Universal Store

Appendix 4D and H1 FY23 Interim Report

Brisbane, 23rd February 2023

In accordance with the Listing Rules of the Australian Securities Exchange (ASX), Universal Store Holdings Limited (ASX:UNI) encloses for immediate release the following information:

- Appendix 4D – Half Year Report; and
- Interim Consolidated Financial Report for the half year ended 31 December 2022.

Authorised for release by the Board of Directors of Universal Store Holdings Limited.

For more information, please contact:

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ABOUT UNIVERSAL STORE

Universal Store Holdings owns a portfolio of premium youth fashion brands and omni-channel retail and wholesale businesses. The Company's principal businesses are Universal Store and THRILLS and it is currently trialling the Perfect Stranger brand as a standalone retail concept. The Company, including THRILLS operates 93 physical stores across Australia and three online stores.

The Company's strategy is to grow and develop its brands and retail and wholesale businesses to deliver a carefully curated selection of on-trend apparel products to a target 16-35 year-old fashion focused customer.

Universal Store Holdings Limited
ABN 94 628 836 484

Appendix 4D and Interim Consolidated Financial Report for the Half-year Ended 31 December 2022

Appendix 4D

For the half-year ended 31 December 2022

1 Company details

Name of entity:	Universal Store Holdings Limited
ABN:	94 628 836 484
Reporting period:	For the half-year ended 31 December 2022
Previous period:	For the half-year ended 31 December 2021

2 Results for announcement to the market

	Percentage change	%		Amount $'000
Revenue for ordinary activities	Up	34.5%	to	145,659
Profit after income tax for the period	Up	31.7%	to	17,764
Profit for the period attributable to the owners of Universal Store Holdings Limited	Up	31.7%	to	17,764

Dividends

During the financial period, the Group paid a final dividend for the year ended 30 June 2022 of $7.7 million (31 December 2021: $7.7 million).

	Amount per security Cents	Franked amount per security Cents
Final dividend in relation to year end 30 June 2022	10.50	10.50
Interim dividend in relation to half-year end 31 December 2022	14.00	14.00

Dividend declared and payment dates:

	Declared	Paid
Final dividend in relation to year end 30 June 2022	25 August 2022	29 September 2022
Interim dividend in relation to half-year end 31 December 2022	22 February 2023	29 March 2023

3 Net tangible assets per security

	31 December 2022 $'000	31 December 2021 $'000
Net tangible assets per ordinary security	0.20	0.40

Net tangible assets are calculated by deducting intangible assets from the net assets of the Group adjusted for the associated deferred tax liability of $15.5 million (2021: $10.9 million).

If the right-of-use assets and the associated deferred tax liability were excluded from the calculation, the Net tangible assets per security would have been negative $0.34 per ordinary share for 31 December 2022 (2021: negative $0.09).

4 Control gained or lost over entities in the financial year

During the period, the Group acquired all of the shares in Cheap THRILLS Cycles Pty Limited (CTC) for a total consideration of $50.3 million. The acquisition was funded through a combination of cash, issuance of ordinary shares in Universal Store Holdings Limited, and deferred contingent consideration.

For further detail on the CTC acquisition, please refer to the ASX Announcement dated 26 September 2022.

5 Other information

This report is based on the consolidated financial statements which has been reviewed by PricewaterhouseCoopers.

For further explanation of the figures above please refer to the ASX Announcement dated 23 February 2023 on the results for the half-year ended 31 December 2022 and the notes to the interim consolidated financial statements.

Universal Store Holdings Limited
ABN 94 628 836 484

Interim Consolidated Financial Report
for the Half-year Ended
31 December 2022

Contents

Directors' report

The Directors submit their report on the consolidated entity consisting of Universal Store Holdings Limited (the "Company") and its controlled entities (the "Group") for the half-year ended 31 December 2022.

Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period, unless otherwise stated.

Peter Birtles

Alice Barbery

Kaylene Gaffney

David MacLean

Trent Peterson

Renee Gamble

Principal activity

During the year, the principal activity of the Group consisted of fashion retailing.

