

ASX Announcement

26 August 2021

A year of significant growth exceeding prospectus forecasts

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 full year results for the year ended 27 June 2021 (FY21).

FY21 Performance Highlights:

- Pro-Forma Revenue of \$331.0m, 4.7% ahead of prospectus forecast and 29.7% up on FY20
- Pro-Forma EBITDA of \$58.6m, 12.0% ahead of prospectus forecast and 93.0% up on FY20
- Pro-Forma NPATA of \$32.4m, 12.7% ahead of prospectus forecast and ahead of earnings guidance provided on 10 June 2021
- Australia revenue increased 26.5% on FY20 and 3.0% on prospectus forecast
- China revenue increased 49.1% on FY20 and 17.7% on prospectus forecast
- Strong cash conversion of 98.3% with stable working capital and maintenance capital expenditure
- Continued expansion planned, responding to growing domestic demand in China and growth opportunities in Australia

Hugh Toll, Chief Executive Officer, commented: *"Our first period as a listed entity has produced extremely encouraging results in both Australia and China, where we have delivered on the priorities we set ourselves. Our determined and dedicated people, innovative floral products, strong commercial relationships, and operational agility meant we have performed strongly despite the challenging COVID-19 conditions experienced across FY21 and into the current period.*

We have continued to drive channel share for our Australian supermarket customers by continuing to enhance consumer experience, value, and convenience across our product ranges. We were pleased to report that our key customer events, such as Mother's Day, in the period were successfully delivered despite significant COVID-19 related supply chain disruptions.

We have strengthened our leading market position in China during FY21, with 9.9ha of greenhouse development in the period bringing our total area under greenhouse cultivation to 61.1ha across four farms. Further expansion of greenhouse space is in progress for completion across FY22 to support rapidly growing customer demand. The expanded greenhouse production footprint and ongoing yield improvements led to outstanding revenue growth in China of 49.1% on the prior year. We continue to build operational capacity within our supply base in Kunming to support this significant ramp-up in customer growth.

Whilst COVID-19 related challenges remain in FY22, this year presents a real opportunity for Lynch to execute on its strategic priorities in both Australia and China. We are confident that we will continue to react with agility and pace as the operating environment evolves, and we look forward to providing our customers with exciting and accessible products in the coming year."

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Financial Overview

FY21 produced strong financial results for the Group following listing on the ASX in April 2021. Overall, revenue benefited from ongoing growth in our Australian supermarket operations, and stronger than expected China volumes and pricing, with Pro Forma Revenue of \$331.0m, 4.7% ahead of prospectus forecast and 29.7% up on FY20. The favourable market environment in China allowed for an extended period of heating, enabling production to be increased above forecasted levels to meet demand. Pro Forma NPATA of \$32.4m, was 12.7% ahead of prospectus forecast and ahead of the guidance provided by Lynch on 10 June 2021 (\$31.0m-\$32.0m).

Lynch reported strong EBITDA performance driven by this revenue growth and operating leverage, with Pro Forma EBITDA of \$58.6m, 12.0% ahead of prospectus forecast and 93.0% up on FY20. Strong cash conversion of 98.3%, slightly ahead of prospectus forecast, driven by stable working capital and maintenance capital expenditure. Capital expenditure and production expansion in China remains on track with a total of 9.9ha of land developed during FY21 bringing the total area under greenhouse cultivation to 61.1ha as at 27 June 2021.

Operational Overview

Australia

The Group has been executing on key strategic initiatives across its Australian operations in FY21 and delivered consistent earnings growth and margin improvement. As a result of increased unit volumes and average selling prices, as well as innovation and demand for seasonal gifting and potted lines, revenue was up 26.5% on COVID affected FY20 and 3.0% on prospectus forecast. Strong sales growth, improvements in operating margins, and control of fixed costs drove EBITDA margin expansion, with EBITDA levels increasing 91.7% on COVID affected FY20 and 2.6% on prospectus forecast.

