



LOVISA

LOVISA HOLDINGS LIMITED

ANNUAL REPORT 2021



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# Growing Globally



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- **544 STORES IN 20 COUNTRIES**
- CONTINUED EXPANSION OF **GLOBAL** FOOTPRINT
- 6 NEW **EUROPEAN** MARKETS ADDED
- **ONLINE STORES** NOW SERVICING ALL COMPANY OWNED MARKETS
- OVER **100 NEW LINES** ARRIVING WEEKLY



# Highlights

REVENUE  
**\$288.0M**  
(UP 18.9%)

TOTAL STORES  
**544**  
NET INCREASE  
OF 109 STORES

NET CASH  
**\$35.6M**

EBIT  
**\$42.7M**  
(UP 39.4%)

NPAT  
**\$27.7M**  
(UP 43.3%)

ONLINE SALES  
GROWTH  
**+178%**

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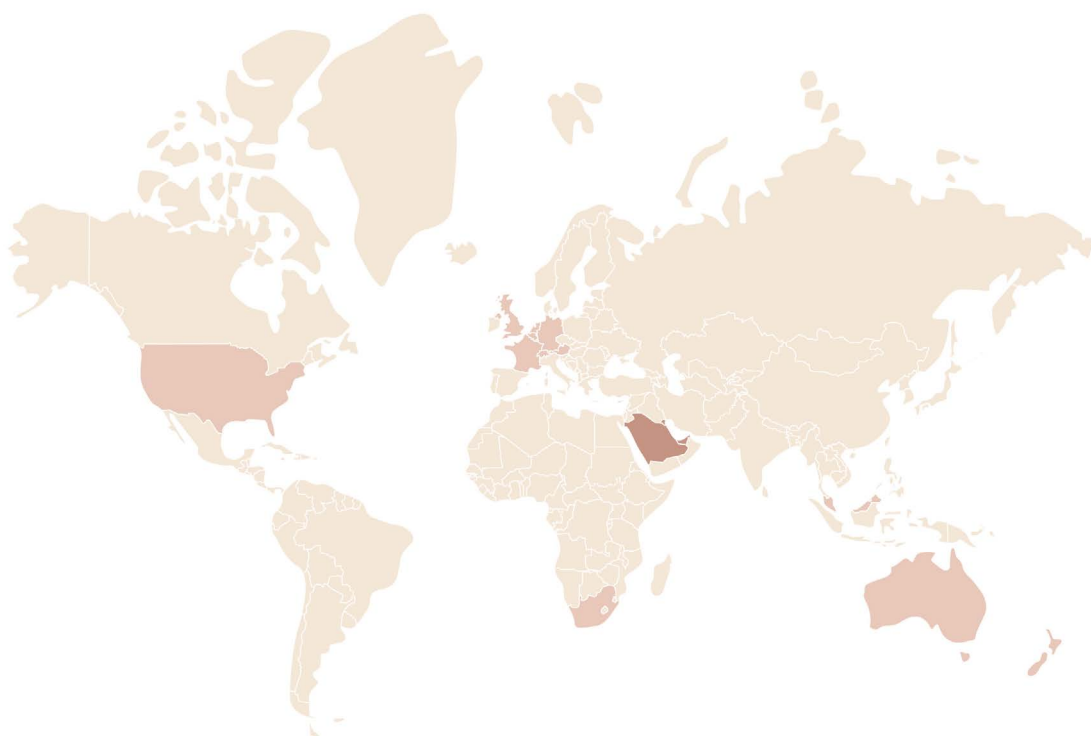








# Global Reach



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## KEY

- Owned Stores
- Franchise

## STORE NUMBERS

Owned		FY21	FY20
Aus/NZ	Australia	153	152
	New Zealand	24	23
Asia	Singapore	18	19
	Malaysia	28	27
Africa	South Africa	64	62
Europe/UK	UK	41	42
	France	52	21
	Germany	38	-
	Belgium	8	-
	Switzerland	8	-
	Netherlands	6	-
	Austria	3	-
	Luxembourg	2	-

Owned	FY21	FY20
USA	63	48
<b>Total Owned</b>	<b>508</b>	<b>394</b>
Franchise	FY21	FY20
Asia	-	7
Middle East	36	34
<b>Total Franchise</b>	<b>36</b>	<b>41</b>
<b>TOTAL STORES</b>	<b>544</b>	<b>435</b>



# About Lovisa

Lovisa was born from a desire to fill the void for fashion forward and directional jewellery that is brilliantly affordable.

Now trading from 544 stores and 7 online sites across 20 countries. To stay ahead of trend, Lovisa utilises daily inventory monitoring software and airfreight to move product to store locations within 48 hours from our warehouses in Melbourne, China and Poland.









# Chairman's Report

This year all at Lovisa have continued to build upon their expertise in operating stores and delighting customers around the world with our largest acquisition by far in the acquisition of the retail business of beeline GmbH in Europe.

Through the conversion and integration of beeline stores and team to Lovisa, we have been reminded of the power and value of our customer focused mindset and how the Lovisa culture drives our success and is the difference between ordinary and great. Our continuing focus on intensity of product and presentation of team and stores, combined with committed, customer focused, enthusiastic team members is what counts. Thankfully, we have many such team members. A special mention for Danny Barrasso, our European head, along with the entire Melbourne Global Support Centre and European leadership have all worked tirelessly through the difficult circumstances of COVID to integrate 87 stores and welcome approximately 500 team. With this acquisition we have added 6 new territories: Germany, Switzerland, Austria, Luxembourg, Netherlands, and Belgium, bringing our total country count to 20. *Our global success marches on.*

Whilst we continue to experience COVID disruptions that impact our customer experience, our costs, and our operating efficiency, we remain fully committed and enthusiastic to our growth opportunities in expansion of current and new territories.

Our primary focus continues to be on our product brilliance of value, fashion and executing on our mission to be the dominant, most exciting and relevant fashion jewellery brand in the world. This will not change.

Our highest strategic priority is on our online and digital offerings. We have more work to do here.

With a strong balance sheet and many opportunities for excellent return on investment, we are well positioned, and remain focused on accelerating our global physical store rollout at pace.

It is also increasingly important that we assess and invest in our global organizational structure and systems to ensure we can effectively meet the operational requirements of a growing North American and European market.

The Lovisa team has continued to demonstrate energy and an incredible attitude despite constantly changing 'COVID' operating conditions. They have adapted, shown resourcefulness and accountability to ensure that we continue to deliver and exceed our customer's expectations.

To everyone thank you, you have, collectively, been remarkable. It is appropriate that I highlight a few by way of example of the incredible talent we have:

## **Laetitia Camacho**

Laetitia was a store manager at Besancon, France. From the moment she was first interviewed as part of the transition process from Beeline to Lovisa, she showed an incredible energy and attitude. This mindset helped Laetitia earn a promotion to Regional Manager and now looks after North-East France and Luxembourg. She's doing a great job and constantly lives the values and culture of Lovisa every day.

## **Janine Treder**

Janine was a store manager in Braunschweig, Germany. She showed an incredible "can do attitude" and stepped up to support our Country Manager while the Regional Manager was out for an extended illness. She travelled large parts of the country to ensure stores stayed open so we could serve our customers. Janine demonstrates our values every day working tirelessly to support our customers, our team and the business.

## **Marcus Stewart**

In just 2 short years (and throughout COVID) Marcus has relocated from Nevada to Houston to join Lovisa and take on the role of State Manager of Texas. To support his teams and stores through COVID Marcus has not stopped travelling and we are so thankful to Marcus for his commitment. Marcus has recently been promoted and is in the process of re-locating his life to New York to continue to support our growth and his career.