Universal Store Holdings Limited acquired 100% of Cheap THRILLS Cycles Pty Limited (CTC) on the terms announced to the market on 26 September 2022 and the transaction successfully completed on 31st October 2022. CTC's principal activity included designing, wholesaling and retailing casual youth fashion apparel.

There were no other significant changes in the nature of activity during the period.

Dividends

On 25 August 2022, the Directors of Universal Store Holdings Limited declared a final dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend was $7.7 million paid on 29 September 2022 (31 December 2021: $7.7 million).

On 22 February 2023, the Directors recommended an interim dividend for the half-year ended 31 December 2022 of $10.7 million to be paid on 29 March 2023.

Review of operations

The net profit from ordinary activities after tax of the Group for the half-year 31 December 2022 was $17.8 million (31 December 2021: $13.5 million).

	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000	Change %
Revenue from contracts with customers	145,659	108,278	34.5
Expenses	(106,468)	(76,547)	39.1
EBITDA [1]	**39,191**	**31,731**	**23.5**
Depreciation and amortisation expense	(12,732)	(11,841)	7.5
EBIT [2]	**26,459**	**19,890**	**33.0**
Finance costs	(1,742)	(1,317)	32.3
Finance income	304	34	794.1
Profit before tax	**25,021**	**18,607**	**34.5**
Income tax expense	(7,257)	(5,116)	41.8
Profit after tax	**17,764**	**13,491**	**31.7**

Directors' report (continued)

Review of operations (continued)

	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Reconciliation to underlying EBIT		
EBIT	**26,459**	**19,890**
Transaction costs associated with acquisition of CTC	2,014	-
Underlying EBIT	**28,473**	**19,890**
Underlying EBIT margin	19.5%	18.4%

	6 months to 31 December 2022 Cents	6 months to 31 December 2021 Cents
Basic earnings per share	25.1	20.1
Diluted earnings per share	24.4	18.9
Adjusted EPS[3]	25.4	18.4

[1] Earnings before interest, tax, depreciation and amortisation (EBITDA)
[2] Earnings before interest and tax (EBIT)
[3] Adjusted EPS is calculated using underlying NPAT and the number of ordinary shares on issue following CTC acquisition (76.7 million ordinary shares).

Review of operations

Group H1 FY23 results were pleasing, with total sales of $145.7 million, a 34.5% increase from the prior period (+28.6% excluding CTC sales). The strong performance in Q1 was mainly due to the reopening of physical stores and customers returning to the stores after government-mandated closures in the prior comparative period.

Group like for like sales (LFL) grew by 2.4% compared to the prior comparative period, noting that stores closed in the prior period are excluded from the calculation on the applicable days for which the store was closed.[1] Group bricks and mortar grew by 39.8% on H1 FY23 and delivered 5.5% LFL sales growth. Group online sales decreased by 5.4%, contributing 13.6% of total sales and generating $19.8 million in revenue.

Group gross profit was $85.8 million with a 170 basis point improvement in gross margins to 58.9%, with prior period impacted by one-off mark downs associated with store closures. Margins were also supported by price increases to maintain quality, direct sourcing enhancements and reduction in freight costs.

Group cost of doing business increased by 270 basis points to 30.6% of sales, due to increased employee costs, occupancy costs, and expenses from the CTC acquisition. The growth in employee costs reflects increased spend of $6.2 million in store wages and $1.5 million in DC wages with the lower prior comparative period spend a result of the store closures.

Investment into new stores continues, while the recent CTC acquisition also added $2.0 million of predominantly employee costs. Other costs, including software licensing and investment in process improvements grew by $1.3 million.

The CTC acquisition was completed on 31 October 2022, adding a successful and profitable brand with a diverse business model, strong brand and product development and sourcing expertise. CTC is performing well and as expected.

[1] Total sales includes CTC business from 1st Nov 2022. LFL sales exclude CTC and are calculated daily, excluding closed stores from the day of closure and new stores until they have completed the first three weeks of operation. Stores that were closed during the COVID-19 pandemic are also excluded from LFL sales calculations.

Directors' report (continued)

Review of operations (continued)

Group underlying EBIT was $28.5 million, a 43.2% increase from the prior period, and the underlying NPAT was $19.5 million, a 44.4% increase.

