Lynch Group Holdings Limited – Chair and Chief Executive Officer address

2022 AGM

25 November 2022

Chair's Address

Introduction

Our first full year as a publicly listed company had more than its fair share of ups and downs as the business continued to successfully implement its strategic growth plan against a back drop of COVID restrictions, lockdowns and unprecedented disruption to global supply chains.

The group exceeded its prospectus forecasts for the CY21 year notwithstanding increasing head winds as the year progressed. Revenue for FY22 in Australia and China met or exceeded plan as the quality of the product and growth in the supermarket channel continued to meet customers' needs of convenience and value. Growth in China was also supported by the investment in farm expansion over the last three years.

The company successfully navigated rolling lockdowns in key markets in Australia with its strong presence in supermarkets and the defensive nature of floral products, but had to manage rapid escalating international freight rates during the December quarter that persisted for the remainder of the fiscal year. China, having avoided much of the disruption to domestic activity due to the pandemic, experienced its own lockdowns in Lynch's key markets in May/June that saw the closure of the Shanghai operating facility and suspension of all export operations. Fortunately, all the Yunnan based farms continued to operate at record volumes.

Australia

The core of the Australian business is the national supply of floral and potted product to our supermarket customers. Whilst Lynch Group has been supplying the grocery channel for over 30 years, it remains relatively undeveloped when compared to other markets. In the UK for instance, 55% of all floral products are sold through supermarkets. In Australia, that share is estimated to be more than 20%, but growing quickly. Our scale, innovation, worldwide sourcing capability and merchandising field force, have greatly changed the perception of supermarket flowers which is why the grocery channel is rapidly growing its share of the overall floral industry.

Supermarkets remained open during periods of lockdown which introduced a new segment of customers to the category. Whilst major events (e.g., Valentine's Day and

Mother's Day) seasonally boost customer numbers, Lynch Group was able to penetrate further into the gifting market from its traditional base in self consumption. Sales of bouquets and arrangements at a broader range of price points demonstrates customer confidence in our product and our ability to effectively compete with the florist channel that remains the largest component of the market, with close to 60% share.

The Company continued to roll out its new merchandising system that increases merchandiser productivity and allows the business to capture increased sales opportunities whilst also minimising waste. Lynch Group also converted additional stores to Sale or Return which now comprise 25% of total stores served by the Group. This enables the business to invest more in product at different price points to drive sales and earnings. SOR stores outperform core stores by a factor of 2 to 1 on average, although any waste is born by the Group. A win for both our supermarket customers and the business.

The value Lynch Group brings to its supermarket customers is our ability to plan and manage a complex category. We trade in a highly perishable seasonal product that is sourced from Tier 1 growers in Australia and from around the world. Growing conditions can often vary season to season and supply chains are prone to disruption. Never has this been tested so thoroughly as during the FY22 year as freight capacity on key supply routes was slashed, driving up the rates for what was available, in some cases by over 300% against pre-COVID levels. This had a knock-on effect with domestic pricing as local suppliers increased their own prices to match the higher import price.

The company's ability to switch sourcing, substitute climate-controlled sea freight in some instances for airfreight, and modify recipes, enabled a near perfect record of delivery in full and on time for our customers. Whilst the company was successful in implementing price increases across its range, the speed of change in the logistics market meant that not all the additional costs could be recovered and margin was lower than historically achieved.

The safety and welfare of our employees remained our top priority throughout the year. Additional costs were incurred, particularly in daily rapid antigen testing and cleaning to protect our workforce. Like most businesses, we were impacted by high rates of absenteeism (driven by the then close contact rules) which became acute during the execution of the major events in the second half resulting in substantial overtime payments and a temporary loss of productivity.

Our in-house quality team works closely with Australian Biosecurity to ensure that imported product is effectively treated and screened to protect Australia from damaging pests and disease. During the year we worked with the biosecurity agency to re-establish an import pathway from Vietnam, a key growing region, that had been closed following tightened regulations on the use of certain prescribed treatments.

Our three Australian farms support the Group with potted plants and Australian wildflowers that are difficult to otherwise source at required specification, quality and volumes. This vertical integration of supply (including our farms in China) is a competitive advantage in maintaining consistency of service to our customers. The importation of young orchid plants for finishing on our farms, was disrupted for both air and sea transport routes across much of FY22. Supply pathways have now stabilised as we move into the new financial year. This is a key product grown by Lynch farms in Queensland and Western Australia. The benefits of resupply will be generated in FY23 and beyond.