## **Caroline Domingo**

Caroline is a great example of a Lovisa cultural champion. Caroline started with Lovisa 11 years ago, working her way up to Store Manager in our Melbourne Central store. After 5 years in stores Caroline was promoted to Visual Merchandiser, and shortly after due to exceptional performance she was quickly promoted to our Visual Merchandise Manager role. Caroline now successfully leads the complex Global visual merchandising operations of the business. Her leadership and expertise throughout many new store openings and our recent acquisition means that she now manages over 450 planogram variations. Her customer focus, passion and hard work has been the key to Caroline's success in this pivotal role.





**Lida Tajvar - National Retail Manager Australia/NZ**

Lida is a globally respected member of the Lovisa team, commencing with us in 2013 as Store Manager in Melbourne and was soon promoted to Regional Manager. Within 3 years Lida progressed through the field and was then offered a secondment to Malaysia where Lida excelled in her role as Country Manager. In 2020 Lida further supported the business adding Singapore to her remit, managing both countries in Asia during very challenging times due to the COVID pandemic. Lida's passion, drive and hard work has been the key to her success. This has led to her most recent promotion in April 2021 in which Lida has made the move back to Australia to take on the AUS/NZ National Retail Manager role leading 177 stores.

**Erin McCrory - Sales Manager Europe**

Erin joined Lovisa in 2010 as a casual team member at Macquarie in New South Wales, Australia. Within a year, Erin was promoted as Store Manager and began her successful trajectory with Lovisa, being promoted on average every 2 years from Cluster Manager, to Regional Manager and then State Manager within Australia. In 2018 Erin relocated to London to take on the role of National Sales Manager, United Kingdom.

We are delighted to announce that Erin McCrory has just been promoted again into the role of Sales Manager Europe. Erin will relocate to Cologne, Germany and will take responsibility for our European Country Managers driving Sales, KPIs, team and store standards. We are so thrilled to see Erin growing through the business leading and building great teams.

On behalf of the board, Lovisa Shareholders, and the communities we operate in, thank you to every one of our team and all our leaders for all that you do every day to deliver the world-class experience that is Lovisa. Thank you to our shareholders for your faith and support. Lastly, and as always, thank you to our customers.

Brett Blundy  
Non-Executive Chairman



# Directors' Report







Details of the qualifications and experience of each Director in accordance with the requirements of the Corporations Act have been included below.



Brett Blundy



Shane Fallscheer



Tracey Blundy



Sei Jin Alt



James King



John Charlton

Brett Blundy

**Non-Executive Director & Chairman**

*Appointed 1 November 2018*

*Chairman of the Board*

Along with being co-founder and substantial shareholder, Brett is also the Chairman and Founder of BB Retail Capital ("BBRC"), a private investment group with diverse global interests across retail, capital management, retail property, beef, and other innovative ventures. Brett is one of Australia's most successful retailers, with BBRC's retail presence extending to over 800 stores across more than 15 countries. Brett is currently a non-executive Director of Accent Group Limited (ASX:AX1).

Shane Fallscheer

**Managing Director**

*Appointed 6 November 2014*

Shane Fallscheer is the Managing Director and founder of Lovisa. He has 32 years of experience in retailing operations across Australia, UK and US markets. He was previously in senior management roles with retailers including: General Manager, Sanity Australia; Chief Executive Officer, Sanity UK; Chief Executive Officer, Diva; and Global Retail Chairman and Chief Operating Officer, Rip Curl USA.

Tracey Blundy

**Non-Executive Director**

*Appointed 6 November 2014*

*Member of the Audit, Business Risk & Compliance Committee*

*Chair of the People, Leadership, Remuneration & Nomination Committee*

Tracey joined BB Retail Capital in 1981 and is a nominated representative of BB Retail Capital on the Board of Lovisa. Tracey has held a number of senior executive positions across BB Retail Capital's brands, including Chief Executive Officer of Sanity Entertainment and Bras n Things. She is a Board-level advisor across the BB Retail Capital portfolio bringing in-depth knowledge and expertise on retail operations and roll-out strategy.

Tracey was a founding shareholder of Lovisa in 2010, and has since been a senior advisor to the Company's management team. Tracey is currently a Director of BB Retail Capital Pty Limited and BB Retail Property Pty Limited.

Sei Jin Alt

**Independent Non-Executive Director**

*Appointed 19 February 2019*

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 across a number of major US retailers including Francesca's, JC Penny, Nordstrom and Macy's along with advisory role experience for wholesale and retail brands.

James King

**Independent Non-Executive Director**

*Appointed 17 May 2016*

*Member of the People, Leadership, Remuneration & Nomination Committee*

*Chairman of the Audit, Business Risk & Compliance Committee*

James King has over 30 years' experience as a Director and a Senior Executive in major multinational corporations in Australia and internationally. His previous executive roles included Managing Director Carlton & United Breweries and Managing Director Foster's Asia. Prior to joining Foster's, he spent six years in Hong Kong as President of Kraft Foods (Asia Pacific). He is currently a non-executive director of Schrole Ltd and is a member of Global Coaching Partnership. His ASX non-executive experience includes JB Hi-Fi, Trust Company, Navitas, Pacific Brands and Tattersalls. He has also served as a Director and Advisor to a number of private companies.

He was a long term member of the Council of Xavier College and Chairman of Juvenile Diabetes Research Foundation (Victoria). Jim holds a Bachelor of Commerce from University of New South Wales and is a Fellow of the Australian Institute of Company Directors.

John Charlton

**Independent Non-Executive Director**

*Appointed 26 August 2020*

*Member of the Audit, Business Risk & Compliance Committee*

*Member of the People, Leadership, Remuneration & Nomination Committee*

John is a career retailer and brings over 38 years' experience in retailing operations in Australia. He was previously the founder and owner of Spendless Shoes Pty Ltd, a company he grew to 248 stores as well as a successful online site before selling to The Shoe Group in July 2019. He has served as a member of the Council of Wilderness School for 12 years (7 years as Chair), Saint Peter's College for 5 years, is currently a member of the Finance and Infrastructure Committee of the University of Adelaide, and is a Non-Executive Director of the Detmold Group Advisory Board.

Nico van der Merwe

**Alternate Director to Brett Blundy**

*Appointed 19 February 2019*

Nico van der Merwe has over 30 years' experience in commercial roles across the retail, real estate and cattle industry sectors. Nico has held a number of senior financial roles in BBRC from 1997 to 2020 including 12 years as Group Chief Financial Officer and is currently an Advisor to the Group. He holds Bachelor of Accounting Science (Hons) and Bachelor of Commerce degrees and is a member of the Institute of Chartered Accountants in Australia. Nico was appointed alternate director for Brett Blundy on 19 February 2019.





## 1. DIRECTORS

The Directors of Lovisa Holdings Limited (the 'Company') present their report together with the Consolidated Financial Statements of the Company and its controlled entities (the 'Group' or 'Consolidated Entity') for the financial year ended 27 June 2021.

Director	Board		Audit and Risk		Remuneration & Nomination	
	Number attended	Number held	Number attended	Number held	Number attended	Number held
T Blundy	7	7	5	5	3	3
S Fallscheer	7	7	2	5	3	3
J King	7	7	5	5	3	3
B Blundy	7	7	-	5	2	3
J Charlton	7	7	5	5	3	3
S J Alt	7	7	5	5	3	3
N van der Merwe	-	7	5	5	-	3

John Armstrong was a Director of Lovisa Holdings Limited during the year until his resignation on 3 July 2020.

