victor is determined on the Grant Dates specified below by dividing the grant value by the 30-day volume weighted average price (VWAP) of the Company's Shares at the relevant Grant Date specified below (Fair Value).

Tranche	End of Performance Period	Date number of Performance Rights determined and Grant Date	Maximum Value of Performance Rights to be Granted (AUD)	Maximum Cash Award Opportunity (AUD)	Total Maximum LTI Opportunity (AUD)	Number of Performance Rights Granted at Grant Date
Tranche 1	3 July 2022	23 November 2021	8,400,000	3,600,000	12,000,000	400,000
Tranche 2	2 July 2023	4 July 2022	24,400,000	3,600,000	28,000,000	1,742,857
Tranche 3	30 June 2024	3 July 2023	24,400,000	3,600,000	28,000,000	1,242,995

The Fair Value of each Performance Right for the purpose of determining the number of Performance Rights granted under Tranche 1 above was $21.00, $14.00 for Tranche 2, and $19.63 for Tranche 3. The grant of the Chief Executive Officer LTI Plan noted above was approved by shareholders at the 2021 Annual General Meeting, including the 400,000 Performance Rights granted on 23 November 2021 the 1,742,857 Performance Rights granted on 4 July 2022, and the 1,242,995 Performance Rights granted on 3 July 2023.

The performance hurdles for each LTI tranche are set out below, with performance against the EBIT hurdles to be tested at the end of each Performance Period and based on EBIT before the share-based payments expense recognised in the period associated with the LTI grants made to the CEO as set out above.

Tranche	EBIT Hurdle (pre LTI) (A$m)	Cash Award Amount (A$m)	Value of Performance Rights that Vest (based on value per right at Grant Date) ($Am)	Total LTI Award value (based on value of Performance Rights at Grant Date) ($Am)
Tranche 1 (vesting based on performance against EBIT Hurdle for FY22)	less than 65.0	0.0	0.0	0.0
	65.0	1.5	1.5	3.0
	70.0	1.75	1.75	3.5
	80.0	2.5	2.5	5.0
	95.0	3.6	5.4	9.0
	105+	3.6	8.4	12.0
Tranche 2 (vesting based on performance against EBIT Hurdle for FY23)	less than 90.0	0.0	0.0	0.0
	90.0	1.0	1.0	2.0
	95.0	1.5	1.5	3.0
	100.0	2.5	2.5	5.0
	110.0	3.6	4.4	8.0
	115.0	3.6	8.4	12.0
	120.0	3.6	14.4	18.0
	130+	3.6	24.4	28.0
Tranche 3 (vesting based on performance against EBIT Hurdle for FY24)	less than 95.0	0.0	0.0	0.0
	95.0	2.0	2.0	4.0
	100.0	3.0	3.0	6.0
	110.0	3.6	5.4	9.0
	125.0	3.6	10.4	14.0
	140.0	3.6	18.4	22.0
	155+	3.6	24.4	28.0

Calculation of the EBIT Hurdle and achievement against the EBIT Hurdle will be determined by the Board (or a committee of the Board) in its reasonable good faith discretion, having regard to any matters that it considers relevant. The number of Performance Rights that vest will be calculated by dividing the value of the Performance Rights that vest as specified above by the Fair Value of each Performance Right for that Tranche as calculated at the Grant Date.

Upon Vesting of the Performance Rights and conversion to shares, the shares will be subject to a 12-month holding restriction period (this does not apply to the Cash component).

The actual vesting outcome for the Tranche 2 Performance Rights described above was determined by the Board based on the financial performance for the 2023 financial year, and Tranche 1 based on the 2022 financial year, as follows:

Tranche	Performance Outcome (EBIT pre share-based payments expense)	% of total opportunity vested	Total LTI Opportunity ($)	LTI Vested ($)	Vested LTI Cash ($)	Vested LTI – Performance Rights ($)	Vested Performance Rights (Number)
Tranche 1	$101.3m	90.8%	$12,000,000	$10,901,100	$3,600,000	$7,301,100	347,671
Tranche 2	$132.8m	92.8%	$28,000,000	$26,000,000	$1,600,000	$24,400,000	1,742,857

The vesting % of Tranche 2 noted above reflects the agreed vesting outcome between the Board and Mr Herrero, with the actual vesting % based on the EBIT outcome equal to 100% then reduced to the 92.8% vesting noted above by mutual agreement.

FY2023 Executive LTI Plan

On 29 August 2022 an LTI Award was made to certain Executives as part of the FY2023 LTI, comprising Performance Rights and a Cash component. The key terms associated with the FY2022 Executive LTI Grant are:

- The performance period commences 4 July 2022 and ends 29 June 2025, with the LTI Award vesting evenly over the 3 year period.
- Upon Vesting of the Performance Rights and conversion to shares, the shares will be subject to a 12-month holding restriction period (this does not apply to the Cash component).
- A total of 53,757 Performance Rights were granted, based on a total grant value of $752,645 divided by the 30 day VWAP of the Company's Shares to the date of grant of $14.00. The LTI Award also included a Cash component totalling $752,645, with the total LTI Award value $1,505,290.

For the Performance Rights and Cash Award to Vest, the Group needs to meet or exceed the following performance hurdles based on the Group's Earnings Before Interest and Tax for the FY23 financial year and continued employment with the Group as follows:

Tranche	End of Performance Period	Primary Performance Hurdle	Secondary Performance Hurdle
Tranche 1	2 July 2023	Growth in Company EBIT for FY23 of between 17.5% (20% vesting) to 30% (100% vesting) over FY22 (FY23 EBIT Hurdle)	Continued employment at the vesting date
Tranche 2	30 June 2024	Growth in Company EBIT for FY23 of between 17.5% (20% vesting) to 30% (100% vesting) over FY22 (FY23 EBIT Hurdle)	Continued employment at the vesting date
Tranche 3	29 June 2025	Growth in Company EBIT for FY23 of between 17.5% (20% vesting) to 30% (100% vesting) over FY22 (FY23 EBIT Hurdle)	Continued employment at the vesting date

The FY23 EBIT Hurdle is calculated based on growth on FY22 Statutory EBIT adjusted to remove the 53rd week of trading in FY22 to ensure comparability between periods. Once the FY23 EBIT Hurdle performance has been determined and the resulting vesting percentage determined for Tranche 1, this vesting percentage will also be applied to Tranche 2 and 3 assuming continued employment at the vesting date for each of those tranches.

The actual EBIT for the financial year ended 2 July 2023 was $105.7m, representing growth of 31.5% on FY22 (on a 52 week basis). As a result, subsequent to the end of the financial year the Board have determined that 100% of the LTI Award granted under Tranche 1 has vested, with an equivalent vesting percentage to be applied to the two subsequent tranches and those LTI Awards also vesting should each executive remain employed at the subsequent vesting dates.

FY2022 Executive LTI Plan

In September 2021 a grant of Performance Options was made to certain Executives as part of the FY2022 LTI. The key terms associated with the FY2022 Executive LTI Grant are:

- The performance period commences 28 June 2021 and ends 30 June 2024.
- The exercise price of the Performance Options is $14.37, which represents the 30 day VWAP to the date of grant.
- A total of 150,000 Performance Options were granted.
- The grant of Performance Options is subject to performance conditions based on delivering the Group's EBIT target over the performance period, as set out below.
- The expiry of the Performance Options is 12 months following the end of the performance period.
- 90,000 options were forfeited during the prior year.

The Board has determined the EBIT Target growth hurdles applicable to the FY2022 grant is as follows:

Group's EBIT for the financial year ending 30 June 2024	% of LTI Options that vest and become exercisable
Less than $90m	Nil
$90m - $95m	20% awarded
$95m - $100m	35% awarded
$100m - $110m	50% awarded
$110m - $120m	75% awarded
>$120m	100% awarded

FY2021 LTI – Performance Options

In October 2020 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2021 LTI. The key terms associated with the 2021 Grant are:

- The performance period commenced 29 June 2020 and ended 2 July 2023.
- The exercise price of the Performance Options is $7.15, which represents the 30 day VWAP to the date of grant.
- A total of 1,500,000 Performance Options were granted. 1,400,000 of these options were forfeitecd during prior financial years.
- 1,000,000 of these options were granted to the Managing Director and were subject to shareholder approval. The Managing Director was also granted a cash settled LTI as part of his FY21 LTI grant in addition to the performance options granted. The cash LTI opportunity amounted to $3,500,000 and was payable subject to the same performance hurdles as the performance options granted. As a result of the resignation of the Managing Director, his entire FY21 LTI lapsed during FY22, including the Performance Options and Cash component.
- For executives other than the Managing Director, the expiry of the Performance Options is 12 months following the vesting date.