Lynch Group is the largest importer of floral product into Australia. Our fast-growing Markets sites distribute locally sourced products alongside imported lines to other wholesalers and florists. With our hub operation in Flemington and two satellite sites in Newcastle and Canberra this volume adds to our procurement scale and provides additional flexibility in how we manage product flow. In October 2021, we completed the acquisition of a further site in Rocklea markets in Brisbane, which has performed strongly post acquisition. With significant supply constraints over the last year, our Markets business has proven its unique sourcing capability to build its customer base in each of the geographies that we service.

<u>China</u>

Due to historical product quality issues associated with a fragmented and developing grower base, coupled with multi-layer ambient product distribution networks, the consumer market for floral products had been slow to develop. Yet today, the floral market in China is many times the size of most western markets, is growing strongly, and consumer buying trends centred around self-consumption and gifting, particularly during key event periods, is emerging rapidly. Per capita spend rates on floral products still remain low on a comparable international basis. Lynch Group in China is the largest grower of premium flowers in the country with four farms and a processing facility located in Yunnan province and a distribution and bouquet making facility located in Shanghai.

Lynch Group's access to premium floral genetics, investment in advanced growing infrastructure and systems, and direct distribution via its own contracted cool chain logistics, provides year-round supply of a high quality and unique product range to Chinese retail and wholesale customers at competitive prices. Prior to recent lockdowns over 50% of farm production was sold to various retail platforms including supermarkets at fixed prices, suppressing the volatility of market prices, and also allowing flexibility to maximise pricing opportunities in high demand festival windows across the year.

The company constructed a record 18Ha of new greenhouse capacity and an additional packing and cool storage facility during FY22 on time and in line with budget. Production volumes from existing plantings and expanded growing areas exceeded internal targets due to a combination of extended heating during the cooler periods and disciplined farm management. Pricing for the first three quarters of the year were up on the previous year as demand continued to outstrip our supply. The June quarter saw the first significant lockdowns in China since the initial responses to COVID-19 in Wuhan in early 2020. These lockdowns starting in late April were most severe in and around Shanghai, a key market for Lynch Group product, with stricter lockdown measures not lifted until late June. Given the diversity of the business's channels to market, our team were able to redirect supply to alternative markets. All volumes were sold albeit at lower than budgeted pricing. Whilst the company's Shanghai facility was closed for the duration of the lockdown, the farms remained fully operational. Logistics between farm and customer were challenging but managed well by the local team. Export operations to Lynch's Australian operation were significantly impacted by elevated freight rates and limited cargo capacity ex China, disrupted by periodic air and sea port closures during the lockdowns. Volumes produced for export were successfully sold into the local market.

Summer conditions in Yunnan proved difficult for many growers given the combination of heat and disease. Whilst this also contributed to overall lower market pricing, the benefit of Lynch Group's controlled growing environment was evident to customers as the business continued to deliver premium quality product to its customers.

Closing

Our teams continue to work hard to deliver compelling product for our customers in Australia and China. Across a year of varied disruptions and pressures, the dedication passion for our business and the product we work remains foremost in the efforts of our teams. The Board and I would like to extend our thanks to all of our staff and stakeholders, and look forward to a successful year across FY23.

Chief Executive Officer's Address

FY22 Key Achievements

Good morning, ladies and gentlemen. Today I will talk to you about our performance over financial year 2022, update you on progress on our current growth strategies, outline the Group's approach and planning on ESG, and provide a trading update and outlook for the current financial year.

Across FY22, operational execution and advancement of our strategic initiatives across our business was a credit to our teams. This was set against a very challenging operating environment, which included extended COVID lockdowns, significant disruption and cost escalation to both our domestic and international logistics, and a tight labour market.

Our FY22 results reflected 11% growth in Group Revenue year on year, with pleasing results delivered in both operating geographies. The aforementioned cost and supply chain issues impacted our margins, particularly in our Australian operations, meaning the Group delivered a year-on-year decline in EBITDA of 18%.

We can report that across the year, solid progress was made across key operational initiatives and projects. In Australia, key events were successfully delivered with our customers, our efforts to increase sale-or-return store coverage has progressed well, the roll-out of our new merchandising platform nationally has been completed on time, and the push to drive more share in wholesale markets has been well executed. We also moved closer to delivering our first major event from our new Sydney warehouse this Christmas.

In China, our farm production footprint expansion was significant, adding a further 18ha to bring our total area under greenhouse to 79ha. Volume growth exceeded our internal targets, and customer engagement across all channels strengthened due to the scale, quality and reliability, of our product. We also completed construction of additional processing and packing capacity through our new warehouse at Changkou. Integration of our China operations, people, structures and systems was also completed across the financial year, with Dirk Vlaar appointed China CEO in March.

All in all, FY22 was a busy year across the Group, with significant progress delivered across our key strategic initiatives.