### 1.1 Company Secretary

Chris Lauder was appointed Company Secretary on 15 September 2017. He is also the company's Chief Financial Officer. Mr Lauder is a Chartered Accountant.

### 1.2 Directors Interests in Shares

The relevant interest of each Director in the Company at the date of the report is as follows:

Director	Ordinary Shares in the Company
B Blundy (1)	43,207,500
T Blundy (2)	1,153,005
S Fallscheer (3)	2,240,000
J King (4)	34,000
J Charlton	5,000
S J Alt	-
N van der Merwe	-

(1) Shares held by BB Retail Capital Pty Ltd

(2) Shares held by Coloskye Pty Ltd

(3) Shares held by Centerville Pty Ltd

(4) Shares held by King Family Super Fund

## 2. PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the retail sale of fashion jewellery and accessories.

The business has 544 retail stores in operation at 27 June 2021 including 36 franchise stores.

There was no significant change in the nature of the activities of the Group during the period.

## 3. DIVIDENDS

Dividends paid to members during the financial year were as follows:

	2021	2020
	\$000's	\$000's
Interim ordinary dividend for the year ended 28 June 2020 of 15.0 cents (2019: 15.0 cents) per fully paid share 50% franked paid on 30 September 2020	16,119	15,866
Interim ordinary dividend for the year ended 27 June 2021 of 20.0 cents (2020: nil) per fully paid share 50% franked paid on 22 April 2021	21,492	-
Total dividends paid	37,611	15,866

An FY21 interim dividend of 20 cents per fully paid share, 50% franked was paid on 22 April 2021. As a result of the impact of COVID-19 on the business and the associated temporary closure of part of the store network during the final quarter of FY20, the payment date of the FY20 interim dividend of 15 cents per fully paid share was deferred for a period of 6 months and paid on 30 September 2020 with a reduced franking percentage of 50%. No final dividend was paid in relation to the 2020 financial year.

## 4. REVIEW OF OPERATIONS

The following summary of operating results and operating metrics reflects the Group's performance for the year ended 27 June 2021:

### 4.1 Financial Performance

Revenue for the year ended 27 June 2021 was up 18.9% on FY20 with improved performance across most markets following the significant disruption to the business through the second half of FY20. Whilst COVID-19 related economic lockdowns and disruptions continued to be a challenge throughout FY21 with most markets in which we operate having continued to experience some form of disruption, we saw solid sales performance from a number of markets where COVID-19 cases were more under control and/or where restrictions on retail trade and general economic activity had been lifted. This resulted in Earnings Before Interest and Tax (and before the impact of AASB 16) of \$42.7m, up 39% on FY20.

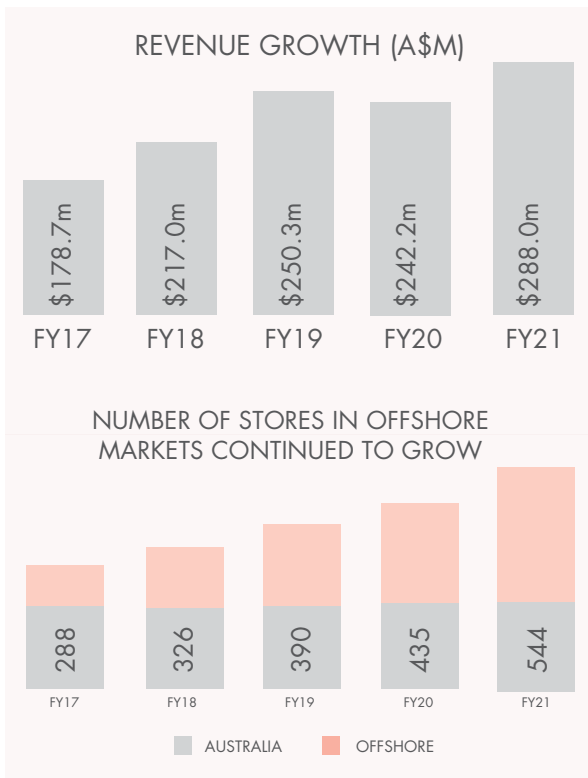
Whilst growth in the number of new stores opened in the period was slower as a result of the challenges imposed by COVID-19 over the past 18 months, pleasingly the business was able to deliver good growth in the store network for the financial year as a result of the acquisition of the European retail store network from beeline GmbH with 87 SIX and I AM branded stores converted to Lovisa stores across 7 European countries in the second half of the financial year. This took total store network growth for the year to a net 109 new stores, with 544 stores now trading globally across 20 countries.

Consolidated \$'000	2021	2020	Change
Sales	288,034	242,176	18.9%
Gross profit	220,964	187,269	18.0%
Gross Margin	76.7%	77.3%	(0.6%)
EBIT	42,697	30,639	39.4%
Net profit after tax (NPAT)	27,696	19,324	43.3%
Basic Earnings per share	25.8c	18.2c	7.6c

\* Financial metrics noted above include non-IFRS information and represent the financial performance of the company excluding the impact of the new lease accounting standard AASB 16 and excluding Impairment Expenses. For further information please refer to page 30 of the Directors' Report.



#### 4.1.1 Sales



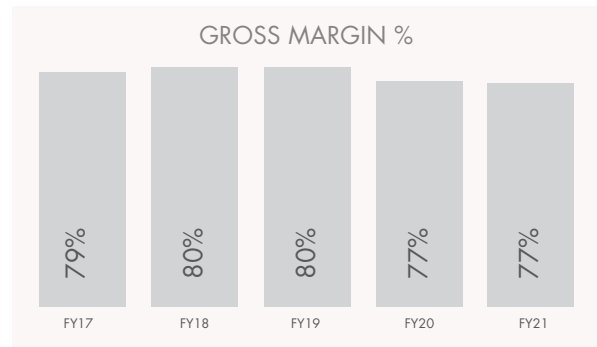
After the disruption that impacted on FY20 as a result of COVID-19, total sales have returned to growth with revenue up 18.9% on FY20, with growth driven by improved trading conditions despite continued disruption from COVID-19 related measures taken by governments across most markets. The continued increase in the store network also helped drive the increase in sales, with an increase of 109 stores in the global store network during the year. Comparable store sales were up 8.1% compared to FY20, with performance again strongest in Australia and New Zealand as the markets that have been trading with the least restrictions in place throughout the financial year.

The Company experienced multiple periods of temporary store closures across the financial year, with the following major closure periods:

- Victorian stores temporarily closed during the August to October 2020 period, February 2021, and then again in June 2021;
- Californian and New York stores temporarily closed throughout July and August 2020;
- UK stores closed during July and November 2020, and then again from mid-December 2020 through mid-April 2021;
- French stores closed during November 2020 and then again from late January through to mid-May 2021;
- Malaysian stores closed from mid-January to mid-March 2021 and again from May to June 2021;
- New Zealand stores in certain regions closed for periods during August 2020, February 2021 and March 2021;
- Stores in Germany, France, the Netherlands and Belgium were unable to open for trade immediately after acquisition as part of the beeline transaction due to government lockdowns in those markets.

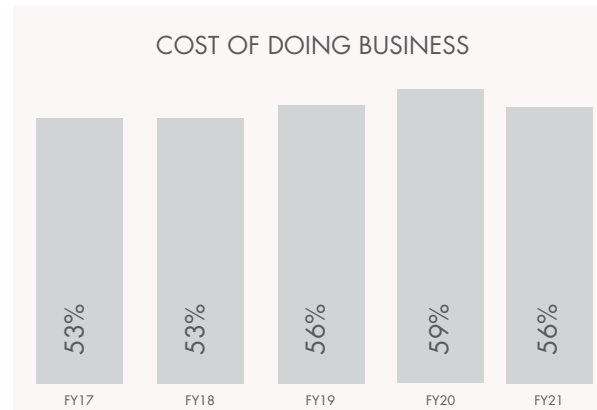
The Company's online business was again able to offset some of the impact of the above closure periods and delivered solid growth at +178% on FY20, with trading websites now operational across all markets that Lovisa is represented in.

