



# Lynch Group Holdings Limited

Jarden Future Leaders Conference

26-27 October 2021





# Lynch Group Overview

## Floral category leader

#1 in Australia – only national scaled supplier to major supermarkets

**100+ years of history**  
with deep supply chain expertise

## >16 years presence in China

with strong platform established to accelerate growth and capture opportunity

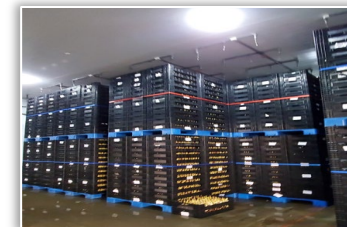


## Australia

- Dominant position in fast growing supermarket channel
- Perishable product with a complex supply chain creates significant barriers to entry
- Access to own China supply and other Tier 1 growers a competitive advantage
- Diversified supply base and flexibility in downstream distribution (e.g. SOR Stores) minimises risk and protects margins
- Low capex and high cash conversion

## China

- Rapidly developing market with fast growing consumer demand expected to outstrip supply for many years
- Investment driving year-round supply of premium product
- Diversified channels to market
- Majority of production now sold via direct fixed price retail customer orders
- Track record of predictable and attractive ROIC on growth capex



# Key Value Drivers

## Australia

### Sales Growth

*Driving penetration via innovation, quality and value*

#### Floral category leadership in stores and via channel expansion

- Merchandising – reach (SOR conversions, and servicing more Core stores), effectiveness, efficiency, leveraging data collection
- Range innovation – meeting evolving consumer requirements across self consumption and gifting; delivery of a compelling value proposition (visual appeal, quality, performance and price); capturing seasonal product opportunities
- Customer category engagement – store level to senior category management
- Store displays – size, location, impact
- Right product right store – demographics / product preference; optimised stock weight and mix
- Event planning, management and execution
- New customer and product initiatives
- Geographic expansion of our Markets operation

### Margin Performance

*Dynamic multi layered approach to margin management*

#### Embedded processes for continuous review and adjustment

- Flexibility in sourcing supply – own supply (AU/CN), Tier 1 grower partnerships (domestic / international), management of biosecurity and regulatory interface, transport mode flexibility (road / sea / air)
- Range management – recipe development / evolution, substitutions (by supply geography, flower type, and currency)
- Production labour efficiency – managing to defined product (SKU level) labour input benchmarks
- Quality and waste – product velocity, cool chain efficiency, sales and operational planning, internal controls
- Channel diversity – SOR and Core stores, florist and wholesale customers via Markets operation
- Overhead cost management

# Key Value Drivers

## China

### Production Capacity

*Long term track record of investment and performance*

#### **Well established production and processing footprint development program**

- 17+ year operating history in Yunnan Province – primarily focussed on Premium Rose production (#1 product in floral industry)
- Track record of investment and earnings delivery – GH infrastructure and growing management, systems, controls
- Leading market position – stable year round volumes and quality, highly competitive unit cost of production, premium price performance
- 61ha in GH production 30 June 2021 – targeting 75ha+ at 30 June 2022
- Reliable pathway for ongoing expansion (10ha+ p.a.) on existing farms + development of new land beyond
- Product now primarily distributed in China domestic market, however competitive and relevant to all international consumer markets
- Capex requirement – c.\$800k per ha – exc. packing and distribution, ROIC hurdle >25% p.a. (recurring EBITDA/Capex), Rose crop maturity profile c.40/80/100% at Yrs 1/2/3 anniversary of planting date

### Downstream Development

*Moving closer to the consumer*

#### **Strong long term supply relationships with retail platform customers**

- Strategy to disintermediate existing inefficient domestic supply chain – leveraging the Australian consumer supply model into the China domestic market environment
- Shanghai processing facility opened January 2021 – entrenching reach into wholesale, retail platform, and florist customers
- Retail platform customer engagement has developed rapidly over 2020/21 (new customers and organic) – now representing 50%+ of farm production volumes
- Next phase focussed on incremental development of Tier 1 city processing facilities, for supply of a broader range of consumer products (higher ASP, value added lines, e.g. bouquets) for supply into these customers, supported by merchandising and in-store support
- The consumer supply platform will over time add incremental wholesale margins (from own farm and 3<sup>rd</sup> party supply) to the China operation

### Lockdown impacts largely limited to July and August trading

- Impact from lockdown on waste and sales recovering in line with expectations, pressure on freight continues
- Air freight expected to ease as international travel reopens in Australia
- Sea freight likely to be challenged over the short to mid-term due to port bottle-necks, scheduling uncertainty, container availability, and shipping capacity
- Lynch Group Australian local product accounts for more than half of annual supply volume
- Current supply focus – local Spring product, imports shipped via air
- China performance tracking as expected with no negative impact from COVID

## Acquisition of Market Flowers Brisbane

### Adding scale to Lynch Markets business and expanding geographic footprint

- Strategic bolt on acquisition with ready-made platform for growth
- Market Flowers Brisbane Operating in Brisbane since 1985
- Profitable entry point into the Brisbane B2B Wholesalers market channel
- MFB generated ~\$7.2m in sales and ~0.7m in normalised EBITDA in FY21
- Expands the footprint of LGL's current floral and potted market operations beyond Flemington, Newcastle, and Canberra
- Queensland floral market is one of the largest in Australia outside of NSW



# Q&A

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