Overall, the Group's H1 FY23 results show strong growth in total sales and LFL sales, with bricks and mortar stores performing particularly well. Online sales decreased slightly, but still contributed a significant portion to total sales. Underlying EBIT grew significantly, and gross profit margin increased. Inventory also increased, due to factors such as increased demand, new stores, and the acquisition of the CTC business. The acquisition has performed well so far, and the group remains confident in its strategies for continued growth.

Strong cash flow and balance sheet

The Group reported a cash position of $29.2 million in the bank and net cash of $14.3 million. The Group used this strong financial position to fund the acquisition of CTC, which amounted to $18.6 million (including transactions costs), as well as an investment of $3.1 million in a new support office and distribution centre. Both of these investments were fully funded from the Group's cash reserves.

Inventory levels have increased by $8.2 million to meet growing customer demand and take advantage of new growth opportunities, with $2.6 million of this increase related to CTC inventory. The Group remains committed to a pricing and promotional strategy that is disciplined and sustainable, and our nimble and granular approach to inventory management.

In recognition of the Company’s financial strength, the Board of Directors have declared an interim dividend of 14 cents per share, which will be fully franked and payable on 29 March 2023.

Store growth

The Group has 93 physical stores, with 76 Universal Stores, seven Perfect Stranger stores, and 10 Thrills stores. The target is to reach 100+ Universal stores across Australia and New Zealand, with Perfect Stranger and Thrills stores as additions. Six new stores were opened in H1 FY23 with two Universal and four Perfect Stranger stores. The performance of Perfect Stranger stores is encouraging, and its rollout will continue outside of Queensland.

Supply chain

No significant disruption to operations arising from COVID-19 occurred during H1 FY23.

The Group successfully transitioned to a new distribution centre and support office and implemented a new warehouse management system, funded by operating cash flows. Efforts are ongoing to improve processes for efficiency.

Significant changes in the state of affairs

The company acquired 100% of CTC on the terms announced to the market on 26 September 2022 and the transaction successfully completed on 31 October 2022.

There were no other significant changes in the state of affairs of the Group during the period.

Significant events after the reporting date

On 22 February 2023, the Directors recommended an interim dividend for the half-year ended 31 December 2022 of $10.7 million to be paid on 29 March 2023.

There were no other significant events occurring after the reporting date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Rounding

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($'000) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

Directors' report (continued)

Auditor's independence declaration

The Directors have received a declaration from the auditor of Universal Store Holdings Limited. A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the Directors.

Peter Birtles
Non-Executive Director and Chairman
22 February 2023

Auditor's Independence Declaration

As lead auditor for the review of Universal Store Holdings Limited for the half-year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Universal Store Holdings Limited and the entities it controlled during the period.

Kim Challenor
Partner
PricewaterhouseCoopers

Brisbane
22 February 2023

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Interim consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2022

	Notes	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Revenue from contracts with customers	4	145,659	108,278
Materials and consumables used		(59,839)	(46,362)
		85,820	61,916
Employee benefits expenses		(30,762)	(20,099)
Occupancy expenses		(5,138)	(3,215)
Depreciation and amortisation expense		(12,732)	(11,841)
Transaction costs associated with acquisition of CTC	5	(2,014)	-
Marketing expenses		(4,127)	(4,096)
Banking and transaction fees		(16)	(21)
Other expenses		(4,572)	(2,754)
Finance costs		(1,742)	(1,317)
Finance income		304	34
Profit before tax		**25,021**	**18,607**
Income tax expense	6	(7,257)	(5,116)
Profit attributable to owners of Universal Store Holdings Limited		**17,764**	**13,491**
Other comprehensive income		-	-
Total comprehensive income for the period		**17,764**	**13,491**
		Cents	**Cents**
Basic earnings per share	15	25.1	20.1
Diluted earnings per share	15	24.4	18.9

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Interim consolidated statement of financial position