#### 4.1.2 Gross Profit Margin



The Group's Gross Profit increased by 18.0% to \$221.0m. Gross Margin was consistent at 77%, impacted by higher freight costs and continued higher than normal inventory provisioning. Gross Margin on a constant currency basis was 77% for the year.

#### 4.1.3 Cost Of Doing Business



\* CODB % has been adjusted to remove the effect of AASB 16 on FY2020 and FY2021 to ensure comparability with prior years.

The Group's Cost of Doing Business (CODB) was an improvement on FY20 and returned to the levels seen in FY19 as a % to sales with tight cost control across most areas able to offset the negative impacts on CODB from temporary store closure periods. This outcome benefited from the receipt of landlord rent abatements during the period, helping to offset the challenge of stores being unable to trade during parts of the financial year while the business continued to incur fixed costs. This outcome was also achieved at the same time as we faced significantly higher logistics costs and continued to invest in support structures to drive future store network growth. We also incurred transaction and support costs associated with the acquisition of the European retail assets of beeline GmbH in the second half of the financial year.

#### 4.1.4 Earnings

Statutory earnings before interest and tax (EBIT) was \$43.5m being a 70% increase on EBIT from the prior year. Statutory net profit after tax increased 121.3% to \$24.8m with EPS at 23.1 cents. Excluding the impact of the implementation of AASB 16 and impairment charges during the prior period from the exit of the Spanish market and other store impairments, earnings before interest and tax would have been \$42.7m, up 39.4% on last year and net profit after tax would have been \$27.7m, up 43.3%.

#### 4.1.5 Cash Flow

The Group's net cash flow from operating activities, adjusted to remove the impact of AASB 16 was \$66.4m. Capital expenditure of \$14.0m relates predominately to new store openings and refurbishments of current stores upon lease renewal, and includes the capex spend associated with the conversion of SIX and I AM branded stores to Lovisa as part of the beeline acquisition. Despite the continued impact of COVID-19 on the operating cash flows of the business during the financial year, the Group was able to close the financial year with \$35.6m in net cash, a \$15.1m increase on prior year, benefiting from tight working capital management as well as the \$16m cash acquired as part of the beeline acquisition.

#### 4.2 Financial Position

Consolidated	Actual 2021 \$'000	Actual 2020 \$'000	Change 2020/2021 %
Net cash	35,552	20,434	74.0%
Trade receivables and prepayments	11,325	7,876	43.8%
Inventories	34,211	21,714	57.6%
Trade payables and provisions	(46,937)	(30,605)	53.4%
Net lease liabilities	(42,606)	(16,690)	155.3%
Property, plant & equipment	42,112	46,099	(8.6%)
Intangible assets and goodwill	4,378	3,882	12.8%
Net derivative asset/(liability)	(144)	207	(169.6%)
Current tax liability	(4,767)	(3,893)	22.5%
Net deferred tax balances	12,591	9,344	34.7%
Net assets/equity	45,715	58,368	(21.7%)

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#### Working capital

The Group's net working capital position remained stable during the year with inventory levels increasing from \$21.7m to \$34.2m, offset by a corresponding increase in payables and provisions, with inventory higher as a result of the significant increase in store numbers over the period combined with an unusually low inventory position at June 2020 as a result of order cancellations in prior year in response to COVID lockdowns in the final quarter of FY20.

#### Property, plant and equipment

Capital expenditure during the year reflects fit out costs associated with new stores and refurbishment of existing stores and includes spend on the conversion of SIX and I AM stores to Lovisa as part of the beeline acquisition. Fit out costs are depreciated over the term of the lease.

#### Debt facilities

The Group refinanced its existing debt facilities during FY20, with an increase in total facilities to \$50m and an extension in the maturity of the \$30m term debt component for a further 3 years. In addition to this, during the current year the Group also entered into a new \$20m bank guarantee facility on 25 June 2021 to support the ongoing global store rollout. The Group possesses net cash reserves of \$35.6m at year end.



## 5. BUSINESS STRATEGIES

Lovisa has achieved rapid growth since it was founded, with revenue growing from \$25.5 million in FY2011 to \$288.0 million in FY2021. Whilst FY20 and FY21 have been impacted by COVID-19, the Group continues to focus on its key drivers to deliver growth in sales and profit growth.

Growth pillar	Business Strategy Section	Strategy	Risks	Achievements
Global expansion	5.2	<ul style="list-style-type: none"> <li>Continue to leverage current global territories</li> <li>Leverage the Company's capital in large international markets</li> <li>Roll out USA, Europe and UK territory and investigate other Northern Hemisphere markets</li> <li>Consider franchise partners for selected territories</li> <li>Expand into new international markets, targeting one new trial territory per annum</li> <li>Continue to develop our digital capability and ensure that all markets we trade in have access to a digital sales channel</li> </ul>	<ul style="list-style-type: none"> <li>Competition (6.2)</li> <li>Retail environment and general economic conditions (6.3)</li> <li>Failure to successfully implement growth strategies (6.4)</li> <li>Availability of appropriately sized sites in good locations with satisfactory cost structures</li> </ul>	<ul style="list-style-type: none"> <li>Whilst COVID-19 made new store openings challenging during the period, we were able to open net 109 new Lovisa stores with the acquisition of the beeline retail business in Europe adding 87 trading stores across 7 European markets. In addition, we were able to open 15 new stores in the USA during the period, taking total stores in this market to 63. 72% of the store network is now outside Australia</li> <li>We now have dedicated e-commerce sites across all markets in which we operate</li> </ul>
Streamline global supply chain	5.3	<ul style="list-style-type: none"> <li>Streamline and optimise supply base in Asia</li> <li>Optimise air and sea freight whilst maintaining speed to market operating model</li> <li>Implement Northern Hemisphere distribution model to support</li> </ul>	<ul style="list-style-type: none"> <li>Exchange rates (6.5)</li> <li>Product sourcing or supply chain disruptions</li> <li>Escalating global freight costs as a result of COVID-19 disruptions being experienced by Logistics providers</li> </ul>	<ul style="list-style-type: none"> <li>Over 51% of product was moved through the China and Poland warehouse (FY20: 56% through the China warehouse)</li> <li>Poland warehouse being implemented to support enlarged European business</li> <li>Dedicated 3PL warehouses now operational in the UK, South Africa and the USA</li> </ul>
Enhance existing store performance	5.4	<ul style="list-style-type: none"> <li>Optimise and improve existing store network</li> <li>Continue to target high traffic shopping precincts</li> <li>Judicious pricing</li> </ul>	<ul style="list-style-type: none"> <li>Competition (6.2)</li> <li>Retail environment and general economic conditions (6.3)</li> <li>Prevailing fashions and consumer preferences may change (6.6)</li> </ul>	<ul style="list-style-type: none"> <li>Global roll-out of in store piercing service</li> <li>We continue to close stores in sub-optimal locations</li> </ul>
Brand proliferation	5.5	<ul style="list-style-type: none"> <li>Continue to leverage social media to connect with customers and increase brand loyalty</li> </ul>	<ul style="list-style-type: none"> <li>Prevailing fashions and consumer preferences may change (6.6)</li> <li>Privacy breaches</li> </ul>	<ul style="list-style-type: none"> <li>Growth in online stores across all existing markets</li> <li>Increased social media engagement</li> </ul>
Lead and pre-empt trends	5.1	<ul style="list-style-type: none"> <li>Stay on trend with shifts in jewellery and accessory market</li> <li>Continue to provide a high quality and diverse product offering</li> </ul>	<ul style="list-style-type: none"> <li>Prevailing fashions and consumer preferences may change (6.6)</li> </ul>	<ul style="list-style-type: none"> <li>Continued strong performance being testament to an ability to identify trends</li> </ul>

