Universal Store

Appendix 4D and H1 FY24 Interim Report

Brisbane, 22rd February 2024

In accordance with the Listing Rules of the Australian Securities Exchange (ASX), Universal Store Holdings Limited (ASX:UNI) encloses for immediate release the following information:

- Appendix 4D – Half Year Report; and
- Interim Consolidated Financial Report for the half year ended 31 December 2023.

Authorised for release by the Board of Directors of Universal Store Holdings Limited.

For more information, please contact:

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ABOUT UNIVERSAL STORE

Universal Store Holdings Limited (ASX: UNI) owns a portfolio of premium youth fashion brands and omni-channel retail and wholesale businesses. The Company's principal businesses are Universal Store and CTC (trading the THRILLS and Worship brands). The Group is currently rolling out Perfect Stranger as a standalone retail format. The Company currently operates 100 physical stores across Australia in addition to online channels. The Company's strategy is to grow and develop its premium youth fashion apparel brands and retail formats to deliver a carefully curated selection of on-trend apparel products to a target 16-35 year-old fashion focused customer.

Universal Store Holdings Limited
ABN 94 628 836 484

Appendix 4D and Interim Consolidated Financial Report for the Half-year Ended 31 December 2023

Appendix 4D

For the half-year ended 31 December 2023

1 Company details

Name of entity:	Universal Store Holdings Limited
ABN:	94 628 836 484
Reporting period:	For the half-year ended 31 December 2023
Previous period:	For the half-year ended 31 December 2022

2 Results for announcement to the market

		Percentage change %		Amount $'000
Revenue for ordinary activities	Up	8.5%	to	158,001
Profit after income tax for the period	Up	16.7%	to	20,738
Profit for the period attributable to the owners of Universal Store Holdings Limited	Up	16.7%	to	20,738

Dividends

During the financial period, the Group paid a final dividend for the year ended 30 June 2023 of $6.1 million (31 December 2022: $10.7 million).

	Amount per security Cents	Franked amount per security Cents
Final dividend in relation to year end 30 June 2023	8.00	8.00
Interim dividend in relation to half-year end 31 December 2023	16.50	16.50

Dividend declared and payment dates:

	Declared	Paid
Final dividend in relation to year end 30 June 2023	23 August 2023	3 October 2023
Interim dividend in relation to half-year end 31 December 2023	21 February 2024	28 March 2024

3 Net tangible assets per security

	31 December 2023	31 December 2022
Net tangible assets per ordinary security	0.35	0.20

Net tangible assets are calculated by deducting intangible assets from the net assets of the Group adjusted for the associated deferred tax liability of $15.5 million (2022: $15.5 million).

If the right-of-use assets and the associated deferred tax liability were excluded from the calculation, the net tangible assets per security would have been negative $0.17 per ordinary share for 31 December 2023 (2022: negative $0.34).

4 Other information

This report is based on the consolidated financial statements which has been reviewed by PricewaterhouseCoopers.

For further explanation of the figures above please refer to the ASX Announcement dated 22 February 2024 on the results for the half-year ended 31 December 2023 and the notes to the interim consolidated financial statements.

Universal Store Holdings Limited
ABN 94 628 836 484

Interim Consolidated Financial Report for the Half-year Ended 31 December 2023

Contents

Directors' report

The Directors submit their report on the consolidated entity consisting of Universal Store Holdings Limited (the "Company") and its controlled entities (the "Group") for the half-year ended 31 December 2023.

In the report, "UNI" or "Group" or "the Company" means Consolidated group parent, "US" means Universal Store/Universal Store business, "CTC" means Cheap THRILLS Cycles business, and "PS" means Perfect Stranger retail format.

Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period, unless otherwise stated.

Alice Barbery

Peter Birtles

Kaylene Gaffney

Renee Gamble

David MacLean

Trent Peterson

Principal activity

During the year, the principal activity of the Group consisted of fashion retailing, which includes designing and wholesaling.

There were no significant changes in the nature of activity during the period.

Dividends

On 23 August 2023, the Directors of Universal Store Holdings Limited declared a final dividend on ordinary shares in respect of the 2023 financial year. The total amount of the dividend was $6.1 million paid on 3 October 2023 (31 December 2022: $10.7 million).

On 21 February 2024, the Directors recommended an interim dividend for the half-year ended 31 December 2023 of $12.7 million to be paid on 28 March 2024.

Review of operations

The net profit from ordinary activities after tax of the Group for the half-year ended 31 December 2023 was $20.7 million (31 December 2022: $17.8 million).