For the half-year ended 31 December 2022

	Notes	31 December 2022 $'000	30 June 2022 $'000
Assets			
Current assets			
Cash and cash equivalents		29,201	38,768
Trade Receivables		3,925	-
Other receivables		2,818	2,419
Inventories	7	26,203	18,024
Current tax assets		465	571
Total current assets		62,612	59,782
Non-current assets			
Plant and equipment	8	15,396	10,904
Right-of-use assets	11	59,397	39,833
Goodwill and intangible assets	9	140,736	93,034
Total non-current assets		**215,529**	**143,771**
Total assets		**278,141**	**203,553**
Liabilities			
Current liabilities			
Trade and other payables		30,581	17,675
Lease liabilities	11	21,159	19,969
Contract liabilities		2,574	1,467
Provisions		2,263	1,912
Total current liabilities		**56,577**	41,023
Non-current liabilities			
Borrowings	10	14,928	14,865
Lease liabilities	11	44,434	28,589
Provisions		969	906
Other payables		7,768	-
Deferred tax liabilities		12,574	6,661
Total non-current liabilities		**80,673**	**51,021**
Total liabilities		**137,250**	**92,044**
Net assets		**140,891**	**111,509**
Equity			
Contributed Equity	12	110,844	92,161
Share-based payment reserve	13	8,598	7,977
Retained earnings		21,449	11,371
Total equity		**140,891**	**111,509**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Interim consolidated statement of changes in equity

For the half-year ended 31 December 2022

	Contributed equity (Note 12) $'000	Shared-based payment reserve $'000	Retained earnings $'000	Total equity $'000
At 1 July 2022	**92,161**	**7,977**	**11,371**	**111,509**
Profit for the period	-	-	17,764	17,764
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**17,764**	**17,764**
Transactions with owners in their capacity as owners:				
Dividends paid (Note 14)	-	-	(7,686)	(7,686)
Share-based payment (Note 13)	-	245	-	245
MEP loan repayment (Note 13)	-	376	-	376
Issue of ordinary shares as consideration for a business combination	18,683	-	-	18,683
At 31 December 2022	**110,844**	**8,598**	**21,449**	**140,891**
At 1 July 2021	**92,161**	**4,281**	**6,534**	**102,976**
Profit for the period	-	-	13,491	13,491
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**13,491**	**13,491**
Transactions with owners in their capacity as owners:				
Dividends paid (Note 14)	-	-	(7,686)	(7,686)
MEP loan repayment	-	2,273	-	2,273
At 31 December 2021	**92,161**	**6,554**	**12,339**	**111,054**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim consolidated statement of cash flows

For the half-year ended 31 December 2022

	Notes	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Operating activities			
Receipts from customers		162,521	122,302
Payments to suppliers and employees		(118,324)	(77,782)
Transaction costs associated with acquisition of CTC	17	(2,014)	-
Interest received		318	34
Interest paid		(1,677)	(1,261)
Income taxes paid		(7,796)	(7,929)
Net cash flows from operating activities		**33,028**	**35,364**
Investing activities			
Payment for acquisition of subsidiary, net of cash acquired	17	(16,526)	-
Purchase of plant and equipment	8	(6,850)	(5,668)
Purchase of intangible assets	9	(11)	(309)
Proceeds from sale of plant and equipment		430	-
Net cash flows used in investing activities		**(22,957)**	**(5,977)**
Financing activities			
Principle elements of lease payments		(13,189)	(8,601)
Lease incentives and COVID-19 abatements received in cash		861	-
Proceeds from MEP loan repayments		376	2,273
Dividends paid to company's shareholders	14	(7,686)	(7,686)
Net cash flows used in financing activities		**(19,638)**	**(14,014)**
Net (decrease)/increase in cash and cash equivalents		(9,567)	15,373
Cash and cash equivalents at beginning of the half-year		38,768	33,406
Cash and cash equivalents at 31 December		**29,201**	**48,779**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

1 Corporate information

The interim condensed consolidated financial statements of Universal Store Holdings Limited (the "Company" or "Parent") and its controlled entities (the "Group") for the half-year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Directors on 22 February 2023.

Universal Store Holdings Limited is a for-profit company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange ('ASX').

The registered office and principal place of business of the Group is 42A, William Farrior Place, Eagle Farm, QLD 4009.

The nature of the operations and principal activity of the Group are described in the Directors' report.