## 5.1 Lead and Pre-Empty Trends

Product innovation is a core component of Lovisa's competitive advantage. Its customers expect a broad range of fashionable products that are in line with the latest global fashion trends. In order to meet this expectation, Lovisa employs a product team of more than 20 people who are responsible for Lovisa's forward range planning, designs, product development, production, visual merchandising and merchandise planning, ensuring Lovisa is continually meeting market demand. Whilst the product team is primarily based in Melbourne, its team members travel the world to identify global trends. In addition, its product teams meet with suppliers in China, India, Thailand and other parts of Asia frequently. Whilst this has been temporarily impacted by travel restrictions in place globally, alternative processes have been implemented to ensure product flow and quality do not suffer.

As Lovisa is frequently developing new products in response to evolving fashion trends, it does not register patents on its product designs. This is consistent with practices in the fast fashion industry.

## 5.2 New Store Rollouts & International Expansion

One of the key attributes of the Group's success has been the ability to identify and secure quality retail store sites in locations with high pedestrian traffic. This typically involves securing leases in AA, A or B grade rating shopping centres and malls. Lovisa has refined its global store model based on what it understands to be the optimal store size, location and format. The combination of a target 50 square metre floor space and a homogenised layout allows Lovisa to have strict criteria when identifying and securing potential store sites in new regions, facilitating the roll-out of stores quickly, at low cost. On average, it takes between 2-4 weeks to fit out a new Lovisa store depending on local conditions.

The key driver of future growth for Lovisa is the continued international store roll-out. Lovisa has proven it is capable of successfully operating profitably in international territories, having established a portfolio of company owned stores in Australia, New Zealand, Singapore, Malaysia, South Africa, the United Kingdom, France and the United States of America and supporting franchised stores in Kuwait, the United Arab Emirates, Oman, Bahrain, Saudi Arabia and Qatar. The beeline acquisition during the year has now also added a further 6 new European countries to this list, with stores now open in Germany, Switzerland, Belgium, The Netherlands, Austria and Luxembourg, bringing the total countries Lovisa is represented in to 20. Lovisa will continue to explore other markets through pilot programs and will advise shareholders upon successful completion of those pilot programs in order to capitalise on the opportunities presented and obtain scale in these markets.

The Group plans to remain nimble and opportunistic in expanding and moving into new markets, such that if opportunities arise, the Group may accelerate its plans to enter a new market or continue to grow an existing market. Likewise it will defer its entry into a new market if it considers that appropriate opportunities are not presented at the relevant time.

The history of Lovisa stores is as follows:

	2017	2018	2019	2020	2021
Australia	145	151	154	152	153
New Zealand	18	20	22	23	24
Singapore	21	22	18	19	18
South Africa	50	56	61	62	64
Malaysia	19	21	25	27	28
United Kingdom	11	24	38	42	41
Spain	1	5	9	-	-
France (i)	-	2	8	21	52
Germany (ii)	-	-	-	-	38
Belgium (ii)	-	-	-	-	8
Netherlands (ii)	-	-	-	-	6
Austria (ii)	-	-	-	-	3
Luxembourg (ii)	-	-	-	-	2
Switzerland (ii)	-	-	-	-	8
USA	-	1	19	48	63
Middle East (iii)	19	18	28	34	36
Vietnam (iii)	4	6	8	7	-
<b>Total</b>	<b>288</b>	<b>326</b>	<b>390</b>	<b>435</b>	<b>544</b>

(i) Of these stores, 22 were acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021

(ii) These stores were acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021

(iii) Franchise stores



### 5.3 Streamline Global Supply Chain

Lovisa's third party suppliers are currently located in mainland China, India and Thailand. Stock is inspected by Lovisa's quality control team in China. Once manufactured, stock is transported to Lovisa's leased warehouse in Melbourne, Australia (for stock to be sold in Australia and New Zealand) or its third party operated warehouse in China (for stock to be sold in all other countries).

Lovisa constantly reviews its supply chain process for potential efficiency gains and cost reductions in order to generate higher gross margins. This includes improvements in its global warehouse and logistics program and the consolidation and rationalisation of its supplier base. As a result of this constant review the company has implemented 3PL warehouses in the USA, South Africa and the UK to better support our online customers in these markets, and we are in the process of implementing a new 3PL warehouse in Poland to support our enlarged European physical and online stores. This warehouse began operating since the end of the financial year in August 2021.

### 5.4 Enhance Existing Store Performance

Lovisa is constantly reviewing the efficiency of its existing store network to ensure that stores are run as profitably as possible, with stores closed if they are not performing to expectations and new sites continuing to be identified. Whilst some of the markets Lovisa operates in are mature and have less opportunities for new store openings, our leasing team continue to assess new sites as they arise. The global roll-out of piercing services into stores was completed last year and has been successful in driving enhanced customer loyalty and providing new customers an additional reason to choose to shop at Lovisa.

### 5.5 Brand Proliferation

Lovisa supports the growth of its brand through social media and promotional activity that matches our customer base, and our international footprint. Efforts are focused on social media, rather than traditional media, as we believe it connects us directly to our customers in a way that suits their lifestyle.

The brand is also developed through the customer in-store experience – on trend product, cleanly merchandised, focused imagery, and the store "look and feel". Stores are located in high foot traffic areas, in high performing centres. The company's online stores operate to service all markets in which the Group operates company owned stores.



## 6. MATERIAL BUSINESS RISKS

### 6.1 Business Risks

The business risks faced by the Group and how it manages these risks are set out below. Further information surrounding how the Group monitors, assesses, manages and responds to risks identified is included within Principle 7 of the Company's Corporate Governance statement.

### 6.2 Competition

The fast fashion jewellery sector in which Lovisa operates is highly competitive. While the costs and time that would be required to replicate Lovisa's business model, design team, IT systems, store network, warehouse facilities and level of brand recognition would be substantial, the industry as a whole has relatively low barriers to entry. The industry is also subject to ever changing customer preferences.

Lovisa's current competitors include:

- specialty retailers selling predominately fashion jewellery;
- department stores;
- fashion apparel retailers with a fashion jewellery section; and
- smaller retailers (i.e. less than five stores) that specialise in the affordable jewellery segment.

Competition is based on a variety of factors including merchandise selection, price, advertising, new stores, store location, store appearance, online presence and execution, product presentation and customer service.

Lovisa's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors (such as international retailers or online retailers) or a failure by Lovisa to successfully respond to changes in the industry.

To mitigate this risk, Lovisa employs a product team of more than 20 people to meet market demands as described in section 5.1. Management believe it would take a number of years for a new entrant to establish a portfolio of leases comparable with Lovisa in premium store locations due to substantial barrier to entry costs as detailed above.

### 6.3 Retail Environment and General Economic Conditions

As Lovisa's products are typically viewed by consumers to be 'discretionary' items rather than 'necessities', Lovisa's financial performance is sensitive to the current state of, and future changes in, the retail environment in the countries in which it operates. However, with a low average retail spend per transaction, macro market performance has minimal impact for Lovisa.