	6 months to 31 December 2023 $M	6 months to 31 December 2022 $M	Change %
Revenue from contracts with customers	158.0	145.7	8.4
Other income	0.7	-	-
Expenses	(113.0)	(106.5)	6.1
EBITDA [1]	**45.7**	**39.2**	**16.6**
Depreciation, amortisation and impairment expense	(14.3)	(12.7)	12.6
EBIT [2]	**31.4**	**26.5**	**18.5**
Finance costs	(2.4)	(1.7)	41.2
Finance income	0.4	0.3	33.3
Profit before tax	**29.4**	**25.1**	**17.1**
Income tax expense	(8.7)	(7.3)	19.2
Profit after tax	**20.7**	**17.8**	**16.3**

Directors' report (continued)

Review of operations (continued)

	6 months to 31 December 2023 $M	6 months to 31 December 2022 $M
Reconciliation to underlying EBIT		
EBIT	**31.5**	**26.5**
Transaction costs associated with acquisition of CTC	-	2.0
Fair value movement of contingent consideration	(0.7)	-
Underlying EBIT	**30.8**	**28.5**
Underlying EBIT margin	19.5%	19.6%

	6 months to 31 December 2023 Cents	6 months to 31 December 2022 Cents
Basic earnings per share	27.6	25.1
Diluted earnings per share	27.3	24.4
Adjusted EPS[3]	26.6	27.5

[1] Earnings before interest, tax, depreciation and amortisation (EBITDA)
[2] Earnings before interest and tax (EBIT)
[3] Adjusted EPS is calculated using underlying NPAT and the weighted average number of ordinary shares outstanding during the period 75.2 million (2022: 70.9 million).

Review of operations

The youth apparel market encountered notable challenges this year, characterised by successive interest rate hikes, intensified rental shortages, and rising living costs. These factors have notably impacted the disposable income of the youth demographic, resulting in a subdued customer spending environment. However, despite these macroeconomic challenges, the Group stayed on track and achieved growth in sales and profits, with notable improvements from Q1 to Q2.

The H1 FY24 results for the Group were consistent with expectations, with total sales of $158.0 million, an 8.5% increase from H1 FY23 (0.4% increase when excluding CTC sales). In terms of like-for-like (LFL) sales growth, Universal Store saw a 5.4% decline for the half with LFL sales growth improving from Q1 (-7.7%) to Q2 (-3.7%), driven by stronger performance in November and December despite deflationary pressures amid increased discounting. The online channel for the Group generated $22.2 million in revenue, contributing 14.1% to the total sales.

The Group gross profit reached $94.3 million, reflecting an 80 basis point improvement in gross margins, now at 59.7%. Margin improvement was supported by incremental gains associated with the CTC brands (THRILLS, Worship), notwithstanding an inflationary environment in COGS and heightened discounting across the market. Despite this, the Group’s resolute commitment to promotional discounting discipline remains. Furthermore, the Group successfully managed inventory to ensure it remained dynamic and fresh, notwithstanding the subdued customer spending environment.

The Group focused on managing its cost of doing business through a series of initiatives, including optimising store labour and targeted distribution centre productivity enhancements. The Group’s H1 FY24 cost of doing business increased 60 basis points versus the prior corresponding period, primarily reflecting expenses relating to CTC, largely employee costs. Pleasingly, the Universal Store business managed costs in line with sales, with $1.3 million cost-out achieved via productivity improvements across stores and the distribution centre, despite mandatory award increases.

Directors' report (continued)

Review of operations (continued)

Investment in new stores continues, with pleasing performance in all six new stores opened during H1 FY24; three stand-alone Perfect Stranger stores, two Universal Stores, and a recently introduced new format THRILLS store. Fitzroy THRILLS store lease expired and closed during H1 due its suboptimal size and location.

The acquisition of CTC was finalised on 31 October 2022, incorporating a thriving and profitable brand featuring a diverse business model, robust brands, and expertise in product development and sourcing. The THRILLS brand maintains strong consumer appeal and the emerging 'Worship' brand surpassed expectations, resonating with both male and female consumers. Despite a subdued customer spending environment the newly acquired business exhibited solid sales growth, up 4.2% on H1 FY23. Underlying profits lagged last year's results due to a decrease in gross margins and escalated investments in people and governance.

Group underlying EBIT was $30.8 million, an 8.1% increase from the prior period, and the statutory NPAT was $20.7 million, a 16.7% increase on H1 FY23.

The Group's H1 FY24 results stand as robust, considering the prevailing macro environment. The transition from Q1 to Q2 FY24 demonstrated an improvement in sales growth and there was an expansion in the gross profit margin. Inventory decreased compared to H1 FY23, reflecting the team's alignment with customer demands and proactive management of slow moving stock whilst developing new successful products. The acquisition has demonstrated positive performance thus far, instilling confidence in the Group's strategies for sustained growth.

Strong cash flow and balance sheet

The Group reported a robust cash position of $42.3 million in the bank and net cash of $27.4 million, building strongly in the half despite payment of first Deferred Variable Consideration ($3.0 million) relating to CTC and payment of full year FY23 dividend ($6.1 million).