The grant of Performance Options is subject to performance conditions based on delivering the Group's EBIT target over the performance period, as set out below:

Group's EBIT for the financial year ending 2 July 2023	% of Cash LTI that vests and becomes payable	% of LTI Options that vest and become exercisable
Less than $85m	Nil	Nil
$85m - $90m	20% awarded	20% awarded
$90m - $95m	35% awarded	35% awarded
$95m - $100m	50% awarded	50% awarded
$100m - $105m	75% awarded	75% awarded
$105m +	100% awarded	100% awarded

The actual EBIT for the financial year ended 2 July 2023 was $105.7m. As a result, subsequent to the end of the financial year the Board have determined that 100,000 of the Performance Options granted under this Tranche have vested, with the remainder of the Performance Options lapsing unvested.

5.3 Equity Remuneration Analysis

Analysis of Options and Performance Rights over Equity Instruments Granted as Compensation

Details of the vesting profile of options and performance rights awarded as remuneration to each key management person are detailed below.

	Performance Rights/Options granted			Grant date	Included in Remuneration $	% vested in the period	% forfeited in the period	Financial period in which grant vests	Maximum Value yet to vest (iii)
	Number	Value $	Performance period commences						
V Herrero									
FY22 LTIP Tranche 1 (FY22 vesting)(i)	400,000	8,400,000	20 Nov2021	23 Nov 2021	1,442,385	87%	13%	3 Jul 2022	-
FY22 LTIP Tranche 2 (FY23 vesting)(i)	1,742,857	24,400,000	4 Jul 2022	23 Nov 2021	17,151,926	100%	-	2 Jul 2023	2,255,778
FY22 LTIP Tranche 3 (FY24 vesting)(i)	1,242,995	24,400,000	3 Jul 2023	23 Nov 2021	6,380,788	-	-	30 Jun 2024	15,115,271
C Lauder									
FY20 LTIP	70,131	303,569	1 Jul 2019	16 Sept 2019	15,178	35%	65%	2 Jul 2023	N/A
FY21 LTIP	100,000	289,100	29 Jun 2020	16 Oct 2020	165,200	100%	-	30 Jun 2024	N/A
FY22 LTIP	60,000	479,404	28 Jun 2021	25 Aug 2021	170,401	-	-	29 Jun 2025	N/A
FY23 LTIP Tranche 1 (FY23 vesting)(ii)	3,869	54,167	4 Jul 2022	29 Aug 2022	46,483	100%	-	30 Jun 2024	7,683
FY23 LTIP Tranche 2 (FY24 vesting)(ii)	3,869	54,167	4 Jul 2022	29 Aug 2022	24,921	-	-	29 Jun 2025	29,246
FY23 LTIP Tranche 3 (FY25 vesting)(ii)	3,869	54,167	4 Jul 2022	29 Aug 2022	17,039	-	-	28 Jun 2026	37,128

(i) During FY22, Mr Herrero was granted long term incentives as set out at 5.2 above, including performance rights vesting over the financial years 2022, 2023 and 2024. Whilst the value of the performance rights were granted as at November 2021, the number of performance rights granted under each tranche of the grant has been determined at the start of each performance period, with tranche 1 determined at 23 November 2021, tranche 2 determined on 4 July 2022, and tranche 3 determined on 3 July 2023 based on the 30 day VWAP of Lovisa shares at that date. The total potential value of the long term incentive at inception across the 3 year term was $68 million, including $57.2 million performance rights (as set out above) and $10.8m in cash settled incentives.

(ii) During FY23, Mr Lauder was granted an LTI Award comprising 3 Tranches vesting over the period FY23 to FY25, to a total value of $325,000, comprising Performance Rights granted across the 3 tranches totalling $162,500 resulting in the grant of a total of 11,607 Performance Rights, and a cash component also totalling $162,500.

(iii) The maximum value of performance rights yet to vest is determined based on the amount of the grant date fair value that is yet to be expensed. The minimum value of share rights yet to vest is nil since the shares will be forfeited if the vesting conditions are not met.

The value of performance rights or options granted or exercised by each key management person during the financial year is detailed below:

Key Management Person	Granted in year $(i)	No. of shares issued on exercise	Value of rights or options exercised in year $(ii)	Exercise price of Options Exercised during the year
V Herrero	24,400,000	347,671	7,022,954	N/A
C Lauder	162,500	24,546	235,642	$10.60

(i) The value of performance rights granted in the year is the fair value of the performance rights calculated at grant date. The total value of the performance rights granted is included in the table above. This amount is allocated to remuneration over the vesting period.

(ii) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

5.4 Options and Performance Rights Over Equity Instruments

The movement during the reporting period in the number of performance rights and options over ordinary shares in Lovisa Holdings Limited held directly or beneficially, by each key management person, including their related parties, is as follows:

Key Management Person	Held at 4 July 2022	Granted	Exercised	Forfeited	Held at 2 July 2023	Vested during the year	Vested and exercisable at 2 July 2023
Directors							
V Herrero							
- FY22 LTIP (Tranche 1)	347,671	1,742,857	(347,671)	-	1,742,857	100%	1,742,857
Executives							
C Lauder							
- FY20 LTIP	24,546	-	(24,546)	-	-	-	-
- FY21 LTIP	100,000	-	-	-	100,000	100%	100,000
- FY22 LTIP	60,000	-	-	-	60,000	-	-
- FY23 LTIP (Tranche 1)	-	3,869	-	-	3,869	100%	3,869
- FY23 LTIP (Tranche 2)	-	3,869	-	-	3,869	-	-
- FY23 LTIP (Tranche 3)	-	3,869	-	-	3,869	-	-

5.5 Details of Remuneration

Details of the remuneration of the Directors and Key Management Personnel (KMPs) is set out below.

	Year	Short Term Employment Benefits			Post-Employment Benefits	Long Term Benefits		Share Based Payments	
		Salary & Fees ($)	Other monetary benefits ($)	Performance based payment ($)	Super Contributions ($)	Annual & Long Service Leave ($)	Performance based payment ($) (3)	Options / Rights ($)	Total ($)
NON-EXEC DIRECTORS									
B Blundy	**2023**	**150,000**	**-**	**-**	**-**	**-**	**-**	**-**	**150,000**
	2022	152,885	-	-	-	-	-	-	152,885
T Blundy	**2023**	**73,059**	**-**	**-**	**7,685**	**-**	**-**	**-**	**80,744**
	2022	74,464	-	-	7,461	-	-	-	81,925
J King (1)	**2023**	**28,100**	**-**	**-**	**2,950**	**-**	**-**	**-**	**31,050**
	2022	74,464	-	-	7,461	-	-	-	81,925
B Carter (2)	**2023**	**44,955**	**-**	**-**	**4,734**	**-**	**-**	**-**	**49,689**
	2022	-	-	-	-	-	-	-	-
J Charlton	**2023**	**73,059**	**-**	**-**	**7,685**	**-**	**-**	**-**	**80,744**
	2022	74,464	-	-	7,461	-	-	-	81,925
S J Alt	**2023**	**70,000**	**-**	**-**	**-**	**-**	**-**	**-**	**70,000**
	2022	71,346	-	-	-	-	-	-	71,346
N van der Merwe	**2023**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2022	-	-	-	-	-	-	-	-
TOTAL NON-EXEC DIRECTORS	**2023**	**439,713**	**-**	**-**	**23,054**	**-**	**-**	**-**	**462,227**
	2022	439,177	-	-	21,918	-	-	-	461,095
EXEC DIRECTORS									
S Fallscheer (3)	**2023**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2022	626,459	-	-	10,062	40,234	(875,000)	(687,500)	(885,745)
V Herrero (4)	**2023**	**1,908,225**	**62,940**	**-**	**-**	**88,314**	**2,058,028**	**24,975,099**	**29,092,606**
	2022	1,157,784	1,041,232	-	-	88,586	4,898,216	13,754,952	20,940,770
OTHER KMP									
C Lauder (5)	**2023**	**568,281**	**-**	**260,000**	**25,292**	**64,701**	**321,776**	**439,222**	**1,679,272**
	2022	515,706	-	125,000	24,088	69,786	66,667	137,496	938,742
TOTAL EXEC	**2023**	**2,476,506**	**62,940**	**260,000**	**25,292**	**153,015**	**2,379,804**	**25,414,321**	**30,771,878**
	2022	2,299,949	1,041,232	125,000	34,150	198,606	4,089,883	13,204,948	20,993,767

(1) Resigned on 18 November 2022.

(2) Appointed on 18 November 2022.

(3) Mr Fallscheer resigned from his position as Managing Director and therefore ceased to be a KMP effective from 22 November 2021. No termination benefits were payable, and all remaining unvested LTI's lapsed at that date (both cash and equity-based components), with the reversal of prior year LTI expense reflected as negative remuneration in the table above. Mr Fallscheer was paid his outstanding leave balances totalling $314,459 on exit.