Lovisa's main strategy to overcome any downturn in the retail environment or economic conditions is to continue to offer our customers quality, affordable and on trend products. The current global situation in relation to the COVID-19 pandemic has had a larger impact on the business than normally seen as a result of macro market conditions, with the unprecedented scale of its impact on all aspects of people's lives, and in particular the inability for people to socialise in normal ways, having a continued impact on trading conditions.

### 6.4 Failure to Successfully Implement Growth Strategies

Lovisa's growth strategy is based on its ability to increase earnings contributions from existing stores and continue to

open and operate new stores on a timely and profitable basis.

Lovisa's store roll-out program is dependent on securing stores in suitable locations on acceptable terms, and may be impacted by factors including delays, cost overruns and disputes with landlords.

The following risks apply to the roll out program:

- new stores opened by Lovisa may be unprofitable;
- Lovisa may be unable to source new stores in preferred areas, and this could reduce Lovisa's ability to continue to expand its store footprint;
- new stores may reduce revenues of existing stores; and
- establishment costs may be greater than budgeted for.

Factors mitigating these risks are that fit-out costs are low with minimal standard deviation in set-up costs across sites and territories through our small store format and homogeneous store layout, minimising potential downside for new stores. The Group assesses store performance regularly and evaluates store proximity and likely impact on other Lovisa stores as part of its roll-out planning.

When entering new markets, Lovisa assesses the region, which involves building knowledge by leveraging a local network of industry contacts, and aims to secure a portfolio of stores in order to launch an operating footprint upon entry. The Group plans to remain nimble and opportunistic in expanding and moving into new markets, such that if opportunities arise, the Group may accelerate its plans to enter a new market or continue to grow an existing market. Likewise it will defer its entry into a new market if it considers that appropriate opportunities are not presented at the relevant time. Regular investigation and evaluation of new stores and territories is undertaken by management to ensure that the Group's store footprint continues to expand. Current conditions in the global retail leasing market as a result of the impact of COVID-19 are being monitored closely by management to ensure that opportunities are identified and taken advantage of as they arise.

### 6.5 Exchange Rates

The majority of inventory purchases that are imported by Lovisa are priced in USD. Consequently, Lovisa is exposed to movements in the exchange rate in the markets it operates in. Adverse movements could have an adverse impact on Lovisa's gross profit margin.

The Group's foreign exchange policy is aimed at managing its foreign currency exposure in order to protect profit margins by entering into forward exchange contracts specifically against movements in the USD rate against the AUD associated with its cost of goods. The Group does not currently hedge its foreign currency earnings. The Group monitors its working capital in its foreign subsidiaries to ensure exposure to movements in currency is limited.

### 6.6 Prevailing Fashions and Consumer Preferences May Change

Lovisa's revenues are entirely generated from the retailing of jewellery and associated services, which is subject to changes in prevailing fashions and consumer preferences. Failure by Lovisa to predict or respond to such changes could adversely impact the future financial performance of Lovisa. In addition, any failure by Lovisa to correctly judge customer preferences, or to convert market trends into appealing product offerings on a timely basis, may result in lower revenue and margins.



## 6.6 Prevailing Fashions and Consumer Preferences May Change (continued)

In addition, any unexpected change in prevailing fashions or customer preferences may lead to Lovisa carrying increased obsolete inventory.

To mitigate this risk, Lovisa employs a product team of more than 20 people to meet market demands as described in section 5.1. As the Group responds to trends as they occur, this drives store visits by customers and significantly reduces the risk of obsolete stock.

## 7. EVENTS SUBSEQUENT TO REPORTING DATE

As a result of decisions by various state governments in Australia to implement lockdowns in response to ongoing COVID-19 outbreaks, the Australian market has experienced multiple periods of temporary store closures in the period since June 2021 with 82 stores currently remaining temporarily closed at the date of this report.

In addition, our stores in Malaysia were temporarily closed since government restrictions were implemented in early June 2021 and all 24 of our stores in New Zealand have been temporarily closed due to a nationwide lockdown starting on 18 August 2021. Our Malaysian stores have now re-opened for trade from 20 August 2021.

The timeline for the above stores being able to re-open is subject to government advice and will continue to be monitored closely. All other markets are open and trading, as well as our global online stores.

No other matter or circumstance has arisen since 27 June 2021 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

## 8. LIKELY DEVELOPMENTS

Information on likely developments is contained within the Review of Operations section of this annual report.

## 9. REMUNERATION REPORT - AUDITED

### 9.1 Remuneration Overview

The Board recognises that the performance of the Group depends on the quality and motivation of its team members employed by the Group around the world.

The Group remuneration strategy therefore seeks to appropriately attract, reward and retain team members at all levels of the business, but in particular for management and key executives. The Board aims to achieve this by establishing executive remuneration packages that include a mix of fixed remuneration, short term incentives and long term incentives.

The Board has appointed the People, Remuneration and Nomination Committee whose objective is to assist the Board in relation to the Group remuneration strategy, policies and actions. In performing this responsibility, the Committee must give appropriate consideration to the Group's performance and objectives, employment conditions and external remuneration relativities in the global market that Lovisa operates in.

Further information surrounding the responsibilities of the People, Leadership, Remuneration and Nomination Committee is included within Principle 8 of the Company's Corporate Governance statement.

### 9.2 Principles Used to Determine the Nature and Amount of Remuneration

#### Key Management Personnel

Key Management Personnel (KMP) have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity, and comprise:

1. Non-Executive Directors
2. Managing Director
3. Chief Executive Officer
4. Chief Financial Officer

#### Non-Executive Director KMP

Brett Blundy	Chairman
James King	Director
Tracey Blundy	Director
John Charlton	Director (Appointed 26 August 2020)
John Armstrong	Director (Resigned 3 July 2020)
Sei Jin Alt	Director
Nico van der Merwe	Alternate Director

#### Executive KMP

Shane Fallscheer	Managing Director
Chris Lauder	Chief Financial Officer

This report has been audited by the Company's Auditor KPMG as required by Section 308 (3C) of the Corporation Act 2001.

The People, Leadership, Remuneration and Nomination Committee is governed by its Charter which was developed in line with ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and the activities of the Committee and the Charter is annually reviewed by the Committee to ensure it remains consistent with regulatory requirements.

### A. Principles Used to Determine the Nature and Amount of Remuneration

#### (a) Non-Executive Directors KMP Remuneration

Non-executive Directors' fees are determined within an aggregate Non-executive Directors' pool limit of \$600,000. Total Non-executive Directors' remuneration including non-monetary benefits and superannuation paid at the statutory prescribed rate for the year ended 27 June 2021 was \$448,603. Brett Blundy, the Non-executive Chairman, is entitled to receive annual fees of \$150,000. Other Non-executive Directors are entitled to receive annual fees of between \$60,000 to \$80,000 inclusive of superannuation.

The Non-executive Directors' fees are reviewed annually to ensure that the fees reflect market rates. There are no guaranteed annual increases in any Directors' fees. None of the non-executive Directors participate in the short or long term incentives.

#### (b) Executive remuneration

Lovisa's remuneration strategy is to:

- Offer a remuneration structure that will attract, focus, retain and reward highly capable people
- Have a clear and transparent link between performance and remuneration
- Build employee engagement and align management and shareholder interest through ownership of Company shares

**9.2 Principles Used to Determine the Nature and Amount of Remuneration (continued)**

*(b) Executive remuneration (continued)*

- Ensure executive remuneration is set with regard to the size and nature of the position with reference to market benchmarks (in the context of the Group operating in a global marketplace) and the performance of the individual.