Inventory levels decreased by $1.4 million versus June 2023 aligning to customer demand and ensuring that product remained fresh and slow moving stock limited. The Group remains committed to a pricing and promotional strategy that is disciplined and sustainable, and a nimble and granular approach to inventory management.

In recognition of the Group’s financial strength, the Board of Directors have declared an interim dividend of 16.5 cents per share, which will be fully franked and payable on 28 March 2024.

Store growth

New store roll-out continues to progress well, including six new stores opened in H1 FY24 - two new Universal Store locations, three new Perfect Stranger sites and the first new THRILLS store format in December 2023. Currently, there are eleven Perfect Stranger stores trading as of 31 December 2023, with planned national roll-out accelerating.

The Group has 100 physical stores, with 79 Universal Stores, 11 Perfect Stranger stores, and ten THRILLS stores. The target is to reach 100+ Universal Stores across Australia and New Zealand, with Perfect Stranger and THRILLS stores as additions.

Supply chain

The Universal Store business marked its 12-month anniversary in the new support office and distribution centre during November 2023, maintaining a commitment to driving productivity. The Group has successfully enhanced processes, leading to improved pick accuracy, faster fulfilment, and significant cost savings.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the period.

Significant events after the reporting date

On 21 February 2024, the Directors recommended an interim dividend for the half-year ended 31 December 2023 of $12.7 million to be paid on 28 March 2024.

Directors' report (continued)

Significant events after the reporting date (continued)

There were no other significant events occurring after the reporting date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Rounding

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($'000) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

Auditor's independence declaration

The Directors have received a declaration from the auditor of Universal Store Holdings Limited. A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the Directors.

Peter Birtles
Independent Non-Executive Director and Chairman
21 February 2024

Auditor's Independence Declaration

As lead auditor for the review of Universal Store Holdings Limited for the half-year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Universal Store Holdings Limited and the entities it controlled during the period.

Kim Challenor
Partner
PricewaterhouseCoopers

Brisbane
21 February 2024

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Interim consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2023

	Notes	6 months to 31 December 2023 $'000	6 months to 31 December 2022 $'000
Revenue from contracts with customers	4	158,001	145,659
Raw materials and consumables used		(63,660)	(59,839)
		94,341	85,820
Other income		699	-
Other gains/(losses)		13	-
Employee benefits expenses		(33,436)	(30,762)
Occupancy expenses		(6,386)	(5,138)
Depreciation, amortisation and impairment expense		(14,260)	(12,732)
Transaction costs associated with acquisition of CTC	5	-	(2,014)
Marketing expenses		(4,427)	(4,127)
Banking and transaction fees		(19)	(16)
Other expenses		(5,054)	(4,572)
Finance costs		(2,453)	(1,742)
Finance income		440	304
Profit before income tax		**29,458**	**25,021**
Income tax expense	6	(8,720)	(7,257)
Profit attributable to owners of Universal Store Holdings Limited		**20,738**	**17,764**
Other comprehensive income		-	-
Total comprehensive income for the period		**20,738**	**17,764**
		Cents	**Cents**
Basic earnings per share	15	27.6	25.1
Diluted earnings per share	15	27.3	24.4

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Interim consolidated statement of financial position

For the half-year ended 31 December 2023

	Notes	31 December 2023 $'000	Restated 30 June 2023 $'000
Assets			
Current assets			
Cash and cash equivalents		42,337	21,444
Trade receivables		4,077	1,896
Other receivables		3,390	3,016
Inventories	7	24,622	25,980
Current tax assets		-	717
Other financial assets		6	-
Total current assets		**74,432**	**53,053**
Non-current assets			
Plant and equipment	8	16,858	16,061
Right-of-use assets	11	56,169	56,942
Goodwill and intangible assets	9	140,244	140,395
Total non-current assets		**213,271**	**213,398**
Total assets		**287,703**	**266,451**
Liabilities			
Current liabilities			
Trade and other payables		31,726	24,602
Lease liabilities	11	20,815	20,686
Contract liabilities		2,792	1,568
Provisions		2,483	2,181
Current tax liabilities		3,026	-
Total current liabilities		**60,842**	**49,037**
Non-current liabilities			
Borrowings	10	14,908	14,879
Lease liabilities	11	41,278	42,396
Provisions		1,098	1,071
Other payables		4,713	9,634
Deferred tax liabilities		13,528	12,991
Total non-current liabilities		**75,525**	**80,971**
Total liabilities		**136,367**	**130,008**
Net assets		**151,336**	**136,443**
Equity			
Contributed equity	12	110,844	110,844
Share-based payment reserve	13	9,376	9,083
Retained earnings		31,116	16,516
Total equity		**151,336**	**136,443**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes. Comparative information has been restated to recognise adjustments as detailed in Note 17.