(4) Victor Herrero was appointed as a Director of the Company on 14 October 2021 and commenced as Chief Executive Officer on 9 November 2021. Mr Herrero was paid a $1,000,000 sign-on bonus during FY22, under the terms of which he was required to purchase an equivalent number of Lovisa shares, which was completed in November 2021. The cash amount paid of $1,000,000 is included in Other Monetary Benefits above. Also included in this item is remuneration related to car allowance and reimbursement of personal costs related to relocation, life insurance and tax advice. Mr Herrero's LTI award described above includes both cash and equity settled components subject to performance conditions over the performance periods ending 3 July 2022, 2 July 2023 and 30 June 2024, with the associated expense recognised over the relevant performance period.

(5) Chris Lauder was granted a cash retention incentive of $300,000 in March 2022 payable in August 2023 based on continued employment at that date, with the associated expense included in remuneration over that period in the table above.

5.6 Details of KMP Employment Contracts

The remuneration and other terms of employment of the CEO and CFO are set out in individual employment contracts that are not fixed term contracts. Notice periods under these employment contracts are as follows:

Name	Notice period/termination payment
Victor Herrero	Either party may terminate the employment contract by providing 30 days' written notice, unless Mr Herrero is terminated by the Company for "Cause", in which case there is no notice period. Termination for "Cause" includes serious misconduct, wilful and continuous failure to perform duties, and material breach of the employment contract. Where Mr Herrero's employment is terminated by the Company without Cause or by Mr Herrero for good reason, he may be eligible for a termination payment equal to 1 year's base salary, along with any LTI applicable to the current performance year remaining outstanding and subject to its applicable performance hurdles. Where Mr Herrero's employment is terminated for Cause by the Company or by Mr Herrero without good reason, no termination benefits are payable and all unvested LTI rights will immediately lapse.
Chris Lauder	6 months' notice by either party (or payment in lieu). Where Mr Lauder's employment is terminated due to serious misconduct or gross negligence, Mr Lauder's employment may be terminated immediately without any pay in lieu and the stated notice period will not apply.

5.7 Consequences of Performance on Shareholder Wealth

In considering the consolidated entity's performance and the benefits for shareholder wealth, the People, Remuneration and Nomination Committee has regard to a range of indicators in respect of senior executive remuneration and linked these to the previously described short and long term incentives.

The following table presents these indicators showing the impact of the Group's performance on shareholder wealth, during the financial years:

	2023	2022	2021	2020	2019
Earnings before interest and tax ($000)	105,742	82,684	43,527	25,667	52,484
Net profit after tax ($000)	68,164	58,387	24,829	11,221	37,043
Dividends paid	80,874	59,103	37,611	15,866	33,781
Share Price	$19.30	$14.26	$14.45	$8.08	$11.36
Earnings per share	63.3	54.3	23.1	10.6	35.1

KMP Shareholdings

The following table details the ordinary shareholdings and the movements in the shareholdings of KMP (including their personally related entities) for the financial year ended 2 July 2023.

No. of shares	Held at 4 July 2022	Shares Purchased	Shares Sold	Other Movements	Held at 2 July 2023
Non-executive Directors					
B Blundy	43,207,500	-	-	-	43,207,500
T Blundy	1,153,005	-	-	-	1,153,005
J King (1)	34,000	-	-	(34,000)	-
B Carter (2)	-	5,000	-	10,000	15,000
J Charlton	25,000	4,000	-	-	29,000
S J Alt	-	-	-	-	-
N van der Merwe (alternate)	-	-	-	-	-
Executive Directors					
V Herrero	49,800	347,671	-	-	397,471
Executive					
C Lauder	3,000	24,546	-		27,546

(1) Mr King resgined as Director on 18 November 2022.

(2) Mr Carter was appointed as Director on 18 November 2022, at which date he held 10,000 shares in the Company.

6. INSURANCE OF OFFICERS AND INDEMNITIES

During the financial year, Lovisa Holdings Limited paid a premium of $480,000 (2022: $503,000) to insure the Directors and officers of the Group.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group.

7. PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

8. ENVIRONMENTAL REGULATION

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Directors believe that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of these environmental requirements as they apply to the entity.

9. NON-IFRS FINANCIAL INFORMATION

This report contains certain non-IFRS financial measures of historical financial performance. The measures are used by management and the Directors for the purpose of assessing the financial performance of the Group and individual segments. The measures are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or controllable factors which affect IFRS measures, to aid the user in understanding the Group's performance. These measures are not subject to audit.

10. ROUNDING OF AMOUNTS

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 2 July 2023

	Note	2 July	3 July
Consolidated ($000s)		**2023**	**2022**
Assets			
Cash and cash equivalents	C4	31,650	34,153
Trade and other receivables	B1	23,202	21,587
Current tax receivables		210	796
Inventories	B2	60,098	50,215
Derivatives		915	1,682
Total current assets		116,075	108,433
Deferred tax assets		20,924	17,326
Property, plant and equipment	B3	121,389	67,255
Right-of-use asset	B4	255,741	172,037
Intangible assets and goodwill	B5	4,274	4,234
Total non-current assets		402,328	260,852
Total assets		518,403	369,285
Liabilities			
Trade and other payables	B7	39,677	47,397
Employee benefits - current	B9	7,667	6,439
Provisions - current	B8	2,413	3,562
Lease liability - current	B10	57,606	50,403
Loans and borrowings - current		-	10,000
Current tax liabilities		7,870	14,084
Total current liabilities		115,233	131,885
Employee benefits - non current	B9	339	287
Lease liability - non current	B10	249,981	167,969
Provisions - non current	B8	7,861	4,821
Loans and borrowings - non current		65,000	-
Total non-current liabilities		323,181	173,077
Total liabilities		438,414	304,962
Net assets		79,989	64,323
Equity			
Issued capital	C1	214,137	213,877
Common control reserve		(208,906)	(208,906)
Other reserves		43,524	31,031
Retained earnings		31,234	28,321
Total equity		79,989	64,323

The Notes on pages 30 to 54 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the financial year ended 2 July 2023

Consolidated ($000s)	Note	2023	2022
Revenue	A2	596,456	458,712
Cost of sales	B2	(119,742)	(96,884)
Gross profit		476,714	361,828
Salaries and employee benefits expense	A3	(182,377)	(133,825)
Property expenses	A3	(25,313)	(23,018)
Distribution costs	B2	(28,403)	(21,291)
Depreciation and amortisation expense		(74,224)	(59,779)
Gain / (loss) on disposal of property, plant and equipment		(1,181)	(1,169)
Impairment (expenses) / reversals	A5	19	(905)
Other income		614	2,367
Other expenses	A3	(60,107)	(41,524)
Operating profit		105,742	82,684
Finance income		224	268
Finance costs		(13,068)	(6,295)
Net finance costs		(12,844)	(6,027)
Profit before tax		92,898	76,657
Income tax expense		(24,734)	(18,270)
Profit after tax		68,164	58,387
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Cash flow hedges		(878)	1,577
Foreign operations - foreign currency translation differences		3,698	4,440
		2,820	6,017
Other comprehensive income, net of tax		2,820	6,017
Total comprehensive income		70,984	64,404
Profit attributable to:			
Owners of the Company		68,164	58,387
		68,164	58,387
Total comprehensive income attributable to:			
Owners of the Company		70,984	64,404
Total comprehensive income for the year		70,984	64,404
Earnings per share			
Basic earnings per share (cents)	A6	63.25	54.33
Diluted earnings per share (cents)	A6	61.94	54.07

The Notes on pages 30 to 54 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 2 July 2023

Attributable to Equity Holders of the Company

Consolidated ($000s)	Note	Share Capital	Common Control Reserve	Retained Earnings	Share Based Payments Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Total Equity
Balance at 28 June 2021		213,877	(208,906)	29,037	9,263	(33)	2,477	45,715
Total comprehensive income for the year								
Profit		-	-	58,387	-	-	-	58,387
Cash flow hedges		-	-	-	-	1,577	-	1,577
Foreign operations - foreign currency translation differences		-	-	-	-	-	4,440	4,440
Total comprehensive income for the year		-	-	58,387	-	1,577	4,440	64,404
Capital contributions	C1	-	-	-	-	-	-	-
Employee share schemes	D3	-	-	-	13,307	-	-	13,307
Dividends	A7	-	-	(59,103)	-	-	-	(59,103)
Total transactions with owners of the company		-	-	(59,103)	13,307	-	-	(45,796)
Balance at 3 July 2022		213,877	(208,906)	28,321	22,570	1,544	6,917	64,323
Balance at 4 July 2022		213,877	(208,906)	28,321	22,570	1,544	6,917	64,323
Total comprehensive income for the year								
Profit		-	-	68,164	-	-	-	68,164
Cash flow hedges		-	-	-	-	(878)	-	(878)
Foreign operations - foreign currency translation differences		-	-	-	-	-	3,697	3,697
Total comprehensive income for the year		-	-	68,164		(878)	3,697	70,983
Capital contributions	C1	260	-	-	-	-	-	260
Employee share schemes	D3	-	-	-	25,297	-	-	25,297
Transfers from Reserves		-	-	15,623	(15,623)	-	-	-
Dividends	A7	-	-	(80,874)	-	-	-	(80,874)
Total transactions with owners of the company		260	-	(65,251)	9,674	-	-	(55,317)
Balance at 2 July 2023		214,137	(208,906)	31,234	32,244	666	10,614	79,989