Remuneration will incorporate at risk elements to:

- Link executive reward with the achievement of Lovisa's business objectives and financial performance
- Ensure total remuneration is competitive by market standards.

The Board are of the view that the structure and quantum of the Group's Executive remuneration packages is appropriate, with a mix of fixed base remuneration and short and long-term incentives with challenging hurdles to provide a strong linkage between the creation of shareholder value and remuneration.

As a successful global retailer, the company needs to be sourcing and remunerating executives with reference to appropriate global benchmarks, not just other Australian listed companies.

**B. Remuneration Structure**

The current executive salary and reward framework consists of the following components;

1. Base salary and benefits including superannuation
2. Short term incentive scheme comprising cash
3. Long term incentive scheme comprising cash and options

The mix of fixed and at risk components for each Senior Executive as a percentage of total target remuneration for the 2021 financial year is as follows:

Senior Executive	Fixed remuneration	At risk remuneration
Shane Fallscheer	19%	81%
Chris Lauder	67%	33%

Note: the above assumes each KMP receives their maximum STI and LTI in the relevant period. If this is not the case, then the mix would change in favour of the fixed remuneration %.

**Base Salary and Benefits**

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and non-cash benefits. Retirement benefits are delivered to the employee's choice of Superannuation fund. The Company has no interest or ongoing liability to the fund or the employee in respect of retirement benefits.

**Short Term Incentive plan**

The Company operates a short-term incentive (STI) plan that rewards some Executives and Management on the achievement of pre-determined key performance indicators (KPIs) established for each financial year according to the accountabilities of his/her role and its impact on the organisation's performance. KPIs include company profit targets and personal performance criteria. Using a profit target ensures variable reward is paid only when value is created for shareholders. The Company's remuneration policy for KMP has been updated in FY21 to include an STI component in KMP remuneration to provide better balance between short and long term remuneration.





## 9.2 Principles Used to Determine the Nature and Amount of Remuneration (continued)

### Short Term Incentive plan (continued)

The STI plan structure in place for FY21 was as follows:

KMP	Opportunity	Performance Period	Performance Measures	FY21 Outcome
Shane Fallscheer Managing Director	\$1,575,000	12 months, subject to continued employment until the date of payment	Discretionary based on the Board's assessment of performance with reference to: <ul style="list-style-type: none"> <li>the profit performance of the business overall;</li> <li>the growth of the digital business;</li> <li>building and development of the executive team; and</li> <li>increasing Lovisa's global footprint</li> </ul>	100%
Chris Lauder Chief Financial Officer	\$125,000	12 months, subject to continued employment until the date of payment	Discretionary based on the Board's assessment of performance with reference to: <ul style="list-style-type: none"> <li>Delivery of 30% growth in EBIT on FY20 to \$41m in FY21</li> <li>Successful completion and implementation of the beeline acquisition</li> <li>Completion of Phase 1 of the Finance Systems Optimisation project</li> </ul>	100%

The award of the Managing Director's STI was based on his performance over the financial year with reference to the profit performance of the business overall and the assessment criteria noted above. No specific targets were set for each of these measures as a result of the uncertainty in economic conditions caused by COVID-19, however they formed the basis of the Board's assessment of Shane's performance over the financial year and the exercise of its discretion in determining the appropriate amount of cash STI to be paid. The performance of the business in relation to these criteria was as follows:

- EBIT of \$42.7m, up 39.4% on FY20
- Solid progress in the Digital business;
- The appointment of a number of new members of the executive team including the Chief Operating Officer of the European business and a new Executive General Manager of IT and Digital; and
- Store network up 25% on FY20 to 544 stores at the end of FY21 across 20 countries.

Based on the Board's assessment of the performance of Shane individually and the Company as a whole, it was determined that Shane be paid 100% of the STI opportunity of \$1.575m.

The award of 100% of the Chief Financial Officer's STI was based on the Board's assessment of his performance against the criteria noted above, with all three criteria delivered and therefore 100% of the STI opportunity of \$125,000 to be paid.

### Long Term Incentive plan

The Company operates a long term incentive plan. The plan is designed to align the interests of the executives with the interest of the shareholders by providing an opportunity for the executives to receive an equity interest in Lovisa and in some cases a cash payment. The plan provides flexibility for the Company to grant performance rights and options as incentives, subject to the terms of the individual offers and the satisfaction of performance conditions determined by the Board from time to time.

The key terms associated with the Long Term Incentive plan are:

- A Performance Option entitles the holder to acquire a share upon payment of an applicable exercise price at the end of the performance period, subject to meeting specific performance conditions.
- Options will be granted for nil consideration.

### Performance Conditions

The Board considers profit based performance measures such as EPS and EBIT to be the most appropriate performance conditions as they align the interests of shareholders with management.

### FY2019 LTI – Performance Options

In October 2018 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2019 LTI. The key terms associated with the 2019 Grant are:

- The performance period commences 2 July 2018 and ends 27 June 2021.
- The exercise price of the Performance Options is \$10.95, which represents the 30 day VWAP to the date of grant.
- A total of 2,758,608 Performance Options were granted, with 2,564,103 of these options subject to shareholder approval.
- The grant of Performance Options are subject to performance conditions based on delivering the Company's EBIT target over the performance period, as set out below.

**FY2019 LTI – Performance Options (continued)**

- For Performance Options granted to the Managing Director, the Performance Options will be tested at the end of the performance period, and if they are determined to have vested they will then be subject to a further 2 year holding restriction period ending 2 July 2023, after which time they may be exercised up to their expiry date being 12 months following the end of the restriction period.
- For executives other than the Managing Director, the expiry of the Performance Options is 12 months following the end of the performance period.
- The Performance Options granted to the Managing Director were approved at the 2018 AGM.
- 38,462 options were forfeited during the year.

The Board has determined the EBIT Target growth hurdles applicable to both the FY2019 grants are as follows:  
*Performance Options granted to the Managing Director:*

EBIT* over the Performance Period	% Exercisable
Less than threshold	Nil
24% compound growth	10% awarded
25% compound growth	20% awarded
26% compound growth	100% awarded

*Performance Options granted to other Executives:*

EBIT* over the Performance Period	% Exercisable
Less than threshold	Nil
17.5% compound growth	40% awarded
20% compound growth	60% awarded
22.5% compound growth	80% awarded
25% compound growth	100% awarded

\* EBIT is defined as Earnings before Interest and Tax before Share Based Payments expense for the purposes of testing the performance conditions above. Certain executives (other than KMP) are also subject to personal performance hurdles in addition to the EBIT hurdle noted above.

The actual compound annual growth rate in EBIT over the performance period ended 27 June 2021 was -5.8%. As a result, subsequent to the end of the Financial year the Board have determined that none of the Options granted in this tranche have met the vesting hurdle and therefore lapsed unvested.

**FY2020 LTI – Performance Options**

In October 2019 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2020 LTI. The key terms associated with the 2020 Grant are:

- The performance period commences 1 July 2019 and ends 3 July 2022.
- The exercise price of the Performance Options is \$10.60, which represents the 30 day VWAP to the date of grant.
- A total of 1,174,531 Performance Options were granted. 956,328 of these options were subject to shareholder approval.
- The expiry of the Performance Options is 12 months following the end of the performance period.
- 44,469 options were forfeited during the year.
- The grant of Performance Options is subject to performance conditions based on delivering the Company's diluted EPS target over the performance period, as set out below.