FY22 Australia

For FY22, the Australian operations achieved revenue of $309m, 8% up on 2021 with EBITDA of $23m, 36% down on 2021. Customer demand remained strong across the year, with ASP growth across our range driving the bulk of our supermarket channel growth in an environment of constrained supply.

Our larger second half major events in Valentines' Day and Mothers' Day were successfully executed with our customers. Despite minor product shortages, our customers were able to achieve excellent in-store sell through rates. Labour shortages, which emerged early in the second half, impacted both cost and production efficiency across these major volume events.

The upward trajectory of international air and sea freight rates from November, continued across the March quarter, and rates were further impacted by the conflict in Ukraine. Locally, the March floods also tightened the market for product supply, leading to some product shortages and higher pricing for procurement volumes above our contracted levels.

The combined impacts of unrecovered freight, supply chain disruptions, labour shortages and direct COVID related expenditure, increased Australian costs by more than $11m for the year. The scale and immediacy of supply chain disruptions and resultant direct cost burden on the business, meant that incremental costs pressure could only be partially recovered through range management or via customer price negotiation. Additional cost pressures faced by the business across FY22, were therefore significantly larger than the unrecovered amount of $11m reported. We have been successful in implementing price increases with our customers, and continuous range and mix adjustments were implemented to stabilise and improve margins as we entered the new financial year.

FY22 China

FY22 was again a record year for the China operation. Revenue of $87m was 36% up on 2021, with EBITDA of $25m, 12% up on 2021.

Household demand for floral products remained strong for the bulk of the year, with the final quarter impacted by the Shanghai lockdown and broader consumer caution relating to China's ongoing COVID-zero policies. The business also experienced periodic airport closures disrupting our export program. Our China sales team were able to in large part mitigate the impact of any stock pressure from lockdowns and export disruptions, by moving increased volumes with new provincial wholesale customers outside of our traditional markets.

Growth across the year was largely driven by volume growth from farm base expansion, and the increased maturity profile of our rose crops. The FY22 development program takes our total greenhouse space in production to 79ha for the year ahead.

Margins in China reflected pleasing pricing performance, with modest year on year gains across the financial year, partly offset by higher costs for energy, and logistics for both domestic transport and air freighted export volumes.

Key Operational Objectives FY23

I will now focus on the key operational objectives we are working on across FY23.

In Australia, our focus remains on giving consumers a convenient, fresh, and high value range of floral products, thereby growing the floral category with our supermarket customers and improving retail channel share over time. Merchandising reach, improves our sales performance. We completed the development and roll out of our new merchandising technology platform prior to the close of the financial year. The current financial year sees us focussed on leveraging the platform's capabilities to improve our merchandising efficiency, effectiveness and scale over time, allowing us to underpin sales growth with low waste by continuing to grow our SOR store network and via merchandising more of our core stores. We commenced operations at our new purpose-built production facility at Ingleburn 2 weeks ago, which will improve operational efficiency and product quality, and serve as a blue print for future site upgrades in other states in the years ahead. And we are also focussed on further developing our wholesaler and florist channel share, through our markets operation, with current opportunities for both greenfield and acquisition based expansion being worked through.

In China, we are focussed on strengthening our domestic team's capabilities in product development and scaled value-added production capacity, to support growth with our current retail customers and via the addition of new retail customers, as the consumer market for floral products continues to expand and develop. With an eye on current market trading conditions, we remain focussed on continuing our farm production footprint expansion, and securing a long-term lease for a new 5th farm for longer term expansion. And we will expand utilisation of our newly constructed Changkou packing facility to build further strength in our supply capabilities from Kunming for both domestic and export sales.

ESG

As a Board and management team we are fully aware of our responsibilities to the environment and within our local communities. During the year we have engaged with both internal and external stakeholders on a range of ESG issues. Stakeholders included customers, suppliers, professional advisors and investors as well as many team members from within our business. Through this process we have identified the ESG principles that are a priority to our stakeholders, as well as those which matter most to our business.

In terms of environmental considerations, energy consumption and emissions, water stewardship, biodiversity, packaging and waste management were identified as key areas. We are part way through an important research collaboration with the University of Western Sydney to establish the current environmental footprint of our business operations. Whilst a lot of progress has already been made in each of these areas, the focus is now to fully codify our practices, generate a base line from which to measure our performance, and to develop strategies and actions to make continuous improvements, including the setting of targets consistent with our scale and level of risk.

With regard to social considerations, the upholding of human rights and ethical practices, acting as a responsible corporate citizen and providing a safe, inclusive and diverse working environment have been identified as key areas. This is important given our expanding grower base in Asia, Africa and South America. We continue to work with our customers and suppliers on ethical sourcing, with our obligations under the Modern Slavery legislation, front and centre in what we do.