2 Summary of significant accounting policies

2.1 Basis of preparation

These consolidated financial statements for the half-year ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

These consolidated financial statements do not include all the notes of the type normally included in annual financial reports. Accordingly, these consolidated financial statements are to be read in conjunction with the Annual Report for the year ended 30 June 2022 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. There have been no changes to the Group's significant accounting judgements, estimates, and assumptions since the year ended 30 June 2022.

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($'000) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group is an entity to which the legislative instrument applies.

Comparatives have been reclassified where appropriate to ensure consistency and comparability with the current period.

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. The Group has not adopted any new or amended accounting standards or interpretations that have been issued but are not yet effective.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

3 Reportable segments

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM's). The CODM's has been identified as the Board of Directors on the basis that they make the key operating decisions of the Group and are responsible for allocating resources and assessing performance.

Key internal reports received by the CODM's, primarily the management accounts, focus on the performance of the Group as two reportable segments, being Universal Store and CTC. Prior to the acquisition of CTC on 31 October 2022, the focus on the performance was of the Group as a whole. The accounting policies adopted for internal reporting to the CODM's are consistent with those adopted in the consolidated financial statements.

The Group has considered its internal reporting framework, management and operating structure and the Directors' conclusion is that the Group operates as two reportable segments. The following table present revenue and profit before tax information for the Group's reportable operating segments for the half-year ended 31 December 2022.

3.1 Segment information provided to the CODM's

The table below shows the segment information provided to the CODM's for the reportable segments for the half-year ended 31 December 2022 and also the basis on which revenue is recognised:

For the half-year ended 31 December 2022	**Universal Store $'000**	**CTC $'000**	**Total $'000**
Total segment revenue	139,263	8,189	147,452
Inter-Segment revenue	-	(1,793)	(1,793)
Revenue from external customers	**139,263**	**6,396**	**145,659**
Underlying EBIT	27,320	1,153	28,473

	Total $'000
Underlying EBIT	**28,473**
Transaction costs associated with the acquisition of CTC	(2,014)
Finance costs	(1,742)
Finance income	304
Profit before tax	**25,021**

	Universal Store $'000	**CTC $'000**	**Total $'000**
Total segment assets			
31 December 2022	216,897	61,244	278,141
Total segment liabilities			
31 December 2022	128,918	8,332	137,250

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

4 Revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time as follows:

	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Total revenue from contracts with customers	**145,659**	**108,278**

5 Transaction costs

	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Transaction costs associated with acquisition of CTC	2,014	-

6 Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the Interim consolidated statement of profit or loss and other comprehensive income are:

	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Income taxes		
Current income tax expense	6,194	5,615
Prior period adjustment	-	52
Deferred income tax expense/(benefit)	1,063	(551)
Income tax expense recognised in the interim consolidated statement of profit or loss	**7,257**	**5,116**

7 Inventories

	31 December 2022 $'000	30 June 2022 $'000
Stock on hand at cost	26,890	18,820
Inventory provision	(687)	(796)
Carrying value of inventory	**26,203**	**18,024**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

7 Inventories (continued)

Inventories recognised as an expense during the half-year ended 31 December 2022 amount to $53.6 million (31 December 2021: $41.4 million). Write-downs of inventories to net realisable value recognised as an expense during the half-year ended amounted to $675,000 (31 December 2021: $212,000). These were included in raw materials and consumables used (together with merchant fees and freight).

8 Plant and equipment

	Fixtures and fittings $'000	Leasehold improvements $'000	Other equipment $'000	Total $'000
Cost				
At 1 July 2021	3,575	10,538	3,884	17,997
Additions	722	5,298	1,098	7,118
Disposals	-	(945)	-	(945)
At 30 June 2022	**4,297**	**14,891**	**4,982**	**24,170**
Acquisition of subsidiary (Note 17)	-	403	-	403
Additions	1,858	2,883	2,109	6,850
Disposals	(735)	(1,362)	(387)	(2,484)
At 31 December 2022	**5,420**	**16,815**	**6,704**	**28,939**
Accumulated depreciation				
At 1 July 2021	1,662	5,127	2,049	8,838
Depreciation charge for the period	621	3,084	723	4,428
At 30 June 2022	**2,283**	**8,211**	**2,772**	**13,266**
Depreciation charge for the period	517	1,172	642	2,331
Disposals	(735)	(932)	(387)	(2,054)
At 31 December 2022	**2,065**	**8,451**	**3,027**	**13,543**
Net book value				
At 30 June 2022	2,014	6,680	2,210	10,904
At 31 December 2022	**3,355**	**8,364**	**3,677**	**15,396**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

