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FY19 Half Year Results Announcement
Revenue up 12.3% with 40 net new stores
EBIT up 5.1% to $36.5m

- Revenue increased by 12.3% to $133.2m
- Gross Margin lifted to 81.0% with Gross Profit up 13.0% to $107.8m
- EBIT increased by 5.1% to $36.5m
- Comparable store sales down 1.8%
- 40 net new stores opened during the first half of the year, 366 at half-year end
- Strong balance sheet and cash flow, with cash conversion of 121% and operating cash flow of $49.1m
- Fully Franked Final Dividend of 18.0 cents per share

Results Highlights

(A$'m)	1HFY19 Actual	1HFY18 Actual	Variance
Revenue	133.2	118.6	+12.3%
Gross profit	107.8	95.4	+13.0%
EBIT	36.5	34.7	+5.1%
NPAT	25.5	24.8	+2.7%
EPS (cents)	24.2	23.7	+0.5 cents
Final dividend (cps)	18.0	13.0	+5.0 cents

Managing Director Shane Fallscheer said, "We are pleased that we have been able to increase the momentum of our store rollout during the half which has again delivered us strong top line sales growth despite more challenging trading conditions which contributed to negative comparable store sales".

"The company has been able to continue to invest into the structures to support our global expansion ahead of the growth curve while still continuing to deliver profit growth, and leaves us well placed as we move forward with store rollout in our newest markets in the US and France".

Results

Revenue was $133.2m up 12.3% on 1HFY18 with growth delivered across all markets, benefiting from strong growth in store numbers. This was offset by a decline in comparable store sales of 1.8% across the group impacted by cycling comparable store sales of +7.4% for the first half of FY18, and particularly strong comps through last year's Christmas and Boxing Day periods.

Whilst we are generally happy with our execution of meeting customer needs in product and in store execution for the period, we have not seen the same major trends in the fashion jewellery sector as we have seen in recent years that have helped drive strong comparable store sales in prior years consistently above our target growth range.

Growth in the European and US markets accelerated in the period, with 12 new stores in the UK, 8 stores now trading in Spain, 7 in France and 8 in the US. South Africa performed well, with sales up 10.5% for the period aided by additional stores opened as well as comparable store sales growth.

Whilst still delivering top line growth in the Australia/NZ market, Australia in particular was impacted by generally softer trading conditions, and combined with this market having outperformed over recent years resulted in negative comparable store sales for the half year. Asia was again solid with another strong sales performance in Malaysia offsetting 4 store closures in Singapore.

Gross Margin increased 60bps to 81.0% as we continued to benefit from higher USD hedge rates in the period. We have maintained our focus on margin, with continued focus on inventory management and promotional effectiveness resulting in a small improvement in margin on a constant currency basis in spite of the more challenging trading conditions. Gross Profit increased by $12.4m to $107.8m, up 13.0%.

The business has continued to make important investments into both people and process to drive the growth of the store network and to support what is an increasingly globalised business, which when combined with negative comparable store sales growth and higher store operating costs in growth markets as we build scale, has resulted in CODB% being higher than the same period last year at 50.4%.

CODB for the half year also includes the investment made into relocation of the Hong Kong Distribution Centre to Qingdao, China, as well as the investment made into the rollout of our eCommerce platform which launched in October.

We continue to invest ahead of the growth curve to lay the foundations for future growth, while still remaining focused on keeping tight control of the underlying cost structure of the business.

Cashflow was again strong with cash from operations before interest and tax of $49.1m, supported by operating cash conversion at 121% as we continue to manage our working capital well in the face of the ongoing investment into stock for new stores and to support eCommerce.

Capital expenditure increased by $5m to $12.5m primarily driven by new store openings net of landlord contributions, with an increased number of stores opened in the period and higher capex per store as we expand in higher cost markets where we are yet to build scale. It also includes refurbishments of current stores upon lease renewals and key money paid.

Cash dividends in the period were $7m higher than prior year at $14.8m as a result of the increased final dividend from FY18, resulting in net cash flow of $10m and closing cash on hand of $32m, with a further $25 million of financing facilities remaining undrawn (and additional $15m acquisition finance facility, subject to bank due diligence). This provides significant capacity to fund the future store growth program, and has again allowed the Directors to return surplus cash to shareholders with the interim dividend increasing 5 cents to 18 cents per share.

As the store rollout in our growth territories continues, the Board will continue to assess dividend levels each half year and determine the appropriate level of dividend based on profitability, cash flows, and future growth capex requirements.

Store Growth

The key driver of future growth for Lovisa is the continued international store roll out. The store network increased to 366 stores as at the end of the period, a net increase of 40 stores from June 2018, with 51 new stores opened and 11 stores closed as part of our ongoing store network optimization process. An update on the status of our newest markets in the US, France and Spain is included below.