The Notes on pages 30 to 54 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 2 July 2023

Consolidated ($000s)	Note	2023	2022
Cash flows from operating activities			
Cash receipts from customers		665,072	515,806
Cash paid to suppliers and employees		(476,695)	(365,855)
Cash generated from operating activities		188,377	149,951
Interest received		224	268
Other income received		-	671
Interest paid		(13,068)	(6,295)
Income taxes paid		(34,369)	(14,036)
Net cash from operating activities	C5	141,164	130,559
Cash flows from investing activities			
Acquisition of fixed assets		(76,677)	(37,378)
Cash acquired net of cash paid for acquisitions (i)		-	(153)
Proceeds from fit out contributions		16,147	2,927
Acquisition of key money intangibles	B5	(191)	-
Net cash used in investing activities		(60,721)	(34,604)
Cash flows from financing activities			
Share options exercised		260	-
Facility proceeds	C3	55,000	10,000
Payment of lease liabilities	B10	(57,997)	(48,366)
Dividends paid	A7	(80,874)	(59,103)
Net cash used in financing activities		(83,611)	(97,469)
Net increase in cash and cash equivalents		(3,168)	(1,514)
Cash and cash equivalents at the beginning of the year	C5	34,153	35,552
Effect of movement in exchange rates on cash held		665	115
Cash and cash equivalents at the end of the year	C5	31,650	34,153

(i) During 2021, the Group acquired the retail assets of beeline GmbH, which included cash acquired of $16,219,000 subject to final purchase price adjustment. There are no remaining amounts to be settled as of 2 July 2023.

The Notes on pages 30 to 54 are an integral part of these consolidated financial statements.

Lovisa Holdings Limited (the "Company") is a for-profit company incorporated and domiciled in Australia with its registered office at Level 1, 818-820 Glenferrie Road, Hawthorn, Victoria 3122. The consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually the "Group companies"). The Group is primarily involved in the retail sale of fashion jewellery and accessories.

Lovisa Holdings Limited reports within a retail financial period. The current financial year represents a 52 week period ended on 2 July 2023 (2022: 53 week period ended 3 July 2022). This treatment is consistent with section 323D of Corporations Act 2001.

Basis of accounting

The consolidated financial statements and supporting notes form a general purpose financial report. It:

- Has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AASBs) including Australian Accounting Interpretations, adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) and Interpretations as issued by the International Accounting Standards Board;
- Has been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value;
- Presents reclassified comparative information where required for consistency with the current year's presentation;
- Adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2022;
- Does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective; and
- Has been prepared on a going concern basis of accounting. At 2 July 2023, the Group's statement of financial position is in a net current asset position of $0.8m, with net assets of $80.0m. The Group's undrawn credit facilities are detailed in Note C3. The Group continues to be able to meet its financial obligations as and when they fall due and remains a going concern.

Use of judgements and estimates

In preparing these consolidated financial statements, management has made a number of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Judgements and estimates which are material to the financial statements are outlined below.

Assumptions and estimation uncertainties

In making estimates of future performance, key assumptions and judgements have been stress tested for the impacts of prevailing economic conditions.

In all scenarios modelled, the liquidity requirements of the Group are within the available facilities and are forecast to meet financial covenants.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the financial year ended 2 July 2023 are included in the following notes:

- Note B2 - inventories: recognition and measurement of stock provisioning;
- Note B6 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of goodwill and key money;
- Notes B8 and D2 – recognition and measurement of provisions for sales returns and site restoration, and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and
- Note B10 - recognition and measurement of lease liabilities: key assumptions underlying the lease term including the exericise or not of options or break clauses.

Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note B6). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see note C1).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Acquisition of assets

The Group accounts for asset purchases by allocating the transaction price to the individual assets and liabilities acquired based on their relative fair values at the date of purchase.

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power to direct activities of the entity.

The financial results of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases.
The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Foreign currency

Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

Translation of foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Lovisa at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the end of the reporting period.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign currency operation is disposed of, the cumulative amount in the translation reserve related to that foreign operation is transferred to profit or loss on disposal of the entity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented in the translation reserve in equity.

About the Notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- The amount with respect to the information is significant because of its size or nature;
- The information is important for understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's business; or
- It relates to an aspect of the Group's operations that is important to its future performance.

BUSINESS PERFORMANCE

This section highlights key financial performance measures of the Lovisa Group's operating segments, as well as Group financial metrics incorporating revenue, earnings, taxation and dividends.

A1 OPERATING SEGMENTS

(a) Basis for segmentation

The Chief Operating Decision Maker (CODM) for Lovisa Holdings Limited and its controlled entities is the Chief Executive Officer (CEO). For management purposes, the Group is organised into geographic segments to review sales by territory as the CODM relies primarily on revenue to assess the performance of the segment and make decisions about resources to be allocated. All territories offer similar products and services and are managed by sales teams in each territory reporting to regional management, however overall company performance is managed on a global level by the CEO and the Group's management team. Store performance is typically assessed at an individual store level. The individual stores are reportable segments but meet the aggregation criteria to form reportable segments at a geographic level.

The Group's stores exhibit similar long-term financial performance and economic characteristics within each geography, which include:

a. Consistent products are offered;

b. All stock sold utilises common design processes and products are sourced from the same supplier base; and

c. Customer base is similar.

(b) Geographic information

The segments have been disclosed on a regional basis consisting of Australia and New Zealand, Asia (Singapore, Malaysia, Hong Kong and Taiwan), Africa (South Africa, Botswana, Namibia, and United Arab Emirates), Americas (United States of America, Canada, and Mexico), and Europe (United Kingdom, Spain, France, Luxembourg, Belgium, Germany, Netherlands, Austria, Switzerland, Poland, Italy, Hungary, and Romania) and the Group's franchise stores in the Middle East, Africa, and South America. Geographic revenue information is included in Note A2.

In presenting the following information, segment assets were based on the geographic location of the assets.

	2023	2022
($000s)	**Non-current assets (i)**	**Non-current assets (i)**
Australia / New Zealand (ii)	63,795	57,219
Asia	11,750	8,453
Africa	7,366	5,871
Europe	123,330	78,005
Americas	170,889	89,744
Total	377,130	239,292

(i) Excluding financial instruments, deferred tax assets, employee benefit assets and intangible assets.

(ii) Australia's non-current assets as at 2 July 2023 are $56,850,000 (2022: $50,023,000).

A2 REVENUE

Revenue by nature and geography

The geographic information below analyses the Group's revenue by region. In presenting the following information, segment revenue has been based on the geographic location of customers.

($000s)	**2023**	**2022**
Sale of Goods		
Australia / New Zealand (i)	198,646	174,255
Asia	37,311	24,364
Africa	48,800	45,768
Europe	181,639	140,121
Americas	128,183	71,960
Total Sale of Goods	594,579	456,468
Franchise Revenue		
South America	292	-
Middle East	1,547	2,244
Africa	38	-
Total Franchise Revenue	1,877	2,244
Total Revenue	596,456	458,712

(i) Australia's revenue for the year ended 2 July 2023 is $174,839,000 (2022: $154,915,000)

Revenue recognition and measurement

Revenue is recognised when the customer obtains control of the goods, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns and trade discounts. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue from the sale of fashion jewellery is recognised when the customer obtains control of the goods. A right of return provision has been recognised in line with the Group's returns policy and in line with the requirements of AASB 15 along with a right to recover returned goods asset. The right of return provision decreases revenue and the right to recover returned goods decreases cost of sales.

Franchise income

Franchise income, which is generally earned based upon a percentage of sales is recognised on an accrual basis.

A3 EXPENSES

Expenses by nature

Consolidated ($000s)	**2023**	**2022**
Property expenses		
Variable lease expenses	2,626	6,739
Outgoings	22,687	16,279
Total property expenses	25,313	23,018
Salaries and employee benefits expense		
Wages and salaries	138,715	104,694
Compulsory social security contributions	15,537	11,902
Increase/(decrease) in liability for long-service leave	78	(101)
LTI - Cash component	2,468	4,023
Share-based payment expense	25,579	13,307
Total salaries and employee benefits expense	182,377	133,825
Other expenses		
Administrative expenses	15,992	12,688
Banking expenses	7,382	5,689
Data and communication expenses	9,403	5,603
Legal and consulting expenses	10,617	8,002
Other expenses	16,713	9,542
Total other expenses	60,107	41,524

A4 GOVERNMENT GRANTS

Government grants - COVID-19 pandemic

In prior periods, the Group has received various financial support measures offered by governments in the countries we operate in to provide financial support to businesses during the COVID-19 pandemic to protect jobs.