In relation to governance, we issue an annual corporate governance statement and remain committed to compliance and reporting against ASX governance principals as well as to transparent communications with all our stakeholders.

We are pleased to confirm that we will be issuing our first Sustainability Report for FY23. This voluntary report will aim to provide transparency around our current ESG position and set the initial groundwork towards reporting against formal climate related standards once these have been fully outlined. Importantly, we are determined to ensure a sustainability culture is present in the major decisions we make as a business. Whilst we have come a long way from the family business practices pre-IPO, we recognise this is an important journey we are undertaking.

Trading Update and Outlook

In August, we updated the market on performance and outlook, noting freight and labour settings for Australia, and softening consumer sentiment in China.

Current trade settings for first half FY23 reflect:

In Australia

- A softening in sales growth, which will likely finish the half 4% above last year. The slowing in recent sales performance largely reflects the implementation of a new automated ordering system by one of our largest customers, that has resulted in significant volatility and declines in order volumes. This has also led to temporary waste issues within our business due to our annual grower volume commitments. SOR store sales performance with that customer, where range order volumes are controlled by Lynch, continue to perform strongly for both us and the customer. We are working collaboratively with this customer to remedy Core store sales performance as we move towards the second half. Consumer demand for floral lines across other customers and channels remains strong
- International freight rates for air volumes have moderated from the peak in Q2, but remain elevated. Customer price increases and range modifications have

steadily improved our floral buying rates across the half. We expect the next round of air freight negotiations in March to lead to further rate reductions and consequent margin improvement
- Underperformance during the year to date in Victoria from operational issues has largely been rectified
- Local pricing for floral lines has improved across spring with a general easing of previous supply demand imbalances, assisting in the steady recovery of our floral buying rates to target
- Domestic freight remains impacted by fuel surcharges, and increased SOR store deliveries. Tight labour markets continue to require the use of overtime to manage production volumes, particularly in peak demand windows

In China

- Farm production volume and operational performance continues to exceed our targets. Recent greenhouse expansion works and crop maturation continue to drive a significant lift in farm production volumes with volumes up more than 30% for the financial year to date
- Market demand has softened across the half, leading to price declines of around 20% on last year levels from the financial year to date. Weakening consumer confidence, caused by extended COVID uncertainty, sporadic lockdowns and a softening in broader economic performance is currently impacting wholesale channel pricing. Revenue under fixed term contracts has fallen to 26% of total revenue in October 2022 with a greater reliance on wholesale customers to clear volumes. Revenue growth for the half will likely finish more than 10% higher than last year, as volume increases will surpass price declines
- Margins in China will reflect a higher overall cost base associated with the 18ha expansion across FY22, and higher heating spend tied to crop protection measures to combat generally wetter weather conditions across summer and spring, and higher energy pricing
- Planning is in place to increase our farm footprint by a further 10ha in this financial year, with a start date in the second half of FY23. We are clearly focussed on an improvement in current market conditions before committing to further capex led expansion

Group Outlook

I will now turn to the 1H FY23 outlook. The first half group financial outlook is for:

- Revenue growth of 6-7%
- EBITDA in the range of $13-15m (excluding one off costs associated with Ingleburn site move)

  - With 1H Australian EBITDA in the range of $7-8m (excluding one off costs associated with Ingleburn site move). Reducing international freight rates, and favourable local supply conditions will contribute significantly to a normalisation of Australian EBITDA margin in H2. We continue to work with our major customers on range and price to recover increases in operating costs, principally labour, local freight and foreign exchange movements. Any softening of consumer spending is likely to accelerate market share gains by the supermarkets and other mass retailers over higher priced florists.
  - And 1H China EBITDA in the range of $6-7m. A recovery in EBITDA margin is wholly dependent upon the re-emergence of the local economy from COVID driven lockdowns (formal or informal). High infection rates during the exit phase are likely to sustain downward pressure on floral pricing. Farm operations meanwhile continue to meet or exceed plan. 10 Ha of additional greenhouse capacity is likely to be constructed in H2 and progress continues to be made to secure a suitable fifth farm.

- NPATA in the range of $1.5-2.0m (excluding one off costs associated with Ingleburn site move). Group NPATA performance reflects higher interest expense, and higher depreciation tied to China expansion works

In closing, I would like to recognise the incredible role played by our staff during the year. Their dedication to providing our customers with the best possible product under extraordinary circumstances involved a massive contribution above and beyond what we would normally expect. This is not only reflected in the hours worked but the innovative solutions created to deal with unique problems. The benefits of this innovation will be long lasting, well beyond the normalisation of our current operating environment.

Thank you, ladies and gentlemen, I will now hand back to our chairman.

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