Interim consolidated statement of changes in equity

For the half-year ended 31 December 2023

	Contributed equity (Note 12) $'000	Shared-based payment reserve $'000	Retained earnings $'000	Total equity $'000
At 1 July 2023	**110,844**	**9,083**	**16,516**	**136,443**
Profit for the period	-	-	20,738	20,738
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**20,738**	**20,738**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(6,138)	(6,138)
Share-based payment (Note 13)	-	247	-	247
MEP loan repayment	-	46	-	46
At 31 December 2023	**110,844**	**9,376**	**31,116**	**151,336**
At 1 July 2022	**92,161**	**7,977**	**11,371**	**111,509**
Profit for the period	-	-	17,764	17,764
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**17,764**	**17,764**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(7,686)	(7,686)
MEP loan repayment	-	376	-	376
Share-based payment	-	245	-	245
Issue of ordinary shares as consideration for acquisition of CTC	18,683	-	-	18,683
At 31 December 2022	**110,844**	**8,598**	**21,449**	**140,891**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim consolidated statement of cash flows

For the half-year ended 31 December 2023

	Notes	31 December 2023 $'000	31 December 2022 $'000
Operating activities			
Receipts from customers		173,102	162,521
Payments to suppliers and employees		(121,590)	(118,324)
Transaction costs associated with acquisition of CTC	17	-	(2,014)
Interest received		440	318
Interest paid		(2,418)	(1,677)
Income taxes paid		(4,440)	(7,796)
Net cash flows from operating activities		**45,094**	**33,028**
Investing activities			
Payment for acquisition of subsidiary, net of cash acquired	17	-	(16,526)
Purchase of plant and equipment	8	(4,315)	(6,850)
Purchase of intangible assets	9	(54)	(11)
Proceeds from sale of plant and equipment		1,084	430
Payment of contingent consideration associated with acquisition of CTC	17	(3,043)	-
Net cash flows used in investing activities		**(6,328)**	**(22,957)**
Financing activities			
Payment of principle portion of lease liabilities		(11,861)	(13,189)
Lease incentives received in cash		80	861
Dividends paid to the equity holders of the Parent		(6,138)	(7,686)
Proceeds from MEP loan repayments		46	376
Net cash flows used in financing activities		**(17,873)**	**(19,638)**
Net increase/(decrease) in cash and cash equivalents		20,893	(9,567)
Cash and cash equivalents at beginning of the half-year		21,444	38,768
Cash and cash equivalents at 31 December		**42,337**	**29,201**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

1 Corporate information

The interim condensed consolidated financial statements of Universal Store Holdings Limited (the "Company" or "Parent") and its controlled entities (the "Group") for the half-year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Directors on 21 February 2024.

Universal Store Holdings Limited is a for-profit company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange ('ASX').

The registered office and principal place of business of the Group is 42A, William Farrior Place, Eagle Farm, QLD 4009.

The nature of the operations and principal activity of the Group are described in the Directors' report.

2 Summary of significant accounting policies

2.1 Basis of preparation

These consolidated financial statements for the half-year ended 31 December 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

These consolidated financial statements do not include all the notes of the type normally included in annual financial reports. Accordingly, these consolidated financial statements are to be read in conjunction with the Annual Report for the year ended 30 June 2023 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial liabilities measured at fair value or remeasured amount.

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. There have been no changes to the Group's significant accounting judgements, estimates, and assumptions since the year ended 30 June 2023.

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($'000) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group is an entity to which the legislative instrument applies.

Comparatives have been reclassified where appropriate to ensure consistency and comparability with the current period.

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. The Group has not adopted any new or amended accounting standards or interpretations that have been issued but are not yet effective.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

3 Reportable segments

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM's). The CODM's has been identified as the Board of Directors on the basis that they make the key operating decisions of the Group and are responsible for allocating resources and assessing performance.

Key internal reports received by the CODM's, primarily the management accounts, focus on the performance of the Group as two reportable segments, being Universal Store and CTC. The Universal Store segment includes both the Universal Store and Perfect Stranger retail brands, leveraging a shared infrastructure of management and supporting systems. The accounting policies adopted for internal reporting to the CODM's are consistent with those adopted in the consolidated financial statements.

The Group has considered its internal reporting framework, management and operating structure and the Directors' conclusion is that the Group operates as two reportable segments.