As part of these measures, the Group qualified for, and complied with the conditions to receive wage subsidy grants in most of the territories in which it operates. The payments received have been recognised as government grants because the wage subsidies have been provided with the objective of keeping our employees employed by the Group during the COVID-19 crisis period. The grant income has been presented net of the related salaries and wages expense. During 2023, the Group has recognised $31,000 (2022: $2,535,000) of wage subsidy grants globally against "salaries and employee benefits expense".

A business rates holiday was granted to our UK stores for the year from 1 April 2020 to 31 March 2021 and the program was extended to apply at 100% discount for three months from 1 April 2021 to 30 June 2021 and at 66% discount for the period from 1 July 2021 to 31 March 2022. This waiver of business rates has been recognised as income in the same period as the related charge is recognised and so there is no net impact on profit or loss for the period.

No rental support was received from the Singaporean government during 2023 (2022: $590,000 recognised against "property expenses"). This relief was to directly support the payment of rent to landlords during the periods of temporary store closure.

Other government grants have been received in various countries in connection with the loss of revenue due to the pandemic. These grants were unconditional and so were included in "other income" when they became receivable. No grants were received for 2023 (2022: $671,000).

A5 IMPAIRMENT

Amounts recognised in profit or loss

Consolidated ($000s)	**2023**	**2022**
Store impairment charges	2,075	905
Key money impairment charges	78	-
Reversal of store impairment charges	(2,172)	-
	(19)	905

During the year ended 2 July 2023, net impairment reversal of $19,000 ($19,000 after tax) (2022: $905,000 impairment expense ($905,000 after tax)) was included within the consolidated statement of profit or loss and other comprehensive income.

A6 EARNINGS PER SHARE (EPS)

Calculation methodology

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

EPS for profit attributable to ordinary shareholders of Lovisa Holdings Limited

	2023	**2022**
Basic EPS (cents)	63.25	54.33
Diluted EPS (cents)	61.94	54.07
Profit attributable to ordinary shareholders ($000s)	68,164	58,387
Weighted average number of ordinary shares for basic EPS (shares)	107,763,351	107,459,646
Weighted average number of ordinary shares and potential ordinary shares for diluted EPS (shares)	110,049,842	107,972,852

	2023	**2022**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	107,763,351	107,459,646
Adjustments for calculation of diluted earnings per share:		
- Options	89,878	513,206
- Performance rights	2,196,613	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	110,049,842	107,972,852

Information concerning the classification of securities

i) Options and performance rights

Options and performance rights granted to employees under the Lovisa Holdings Long Term Incentive Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required hurdles would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options and performance rights have not been included in the determination of basic earnings per share. Details relating to the options and performance rights are set out in note D3.

At 2 July 2023, no options and performance rights (2022: nil) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

A7 DIVIDENDS

The Board may pay any interim and final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

The following dividends were paid by the Company for the year.

Consolidated ($000s)	**2023**	**2022**
37.0 cents per qualifying ordinary share, 30% franked (2022: 18.0 cents, 50% franked)	39,898	19,343
38.0 cents per qualifying ordinary share, fully franked (2022: 37.0 cents, 30% franked)	40,976	39,760
	80,874	59,103

After the reporting date, the following dividends were proposed by the Board of Directors. The dividends have not been recognised as liabilities and there are no tax consequences.

Consolidated ($000s)	**2023**	**2022**
31.0 cents per qualifying ordinary share, 70% franked (2022: 37.0 cents, 30% franked)	33,428	39,760
	33,428	39,760

Consolidated ($000s)	**2023**	**2022**
Dividend franking account		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2022: 30%)	5,933	11,452

ASSET PLATFORM

This section outlines the key operating assets owned and liabilities incurred by the Group.

B1 TRADE AND OTHER RECEIVABLES

Recognition and measurement

Trade and other receivables are initially recognised at fair value and subsequently stated at their amortised cost using the effective interest method, less impairment losses.

Consolidated ($000s)	Note	2023	2022
Trade receivables		1,857	1,567
Deposits		3,496	2,092
Prepayments		4,809	4,322
Other receivables (i)		13,040	13,606
		23,202	21,587

(i) Other receivables include landlord fit-out contributions receivable.

Impairment of receivables

Recoverability of receivables is assessed monthly to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Significant receivables are individually assessed for impairment. Receivables with a short duration are not discounted.

B2 INVENTORIES

Recognition and measurement

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost includes the product purchase cost, import freight and duties together with other costs incurred in bringing inventory to its present location and condition using the weighted average cost method. All stock on hand relates to finished goods.

Costs of goods sold comprises purchase price from the supplier, cost of shipping product from supplier to warehouse, shrinkage and obsolescence. Warehouse and outbound freight costs are reported as distribution expenses. Inventories recognised as expenses during 2023 and included in cost of sales amount to $116,799,000 (2022: $80,253,000).

During 2023, inventories of $13,354,000 (2022: $8,439,000) were written down to net realisable value and included in cost of sales.

B3 PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of acquired assets includes estimates of the costs of dismantling and removing the items and restoring the site on which they are located where it is probable that such costs will be incurred.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

Depreciation and amortisation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life on all property, plant and equipment.

The residual value, the useful life and the depreciation method applied to an asset are re-assessed at least annually.

B3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the disposed asset and are recognised in the profit or loss in the year the disposal occurs.

Reconciliation of carrying amount

Consolidated ($000s)	Note	Leasehold improvements	Hardware and software	Fixtures and fittings	Total
Depreciation policy		Lease term	3 years	3 years	
Cost					
Balance at 28 June 2021		90,064	7,485	2,587	100,136
Additions		37,287	3,089	146	40,522
Disposals		(2,416)	(182)	-	(2,598)
Effect of movements in exchange rates		3,675	13	9	3,697
Balance at 3 July 2022		128,610	10,405	2,742	141,757
Balance at 4 July 2022		128,610	10,405	2,742	141,757
Additions		75,036	2,070	308	77,414
Disposals		(4,755)	(155)	(137)	(5,047)
Effect of movements in exchange rates		3,734	158	43	3,935
Balance at 2 July 2023		202,625	12,478	2,956	218,059

Consolidated ($000s)	Note	Leasehold improvements	Hardware and software	Fixtures and fittings	Total
Accumulated depreciation and impairment losses					
Balance at 28 June 2021		(50,121)	(6,183)	(1,720)	(58,024)
Depreciation		(14,611)	(2,461)	(541)	(17,613)
Impairment		(370)	-	-	(370)
Disposals		1,653	134	-	1,787
Effect of movements in exchange rates		(261)	(17)	(4)	(282)
Balance at 3 July 2022		(63,710)	(8,527)	(2,265)	(74,502)
Balance at 4 July 2022		(63,710)	(8,527)	(2,265)	(74,502)
Depreciation		(20,347)	(1,644)	(356)	(22,347)
Impairment		(1,086)	-	-	(1,086)
Disposals		2,676	125	126	2,927
Effect of movements in exchange rates		(1,593)	(64)	(5)	(1,662)
Balance at 2 July 2023		(84,060)	(10,110)	(2,500)	(96,670)
Carrying amounts					
At 27 June 2021		39,943	1,302	867	42,112
At 3 July 2022		64,900	1,878	477	67,255
At 2 July 2023		118,565	2,368	456	121,389

B4 RIGHT-OF-USE ASSET

The Group has leases for retail stores, offices and warehouse facilities. The leases run for a period of 3 to 10 years but may have extension options as described below.

Consolidated ($000s)	Note	Total
Cost		
Balance at 28 June 2021		230,452
Additions		39,311
Re-measurement of lease liabilities		14,860
Effect of movements in exchange rates		3,744
Balance at 3 July 2022		288,367
Balance at 4 July 2022		288,367
Additions		105,618
Re-measurement of lease liabilities		20,665
Effect of movements in exchange rates		11,831
Balance at 2 July 2023		426,481

Consolidated ($000s)	Note	Total
Accumulated depreciation and impairment losses		
Balance at 28 June 2021		(72,371)
Depreciation and impairment charges for the year		(43,131)
Effect of movements in exchange rates		(828)
Balance at 3 July 2022		(116,330)
Balance at 4 July 2022		(116,330)
Depreciation and impairment charges for the year		(51,866)
Impairments		1,183
Effect of movements in exchange rates		(3,727)
Balance at 2 July 2023		(170,740)
Carrying amounts		
At 27 June 2021		158,081
At 3 July 2022		172,037
At 2 July 2023		255,741

Accounting policy

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. It may subsequently be reduced by impairment losses and adjusted for certain remeasurements of the lease liability.

B4 RIGHT-OF-USE ASSET (CONTINUED)

Accounting policy (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The Group determines its incremental borrowing rate by adjusting its current borrowing rates with market specific interest rates obtained from external financing sources.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Variable lease payments: Leases may include variable lease payments, including payments that are variable based on a percentage of sales, depend on an index or rate, as well as variable payments for items such as property taxes, insurance, promotion spend, and other operating expenses associated with leased assets. Such variable lease payments are excluded from the calculation of the right-of-use asset and are recognised in the period in which the obligation is incurred.

