ASX Announcement

23 February 2022

Prospectus forecasts exceeded despite ongoing COVID and supply chain pressures

Lynch Group Holdings Limited (ASX:LGL) ('Lynch' or 'the Group'), Australia's leading vertically integrated wholesaler and grower of flowers and potted plants, announces its results for the half year ended 26 December 2021 (1H FY22).

1H FY22 Performance Highlights:

- Ahead of CY21 prospectus: Revenue +5.7%, EBITDA +8.5% and NPATA +9.1%
- 1H FY22 Revenue +10.9% and EBITDA down 0.5% on 1H FY21, impacted by COVID lockdowns and supply disruptions
- NPATA of $14.0 million in line with AGM earnings guidance provided on November 26
- Fully franked interim dividend of 6 cents per share declared in line with Prospectus dividend policy of at least 50% of annual NPATA
- Australian revenue growth driven by strength in supermarket customer demand despite COVID impacted operating environment
- China farm capacity increased to 66ha and farm production volumes exceeded forecast, driven by advancing crop maturity from prior period expansion works
- Key operational objectives continue to be delivered across Australia and China

Hugh Toll, Chief Executive Officer, commented: *"We reported solid results for the half year despite the continued impact of COVID and supply chain pressures. We have continued to successfully deliver on the priorities we set for our company with our innovative floral products, strong commercial relationships, and flexibility in our operating model helping to offset cost pressures and the impact to bottom line performance. We continue to drive revenue growth in Australia thanks to strong supermarket customer demand with range innovation lifting both unit volumes and ASP. We were pleased to report that our key customer events of Spring and Christmas were successfully delivered despite the ongoing COVID disruptions.*

In China, we continued to strengthen our leading market position, with farm capacity increased to 66ha and farm production volumes exceeding forecasts, driven by advancing crop maturity from prior period expansion works. At the same time, consumer demand for floral products continues to expand across all channels.

Whilst COVID related challenges are expected to persist during the second half, we expect to continue to deliver on our 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 continuing to provide our customers with exciting and accessible products."*

Financial Overview

1H FY22 produced solid financial results for the Group. Underlying revenue remains on track, with revenue totaling $171.7 million, 2.4% ahead of forecast and up 10.9% on 1H FY21. This continued growth in underlying revenue reflects the Group's focus on driving growth and supporting customers in the supermarket channel. NPATA was $14.0 million, 5.0% behind Prospectus forecast, but in line with the earnings guidance provided at the Annual General Meeting on November 26, 2021. Profit levels were impacted by supply chain pressures and full lockdown conditions in NSW and Victoria in July and August affecting demand, waste and operations. EBITDA was $26.0 million, 6.2% behind Prospectus forecast and 0.5% down on 1H FY21, due to labour shortages and operating cost pressures. Cashflow conversion at 72% is in line with expectations, with this figure including seasonal impacts as well as additional inventory build and customer mix factors. Capital expenditure and production expansion in China remains on track with an additional 4.5ha of greenhouses in China bringing total area under greenhouse cultivation to c.66ha, with a further 13ha to complete in 2H FY22.

Operational Overview

<u>Australia</u>

The Group has been executing on key strategic initiatives across its Australian operations during the half, with strong customer demand despite supply chain disruptions and COVID-related lockdowns.

Revenues increased 8.4% on prior year and 1.9% on Prospectus forecast, due to strength in supermarket customer demand, with range innovation lifting both unit volumes and ASP. However, supply chain, labour and operating cost pressures all impacted bottom line margin performance with EBITDA down 15.5% on prior year and down 20.7% on Prospectus forecast. 1H FY22 saw a net $3 million unfavourable impact from elevated freight costs against internal targets. This result followed active management to offset some of the additional cost.

Lynch successfully delivered the key 1H customer events of Spring and Christmas despite ongoing COVID disruptions whilst flexibility of the Group's operating model partially offset increasing cost burdens across the half.

Sell through trends in gifting and potted lines continue to be positive, whilst implementation of Lynch's new merchandising technology platform was well advanced by the end of the half.

The acquisition of Market Flowers Brisbane was successfully bedded down and is performing ahead of plan.

China

In China, the Group was buoyed by continued growth in market demand, with demand for floral products continuing to expand across all channels. This helped contribute to strong revenue and earnings growth during the half, with revenue up 43.8% on prior year and 14.2% on Prospectus forecast, and EBITDA up 29.8% on prior year and 23.4% on Prospectus forecast. 1H FY22 also saw higher energy costs domestically, impacting heating costs, and there were additional costs associated with elevated freight costs in the period.

The Group increased farm capacity to 66ha and farm production volumes exceeded forecast, driven by advancing crop maturity from prior period expansion works.

Whilst domestic markets remain impacted by sporadic regional COVID-related lockdowns and general caution, Lynch's pricing tracked to forecast across the half and domestic channel share has remained evenly balanced between retail and wholesale customers across the half, on increasing yoy volumes.

The Group continues to make progress on its value-added bouquet range production, with growing customer demand in event windows. Export volumes were also increased during the half to support growth in the Group's Australian operations, with margins impacted by significantly increased air freight rates.

During the half, the Changkou warehouse was commissioned, enabling increased processing capacity for domestic and export sales.

Outlook

In Australia, supply chain disruptions continue to impact availability, cost and the reliability for supply of imported flowers, with COVID impacting labour availability and consumer demand.

Despite these pressures, revenue across January and February is expected to be ahead of the prior year. The Group was able to successfully execute Valentine's Day, but this required dedicated charter flights for imported Rose lines, as well as volume and range modifications.

The successful negotiation of event and everyday pricing changes, due to increasing freight costs, is expected to benefit 2H FY22 performance, whilst the continued active management of mix and design of customer range lines is ongoing in order to manage operating cost pressures. While there is a lag in the full implementation of the pricing and mix management initiatives, the benefits are typically seen within the following quarter.

Freight costs are expected to ease over the coming months with travel restrictions lifted from late February, adding airline capacity into Australia.

In China, winter pricing exceeded forecasts, currently reflecting last year's trends and demand continues to outpace supply over recent weekly trading across Chinese New Year and Valentine's Day. Lynch expects continued favourable trading conditions over the event windows through until May 2022.

Current momentum on revenue growth is expected to continue across the balance of FY22 with NPATA, reflecting operating cost pressures in Australia across 2H FY22, forecast to be in the range of $29m - $31m.

The Group will provide further guidance on FY22 following the Mother's Day event in June 2022.

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.

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[1] 1H FY22 is the 26-week period from 28 June 2021 to 26 December 2021
[2] 1H FY21 is the 26-week period from 29 June 2020 to 27 December 2020
[3] 2H FY22 is the 26-week period from 27 December 2021 to 26 June 2022
[4] CY21 is the 12-month period to 26 December 2021
[5] FY21 is the 12-month period to 27 June 2021
[6] FY22 is the 12-month period to 26 June 2022
[7] NPATA is proforma net profit after tax adjusted for acquired amortisation