3.1 Segment information provided to the CODM's

The table below shows the segment information provided to the CODM's for the reportable segments for the half-year ended 31 December 2023 and also the basis on which revenue is recognised:

For the half-year ended 31 December 2023	Universal Store $'000	CTC $'000	Inter-segment elimination $'000	Total $'000
Segment revenue	139,762	25,292	(7,053)	158,001
Revenue from external customers	**139,762**	**25,292**	**(7,053)**	**158,001**

For the half-year ended 31 December 2022	Universal Store $'000	CTC $'000	Inter-segment elimination $'000	Total $'000
Segment revenue	139,263	8,189	(1,793)	145,659
Revenue from external customers	**139,263**	**8,189**	**(1,793)**	**145,659**

For the half-year ended 31 December 2023	Universal Store $'000	CTC $'000	Inter-segment elimination/ unallocated items $'000	Total $'000
Reconciliation to underlying EBIT				
EBIT	26,368	4,333	770	**31,471**
Fair value movement of contingent consideration	-	-	(699)	**(699)**
Underlying EBIT	**26,368**	**4,333**	**71**	**30,772**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

3 Reportable segments (continued)

3.1 Segment information provided to the CODM's (continued)

For the half-year ended 31 December 2022	Universal Store $'000	CTC $'000	Inter-segment elimination/ unallocated items $'000	Total $'000
Reconciliation to underlying EBIT				
EBIT	27,062	1,966	(2,569)	**26,459**
Transaction costs associated with acquisition of CTC	-	-	2,014	**2,014**
Underlying EBIT	**27,062**	**1,966**	**(555)**	**28,473**

	6 months to 31 December 2023 Total $'000	6 months to 31 December 2022 Total $'000
Underlying EBIT	**30,772**	**28,473**
Transaction costs associated with the acquisition of CTC	-	(2,014)
Fair value movement of contingent consideration	699	-
Finance costs	(2,453)	(1,742)
Finance income	440	304
Profit before tax	**29,458**	**25,021**

3.2 Segment assets

Segment assets are measured in the same way as in the consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2023 $'000	Restated 30 June 2023 $'000
Universal Store	217,315	200,864
CTC	70,388	65,587
Total segment assets	**287,703**	**266,451**

Comparative information has been restated to reflect the restatement of prior period assets as detailed in note 17.

3.3 Segment liabilities

Reportable segments' liabilities are reconciled to total liabilities as follows:

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

3 Reportable segments (continued)

3.3 Segment liabilities (continued)

	31 December 2023 $'000	Restated 30 June 2023 $'000
Universal Store	122,933	118,465
CTC	13,434	11,543
Total segment liabilities	**136,367**	**130,008**

Comparative information has been restated to reflect the restatement of prior period liabilities as detailed in note 17.

4 Revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time as follows:

	6 months to 31 December 2023 $'000	6 months to 31 December 2022 $'000
Total revenue from contracts with customers	**158,001**	**145,659**

5 Transaction costs

	6 months to 31 December 2023 $'000	6 months to 31 December 2022 $'000
Transaction costs associated with acquisition of CTC	-	2,014

6 Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the Interim consolidated statement of profit or loss and other comprehensive income are:

	6 months to 31 December 2023 $'000	6 months to 31 December 2022 $'000
Income taxes		
Current income tax expense	8,180	6,194
Deferred income tax expense/(benefit)	540	1,063
Income tax expense recognised in the interim consolidated statement of profit or loss	**8,720**	**7,257**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

7 Inventories

	31 December 2023 $'000	Restated 30 June 2023 $'000
Stock on hand at cost	25,362	27,714
Provision for inventory write-downs	(740)	(1,734)
Carrying value of inventory	**24,622**	**25,980**

Inventories recognised as an expense during the half-year ended 31 December 2023 amount to $57.8 million (31 December 2022: $53.6 million). Write-downs of inventories to net realisable value recognised as an expense during the half-year ended amounted to $103,000 (31 December 2022: $675,000). These were included in raw materials and consumables used (together with merchant fees and freight).

Comparative information has been restated to reflect the restatement of prior period inventories as detailed in note 17.

8 Plant and equipment

	Fixtures and fittings $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Cost				
At 1 July 2022	4,297	14,891	4,982	24,170
Acquisition of subsidiary	-	403	-	403
Additions	2,721	4,664	2,486	9,871
Disposals	(808)	(1,554)	(387)	(2,749)
At 30 June 2023	**6,210**	**18,404**	**7,081**	**31,695**
Additions	819	2,723	953	4,495
Disposals	-	(1,258)	-	(1,258)
At 31 December 2023	**7,029**	**19,869**	**8,034**	**34,932**
Accumulated depreciation				
At 1 July 2022	2,283	8,211	2,772	13,266
Depreciation charge	856	2,529	1,111	4,496
Disposals	(808)	(933)	(387)	(2,128)
At 30 June 2023	**2,331**	**9,807**	**3,496**	**15,634**
Depreciation charge	398	1,454	588	2,440
At 31 December 2023	**2,729**	**11,261**	**4,084**	**18,074**
Net book value				
At 30 June 2023	3,879	8,597	3,585	16,061
At 31 December 2023	**4,300**	**8,608**	**3,950**	**16,858**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