Low value assets: The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets, such as office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Recognition and measurement

Additions to right-of-use assets represent leases for new stores. Right-of-use assets have been adjusted for the re-measurement of lease liabilities due to changes to existing lease terms, including extensions to existing lease terms. As a result of re-measurement adjustments exceeding the carrying value of the right-of-use asset, a gain of $614,000 has been recognised in Other Income in the statement of profit or loss and other comprehensive income during the year ended 2 July 2023 (2022: $1,696,000).

At 2 July 2023, the Group has executed leases for which the lease commencement date has not yet occurred. These leases have a duration of up to 10 years and once commenced will result in an increase in lease liabilities and right-of-use assets, on a total basis, of approximately $14,129,000 (2022: $35,332,000).

The Group has consistently applied the practical expedient for COVID-19 related rent concessions whereby it has not accounted for rent concessions that are a direct consequence of the COVID-19 pandemic as lease modifications. Rent concessions occur as a direct consequence of the COVID-19 pandemic if all the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- There is no substantive change to other terms and conditions of the lease.

The Group has recognised rent concessions that are a direct consequence of the COVID-19 pandemic of $306,000 in the statement of profit or loss and other comprehensive income for the year ended 2 July 2023 (2022: $2,539,000).

Expenses relating to variable lease payments not included in lease liabilities of $2,910,000 have been recognised in the statement of profit or loss and other comprehensive income for the year ended 2 July 2023 (2022: $9,849,000).

B5 INTANGIBLE ASSETS AND GOODWILL

Recognition and measurement

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortised.

Key Money

Key money represents expenditure associated with acquiring existing operating lease agreements for company-operated stores in countries where there is an active market for key money (e.g. regularly published transaction prices), also referred to as 'rights of use'. Key money is not amortised but annually tested for impairment. Key money in countries where there is not an active market for key money is amortised over the contractual lease period.

Consolidated ($000s)	Note	Key Money	Goodwill
Balance at 28 June 2021		2,117	2,261
Additions		-	-
Impairment		-	-
Amortisation		-	-
Effect of movements in exchange rates		(69)	(75)
Balance at 3 July 2022		2,048	2,186
Balance at 4 July 2022		2,048	2,186
Additions		191	-
Disposals		-	-
Impairment		(78)	-
Amortisation		(10)	-
Effect of movements in exchange rates		155	(218)
Balance at 2 July 2023		2,306	1,968

B6 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE A SETS AND INTANGIBLE ASSETS AND GOODWILL

Recognition and measurement
Impairment

The carrying amounts of the Group's goodwill and indefinite life intangibles are tested for impairment at each reporting period. Property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in line with the calculation methodology listed below.

Cash-generating units

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Goodwill is tested at the level at which it is monitored, identified by the Group as the country level. Key money is tested at the store level. Property, plant and equipment and right-of-use assets are tested at the store level when there is an indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. The Group uses value in use for the purposes of impairment testing, with the estimated future cash flows discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Sensitivity analysis is performed on this modelling by using a range of discount rates reflecting the potential risk of variability in the underlying forecasts or regional or market specific risks.

Cash flow forecasts

Cash flow forecasts are based on the Group's most recent plans and are based on expectations of future outcomes having regard to market demand and past experience, incorporating the factors noted in the Assumptions and Estimates Uncertainties section in Setting the Scene. For store level tests, cash flow forecasts are modelled for the length of the lease, identified as the essential asset for store CGUs. No terminal value is reflected in store level tests.

Discount rates

The Group applies a post-tax discount rate to post-tax cash flows. The post-tax discount rates incorporate a risk adjustment relative to the risks associated with the specific CGU (geographic position or otherwise), with a high and low range used to apply sensitivity analysis to the cash flow modelling.

Key assumptions for the impairment testing carried out at 2 July 2023

Stores with indicators of impairment at 2 July 2023 were identified in certain of the Group's markets, requiring more detailed testing for certain stores. The following key assumptions were utilised for this impairment testing:

- Discount rate by country applied based on a high and low range to provide sensitivity analysis. The discount rates applied to store tests in these countries were in the range of 10% to 15% pre-tax.
- Growth rate based on expected sales profile by market as detailed in the Assumptions and Estimation Uncertainties section in Setting the Scene, with a longer term growth rate assumption of 3% in relation to sales and costs to allow for inflationary impacts until the end of the lease term which is considered to be the essential asset. No terminal value is included in discounted cash flow modelling at store level.

As a result of this testing, an impairment expense of $2,075,000 was recognised for store fit-out and lease right-of-use assets (2022: $905,000 for store fit-out and lease right-of-use assets). Refer to notes B3, B4 and B5 for further detail.

Reversals of impairment
An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in previous years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. Prior years' impairment losses totalling $2,172,000 were reversed during the current year (2022: nil).

B7 TRADE AND OTHER PAYABLES

Recognition and measurement

Liabilities for trade payables and other amounts are carried at their amortised cost.
Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Consolidated ($000s)	**2023**	**2022**
Trade payables	19,075	21,971
Accrued expenses	20,602	25,426
	39,677	47,397

Trade payables are unsecured and are usually paid within 30 days of recognition.

B8 PROVISIONS

Recognition and measurement
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Consolidated ($000s)	**Site restoration**	**Return provision**	**Other provisions**	**Total**
Balance at 4 July 2022	6,810	508	1,065	8,383
Provisions made during the year	2,750	338	-	3,088
Provisions used during the year	(93)	(306)	(1,065)	(1,464)
Effect of movement in exchange rates	254	13	-	267
Balance at 2 July 2023	9,721	553	-	10,274
Current	1,860	553	-	2,413
Non-current	7,861	-	-	7,861
	9,721	553	-	10,274

(a) Site restoration

	Key Estimates
In accordance with the Group's legal requirements, a provision for site restoration in respect of make good of leased premises is recognised when the premises are occupied. The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period. Since the adoption of AASB 16 *Leases* from 1 July 2019, site restoration is now capitalised as part of the lease right-of-use asset and depreciated over the life of the lease term. For prior periods the amount of the provision for future restoration costs was capitalised as part of leasehold improvements and depreciated over the estimated useful life of the leasehold improvements. The unwinding of the effect of discounting on the provision was recognised as a finance cost.	Expenditure to settle the restoration obligation at the end of the lease term is based on the Group's best estimate of cost of restorations.

B9 EMPLOYEE BENEFITS

Recognition and measurement

Long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using high quality Australian corporate bond rates at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Consolidated ($000s)	2023	2022
Current		
Liability for annual leave	6,992	5,738
Liability for long-service leave	675	701
Non-Current		
Liability for long-service leave	339	287
Total employee benefit liabilities	8,006	6,726

For details on the related employee benefit expenses, see Note A3.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

B10 LEASE LIABILITIES

The Group has leases for retail stores, offices and warehouse facilities. The leases run for a period of 3 to 10 years but may have extension options as described below.

Consolidated ($000s)	Note	Total
Balance at 28 June 2021		200,687
Liability recognised during the period		48,903
Re-measurement of lease liabilities		13,319
Lease payments		(53,917)
Interest		5,550
Effect of movements in exchange rates		3,830
Balance at 3 July 2022		**218,372**
Balance at 4 July 2022		218,372
Liability recognised during the period		117,660
Re-measurement of lease liabilities		20,100
Lease payments		(68,574)
Interest		10,577
Effect of movements in exchange rates		9,452
Balance at 2 July 2023		**307,587**
Current lease liability		57,606
Non-current lease liability		249,981
		307,587

Accounting policy

Refer to note B4.

Recognition and measurement

Additions to lease liabilities represent leases for new stores. Lease liabilities have been re-measured due to changes to existing lease terms, including extensions to existing lease terms and exercise of break clauses.

The Group has executed leases for which the lease commencement date has not yet occurred and therefore the lease liability has not been recognised at 2 July 2023, refer to note B4.

The Group has applied the practical expedient whereby lease liabilities have not been re-measured for rent concessions that are a direct consequence of the COVID-19 pandemic, refer to note B4.

RISK & CAPITAL MANAGEMENT

This section discusses the Group's capital management practices, as well as the instruments and strategies utilised by the Group in minimising exposures to and impact of various financial risks on the financial position and performance of the Group.

C1 CAPITAL AND RESERVES

Recognition and measurement

Ordinary shares

Initially, share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(a) Share capital

	No. of Ordinary Shares		Value of Ordinary Shares	
	2023	**2022**	**2023**	**2022**
Share Capital	**'000's**	**'000's**	**'000's**	**'000's**
On issue at beginning of year	107,460	107,460	234,165	234,165
Shares issue to Employee Share Trust	372	-	7,519	-
On issue at end of year	107,832	107,460	241,684	234,165
Treasury Shares				
On issue at beginning of year	-	-	(20,288)	(20,288)
Shares issued to trust	(372)	-	(7,519)	-
Shares allocated on option exercise	372	-	260	-
	-	-	(27,547)	(20,288)
Share Capital After Treasury Shares	107,832	107,460	214,137	213,877

All ordinary shares rank equally with regard to the Company's residual assets.

