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FY19 Full Year Results Announcement
Revenue up 15.3% following opening of 64 net new stores
NPAT up 3.0% to \$37.0m

- Revenue increased by 15.3% to \$250.3m
- Gross Margin lift to 80.5% with Gross Profit up 16.0% to \$201.4m
- EBIT increased by 2.8% to \$52.5m
- Comparable store sales down 0.5% for the full year
- 64 net new stores opened during the year, 390 at year end
- Cash conversion of 107% with operating cash flow of \$66.7m
- Fully Franked Final Dividend of 15.0 cents per share

Results Highlights

| (A\$m) | FY19 Actual | FY18 Actual | Variance |
|----------------------|----------------|----------------|------------|
| Revenue | 250.3 | 217.0 | +15.3% |
| Gross profit | 201.4 | 173.6 | +16.0% |
| EBITDA | 62.3 | 58.2 | +7.1% |
| EBIT | 52.5 | 51.1 | +2.8% |
| NPAT | 37.0 | 36.0 | +3.0% |
| EPS (cents) | 35.1 | 34.2 | +0.9 cents |
| Final dividend (cps) | 15.0 | 14.0 | +1.0 cents |

Managing Director Shane Fallscheer said, “We are pleased that we have been able to continue the momentum of our store rollout through to the second half which has again delivered us strong top line sales growth despite more challenging trading conditions, particularly in the first half, which contributed to negative comparable store sales for the year”.

“The company has been able to continue to invest into the operational structures to support our global expansion ahead of the growth curve while still continuing to deliver profit growth, and pleasingly we have seen improved comparable store sales in the second half of FY19 and early in FY20”.

Results

Revenue was \$250.3m up 15.3% on FY18 with growth delivered across most markets, benefiting from strong growth in store numbers. This was offset by a decline in comparable store sales of 0.5% across the group impacted by more challenging trading conditions and cycling comparable store sales of +7.4% for the first half of FY18, with positive comparable store sales delivered in the second half.



Whilst we are generally happy with our execution of meeting customer needs in product and in store execution for the year, we have not seen the same major trends in the fashion jewellery sector as we have seen in recent years that have helped drive strong comparable store sales in prior years consistently above our target growth range.

Growth in the European and US markets accelerated during the year, with 14 new stores opened for the year in the UK, 9 stores now trading in Spain, 8 in France and 19 in the US. South Africa performed well, with sales up 9.6% for the year aided by additional stores opened as well as continued comparable store sales growth.

Whilst still delivering top line growth in the Australia/NZ market, Australia in particular was impacted by generally softer trading conditions, and combined with this market having outperformed over recent years resulted in negative comparable store sales for the year. Asia was slightly down on prior year with the impact of net 4 store closures in Singapore and the impact of increased competition in that market, offsetting another solid year from Malaysia.

Gross Margin increased 50bps to 80.5% as we continued to benefit from higher USD hedge rates across the year. We have maintained our focus on margin, with continued focus on inventory management and promotional effectiveness resulting in a small improvement in margin on a constant currency basis in spite of the more challenging trading conditions. Gross Profit increased by \$27.8m to \$201.4m, up 16.0%.

The business has continued to make important investments into both people and process to drive the growth of the store network and to support what is an increasingly globalised business, which when combined with negative comparable store sales growth and higher store operating costs in growth markets as we build scale, has resulted in CODB% being higher than last year at 55.6%.

CODB for the financial year also includes the investment made into relocation of the Hong Kong Distribution Centre to Qingdao, China, as well as the investment made into the rollout of our eCommerce platform which launched in October 2018 into the Australian and New Zealand markets as well as the UK and Europe launched in July 2019.

We continue to invest ahead of the growth curve to lay the foundations for future growth, while still remaining focused on keeping tight control of the underlying cost structure of the business.

Cashflow was again strong with cash from operations before interest and tax of \$66.7m, supported by operating cash conversion at 107% as we continue to manage our working capital well in the face of the ongoing investment into stock for new stores and to support eCommerce.

Capital expenditure increased by \$8.9m to \$24.1m primarily driven by new store openings net of landlord contributions, with an increased number of stores opened in the period and higher capex per store as we expand in higher cost markets where we are yet to build scale. It also includes refurbishments of current stores upon lease renewals and key money paid. The significant increase in capital expenditure for the period has resulted in a 38% increase in depreciation expense to \$9.8m.

Cash dividends in the period were \$12.1m higher than prior year at \$33.8m as a result of the increased dividend payments over the past year as the business returned surplus cash to shareholders, resulting in net cash outflow of \$10.4m and closing net cash on hand of \$11.2m, with \$25 million of financing facilities available (and additional \$15m acquisition finance facility, subject to bank due diligence). This provides significant capacity to continue to fund the ongoing store growth program, and has allowed the Directors to maintain the increased final dividend level from prior year, and increase it slightly to 15 cents per share as the FY19 final dividend.