9 Goodwill and intangible assets

	Goodwill $'000	Brand names $'000	Software $'000	Total $'000
Cost				
At 1 July 2022	55,516	36,620	1,777	93,913
Acquisition of subsidiary (Note 17)	32,205	15,214	-	47,419
Additions	-	-	355	355
Disposals	-	-	(68)	(68)
At 30 June 2023	**87,721**	**51,834**	**2,064**	**141,619**
Additions	-	-	54	54
At 31 December 2023	**87,721**	**51,834**	**2,118**	**141,673**
Accumulated amortisation				
At 1 July 2022	-	212	667	879
Amortisation	-	-	413	413
Disposals	-	-	(68)	(68)
At 30 June 2023	**-**	**212**	**1,012**	**1,224**
Amortisation	-	-	205	205
At 31 December 2023	**-**	**212**	**1,217**	**1,429**
Net book value				
At 30 June 2023	87,721	51,622	1,052	140,395
At 31 December 2023	**87,721**	**51,622**	**901**	**140,244**

Impairment testing of goodwill

Goodwill was subject to a full annual impairment test as at 30 June 2023. The annual financial report details the most recent annual impairment tests undertaken for all goodwill. The key assumptions used for the impairment tests are disclosed in the Annual Report.

During the interim period, the contingent consideration for the acquisition of the CTC Group was adjusted to reflect the revised estimated forecast results for the performance period. The group considered this in light of the carrying value of assets and considered a range of possible scenarios of performance outcomes and has not identified any instance where the carrying value of assets for the CTC GCU is not considered recoverable.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

10 Borrowings

	31 December 2023 $'000	30 June 2023 $'000
Non-current		
Secured		
Bank borrowings (Facility A)*	14,908	14,879

* The amount includes capitalised borrowing costs of $92,000 for the period ended 31 December 2023 (30 June 2023: $121,000).

- Facility A for $15.0 million which is fully drawn.
- Facility A1 a $10 million revolving working capital facility, which is undrawn.
- Facility D a $8.5 million revolving working capital facility, which is undrawn.
- Facility E a $5.0 million standby letter of credit/guarantee facility.

Facilities A and D expire in April 2025. Facilities A1 expires in October 2025. Facility E is reviewed annually.

Facilities are secured by a General Security Agreement (GSA) and Corporate Guarantee provided by Universal Store Holdings Limited, US 1A Pty Ltd, US 1B Pty Ltd, US Australia Pty Ltd and Universal Store Pty Ltd. A negative pledge has been provided by all parties via the ANZ Facility Agreement.

The Group has complied with all of the financial covenants of its borrowing facilities during the 2023 and 2022 reporting periods and continues to have significant headroom.

11 Leases

11.1 Amounts recognised in the interim consolidated statement of financial position

The Interim consolidated statement of financial position shows the following amounts relating to right-of-use assets and leases:

	31 December 2023 $'000	30 June 2023 $'000
Right-of-use assets	56,169	56,942
Lease liabilities (current)	(20,815)	(20,686)
Lease liabilities (non-current)	(41,278)	(42,396)

Additions to the right-of-use assets during the half-year ended 31 December 2023 were $10.8 million (30 June 2023: $39.0 million, which includes $2.9 million through the acquisition of CTC).

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

11 Leases (continued)

11.2 Amounts recognised in the interim consolidated statement of profit or loss and other comprehensive income

The Interim consolidated statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	6 months to 31 December 2023 $'000	6 months to 31 December 2022 $'000
Depreciation expense of right-of-use assets	11,615	10,461
Interest expense on lease liabilities	1,773	1,188
Expense relating to short-term leases	-	51
Expense relating to variable lease payments not included in lease	6,384	5,087

Total cash outflow for leases for the half-year ended 31 December 2023 was $19.9 million (31 December 2022: $18.7 million).

12 Contributed equity

	31 December 2023 $'000	30 June 2023 $'000
Ordinary shares	110,844	110,844

12.1 Movements in ordinary shares:

	Number of shares '000	$'000
At 1 July 2022	**73,195**	**92,161**
Issue of ordinary shares as consideration for acquisition of CTC	3,525	18,683
At 30 June 2023	**76,720**	**110,844**
At 31 December 2023	**76,720**	**110,844**

12.2 Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value. The Group does not have a limited amount of authorised capital.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

13 Share-based payment reserve

	Share options $'000
At 1 July 2022	**7,977**
Share-based payment	494
MEP loan repayment	612
At 30 June 2023	9,083
Share-based payment	247
MEP loan repayment	46
At 31 December 2023	**9,376**

Nature and purpose of share-based payment reserve

The management equity plan reserve is used to record the fair value of the shares attached to the non-recourse loans provided to management. Non-recourse loans have been provided to employees under a MEP. These transactions are accounted for as a share based payment in-substance arrangement.