(i) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of these shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company. All rights attached to the Company's shares held by the Group are suspended until those shares are reissued.

(ii) Treasury shares

Treasury shares are shares in Lovisa Holdings Limited that are held by the Lovisa Holdings Limited Share Trust for the purposes of issuing shares under the Long Term Incentive Plans. When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share capital.

C1 CAPITAL AND RESERVES (CONTINUED)

(b) Nature and purpose of reserves

(i) Common control reserve

The Group's accounting policy is to use book value accounting for common control transactions. The book value used is the book value of the transferor of the investment. Book value accounting is applied on the basis that the entities are part of a larger economic group, and that the figures from the larger group are the relevant ones. In applying book value accounting, no entries are recognised in profit or loss; instead, the result of the transaction is recognised in equity as arising from a transaction with shareholders.

The book value (carry-over basis) is accounted for on the basis that the investment has simply been moved from one Group owner to a new Group Company. In applying book value accounting, an adjustment may be required in equity to reflect any difference between the consideration received and the aggregated capital of the transferee. The adjustment is reflected in the 'common control reserve' capital account.

(ii) Translation reserve

The translation reserve reflects all foreign currency differences of the international entities upon translation to the Group's functional currency.

(iii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

(iv) Share-based payments reserve

The share-based payments reserve is used to recognise:
- the grant date fair value of options and performance rights issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

C2 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

C3 LOANS AND BORROWINGS

Recognition and measurement

Loans and borrowings are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in Note C4.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

					2 July 2023		3 July 2022	
Consolidated ($000s)	**Lender**	**Currency**	**Nominal interest rate**	**Year of maturity**	**Facility Limit**	**Amount Drawn**	**Facility Limit**	**Amount Drawn**
Cash advance facility	CBA	AUD	4.7%	2026	80,000	65,000	30,000	10,000
Multi-option facility - Overdraft and Trade Finance	CBA	AUD	0.6% + AUD BBSY Bid	2026	20,000	-	20,000	-
Revolving loan facility	HSBC	AUD	1.75% - 2.1% + AUD BBSY Bid	2026	20,000	-	-	-
Total interest-bearing liabilities					120,000	65,000	50,000	10,000

The Group holds the following lines of credit with the Commonwealth Bank of Australia (CBA):

- $80 million revolving cash advance facility (2021: $30 million)
- $20 million multi option facility available for overdraft, trade finance and a contingent liability facility for global letters of credit and bank guarantees (2021: $20 million).

The facilities were renewed during 2023 extending the maturity date of the facilities to 19 April 2026 (notwithstanding that individual products by virtue of their nature have their own maturity dates) and increasing the available credit limit as outlined above.

The bank loans are secured by security interests granted by Lovisa Holdings Limited and a number of its subsidiaries over all of their assets in favour of the Commonwealth Bank of Australia (CBA). Under the facility the Group has financial covenants and has been in compliance with these through the year ended 2 July 2023.

The Group holds the following lines of credit with the HSBC Bank Australia Limited (HSBC):

- $20 million revolving loan facility (2022: nil)
- $20 million bank guarantee facility for global letters of credit and bank guarantees (2022: $20 million)

The revolving loan facility was finalised in April 2023, and the bank guarantee facility was renewed at the same time, extending the maturity date of the facilities to 19 April 2026 (notwithstanding that individual products by virtue of their nature have their own maturity dates) and increasing the available credit limit as outlined above.

The HSBC facilities have been incorporated into the security deed for the CBA lending facilities. The financial covenants for the CBA facilities also apply to this facility.

In addition to the above facilities with CBA and HSBC, the Group holds lines of credit in certain of its overseas markets which are solely for the purpose of providing bank guarantees as security for store lease agreements.

Credit facilities for bank guarantees with ING Belgium (Euro 600,000) and Credit Suisse Switzerland (CHF 550,000) are subject to annual credit reviews. Facilities with other banks are secured either by standby letters of credit or restricted savings accounts, that is they are cash collateralised.

Refer to note D2(a) for guarantees outstanding at 2 July 2023.

C4 CASH FLOWS

Recognition and measurement

Cash and cash equivalents comprise cash balances, and cash in transit and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Consolidated ($000s)	**2023**	**2022**
Bank balances		
Cash and cash equivalents in the statement of financial position (i)	31,650	34,153
Bank overdrafts used for cash management purposes	-	-
Cash and cash equivalents in the statement of cash flows	31,650	34,153

(i) Includes $417,000 (2022: $460,000) of cash in savings accounts to collateralise bank guarantees.

Reconciliation of cash flows from operating activities

Consolidated ($000s)	**Note**	**2023**	**2022**
Cash flows from operating activities			
Profit after tax		68,164	58,387
Adjustments for:			
Depreciation		74,224	59,779
Impairment charges / (reversals)		(19)	905
Gain on remeasurement of lease liability		(614)	(1,696)
Loss on sale of property, plant and equipment		1,181	1,169
Share based payments		25,579	13,307
Fair value adjustment to derivatives	C4	78	(66)
Exchange differences		2,619	1,189
		171,212	132,974
Change in inventories		(9,884)	(16,003)
Change in trade and other receivables (i)		(2,656)	(1,271)
Change in tax receivables		586	(796)
Change in deferred tax assets (i)		(3,775)	(4,735)
Change in trade and other payables (i)		(8,454)	10,559
Change in current tax liabilities		(6,214)	9,316
Change in provisions and employee benefits (i)		349	515
Net cash from operating activities		141,164	130,559

(i) Net of changes in balances for non-operating activities.

OTHER INFORMATION

This section includes mandatory disclosures to comply with Australian Accounting Standards, the Corporations Act 2001 and other regulatory pronouncements.

D1 LIST OF SUBSIDIARIES

Set out below is a list of subsidiaries of the Group. All subsidiaries are wholly owned, unless otherwise stated.

Name	**Principal place of business**
Lovisa Australia Pty Ltd	Australia
Lovisa Pty Ltd	Australia
Lovisa Employee Share Plan Pty Ltd	Australia
Lovisa International Pte Ltd	Singapore
Lovisa Singapore Pte Ltd	Singapore
Lovisa Accessories Pty Ltd	South Africa
DCK Jewellery South Africa (Pty) Ltd	South Africa
Lovisa New Zealand Pty Ltd	New Zealand
Lovisa Malaysia Sdn Bhd	Malaysia
Lovisa UK Ltd	United Kingdom
Lovisa Global Pte Ltd	Singapore
Lovisa Complementos España SL	Spain
Lovisa America, LLC	United States of America
Lovisa France SARL	France
Lovisa Hong Kong Ltd	Hong Kong
Lovisa Germany GmbH	Germany
Lovisa Retail Germany GmbH	Germany
Lovisa Austria GmbH	Austria
Lovisa Belgium BV	Belgium
Lovisa Netherlands BV	Netherlands
Lovisa Switzerland AG	Switzerland
Lovisa Retail France SARL	France
Lovisa Luxembourg SARL	Luxembourg
Lovisa Canada Ltd	Canada
Lovisa Poland sp. Z o.o.	Poland
Lovisa Retail Mexico S.A. DE C.V.	Mexico
Lovisa Retail Namibia (Pty) Ltd	Namibia
Lovisa Italy S.R.L.	Italy
Lovisa Hungary Kft. (i)	Hungary
Lovisa Portugal, Unipessoal LDA (i)	Portugal
Lovisa Retail S.R.L. (i)	Romania
Lovisa Ireland Limited (i)	Ireland
Lovisa Taiwan Limited (i)	Taiwan

Lovisa (Shenzhen) Retail Company Ltd (i)	China
Lovisa Macau Limited (i)	Macau
Lovisa Botswana Propietary Limited (i)	Botswana
Lovisa Fashion Accesories L.L.C. (i)	United Arab Emirates
Lovisa Vietnam Company Limited (i)	Vietnam

(i) This entity was incorporated during the year.

D2 COMMITMENTS AND CONTINGENCIES

(a) Guarantees

The Group has guarantees outstanding to landlords and other parties to the value of $15,241,000 at 2 July 2023 (2022: $13,148,000).

(b) Capital commitments and contingent liabilities

The Group is committed to incur capital expenditure of $6,673,000 at 2 July 2023 (2022: $1,203,000). There are no contingent liabilities that exist at 2 July 2023 (3 July 2022: none).

D3 SHARE-BASED PAYMENT ARRANGEMENTS

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(a) Descriptions of the share-based payment arrangements and performance rights

The Board has issued share options and performance rights programmes that entitle key management personnel and senior management to acquire shares in the Company. Under these programmes, holders of vested options are entitled to purchase shares at the relevant exercise price at the grant date. Currently, these programmes are limited to key management personnel and senior management.

All options and performance rights are to be settled by physical delivery of shares.

