

Universal Store

UNIVERSAL STORE H1 FY23 RESULTS

Brisbane, 23 February 2023

Universal Store Holdings Limited (ASX: UNI", "Group" or the "Company"), a specialty retailer of youth casual apparel, is pleased to announce its results for the six-month period ending 31 December 2022 ("H1 FY23").

H1 FY23 Highlights:

- **Total Group sales of \$145.7 million, +34.5% versus prior corresponding period ("pcp")**
 - Group +28.6% excluding Cheap Thrills Cycle ("CTC" or "THRILLS")¹
 - Group like-for-like ("LFL") sales +2.4%²
 - Bricks & Mortar ("B&M") sales +39.8% versus pcp, cycling store closures during pcp
 - Online sales -5.4% versus pcp, as channel mix continues to normalise
- **Underlying EBIT of \$28.5 million, +43.2% versus pcp**
- **Statutory NPAT of \$17.8 million, +31.7% versus pcp³**
- **Net cash of \$14.3 million as at 31 December, reflecting strong underlying cash flow**
- **Underlying EPS of 25.4 cents per share**
- **Interim dividend declared of 14.0 cps**
- **6 new stores opened during the half – 4 Perfect Stranger and 2 Universal Store – combined with 10 acquired THRILLS stores, bringing total Group stores to 93 (excl. 3 webstores)**
- **Successfully transitioned into new distribution centre (DC) and support office**
- **Perfect Stranger trial continues to perform, national expansion plans now 'in play'**
- **CTC continues to perform well and is settling into the Group**
- **Investor webinar to be held Thursday, 23 February, at 11.00am AEDT. [Click here to register](#)**

Commenting on the results, Universal Store Group CEO, Alice Barbery said:

"The performance and growth during the first half has been pleasing. The successful relocation of the distribution centre and support office teams to a new purpose-built facility in October positioned the Company well for the busy summer trading season. With the lifting of COVID restrictions, large social gatherings like festivals and concerts are gaining momentum, leading to an increase in foot traffic as customers plan for these events. The integration of CTC into the Company is going smoothly, and the Group is excited to achieve its shared strategic goals."

¹ Refer acquisition of THRILLS announcement and accompanying presentation for more detail, released to ASX 26 September 2022. Acquisition completed 31 October 2022.

² LFL (like-for-like) sales for FY23 exclude the CTC business and are calculated daily from (Mon 27th Jun to Sun 1st Jan) 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.

³ Statutory NPAT of 17.8 million includes transaction costs associated with the CTC acquisition of \$2.0 million. Underlying NPAT was \$19.5 million after adjusting for the impact of these transaction costs.

Summary financial performance

In the first half of fiscal year 2023, the Group's total sales reached \$145.7 million, a 34.5% increase from the prior period (+28.6% excluding CTC sales). The strong performance in Q1 was primarily due to the reopening of physical stores and customers returning to stores after government-mandated closures in the prior comparative period.

Group LFL sales (excluding CTC retail channels) 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.⁴ Channel mix is evolving as underlying shopping preferences resurface, with Group brick-and-mortar sales increasing by 39.8% and Group online sales decreasing 5.4% (compared to a 49.9% increase in the prior period H1 FY22).⁵

Group gross profit was \$85.8 million with a 170bps improvement in gross margin 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. Specifically, private brand penetration remained steady at 44% of sales during the half. Margins on private brands continue to expand as the Company source a higher portion (now 70%) of these ranges direct from factories, rather than sourcing agents and intermediaries.⁶

Group cost of doing business increased by 270bps 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.

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

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.

Balance sheet strength underpins strategic flexibility.

During the half, the Group's strong financial position was used to fund the CTC acquisition of \$18.6 million and the \$3.1 million investment in the new support office and distribution centre. Both investments were fully funded from cash reserves.

Inventory levels increased by \$8.2 million to meet growing customer demand and take advantage of new growth opportunities, with \$2.6 million directly relating to CTC inventory. The Group remains committed to a disciplined and sustainable pricing and promotional strategy. The Company's nimble and granular approach to inventory management has maintained inventory at a healthy level throughout the first half, including through January and February.

⁴ LFL (like-for-like) sales for FY23 exclude the CTC business and are calculated daily from (Mon 27th Jun to Sun 1st Jan) 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.

⁵ Group results include CTC from 1st November to 31st December 2022.

⁶ H1 FY23 Private Label contribution to total sales of 44% excludes CTC business, with THRILLS/Worship sister brands treated as 3rd party.

In recognition of the Company's financial strength, the board of directors has declared an interim dividend of 14 cents per share, which will be fully franked and payable on 29th March 2023.

Pleasing Perfect Stranger performance ongoing

As a brand, "Perfect Stranger" continues to be the largest selling brand for Universal Store, accounting for ~16% of sales (excluding sales through the standalone Perfect Stranger stores and website). This performance gives the Company confidence in the appeal of the brand to consumers and the Group's capacity to create and maintain thriving internally generated brands. The sustained strength and appeal of the brand is also fundamental to developing the standalone Perfect Stranger retail format.