9 Goodwill and intangible assets

	Goodwill $'000	Brand names $'000	Software $'000	Total $'000
Cost				
At 1 July 2021	55,516	36,620	1,159	93,295
Additions	-	-	618	618
At 30 June 2022	**55,516**	**36,620**	**1,777**	**93,913**
Acquisition of subsidiary (Note 17)	32,669	15,214	-	47,883
Additions	-	-	11	11
Disposals	-	-	(68)	(68)
At 31 December 2022	**88,185**	**51,834**	**1,720**	**141,739**
Accumulated amortisation				
At 1 July 2021	-	212	363	575
Amortisation	-	-	304	304
At 30 June 2022	**-**	**212**	**667**	**879**
Amortisation	-	-	192	192
Disposals	-	-	(68)	(68)
At 31 December 2022	**-**	**212**	**791**	**1,003**
Net book value				
At 30 June 2022	55,516	36,408	1,110	93,034
At 31 December 2022	**88,185**	**51,622**	**929**	**140,736**

Impairment testing of goodwill

Goodwill was subject to a full annual impairment test as at 30 June 2022. The annual financial report details the most recent annual impairment tests undertaken for all goodwill. The key assumptions used for the impairment tests are disclosed in the Annual Report.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

10 Borrowings

	31 December 2022 $'000	30 June 2022 $'000
Non-current		
Secured		
Bank borrowings (Facility A)*	14,928	14,865

* The amount includes capitalised borrowing costs of $72,000 for the period ended 31 December 2022 (30 June 2022: $135,000).

- Facility A for $15.0 million which is repayable in April 2025.
- Facility A1 a $10 million revolving working capital facility, which is undrawn.
- Facility D a $8.5 million revolving working capital facility, which is undrawn.
- Facility E a $5.0 million standby letter of credit/guarantee facility.

Facilities A and D expire in April 2025. Facilities A1 expires in October 2025. Facility E is reviewed annually.

Facilities are secured by a General Security Agreement (GSA) and Corporate Guarantee provided by Universal Store Holdings Limited, US 1A Pty Ltd, US 1B Pty Ltd, US Australia Pty Ltd and Universal Store Pty Ltd. A negative pledge has been provided by all parties via the ANZ Facility Agreement.

The Group has complied with all of the financial covenants of its borrowing facilities during the 2022 and 2021 reporting periods and continues to have significant headroom.

11 Leases

11.1 Amounts recognised in the interim consolidated statement of financial position

The Interim consolidated statement of financial position shows the following amounts relating to right-of-use assets and leases:

	31 December 2022 $'000	30 June 2022 $'000
Right-of-use assets	59,397	39,833
Lease liabilities (current)	(21,159)	(19,969)
Lease liabilities (non-current)	(44,434)	(28,589)

Additions to the right-of-use assets during the half-year ended 31 December 2022 were $29.8 million (30 June 2022: $11.4 million).

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

11 Leases (continued)

11.2 Amounts recognised in the interim consolidated statement of profit or loss and other comprehensive income

The Interim consolidated statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Depreciation expense of right-of-use assets	10,461	9,640
Interest expense on lease liabilities	1,188	1,051
Expense relating to short-term leases	51	15
Expense relating to variable lease payments not included in lease	5,087	3,200

Total cash outflow for leases for the half-year ended 31 December 2022 was $18.7 million (31 December 2021: $12.9 million).