At 2 July 2023 the Group has the following share-based payment arrangements:

(i) Share options and rights programmes (equity-settled)

Share Option Programme	*Grant date*	**Number of instruments (000's)**	**Exercise Price ($)**	**Contractual life of options**	**Vesting conditions**
Options granted					
FY 2021 LTI	October 2020	100	$7.15	3 years	Refer Performance Options granted table below
		100			

Performance Options granted to other Executives

Company's EBIT for the financial year ending 2 July 2023	% of LTI Options that vest and become exercisable
Less than $85m	Nil
$85m - $90m	20% awarded
$90m - $95m	35% awarded
$95m - $100m	50% awarded
$100m - $105m	75% awarded
$105m +	100% awarded

D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

(a) Descriptions of the share-based payment arrangements and performance rights (continued)

(i) Share options and rights programmes (equity-settled) (continued)

Long Term Incentives - Annual Programmes (FY 2022)

Programme	*Grant date*	Number of instruments (000's)	Exercise Price ($)	Contractual life of rights	Vesting conditions
Granted					
FY 2022 LTI (CEO FY22 Tranche 2)	November 2021	1,743	-	1 year	Refer CEO Performance Rights granted table below
FY 2022 LTI (Exec FY22)	August 2021	60	$14.37	3 years	Refer Executive Performance Options granted table below
		1,803			

400,000 Performance Rights granted to the CEO under the CEO FY22 Tranche 1 Grant were approved at the Company's AGM on 22 November 2021. During the fianncial year, 347,671 vested Tranche 1 rights were exercised with the remaining 52,329 lapsing unvested. In July 2022, a further 1,742,857 rights were granted to the CEO under the CEO FY22 Tranche 2 Grant. Subsequent to the end of the finanical year, the Board have determined that all of these Performance Rights have vested.

Performance Rights Granted to the CEO (FY22 Tranche 2 Grant)

Company's EBIT (pre LTI) for the financial year ending 2 July 2023	% of Performance Rights that vests and become exercisable
$90.0m to $95.0m	7% to 11%
$95.0m to $100.0m	11% to 18%
$100.0m to $110.0m	18% to 29%
$110.0m to $115.0m	29% to 43%
$115.0m to $120.0m	43% to 64%
$120.0m to $130.0m	64% to 100%
$130.0m +	100%

Performance Options Granted to Other Executives

Company's EBIT for the financial year ending 30 June 2024	% of Performance Options that vests and become exercisable
Less than $90m	Nil
$90.0m to $95.0m	20% awarded
$95.0m to $100.0m	35% awarded
$100.0m to $110.0m	50% awarded
$110.0m - $120.0m	75% awarded
> $120.0m	100% awarded

Long Term Incentives - Annual Programmes (FY 2023)

Performance Right Programme	*Grant Date*	Number of Instruments (000's)	Exercise Price ($)	Contractual Life of Rights	Vesting Conditions
Performance Rights Granted					
FY 2023 LTI (Executive Tranche 1)	September 2022	17,919	-	1 Year	Refer Performance Rights Granted table below
FY 2023 LTI (Executive Tranche 2)	September 2022	17,919	-	2 Years	Refer Performance Rights Granted table below
FY 2023 LTI (Executive Tranche 3)	September 2022	17,919	-	3 Years	Refer Performance Rights Granted table below
		53,757			

D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

(a) Descriptions of the share-based payment arrangements and performance rights (continued)

(i) Share options and rights programmes (equity-settled) (continued)

During the financial year, 53,757 performance rights were granted to Executives. Subsequent to the end of the financial year, the Board have determined that all of the Tranche 1 Executive Performance rights above have vested.

Tranche	*End of Performance Period*	**Primary Performance Hurdle***	**Secondary Performance Hurdle**
Tranche 1	2 July 2023	Growth in Company EBIT for FY23 of between 17.5% (20% vesting) to 30% (100% vesting) over FY22 (FY23 EBIT Hurdle)	Continued employment at the vesting date
Tranche 2	30 June 2024	Growth in Company EBIT for FY23 of between 17.5% (20% vesting) to 30% (100% vesting) over FY22 (FY23 EBIT Hurdle)	Continued employment at the vesting date
Tranche 3	29 June 2025	Growth in Company EBIT for FY23 of between 17.5% (20% vesting) to 30% (100% vesting) over FY22 (FY23 EBIT Hurdle)	Continued employment at the vesting date

* The FY23 EBIT Hurdle is calculated based on growth on FY22 Statutory EBIT adjusted to remove the 53rd week of trading in FY22 to ensure comparability between periods. Once the FY23 EBIT Hurdle performance has been determined and the resulting vesting percentage determined for Tranche 1, this vesting percentage will also be applied to Tranche 2 and 3 assuming continued employment at the vesting date for each of those tranches.

(b) Measurement of fair values

(i) Equity-settled share-based payment arrangements

The fair value of the employee share options (see (a)(i)) have been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the transactions were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

	FY2021 LTI	**FY2022 LTI (EXEC)**
Fair value at grant date	$1.25	$2.50
30 day VWAP share price at grant date	$7.15	$14.37
Exercise price	$7.15	$14.37
Expected volatility (weighted-average)	33.70%	33.70%
Expected life (weighted-average)	3 years	3 years
Expected dividends	3.50%	3.50%
Risk-free interest rate (based on government bonds)	0.25%	0.22%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price.

For the FY22 CEO Tranche Performance Right grant, the fair value of each right was determined based on the 30 day VWAP of Lovisa shares as of 4 July 2022 of $14.00. These Performance Rights have dividend entitlements once vested. For the FY23 Executive Performance Right grant, the fair value of each right was determined based on the 30 day VWAP of Lovisa shares as of 4 July 2022 of $14.00.

D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

(c) Reconciliation of outstanding share options/rights

The number and weighted average exercise prices of share options and performance rights under the share options and rights programmes were as follows.

	Number of rights 000's	Rights weighted average remaining life	Number of options 000's	Options weighted average exercise price $	Options weighted average remaining life
Outstanding at 4 July 2022	400	0.2 years	262	10.15	1.3 years
Granted during the year	1,797	-	-	-	-
Forfeited during the year	(52)	-	(78)	10.60	-
Exercised during the year	(348)	-	(25)	10.60	-
Outstanding at 2 July 2023	1,797	0.2 years	160	9.86	0.9 years
Exercisable at 2 July 2023	1,754	-	100	7.15	
Outstanding at 28 June 2021	-	-	5,113	9.92	1.0 years
Granted during the year	400	-	150	14.37	-
Forfeited during the year	-	-	(5,001)	9.92	-
Exercised during the year	-	-	-	-	-
Outstanding at 3 July 2022	400	0.2 years	262	10.15	1.3 years
Exercisable at 3 July 2022	348	-	25	10.60	

(d) Expenses recognised in profit or loss

For details on the related employee benefit expenses, see Note A3.

D4 RELATED PARTIES

(a) Parent and ultimate controlling party

Lovisa Holdings Limited is the parent entity and ultimate controlling party in the Group comprising itself and its subsidiaries. Subsidiaries of the Group are listed in note D1.

(b) Transactions with key management personnel

(i) Key management personnel compensation

The key management personnel compensation comprised the following:

Consolidated ($000s)	**2023**	**2022**
Short-term employee benefits	3,239	3,905
Post-employment benefits	48	56
Share based payment	25,414	13,205
Termination benefits	-	-
Other long term benefits	2,533	4,288
	31,234	21,454

Compensation of the Group's key management personnel includes salaries and non-cash benefits (see Note A3).

Detailed remuneration disclosures are provided in the Remuneration report on pages 21 to 29.

(ii) Key management personnel and Director transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or joint control over these companies. There were no transactions or balances outstanding from these related parties during the period or at 2 July 2023 except for those disclosed in note D4 (c) (3 July 2022: nil).

D4 RELATED PARTIES (CONTINUED)

(c) Other related party transactions

	Transaction values for the year ended		Balance outstanding as at	
Consolidated ($000s)	**2 July 2023**	**3 July 2022**	**2 July 2023**	**3 July 2022**
a) Expenses				
Expense recharges	231	172	-	-
b) Sales				
Recharges	-	-	-	-

Included in expenses in the period is $150,000 relating to Directors fees for Brett Blundy in his capacity as Director and Chairman of the Company. Transactions between the Lovisa Group and BB Retail Capital (BBRC) and its related parties have been disclosed above due to BBRC continuing to be in a position of holding significant influence in relation to the Group, with representation on the Board of Directors. Lovisa has, and will continue to benefit from the relationships that its management team and BBRC have developed over many years of retail operating experience. During the year, BBRC has recharged expenses relating to travel and conferences attended by Lovisa executives. Expense recharges are priced on an arm's length basis. The Group will continue to utilise BBRC's retail operating experience on an arm's length basis.

All outstanding balances with other related parties are priced on an arm's length basis and are to be settled in cash within two months post the end of the reporting year. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.