

ASX Announcement

24 May 2022

Trading Update: temporary supply side capacity constraints and China lockdown impacts expected for FY22. NPATA now expected to be approximately \$25 million (previous guidance \$29 million - \$31 million in Feb 22)

Lynch Group Holdings Limited (ASX:LGL) ('the Group'), Australia's leading vertically integrated wholesaler and grower of flowers and potted plants, today provides a trading update for the 12-month period ended 26 June 2022 (FY22).

Australia

Since the delivery of its 1H FY22 results in February the Group whilst continuing to grow revenue in line with plan has experienced rising costs from a further increase in international freight rates (causing a comparable increase in local buying costs) and pandemic induced labour shortages.

Revenue continues to trend well with growth rates in excess of 6% expected for 2H FY22 notwithstanding restricted product availability particularly during the key Mother's Day period. The Group's products continue to resonate well with customers and the grocery channel continues to increase its penetration rate of the overall floral market.

The Group continues to actively engage on pricing and range settings with its customers to maximise innovation, value and to manage margin. Price increases were secured and implemented from March; however, costs have continued to increase faster than the business has been able to recover through range and price management with these adjustments typically lagging costs by 3-6 months.

Rather than stabilising, international freight rates on key routes have continued to increase through Q4. Capacity increases for international airline carriers have been slower than anticipated but improving. The Group now expects the full year unrecovered impact from elevated freight costs against internal targets to be in excess of \$7 million for FY22.

The recent Mother's Day event was the largest single event in the Group's history. Consumer demand for floral product was extremely strong with the high quality of the Group's floral product delivering a successful sales outcome for the Group and its customers. This was achieved with very limited supply from the Group's China operations as a result of lockdown restrictions in place in China requiring product substitutions at a materially higher cost. The higher costs of imported product generally have flowed to locally produced floral products as domestic growers have increased price to match inflated imported product prices.

Labour availability from both COVID related isolation and a tight market for replacement labour has resulted in material overtime costs to manage the Mother's Day peak.



China

The China business experienced strong market conditions until the recent COVID lockdowns in Shanghai, the primary market for the Group's China grown product. The restraints on movement of people and logistics in Shanghai and increasingly other major cities has forced the business to find alternative markets at materially lower prices. The Group's production facility in Shanghai has remained closed during the lockdown period.

The Group's four Yunnan based farms remain fully operational and continue to meet volume targets.

Geographic sales mix has adjusted to ensure product across this period is successfully distributed. Export logistics have been significantly impacted by disrupted domestic flight schedules and periodic airport closures. Product usually exported to Australia has been sold in the local China market.

Productive farm area continues to track to plan with the Group forecasting developed land of approximately 79ha by the end of FY22.

But for the impact of lockdowns and logistics challenges, the China division would be well ahead of plan.

Outlook

The current trading conditions are expected to continue through the remainder of FY22 easing into FY23. FY22 NPATA is expected to be approximately \$25 million.

The Group expects an easing of freight rates to reflect the increased airfreight capacity to commence during 1H FY23 and the relaxation of COVID isolation restrictions and the opening of international borders to foreign works to assist labour availability. Average sale price for China product (excluding export product that remains impacted) is now in line with internal targets having secured alternative end markets.

The existing dividend policy of at least 50% of annual NPATA is not expected to change based on this outlook.

The Group plans to release its FY22 results on or around 24 August 2022 and is expected to make further comments on the outlook at that time.

Authorised for release by the Board of Lynch Group Holdings Limited

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