Lynch continues to drive growth in the supermarket channel share of the floral category through improving consumer product experience, value and convenience. The Group's potted sales experienced particularly strong improvement with a 38% yoy increase, and flower sales recorded yoy growth of 24%. Merchandising effectiveness and reach also continue to build, via sale or return store conversions and ongoing investment in people, systems and technology.

In early May, the Group successfully delivered its largest floral event of the year in Australia, Mother's Day. For this event, Lynch made a record investment in chartered freight and merchandising hours in the field to cater to strong consumer demand, amid significant disruption to international logistics.

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China

In China, the Group was buoyed by rapidly growing demand for floral products driven by increasing consumer interest in recurring self-consumption and gifting. FY21 presented a strong operating backdrop in China, especially in Q4, and gave Lynch an opportunity to capitalise on its leading position in the premium market.

The domestic demand across winter and spring supported a lift in yoy market pricing, whilst farm production volumes increased with crop maturity and an extended heating program.

Domestic channels to market developed favourably, with a strong uplift in sales to offline and online consumer platform customers driving strong revenue up 49.1% on prior year and 17.7% on prospectus forecast. The volume impact of maturing farm footprint expansion works, coupled with achieved pricing levels, delivered revenue per sqm of \$79 (prospectus forecast \$66). The Group recorded very strong China EBITDA growth, up 95.1% on FY20 and 31.5% on prospectus forecast.

Key progress was made towards the farm expansion upgrades with 9.9ha of greenhouse development in FY21, bringing the total area under greenhouse cultivation to 61.1ha as at 27 June 2021. An additional 4.5ha of greenhouse capacity in China is well advanced with an expected completion date in Q1 FY22, with plans to develop a further 10+ha through the remainder of FY22, growing greenhouse production capacity to more than 75ha by June 2022. The team in China continues to work on integrating its people, operations, and systems, which is progressing as planned.

COVID-19 Update

In Australia, reinstated lockdowns from June have been affecting Lynch's major east coast markets, with the primary impact in NSW. These restrictions have had initial impacts (up to four weeks) that include inventory loss, sales declines, and disruptions to production efficiency. Sales across the first eight weeks of the new financial year are now tracking marginally ahead of the previous corresponding period, with key operating metrics of waste, labour and merchandising now stabilising to pre lockdown levels.

Lynch's supply chain has also been impacted by recent and rapid air and sea freight cost inflation and disruption caused by availability and delays. These costs are currently being absorbed by the business to maintain its consumer value proposition and are expected to normalise in the medium term.

There are currently limited COVID-19 impacts being experienced by the Group's China operations. Sales across the first eight weeks of FY22 in China are ahead of last year and in line with expectations.

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Outlook

The Company reaffirms its CY21 NPATA guidance of \$31.6m - \$32.6m, ahead of the prospectus forecast of \$29.3m. This guidance is based on a number of underlying assumptions, including the extent of further lockdowns in Australia.

A further update on trading conditions is expected to be provided at the Company's AGM or earlier if required.

Authorised for release by the Board of Lynch Group Holdings Limited

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About Lynch Group Holdings

Lynch Group is a vertically integrated value-added wholesaler and grower of flowers and potted plants with a strong market position in both the Australian and Chinese floral markets. It is the largest wholesaler of floral and potted products to Australian supermarkets and a leading grower of premium flowers with a developed wholesale distribution platform in China.

¹ FY20 is the 12-month period to 28 June 2020

² FY21 is the 12-month period to 27 June 2021

³ FY22 is the 12-month period to 26 June 2022

⁴ CY21 is the 12-month period to 26 December 2021

⁵ Proforma information is derived from statutory information. Proforma adjustments are outlined in the Directors report of the Appendix 4E lodged on 26 August 2021 and the Group's Prospectus

⁶ NPATA is proforma net profit after tax adjusted for acquired amortisation

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