During the half, the Group opened four new Perfect Stranger stores, bringing the total number of stores to seven as of December 31st 2022. This marked a significant milestone for the brand, as it began to be tested outside of Queensland with the opening of its first store in Brookvale (Westfield Warringah Mall), New South Wales. The performance of the Warringah Mall Perfect Stranger store was the best 'start' observed to date from a new Perfect Stranger store, and helps confirm the refinements made to store design, ranging, launch process and general brand awareness, delivering improved results. The performance of the seven stores to date has been encouraging, with little to no impact on nearby Universal Store locations observed.

The positive early results in New South Wales further bolster confidence in the potential for a nationwide roll out of Perfect Stranger stores. The next phase of the trial will see more stores outside Queensland as a means of testing appeal in southern states and testing the scope for an accelerated roll out in years to come.

CTC (THRILLS) business and performance update

Strong CTC sales growth has been sustained post acquisition as Universal Store continues to invest to support long term growth. While only November and December 2022 results were included in Group results, CTC continues to perform strongly with support from customers and wholesale accounts remaining robust. Likewise, the team is settling into a new version of 'business as usual' post acquisition and are adapting to the needs of changed ownership and governance.

THRILLS and Worship brands and product are keenly sought by consumers and continue to be well supported by wholesale accounts. Sell through remains strong and brand support also remains high, including with Universal Store customers. Growth within their denim offering (especially women's denim) and success of emerging Worship brand are especially pleasing.

CTC's wholesales performance remains strong with proforma H1 FY23 growth of +33.3% and THRILLS store sales have grown by +214.4% versus pcp⁷. There are currently ten THRILLS stores across Australia (as at 31 December 2022) with H1 FY23 retail sales totalling \$3.2 million⁷. There is a significant amount of ongoing work with the CTC team to improve the THRILLS store format, in store execution and building the capabilities required to support future growth in the retail channel.

CTC inventory levels appropriately balanced at \$2.6 million, having regard to forward orders from wholesale accounts, and retail and online sales momentum.

⁷ Pro-forma unaudited CTC management accounts Jul22-Dec22. Only November & December 2022 results included in Group H1 FY23 results.

Universal Store will continue to add depth and expertise to the CTC team in support of long-term growth objectives, including investment in systems and processes to improve operational performance and governance. A new General Manager was appointed to CTC in November 2022 and is integrating well into the Group.

H2 FY23 trading update and outlook

Encouraging performance has been observed during the first seven weeks of H2 FY23 (to 19th February 2023);

- US sales +13.6% higher versus pcp⁸
 - US B&M stores +16.8% and B&M LFL sales growth +11.0%⁹
 - US online -3.7% (cycling +26.8% in pcp)
- CTC wholesale and DTC channels continue to perform well¹⁰

The Group continues to see strong sales performance, although variability remains across channels, while channel-mix continues to normalise versus prior year. Relatively small declines in online sales continue to be observed versus FY22. The Group is maintaining its pricing and promotional discipline, keeping margins strong. Meanwhile, CTC has strong levels of demand for its brands and products across its' various channels to market.

Management is focused on controlling costs of doing business and implementing measures to improve productivity and efficiency as the business faces inflationary pressures and rising costs. Pleasingly, the new distribution centre is operating well and safely. The new facility is already enabling increased capacity and speed in supporting stores, and is providing efficiencies in inventory management, online fulfilment, and distribution.

The Group is planning to open between four and six additional Universal Store locations in the second half of FY23, along with three-four new Perfect Stranger stores and one new THRILLS store. The goal is to have around 101-103 total Group stores, excluding three webstores, by June 30 2023.

Given the ongoing uncertainty in the global and domestic economy, the Board feels it is not appropriate to provide guidance for FY23 at this time.

Results webinar

The Company will host a webinar with Chief Executive Officer, Alice Barbery and Chief Financial Officer, Renee Jones today – Thursday, 23 February – at 11.00am AEDT.

Investors and interested parties can register for the webinar via the following link:

https://us02web.zoom.us/webinar/register/WN_7tg_JzEnQ8qGfUESCcW3hA

Investors may submit questions to sam@nwrcommunications.com.au or do so via the Q&A function on Zoom.

⁸ All sales are unaudited. Total US sales excludes CTC business.

⁹ FY23 Group and store comparative (LFL) sales are calculated daily and excludes closed stores from the day of closure and new stores until they have cycled the first three weeks of opening. Stores that were closed during COVID are excluded from LFL sales

¹⁰ Short-term weekly sales trends are not a reliable measure for wholesale business.

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

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ABOUT UNIVERSAL STORE

Universal Store Holdings (ASX: UNI) owns a portfolio of premium youth fashion brands and omni-channel retail and wholesale businesses. The Company's principal businesses are Universal Store and CTC (trading the THRILLS brand) and it is currently trialling the Perfect Stranger brand as a standalone retail concept. The Company currently operates 93 physical stores across Australia and 3 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.