During the FY23 period the Company established the Universal Store Holdings Limited Equity Incentive Plan to reward, motivate, and incentivise participants. The Equity Incentive Plan is designed to align interests with those of Shareholders by providing an opportunity to receive an equity interest in the Company in the form of performance rights. The Board from time to time in its absolute discretion may determine Employees who are eligible to participate in the Plan.

Members of the Leadership Team were granted performance rights during the period. These performance rights have vesting conditions based on the Company achieving;

- Return on Capital Employed (ROCE) target in the final year of the performance period (FY26)
- Earnings Per Share (EPS) targets over the performance period (1 July 2023 - 30 June 2026) and;
- the Participant remaining employed or engaged in a full-time capacity by the Group. These performance rights vest on 30 June 2026.

Number of performance rights grant date	Balance at start of the year	Granted during the period (number)	Exercised during the period (number)	Forfeited during the period (number)	Balance at the end of the period (number)
24 November 2022	114,017	-	-	-	114,017
21 December 2022	209,728	-	-	-	209,728
20 November 2023	-	549,306	-	-	549,306
Total	**323,745**	**549,306**	-	-	**873,051**

All Performance Rights at the end of the period are unvested and the exercise price for all grants is nil.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

14 Dividends

14.1 Ordinary shares

	31 December 2023 $'000	31 December 2022 $'000
Final dividend for the year ended 30 June 2023 of 8.0 cents (2022: 10.5 cents) per ordinary share	6,138	7,686

On 21 February 2024, the Directors recommended an interim dividend for the half-year ended 31 December 2023 of $12.7 million to be paid on 28 March 2024.

15 Earnings per share (EPS)

Basic EPS is calculated by dividing profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	6 months to 31 December 2023 $'000	6 months to 31 December 2022 $'000
Profit attributable to ordinary equity holders	**20,738**	**17,764**

	6 months to 31 December 2023	6 months to 31 December 2022
Weighted average number of ordinary shares for basic earnings per share	75,204,143	70,895,076
Effect of dilution from:		
MEP shares and share-based payments	683,572	1,876,234
Weighted average number of ordinary shares adjusted for the effect of dilution	**75,887,715**	**72,771,310**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

15 Earnings per share (EPS) (continued)

	6 months to 31 December 2023 Cents	6 months to 31 December 2022 Cents
Basic earnings per share	27.6	25.1
Diluted earnings per share	27.3	24.4

Using the weighted average number of ordinary shares outstanding during the period and the underlying net profit after tax, the adjusted EPS in HY24 is 26.6 cents and in HY23 is 27.5 cents.

16 Fair value measurement

Financial assets and liabilities

The Group applies specific accounting policies and disclosures that require measuring fair values for both financial and non-financial assets and liabilities.

To ensure accurate fair value measurements, the Group finance team regularly reviews important inputs and adjustments used for fair value measurements. When third-party information is used, the team carefully examines the evidence to ensure compliance with AASB 13 Fair Value Measurement and proper classification in the fair value hierarchy.

The Group primarily uses observable market data when determining fair values. Fair values are categorised into three levels in the fair value hierarchy based on the inputs used:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (e.g. over-the counter derivatives) is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

If inputs used for fair value measurement fall into different levels, the entire fair value is categorised under the level of the lowest significant input to ensure consistency. Transfers between levels are recognised at the end of the reporting period.

All of the Group’s financial instruments were valued using the Level 3 technique, with no transfers between levels during the period.

The fair value of contingent consideration is determined by calculating the present value of the future expected cash flows using a risk-adjusted discount rate. The expected cash flows are determined by considering the possible scenarios of forecast underlying EBIT from FY24 to FY25, the amount to be paid under each scenario and the probability of each scenario.

For more details about the assumptions in measuring fair values, please refer to the relevant notes.

- Note 17 - Business combination (Level 3).

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

17 Business combination

17.1 Current period

During the half-year to 31 December 2023, the Group did not complete any acquisitions, however the Group retrospectively adjusted the provisional amounts recognised for the CTC business combination to reflect new information obtained. The retrospective adjustment mainly relates to the finalisation of the assessment of the fair values of the identifiable net assets and liabilities acquired and contingent consideration payable.

17.2 Prior period

On 31 October 2022, Universal Store Holdings Limited acquired 100% of the issued shares in Cheap THRILLS Cycles Pty Limited (CTC), a wholesaler and retailer of fashion apparel for men and women.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Provisional fair value on acquisition 31 October 2022 $'000	Adjustments $'000	Final fair value on acquisition 31 October 2022 $'000
Purchase consideration			
Cash consideration	21,209	-	21,209
Ordinary shares issued	18,683	-	18,683
Contingent consideration	12,455	(945)	11,510
Subtotal purchase consideration	52,347	(945)	51,402
Cash consideration attributed to settlement of a pre-existing payable to CTC	(2,051)	-	(2,051)
Total purchase consideration	**50,296**	**(945)**	**49,351**

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

17 Business combination (continued)

17.2 Prior period (continued)

The assets and liabilities recognised as a result of the acquisition are as follows.