12 Contributed equity

	31 December 2022 $'000	30 June 2022 $'000
Ordinary shares	110,844	92,161

12.1 Movements in ordinary shares:

	Number of shares '000	$'000
At 1 July 2021	**73,195**	**92,161**
At 30 June 2022	**73,195**	**92,161**
Issuance of shares	3,526	18,683
At 31 December 2022	**76,721**	**110,844**

12.2 Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value. The Group does not have a limited amount of authorised capital.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

13 Share-based payment reserve

	Share options $'000
At 1 July 2021	**4,281**
MEP loan repayment	3,696
At 30 June 2022	7,977
Share-based payment	245
MEP loan repayment	376
At 31 December 2022	**8,598**

Nature and purpose of share-based payment reserve

The management equity plan reserve is used to record the fair value of the shares attached to the non-recourse loans provided to management. Non-recourse loans have been provided to employees under a MEP. These transactions are accounted for as a share based payment in-substance arrangement.

During the period the Company has established the Universal Store Holdings Limited Equity Incentive Plan to reward, motivate, and incentivise participants. The Equity Incentive Plan is designed to align interests with those of Shareholders by providing an opportunity to receive an equity interest in the Company in the form of performance rights. The Board from time to time in its absolute discretion may determine Employees who are eligible to participate in the Plan.

Members of the Leadership Team were granted performance rights during the period. These performance rights have vesting conditions based on the Company achieving;

- Return on Capital Employed (ROCE) target in the final year of the performance period (FY25)
- Earnings Per Share (EPS) targets over the performance period (1 July 2022 - 30 June 2025) and;
- the Participant remaining employed or engaged in a full-time capacity by the Group. These performance rights vest on 30 June 2025.

Number of Performance Rights Grant Date	Balance at start of the Year	Granted during the period (Number)	Exercised during the period (Number)	Forfeited during the period (Number)	Balance at the end of the period (Number)
24 November 2022	-	114,017	-	-	114,017
21 December 2022	-	209,728	-	-	209,728
Total	**-**	**323,745**	**-**	**-**	**323,745**

All Performance Rights at the end of the period are unvested and the exercise price for all grants is nil.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

14 Dividends

14.1 Ordinary shares

	31 December 2022 $'000	31 December 2021 $'000
Final dividend for the year ended 30 June 2022 of 10.5 cents (2021: 10.5 cents) per ordinary share	7,686	7,686

On 22 February 2023, the Directors recommended an interim dividend for the half-year ended 31 December 2022 of $10.7 million to be paid on 29 March 2023.

15 Earnings per share (EPS)

Basic EPS is calculated by dividing profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	6 months to 31 December 2022 $'000	6 months to 31 December 2021 $'000
Profit attributable to ordinary equity holders	**17,764**	**13,491**

	6 months to 31 December 2022	6 months to 31 December 2021
Weighted average number of ordinary shares for basic earnings per share	70,895,076	67,085,794
Effect of dilution from:		
MEP shares and share-based payments	1,876,234	4,323,672
Weighted average number of ordinary shares adjusted for the effect of dilution	**72,771,310**	**71,409,466**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

15 Earnings per share (EPS) (continued)

	6 months to 31 December 2022 Cents	6 months to 31 December 2021 Cents
Basic earnings per share	25.1	20.1
Diluted earnings per share	24.4	18.9

As at the date of the acquisition of CTC, and the date of this report, there are 76.7 million ordinary shares on issue. Using this number of shares on issue to calculate EPS and the underlying net profit after tax, the EPS in HY23 is 25.4 cents and in HY22 was 18.4 cents.

Ordinary shares issued of 76.7 million differs from the total shares used to calculate basic and diluted EPS due to outstanding MEP arrangements.

16 Fair value measurement

Financial assets and liabilities

The carrying amount of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

17 Business combination

17.1 Current period

On 31 October 2022, Universal Store Holdings Limited acquired 100% of the issued shares in Cheap THRILLS Cycles Pty Limited (CTC), a wholesaler and retailer of fashion apparel for men and women. Consideration for the acquisition has included the issue of 3,524,974 ordinary shares to the sellers. The acquisition is expected to increase the Group's market share and reduce cost through economies of scale.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	
Cash consideration	21,209
Ordinary shares issued	18,683
Contingent consideration	12,455
Subtotal purchase consideration	52,347
Cash consideration attributed to settlement of a pre-existing payable to CTC	(2,051)
Total purchase consideration	**50,296**