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

Store Growth

The key driver of future growth for Lovisa is the continued international store roll out. The store network increased to 390 stores as at the end of the financial year, a net increase of 64 stores from June 2018, with 70 new stores opened and 6 stores closed as well as 12 relocations as part of our ongoing store network optimization process. An update on the status of our newest markets is included below.

| Store growth in FY19 | | | |
|-----------------------------|-------------------------------|-------------------------------|-----------------|
| | FY19 Store numbers | FY18 Store numbers | Variance |
| Australia | 154 | 151 | 3 |
| New Zealand | 22 | 20 | 2 |
| Singapore | 18 | 22 | (4) |
| Malaysia | 25 | 21 | 4 |
| South Africa | 61 | 56 | 5 |
| UK | 38 | 24 | 14 |
| Spain | 9 | 5 | 4 |
| France | 8 | 2 | 6 |
| USA | 19 | 1 | 18 |
| Middle East | 28 | 18 | 10 |
| Vietnam | 8 | 6 | 2 |
| Total | 390 | 326 | 64 |

USA

During the financial year we were able to increase the momentum of our store rollout in the US market, with 18 new stores opened for the period across 3 states. After starting our store rollout in California, this has now expanded to Texas and Florida and since the end of the financial year we have opened our first store in Chicago, Illinois. The US represents a significant opportunity, however we will continue with our cautious and disciplined approach with the eventual size and timing of the store rollout dependent as always on the delivery of quality stores rather than hitting store number targets. As previously noted, operating costs in this market have been higher than some of our other markets so far, in particular new store build costs, which has had an impact on overall company cost of doing business and depreciation expense to date.

Europe

During the financial year we were able to open a further 14 new stores in the UK market, taking the total to 38 stores at year end, however progress slowed during the second half with only 2 new stores opening. Our continued focus on only signing quality sites at appropriate rents has meant that progress has been slow, however we do not intend to change



this approach and therefore expect to continue to see an inconsistent pace of rollout. To further support this market we launched our UK website, Lovisa.uk, in July 2019 to support our omni-channel customer experience across both the UK and Europe.

As disclosed previously, trading from our first 8 stores in Spain was inconsistent and not in line with our expectations, and as a result rollout has been slowed until we are satisfied that the market will be able to deliver required sales levels to achieve our investment hurdles. Whilst we have opened one new store in the second half and have seen some improved performance recently both from a sales and operational execution level, we remain cautious on this market.

We were able to accelerate our store rollout in France during the year following pleasing performance from our initial stores, finishing the year with 8 stores trading, with a further 2 stores opened since financial year end. We have a leasing manager in place in France to support the growth of this market, and again we will not sacrifice quality of stores or our operating metrics to deliver on a store number target. As with the US, our experience in France to date has been that operating costs have been higher than our average, and store rollout slower than we are used to, which has had an impact on overall company cost of doing business during the financial year.

Operational Update

We continue to focus on investment in people and processes to ensure we remain efficient as we grow and able to execute on our strategic plans. During the first half of the financial year we appointed a number of important senior roles to the business and have continued to invest into our leasing team and regional store management in our growth regions.

Some of the key operational and IT changes completed during the period are:

- We have moved our third party logistics hub from Hong Kong to Qingdao, China to find economies in the picking and packing of orders and to be closer to our suppliers;
- We have changed our logistics provider in order to deliver a more efficient supply chain;
- We have upgraded our in-store point of sale hardware and software to ensure we can cater for global languages and integrated EFTPOS to all regions;
- We have changed our global store labour management and rostering systems to ensure that we can effectively manage the growing workforce we have across our 9 company owned territories and 3 different languages; and
- We have replaced our global Finance system, again to ensure that our systems and processes are able to keep pace with our growth profile.

In addition, we launched the Lovisa.com eCommerce website in October 2018 in the Australian and New Zealand markets, and the UK/EU market via Lovisa.uk in July 2019, and continue to refine our omni-channel operating model before launching to further markets globally.



Trading Update and Outlook

Trading since the end of the financial year has seen a continuation of the improvement seen in the second half, with positive comparable store sales for the period back within our target comparable store sales range of 3 – 5%. Currency headwinds have begun to have an impact and will continue to do so through FY20 as our average USD hedge rate is expected to fall below US\$0.70. We continue our focus on expanding our store network, and expect the increase in number of stores for FY20 to be higher than in FY19, with 14 net new stores opened since the end of FY19 taking the store network to 404. We also expect to continue to invest in our support structures, in particular in the USA, to support store network growth and the larger business.

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