Lovisa Holdings Limited
ACN 602 304 503
Level 1, 818 Glenferrie Road
Hawthorn VIC 3122

t +61 3 9831 1800
f +61 3 9804 0060
e info@lovisa.com

lovisa.com

FY20 Half Year Results Announcement
Revenue up 22.2% following opening of 49 net new stores
NPAT[1] up 9.1% to $27.8m

- Revenue increased by 22.2% to $162.8m
- Gross Margin 79% with Gross Profit up 19.1% to $128.5m
- EBIT[1] increased by 10.7% to $40.4m
- Comparable store sales up 2.1% for the half year
- 49 net new stores opened during the period, 439 at half year end
- Cash conversion of 98% with operating cash flow[1] of $46.0m
- Fully franked interim dividend of 15.0 cents per share

Results Highlights

(A$'m)	1HFY20[1] (pre AASB 16)	1HFY19 (pre AASB 16)	Variance
Revenue	162.8	133.2	+22.2%
Gross profit	128.5	107.8	+19.1%
EBITDA	46.7	40.7	+14.6%
EBIT	40.4	36.5	+10.7%
NPAT	27.8	25.5	+9.1%
EPS (cents)	26.3	24.2	+2.1 cents
Final dividend (cps)	15.0	18.0	-3.0 cents

Managing Director Shane Fallscheer said, "We are pleased with the momentum of the store rollout during the period which has again delivered us strong top line sales growth, and despite the investment required to deliver this growth we have also managed to deliver solid growth in profit".

Results

Revenue was $162.8m up 22.2% on 1H19 with comparable store sales growth of +2.1% for the period combined with strong growth in store numbers delivering growth across most markets.

Growth in the European and US markets continued during the period, with 4 new stores opened for the period in the UK, 10 in France and 21 in the US. South Africa continued to perform well, with sales up 15.9% for the period aided by additional stores opened as well as continued comparable store sales growth.

[1] Financial metrics used throughout this document represent the financial performance of the company excluding the impact of the new lease accounting standard AASB 16 to ensure comparability with HY19 comparatives, which have not been restated for this change. A reconciliation between the previous accounting standard and the new standard is included in the Lovisa HY20 Results Presentation.

The Australia/NZ market delivered strong sales growth for the period, benefiting from positive comparable store sales combined with growth in the online business. Asia was down on prior period with the impact of store closures in Singapore in FY19 and generally slower sales in both Singapore and Malaysia.

Gross Margin decreased 200bps to 79% as we saw the impact of lower USD purchase rates across the period. Whilst we took action on prices globally to combat the impact of the lower Australian dollar, we were targeted in our approach to ensure that we were able to maintain our brand proposition for our customers, and therefore were not able to offset the full impact on gross margin of the currency movement. Gross Profit increased by 19% to $128.5m.

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. The rollout of stores in new regions has continued to have an impact on Cost of Doing Business (CODB) with higher operating costs in the newer markets, however we have been able to deliver on some efficiencies in this area which has helped to keep our CODB in line with the prior period at 50% to sales. We expect these newer markets to continue to operate at a slightly higher CODB than our more mature markets, however remain focused on delivering further efficiencies across the business to manage this.

Cash flow was again solid with cash from operations before interest and tax of $46m and operating cash conversion close to 100% as we continue to manage our working capital well in the face of the ongoing investment into stocking out new stores.

Capital expenditure for the period was $19.8m predominantly from new store fit outs and refurbishments on existing stores upon lease renewal. Overall this represents a $7.3m increase on the prior period as we build scale and grow the store network in new markets with higher store build costs. The significant increase in capital expenditure for the current and prior periods has resulted in a 48% increase in depreciation expense to $6.2m for the half year.

Our continued strong balance sheet position has enabled the Board to declare a 15 cent interim dividend, a 3 cent reduction on prior year reflective of the higher dividend payout ratio applied in prior year to distribute surplus cash to shareholders.

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 rollout. The store network increased to 439 stores as at the end of the half year, a net increase of 49 stores from June 2019.

	Store growth in 1HFY20				
	1HFY20 Store numbers	FY19 Store numbers	1HFY19 Store numbers	Variance FY19	Variance 1HFY19
Australia	155	154	155	1	-
New Zealand	23	22	20	1	3
Singapore	20	18	18	2	2
Malaysia	27	25	22	2	5
South Africa	62	61	61	1	1
UK	42	38	36	4	6
Spain	9	9	8	-	1
France	18	8	7	10	11
USA	40	19	8	21	32
Middle East	35	28	24	7	11
Vietnam	8	8	7	-	1
Total	**439**	**390**	**366**	**49**	**73**

The rollouts in the US and France continued with 18 stores now trading in France at the end of the half and 40 in the US across multiple states, and a strong pipeline of new stores.

As we have said previously, sourcing quality sites is key and we will take a measured and diligent approach to moving forward in any market we enter.

Operational Update

We continue to focus on improving the structure of the business and the way each department operates to best support our growth strategy, including a number of senior appointments in the US market to support our expansion.

We were also able to execute on the rollout of piercing services across all of our markets during the period, with close to 300 of our company owned stores now offering this service and a great customer response to date.

Since the end of the half year, we have severed the relationship with our Vietnam master franchisee and are currently in negotiations with new partners to take over this market.

We have also been back trading online for over a year in Australia and New Zealand and are starting to gain some traction in this channel. We have also launched e-commerce into the UK/Europe as well as Singapore.

Trading Update and Outlook

Trading for the month of January was in line with that achieved in the first half with comparable store sales at +2.1%, however with the impact on store traffic from the publicity surrounding the Coronavirus, we have seen a slowing of trading performance with second half comparable store sales now at -0.7% and YTD at +1.7%, with our Singapore and Malaysian markets the most impacted.

As a fast fashion business we are reliant on our China-based supply chain to ensure continued stock availability, replenishment and newness for our customers, and with the majority of our product originating from China we are feeling the impact of the ongoing containment efforts being undertaken by the Chinese government to combat Coronavirus via:

- Delays in our warehouse that replenishes the Northern Hemisphere and South African markets which is only now ramping back up to capacity after the extended Chinese New Year break; and
- Delays in factories coming back to full production.

We expect to see further impacts on sales over coming months as a result of these factors, however the size of any impact cannot currently be reliably estimated and is heavily dependent on the length of time of the current disruptions in China. We are focused on doing all we can to work with our suppliers to maintain stock levels in our stores and minimise the impact on our business.

In addition to this disruption, currency headwinds will continue to have an impact on gross margins through the remainder of FY20 as our average USD purchase rate is expected to drop below US$0.70.

We continue our focus on expanding our store network and continue to expect the increase in number of stores for FY20 to be higher than in FY19. We have opened 3 new stores since the end of December 2019, taking the store network to 442.

We will continue to invest in our support structures, particularly in the USA, to support store network growth and the larger business, and will continue to review opportunities in new markets.

Authorised by the Board.

For further enquiries please contact:

Shane Fallscheer
Managing Director
03 9831 1800

Chris Lauder
Chief Financial Officer
03 9831 1800