	Provisional fair value on acquisition 31 October 2022 $'000	Adjustments $'000	Final fair value on acquisition 31 October 2022 $'000
Cash and cash equivalents	2,632	-	2,632
Receivables	5,459	-	5,459
Inventories	3,951	859	4,810
Property, plant and equipment	403	-	403
Intangible assets: Brand	15,214	-	15,214
Right of use asset	2,894	-	2,894
Payables	(3,266)	(1,743)	(5,009)
Deferred tax liability	(4,848)	(40)	(4,888)
Lease liabilities	(2,894)	-	(2,894)
Employee benefit obligations	(233)	-	(233)
Other liabilities	(85)	-	(85)
Current tax liabilities	(1,157)	-	(1,157)
Net identifiable assets acquired	18,070	(924)	17,146
Add: goodwill	32,226	(21)	32,205
Net assets acquired	**50,296**	**(945)**	**49,351**

(i) Significant estimate: contingent consideration

The contingent consideration arrangement required the Group to pay the Deferred Variable Consideration (DVC) to the former owners of CTC.

The DVC will be calculated as 10% of the Adjusted Notional Value (ANV) at the end of the relevant year. ANV is calculated with reference to CTC's underlying EBIT in each of FY23, FY24 and FY25 multiplied by the relevant multiple at each future payment date as per the multiple matrix.

CTC EBIT in period	Relevant multiple
<$7.0m	5x
>$7.0m and <$11.0m	6x
>$11.0m	7x

DVC amounts are to be determined and paid following finalisation of audited accounts for each period. There is no minimum amount .

The fair value of the contingent consideration arrangement at acquisition of $12,455,000 was estimated calculating the present value of the future expected cash flows. The estimates were based on a discount rate of 13.5% and assumed underlying EBIT from FY23 to FY25 of $8,500,000.

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

17 Business combination (continued)

17.2 Prior period (continued)

(i) Significant estimate: contingent consideration (continued)

During the period the FY23 contingent consideration was paid at an amount of $3,354,000 based on an underlying EBIT of $6,700,000 in FY23 (July 2022 to June 2023). The fair value of the contingent consideration has been updated to reflect revised earnings projections from FY24 to FY25 due to current market conditions. Underlying EBIT under the revised projections has decreased by $2,400,000 cumulatively over the period (compared to the underlying EBIT estimated at 30 June 2023). The fair value of the contingent consideration at 31 December 2023 is $8,936,000 (based on a discount rate of 13.5%).

The Group remains optimistic about the long-term potential and prospects of CTC, acknowledging the importance of investing in its team to drive sustainable growth and capture a larger market share.

(ii) Correction of prior period inventory balances

During the reporting period, the Group completed a comprehensive review of supplier terms related to CTC, which identified an understatement of inventory as well as trade and other payables at 30 June 2023, which relates to goods in transit.

The impact is an understatement of $1,627,000 to both inventory and trade and other payables in the prior comparative period.

This has been corrected as follows:

	As previously stated 30 June 2023 $'000	Increase/ (decrease) 30 June 2023 $'000	Restated 30 June 2023 $'000
Inventories	24,353	1,627	25,980
Trade and other payables[1]	23,036	1,566	24,602

[1] The Trade and other payables increase of $1.57 million reflects inventory of $1.63 million, net of the retrospective adjustment arising on finalisation of CTC business combination fair value of net identifiable assets and contingent consideration.

18 Commitments and contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2023 in respect of:

(i) Guarantees

The Group has given guarantees in respect of various retail tenancies amounting to $3,687,000, of which $351,000 relates to CTC (30 June 2023: $3,969,000).

Upon signing certain leases, the Group has received a fixed contribution towards costs of fit-outs. Some of these leases contain repayment clauses should certain default events occur.

19 Significant events after the reporting period

On 21 February 2024, the Directors recommended an interim dividend for the half-year ended 31 December 2023 of $12.7 million to be paid on 28 March 2024.

There were no other significant events occurring after the reporting date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Directors' declaration

In the Directors' opinion:

1. the consolidated financial statements and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and

2. there are reasonable grounds to believe that Universal Store Holdings Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Peter Birtles
Independent Non-Executive Director and Chairman
21 February 2024

Independent auditor's review report to the members of Universal Store Holdings Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Universal Store Holdings Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the interim consolidated statement of financial position as at 31 December 2023, the interim consolidated statement of changes in equity, interim consolidated statement of cash flows and interim consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Universal Store Holdings Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

PricewaterhouseCoopers

K Challenor

Kim Challenor
Partner

Brisbane
21 February 2024