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FY20 Full Year Results Announcement
Profits impacted by COVID-19, strong Balance Sheet maintained

- 66 new stores opened during the year, 435 at year end
- Net Cash of $20.4m with debt facilities refinanced
- Revenue down 3.2% to $242.2m due to COVID-19 impact
- Comparable store sales down 5.5% for the year after +2.1% in 1H20
- Gross Margin 79.0% on constant currency basis with Gross Profit down 7.0% to $187.3m
- EBIT[1] decreased by 41.6% to $30.6m
- Cash conversion of 115% with operating cash flow[1] of $51.7m
- Deferred Interim Dividend of 15.0 cents per share to be paid as planned

Results Highlights

(A$'m)	FY20[1] (pre AASB 16)	FY19 (pre AASB 16)	Variance
Revenue	242.2	250.3	-3.2%
Gross profit	187.3	201.4	-7.0%
EBITDA	44.7	62.3	-28.3%
EBIT	30.6	52.5	-41.6%
NPAT	19.3	37.0	-47.8%
EPS (cents)	18.2	35.1	-16.9c
Net Cash	20.4	11.2	+$9.2m

Managing Director Shane Fallscheer said, "We are pleased with what our team has been able to achieve through the disruptions to our business over the past 6 months, and whilst it has had a temporary impact to sales and profitability we remain confident in our growth objectives and have been able to maintain the balance sheet strength required to deliver on them. This leaves us very well placed for the future".

Results

Revenue was $242.2m down 3.2% on FY19 following the disruption to the business through the second half of the financial year as a result of COVID-19. The first half of the financial year saw strong growth with total sales increasing 22.2% from the increased store network and comparable store sales of +2.1%. We began to see the impact of COVID-19 through Q3, initially in our Asian markets as economic activity slowed in response to events in China, and then quickly escalating to full store closures globally by the end of March.

We also experienced disruption to our supply chain throughout this period, first with factory and warehouse closures in China, followed by freight disruption and bottlenecks that persist still albeit to a lesser degree. These factors combined

[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 and excluding Impairment Expenses to ensure comparability with FY19 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 FY20 Results Presentation.

to result in total sales for the second half being down 32.2% on last year with comparable store sales finishing the year at -5.5%.

Our business was able to begin re-opening beginning in mid-April with the Australian stores, and progressively across all company-owned markets with the UK the last to re-open in late June. At the end of the financial year Lovisa now trades from 435 stores (including franchise stores). Performance has been strongest in the Australian and New Zealand markets that until recently have been trading longest post re-opening. We re-focused our efforts on our digital business and this was able to deliver 382% growth on prior year during Q4, with improved execution and expanded geographical reach. All of the above combined to deliver comparable store sales for the period since stores have re-opened, based on the actual days each store traded, down 32.5% on last year.

Prior to the disruption caused by COVID-19, the business had made good progress on the store rollout program, with 66 new stores opened for the year primarily in our growth markets, with 4 new stores opened for the year in the UK, 13 in France and 29 in the US.

Gross Margin decreased to 77.3% as we saw the impact of lower USD purchase rates across the period. On a constant currency basis Gross Margin was 79.0%, with the decrease on prior year on a constant currency basis a result of our stores re-opening into June sale and a decision to take higher inventory provisioning than prior years at year end.

Throughout the first half the business 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, however with the onset of COVID-19 the company was forced to take a number of important actions to manage the cost structure of the business. This included the stand-down of store teams in most markets and a reduction of headcount in our support teams across the world. With most stores and markets back trading by June, we were able to return headcount back to required levels to effectively manage the business and have been able to again begin to invest to support our ongoing growth program.

In the first half we were able to keep our CODB in line with LY at 50% to sales. The impact of COVID-19 in the second half pushed this up to 59% for the financial year compared to 56% LY. The benefits received via both various countries wage subsidies and any agreed rental abatements helped to support our CODB through the closure period.

The decision was taken to exit the Spanish market due to poor support from landlords through the lockdown period resulting in 9 store closures. As a result an impairment charge of €2.1m (A$3.4m) was recognised in relation to this exit, with additional impairment charges taken across a small number of other stores in the network taking total impairment expenses to A$4.5m (after tax, excluding AASB 16).

The effective tax rate for the year was also impacted by COVID-19 disruptions, with an increase in unrecognised tax losses as a result of both the impact on trading as well as the benefits of government tax concessions received. The statutory effective tax rate after impairment expenses and AASB 16 was significantly impacted by these factors, in particular by unrecognised tax benefits associated with the exit of our Spanish stores.

Despite the disruption to Q4, cash flow was again strong with cash from operations before interest and tax of $51.7m and operating cash conversion of 115% as a result of tight working capital management during the period of COVID-19 impact and rent payment deferral. Inventory was well managed through Q4 despite the disruption to our supply chain and store closures, with lower closing stock levels than prior year with more stores trading.