The assets and liabilities recognised as a result of the acquisition are as follows. The fair value of the assets and liabilities is provisional.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

17 Business combination (continued)

17.1 Current period (continued)

	$'000
Cash and cash equivalents	2,632
Receivables	5,251
Inventories	3,951
Property, plant and equipment	403
Intangible assets: Brand	15,214
Right of use asset	2,894
Payables	(3,093)
Deferred tax liability	(4,850)
Lease liabilities	(2,894)
Employee benefit obligations	(174)
Current tax liabilities	(1,708)
Net identifiable assets acquired	**17,626**
Add: goodwill	32,670
	50,296

The goodwill is attributable to CTC's strong position and profitability in trading in the fashion apparel market. None of the goodwill is expected to be deductible for tax purposes. See note 9 above for the changes in goodwill as a result of the acquisition.

(i) Acquisition-related costs

Acquisition-related costs of $2,014,000 are disclosed under Transaction costs associated with acquisition of CTC in profit or loss.

(ii) Contingent consideration

The contingent consideration arrangement required the Group to pay the Deferred Variable Consideration (DVC) to the former owners of CTC.

The DVC will be calculated as 10% of the Adjusted Notional Value (ANV) at the end of the relevant year. ANV is calculated with reference to CTC's EBIT in each of FY23, FY24 and FY25 multiplied by the relevant multiple at each future payment date as per the multiple matrix.

CTC EBIT in period	Relevant multiple
<$7.0m	5x
>$7.0m and <$11.0m	6x
>$11.0m	7x

DVC amounts are to be determined and paid following finalisation of audited accounts for each period. There is no minimum amount .

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

17 Business combination (continued)

17.1 Current period (continued)

(ii) Contingent consideration (continued)

The fair value of the contingent consideration arrangement of $12,455,000 was estimated calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 13.5% and assumed EBIT from FY23 to FY25 of $8,500,000.

(iii) Acquired receivables

The fair value of trade and other receivables is $5,251,000 and includes trade receivables with a fair value of $4,483,000 The gross contractual amount for trade receivables due is $4,483,000, of which none is expected to be uncollectible.

(iv) Revenue and profit contribution

The acquired business contributed revenues of $6,396,000 and net profit of $1,449,000 to the group for the period from 1 November 2022 to 31 December 2022. If the acquisition had occurred on 1 July 2022, consolidated revenue and consolidated profit after tax for the half-year ended 31 December 2022 would have been $157,433,000 and $18,944,000 respectively.

(v) Purchase consideration - cash outflow

	6 months to 31 December 2022 $'000	**6 months to 31 December 2021 $'000**
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	21,209	-
Less: Balances acquired		
Cash and cash equivalents	(2,632)	-
Cash consideration attributed to settlement of a pre-existing payable to CTC	(2,051)	-
	(4,683)	-
Net outflow of cash - investing activities	**16,526**	**-**

18 Commitments and contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2022 in respect of:

(i) Guarantees

The Group has given guarantees in respect of various retail tenancies amounting to $3,885,000, of which $376,000 relates to CTC (30 June 2022: $3,543,000).

Upon signing certain leases, the Group has received a fixed contribution towards costs of fit-outs. Some of these leases contain repayment clauses should certain default events occur.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2022

19 Significant events after the reporting period

On 22 February 2023, the Directors recommended an interim dividend for the half-year ended 31 December 2022 of $10.7 million to be paid on 29 March 2023.

There were no other significant events occurring after the reporting date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Directors' declaration

In the Directors' opinion:

1. the consolidated financial statements and notes set out on pages 6 to 22 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and

2. there are reasonable grounds to believe that Universal Store Holdings Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Peter Birtles
Non-Executive Director and Chairman
22 February 2023

Independent auditor's review report to the members of Universal Store Holdings Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Universal Store Holdings Limited (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the interim consolidated statement of financial position as at 31 December 2022, the interim consolidated statement of changes in equity, interim consolidated statement of cash flows and interim consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Universal Store Holdings Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

Kim Challenor
Partner

Brisbane
22 February 2023