Store growth in 1HFY19			
	1HFY19 Store numbers	**1HFY18 Store numbers**	**Variance**
Australia	155	151	4
New Zealand	20	20	-
Singapore	18	22	(4)
Malaysia	22	21	1
South Africa	61	56	5
UK	36	24	12
Spain	8	5	3
France	7	2	5
USA	8	1	7
Middle East	24	18	6
Vietnam	7	6	1
Total	**366**	**326**	**40**

USA

We have now traded in the US since November 2017, and with the pleasing performance of the 8 stores trading in the California market, we are now confident to continue our store rollout with the knowledge that the Lovisa offer is resonating with the American consumer. Whilst operating costs in this market have been higher than some of our other markets so far, in particular new store build costs, we are confident that with scale and more experienced teams on the ground that this market will over time deliver returns consistent with what we are used to from our existing markets.

We continue to invest in the structures to drive growth in the US, and have recently appointed a 2nd leasing manager for the US market who will service the east coast, and expect to be trading in other states prior to the end of the financial year. The US represents a significant opportunity, however we will continue with our cautious and disciplined approach with the eventual size and timing of the store rollout dependent as always on the delivery of quality stores rather than hitting store number targets.

France

We have now traded in France since February 2018 and were able to go through the key Christmas trading period with 7 stores trading. Consistent with the US, performance of these stores has been pleasing, and whilst we still have a lot to learn to optimise our operations in this market we have enough confidence to move this region out of pilot and progress the store rollout.

As with the US, our experience in France to date has been that operating costs have been higher than our average, and store rollout slower than we are used to, however again we expect that with increased scale we will be able to deliver returns more in line with our existing mature markets. We now have a leasing manager in place in France to support the growth of this market, and again we will not sacrifice quality of stores or our operating metrics to deliver on a store number target.

Spain

The company traded 8 stores into the Christmas period in Spain, having opened our first store in June 2017. Our performance in this region has been inconsistent to date and as a result we have elected to slow any further store openings until we can deliver on the key metrics required to expand in this market, and will continue to focus on the stores we are already trading in.

Operational Update

We continue to focus on investment in people and processes to ensure we remain efficient as we grow and able to execute on our strategic plans. During the half year we appointed a number of important roles to the business:

- Chief Operating Officer
- Executive Vice President Europe & Africa
- Vice President Retail Stores and Operations USA
- Leasing Managers in France and East Coast USA

In addition to these roles, we also relocated the Global Property Director to London to be closer to our growth markets.

Some of the key operational and IT changes completed during the period are:

- We have moved our third party logistics hub from Hong Kong to Qingdao, China to find economies in the picking and packing of orders and to be closer to our suppliers;
- We have changed our logistics provider in order to deliver a more efficient supply chain;
- We have upgraded our in-store point of sale hardware and software to ensure we can cater for global languages and integrated EFTPOS to all regions; and
- We have changed our global store labour management and rostering systems to ensure that we can effectively manage the growing workforce we have across our 9 company owned territories and 3 different languages.

In addition, we launched the Lovisa.com eCommerce website in October in the Australian and New Zealand markets, and continue to refine our omni-channel operating model before launching more globally.

Board update

The Directors are pleased to announce today the appointment of Sei Jin Alt to the Board of Directors as an independent non-executive Director. Sei Jin brings to the Board broad merchandising, managerial, financial, and operational experience in multiple fashion categories as well as business leadership expertise gained over 20 years in the industry. She also brings experience and expertise from a number of large US retailers such as JCPenney, Nordstrom and Macy's and from 2010-2015 as Chief Merchandise Officer and Executive Vice President of Nasdaq listed fashion retailer Francesca's, with over 700 stores across the US.

In addition to this change, Nico Van Der Merwe has also been appointed to the Board as an Alternate Director to Brett Blundy. Nico has been Chief Financial Officer of BB Retail Capital (BBRC) for the past 12 years and brings significant retail, investment, and financial management experience to the Board.

Trading Update and Outlook

We continue to cycle 4 years of particularly strong comparable store sales. This has made a continuation of the strong comparable store sales delivered in FY18 more challenging.

Trading since the end of the half year has seen an improvement across all markets with positive comparable store sales for the period however still below our target comparable store sales range of 3 – 5%.

We continue to focus on ensuring that our strong gross margins are maintained and costs remain well controlled as we invest in the future growth of the business. We expect currency headwinds to begin to have an impact later in the financial year and into FY20 as our average USD hedge rate reduces.

We continue our focus on expanding our store network, and expect the increase in number of stores for the second half of FY19 to be higher than in the second half of FY18, and we will continue to invest in our support structures ahead of the growth curve to drive store network expansion and support the larger business.

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