ASX Announcement

21 February 2024

Lynch beats guidance on strong 1H revenue and EBITDA margin recovery

Lynch Group Holdings Limited (ASX:LGL) ('Lynch' or 'the Group'), Australia and China's leading vertically integrated wholesaler and grower of flowers and potted plants announces its half year results for the 6 months ended 31 December 2023 (1H FY24).

1H FY24 Key Metrics:

- **Revenue of $186.6m**, up 3% on 1H FY23, or 6% excluding an additional week in the prior year, and at the top-end of guidance, due to continued demand in the Australian supermarket channel, partially offset by weaker pricing in China
- **EBITDA of $16.7m**, up 28% on 1H FY23, beating guidance on continued profit recovery initiatives in Australia, and lower China performance attributable to weaker year on year pricing
- **NPATA of $2.2m**, up 54% on 1H FY23
- Australia revenue up 4% on 1H FY23, excluding additional week in the prior year, underpinned by consistent consumer demand via the supermarket channel
- China revenue down 8% reflecting a mix of lower domestic and export pricing, on higher farm production volumes
- Non-cash impairment charge against China goodwill of $30.1m, with the Group's confidence in the medium to long term outlook and commitment to China unchanged
- Cash conversion of 66% compared to 37% in 1H FY23 with seasonal unwind of working capital deficit expected in 2H
- Interim dividend reinstated for 1H FY24 with 4.0 cents fully franked dividend declared

Hugh Toll, Chief Executive Officer, commented: *"We are pleased to report improved first half Group EBITDA performance exceeding guidance, with consistent consumer demand in Australia and soft economic conditions in China.*

In Australia, revenue growth remained resilient despite generally more cautious patterns of consumer spending. Australian first half EBITDA performance improved strongly, supported by margin recovery initiatives across procurement, freight and labour.

In China, despite higher farm production volumes, we experienced revenue declines due to lower local and export pricing. Local pricing has been affected by softening consumer confidence and demand for discretionary items, and export pricing by the pass through of reduced freight rates. China's first half decline in EBITDA reflects this pricing dynamic.

Looking ahead, we expect revenue performance in Australia to be underpinned by the stability of the supermarket floral category, while EBITDA margins continue to recover. In China, EBITDA margins are exposed to ongoing macroeconomic conditions, with volumes expected to continue to be strong, and revenue growth to be dependent on improved pricing."

Financial Overview

1H FY24 produced a solid revenue performance, at the top end of guidance, with growth in Australia from consistent underlying consumer demand for floral product, offset by declines in China due to lower pricing on higher volumes. Group EBITDA of $16.7m exceeded guidance due to continued profit recovery initiatives in Australia and stabilisation of international freight rates, offset by weak consumer confidence and softening economic conditions in China. NPATA of $2.2m was up 54% on 1H FY23 despite an increase in depreciation from capital investment and higher interest charges on debt. Cash conversion was 66%, with seasonal unwind of 1H working capital deficit expected in 2H. Interim dividend reinstated for 1H FY24 with 4.0 cents fully franked dividend declared.

China Goodwill Impairment

The Group's first half results recorded a non-cash impairment charge against China's carrying value of goodwill of $30.1m. The impairment charge reflects a review of recent volatility in the Group's earnings in China and current weakness in market demand and pricing, resulting in the application of higher discount rates to unchanged underlying assumptions for China's medium to long term growth and returns. The impairment charge represents a write-down against the FY23 year-end goodwill balance for the China Group of $58.7m. The Group's confidence in the positive medium to long-term outlook for the China floral industry remains unchanged.

Operational Overview

Australia

Australia revenue was up 3.9% on 1H FY23 (up 1.3% including additional week in FY23) underpinned by stable consumer demand for floral product and a strong performance in the Group's sale or return store network. Revenue from the wholesale market channel declined with florist demand impacted by lower consumer spending. EBITDA was up 78.5%, with margin recovery initiatives across procurement, freight and labour delivering improved results. Key customer events (Spring and Christmas) were successfully delivered in full with strong sell through. Sale or return store numbers remained consistent at c. 25% of the Group's store network.

Heading into 2H FY24, underlying supermarket customer demand remains stable with the first seven weeks of the half flat on the same period in FY23, cycling a strong January result last year, and wholesale demand from florists has stabilised at a lower base. International airfreight rates remain stable, albeit with increased risk from the current geopolitical situation. Sea freight has experienced disruptions at Australian ports, requiring a short-term switch to airfreight on some routes.

China

In China, revenue declined 7.5% on 1H FY23 on lower domestic pricing, down 4% on 1H FY23 (down 33% on 1H FY22) on higher domestic volumes. First half pricing was adversely affected by weakening consumer confidence and demand for discretionary items. Export pricing also reduced, reflecting periodic freight reductions. Production volumes and costs remained on track, with volumes increasing due to prior period expansion works, and major costs were well controlled. Production capacity increased by 1.0ha during 1H FY24, bringing the total productive area to 83ha, as expansion works were moderated to reflect current market conditions. The Group's Guangzhou site recently became operational, allowing for development of additional customer channels and reach.

Heading into 2H FY24, consumer confidence and spending remains weak for discretionary items, with both domestic rose and tulip pricing tracking c.30% below the strong pricing achieved following the re-opening of China in the same period in FY23. Operational execution remains well managed, efficiently handling record volumes across production and all sales channels. An additional 1.0ha of production space is expected to be developed in 2H FY24 to bring the total production area to 84ha. The Group remains confident in the medium to long-term outlook for the China floral market.

Outlook

Hugh Toll, Chief Executive Officer, commented: *"I am pleased with how the Group is performing in Australia heading into 2H FY24 with stable underlying consumer demand for floral product. International airfreight rates remain stable, albeit set against increased geopolitical risk in the Middle East, whilst improved labour availability continues. In China, consumer confidence and discretionary spending remains weak. Pleasingly, we have experienced higher demand across recent major events although pricing has remained below prior year levels. Further farm expansion works are being carefully considered, and building further processing and distribution capacity into new sites in other Tier-1 cities is a priority."*

The FY24 Outlook for the Group is expected to be:

Group FY24 Revenue

- Australia 2H FY24 revenue growth expected to follow 1H FY24 trends of 4%
- China 2H FY24 revenue expected to decline year on year, reflecting lower domestic pricing against prior year levels due to a continuation of low consumer confidence impacting demand

Group EBITDA range $40m - $43m

- Australia continued margin recovery across 2H FY24 which includes key higher revenue events
- China 2H FY24 EBITDA to decline year on year reflecting forecasted price declines against prior year

Depreciation is expected to increase from capital investment (especially China growth) and right-of-use depreciation and interest charges are expected to increase due to RBA interest rate increases throughout FY23.

Further guidance on trading conditions expected to be provided following the Mother's Day event in May 2024.

Authorised for release by the Board of Lynch Group Holdings Limited

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