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Capital expenditure for the year was $25.6m predominantly for new store fit outs and refurbishments on existing stores upon lease renewal with 60 new company owned stores opened for the year resulting in a further increase in depreciation expense to $14.1m for the year. Lower profit levels and the one-off benefit of tax deductions related to share options exercised during the year resulted in a $17m reduction in tax paid for the financial year.

We were also able to refinance our existing debt facilities during the second half of the financial year, with the overall facility limit increasing to $50m, with maturity of the term debt component extended for 3 years. At financial year end there were no cash drawings on these facilities, with an available limit of $45m after taking account of $5m of bank guarantees the Group currently has on issue.

Our continued strong balance sheet position has enabled the Board to confirm the intention to pay the previously deferred 15 cent Interim Dividend on 30 September 2020 as planned, however the franking percentage of this dividend will be reduced to 50% from the originally announced 100% franking as a result of lower tax paid during FY20. Also, given the ongoing uncertainty in the global market at present the Board have elected not to pay a final dividend in relation to FY20.

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 in the context of prevailing economic conditions. 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 continues to be the international store roll out, and this remains our focus. The store network increased to 435 stores as at the end of the financial year, a net increase of 45 stores from June 2019, with 66 new stores opened for the year offset by 21 closures (including 9 related to the exit from the Spanish market).

An update on the status of our newest markets is included below.

Store number growth

Country	FY20	FY19	Var
Australia	152	154	(2)
New Zealand	23	22	1
Singapore	19	18	1
Malaysia	27	25	2
South Africa	62	61	1
United Kingdom	42	38	4
Spain	0	9	(9)
France	21	8	13
USA	48	19	29
Middle East*	34	28	6
Vietnam*	7	8	(1)
Total	435	390	45

*Franchise stores

The rollouts in the US and France continued with 21 stores trading in France at the end of the year and 48 in the US. Since the end of June we have also opened our first stores in Louisiana, Missouri and Connecticut and are currently trading from 53 stores across the USA. Store metrics and range performance continue to be in line with expectations with good customer reaction and landlord engagement.

The performance of our 21 stores in France has continued to meet our expectations, with ongoing rollout in progress, however progress in this market is expected to continue to be slower due to the timeline in accessing sites and flow on effect from COVID-19.

Whilst the overall pace of the rollout program across all markets slowed in Q4 due to COVID-19 with the focus of landlord negotiations on existing portfolios, our attention is now returning to new site acquisition. Diligence in selection of store locations and delivery of strong rent economics remains key in the current environment. Despite the short term COVID challenges we see the USA and European markets as significant long-term opportunities and continue to invest in the structures to support this.

Digital Update

Focus on our digital capabilities was accelerated leading into lockdown and we now service all 8 of our major markets via digital store fronts across the globe. As a result we were able to grow our online sales by 311% for FY20, with growth of 382% during Q4 and that trend continuing since financial year end.

A number of developments and key digital initiatives have both been delivered and launched including:
- Fulfilment from Store
- Live chat driving direct sales generation
- Pre-sale capabilities across markets for early product reads
- Supply Chain capacity delivered through multi warehouse fulfillment

We have also recently appointed a Head of Digital and Marketing to maximize the results in this area, with a further pipeline of digital developments in progress for FY21.

Board Update

The Board would like to announce that with effect from 26 August 2020, John Charlton will join the Board as an Independent non-executive Director. John is a career retailer and brings over 38 years' experience in retailing operations in Australia. He was previously the founder and owner of Spendless Shoes Pty Ltd a company he grew to 248 stores as well as a successful online site before selling to The Shoe Group in July 2019. He has served as a member of the Council of Wilderness School for 12 years (7 years as Chair), Saint Peter's College for 5 years and is currently a member of the Finance and Infrastructure Committee of the University of Adelaide.

Trading Update and Outlook

Trading for the first 8 weeks of FY21 has seen continued challenging trading conditions as most markets continue to experience economic disruption with comparable store sales for this period of -19.0%, an improvement from comparable store sales in Q4 of -32.5%. We continue to focus on opportunities for expanding our store network and have opened 8 new stores since the end of the financial year, with the store network currently at 443 stores.

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Our strategic plans remain in place, we are ready to continue our store roll out and we continue discussions with our landlords globally as we believe current circumstances will create further opportunities. We continue to build our global executive team with the recent addition of a senior leasing executive based in in the northern hemisphere and a head of digital to further bolster our capability.

Our balance sheet remains strong, with a continued net cash position above $20m and undrawn cash debt facilities supporting investment in growth.

We currently have 30 stores in metropolitan Melbourne, 19 stores in California, 2 stores in New York, and 8 stores in NZ closed temporarily due to continued government lockdowns.

As a result of the current uncertainty in the global economic environment we are not in a position to provide any further information in relation to the outlook for the business.

For further enquiries please contact:

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