Company's diluted Earnings Per Share over the Performance Period	% Exercisable
Less than threshold	Nil
15% compound growth	20% awarded
17.5% compound growth	35% awarded
20% compound growth	50% awarded
22.5% compound growth	75% awarded
25% compound growth	100% awarded

**FY2021 LTI – Performance Options**

In October 2020 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2021 LTI. The key terms associated with the 2021 Grant are:

- The performance period commences 29 June 2020 and ends 2 July 2023.
- The exercise price of the Performance Options is \$7.15, which represents the 30 day VWAP to the date of grant.
- A total of 1,500,000 Performance Options were granted. 1,000,000 of these options were subject to shareholder approval.
- The Managing Director was also granted a cash settled LTI as part of his FY21 LTI grant in addition to the performance options granted. The cash LTI opportunity amounts to \$3,500,000 and is payable subject to the same performance hurdles as the performance options granted. Testing of the performance hurdles will occur shortly after the end of the performance period, and the amount of the Cash LTI and the number of LTI Options that may vest and become exercisable (if any) will be determined. The total amount of Cash LTI and LTI Options that may vest will be subject to a cap of \$15 million. If the total vested value of the LTI (less the exercise price payable) as determined by the Board would be higher than \$15 million, the number of options to vest will be reduced until the total value of the vested LTI will be equal to \$15 million. Shares acquired by the Managing Director upon exercise of vested LTI Options will then be subject to a 12 month holding restriction period under which he will be unable to trade in these shares until the date which is 12 months after the date on which the LTI Options vest. Any vested options not exercised by this date will expire unexercised.
- For executives other than the Managing Director, the expiry of the Performance Options is 12 months following the vesting date.
- 220,000 options were forfeited during the year.
- The grant of Performance Options is subject to performance conditions based on delivering the Company's EBIT target over the performance period, as set out below:

Company's EBIT for the financial year ending 2 July 2023	% of Cash LTI that vests and becomes payable	% of LTI Options that vest and become exercisable
Less than \$85m	Nil	Nil
\$85m - \$90m	20% awarded	20% awarded
\$90m - \$95m	35% awarded	35% awarded
\$95m - \$100m	50% awarded	50% awarded
\$100m - \$105m	75% awarded	75% awarded
\$105m +	100% awarded	100% awarded



### 9.3 Equity Remuneration Analysis

#### Analysis of Options and Performance Rights over Equity Instruments Granted as Compensation

Details of the vesting profile of options and performance rights awarded as remuneration to each key management person are detailed below.

	Performance Rights/Options granted			Included in Remuneration \$	% vested in the period	% forfeited in the period	Financial period in which grant vests
	Number	Value \$	Performance period commences				
<b>S Fallscheer</b>							
FY19 LTIP	2,564,103	8,000,000	2 July 2018	-	-	100%	27 June 2021
FY20 LTIP	956,328	3,000,000	1 July 2019	225,000	-	-	3 July 2022
FY21 LTIP	1,000,000	1,250,000	29 June 2020	312,500	-	-	2 July 2023
<b>C Lauder</b>							
FY19 LTIP	76,923	210,000	2 July 2018	-	-	100%	27 June 2021
FY20 LTIP	70,131	220,000	1 July 2019	16,500	-	-	3 July 2022
FY21 LTIP	100,000	125,000	29 June 2020	31,250	-	-	2 July 2023

### 9.4 Options and Performance Rights Over Equity Instruments

The movement during the reporting period in the number of performance rights and options over ordinary shares in Lovisa Holdings Limited held directly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 29 June 2020	Granted	Exercised	Forfeited	Held at 27 June 2021	Vested during the year %	Vested and exercisable at 27 June 2021
<b>Directors</b>							
S Fallscheer							
- FY19 LTIP	2,564,103	-	-	(2,564,103)	-	-	-
- FY20 LTIP	956,328	-	-	-	956,328	-	-
- FY21 LTIP	-	1,000,000	-	-	1,000,000	-	-
<b>Executives</b>							
C Lauder							
- FY19 LTIP	76,923	-	-	(76,923)	-	-	-
- FY20 LTIP	70,131	-	-	-	70,131	-	-
- FY21 LTIP	-	100,000	-	-	100,000	-	-

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## 9.5 Details of Remuneration

Details of the remuneration of the Directors and Key Management Personnel (KMPs) is set out below.

	Year	Short Term Employment Benefits			Post-Employment Benefits	Long Term Benefits		Share Based Payments	Total (\$)
		Salary & Fees (\$)	Non-monetary benefits (\$)	Performance based payment (\$)	Super Contributions (\$)	Annual & Long Service Leave (\$)	Performance based payment (\$) (3)	Options / Rights (\$)	
<b>NON-EXEC DIRECTORS</b>									
B Blundy	2021	150,000	-	-	-	-	-	-	150,000
	2020	150,000	-	-	-	-	-	-	150,000
T Blundy	2021	73,059	-	-	6,941	-	-	-	80,000
	2020	54,499	-	-	25,501	-	-	-	80,000
J King	2021	73,059	-	-	6,941	-	-	-	80,000
	2020	73,246	-	-	6,754	-	-	-	80,000
J Armstrong (1)	2021	2,810	-	-	267	-	-	-	3,077
	2020	73,246	-	-	6,754	-	-	-	80,000
J Charlton (2)	2021	59,841	-	-	5,685	-	-	-	63,333
	2020	-	-	-	-	-	-	-	-
S J Alt	2021	70,000	-	-	-	-	-	-	70,000
	2020	63,333	-	-	-	-	-	-	63,333
N van der Merwe	2021	-	-	-	-	-	-	-	-
	2020	-	-	-	-	-	-	-	-
<b>TOTAL NON-EXEC DIRECTORS</b>	2021	<b>428,769</b>	-	-	<b>19,834</b>	-	-	-	<b>448,603</b>
	2020	414,324	-	-	39,009	-	-	-	453,333
<b>EXEC DIRECTORS</b>									
S Fallscheer	2021	1,392,271	-	1,575,000	21,694	157,277	875,000	537,500	4,558,742
	2020	1,341,286	27,091	-	24,327	146,396	-	(316,667)	1,222,433
<b>OTHER KMP</b>									
C Lauder	2021	457,327	-	125,000	21,694	69,907	-	47,750	721,678
	2020	379,723	-	-	24,257	42,834	-	(102,500)	344,314
<b>TOTAL EXEC</b>	2021	<b>1,849,598</b>	-	<b>1,700,000</b>	<b>43,388</b>	<b>227,184</b>	<b>875,000</b>	<b>585,250</b>	<b>5,280,420</b>
	2020	1,721,009	27,091	-	48,584	189,230	-	(419,167)	1,566,747

(1) Resigned on 3 July 2020.

(2) Appointed on 26 August 2020.

(3) During the financial year, Mr Fallscheer was granted an LTI including a cash settled component of \$3.5m. This award is subject to performance conditions as set out above over the performance period ending 2 July 2023, with the associated expense recognised over the performance period.





## 9.6 Consequences of Performance on Shareholder Wealth

In considering the consolidated entity's performance and the benefits for shareholder wealth, the Remuneration and Nomination Committee has regard to a range of indicators in respect of senior executive remuneration and linked these to the previously described short and long term incentives.

The following table presents these indicators showing the impact of the Group's performance on shareholder wealth, during the financial years:

	2021	2020	2019
Earnings before interest and tax (\$'000)	43,527	25,667	52,484
Net profit after tax (\$'000)	24,829	11,221	37,043
Dividends paid (\$'000)	37,611	15,866	33,781
Share Price	\$14.45	\$8.08	\$11.36
Earnings per share (cents)	23.1	10.6	35.1

### KMP Shareholdings

The following table details the ordinary shareholdings and the movements in the shareholdings of KMP (including their personally related entities) for the financial year ended 27 June 2021.

No. of shares	Held at 29 June 2020	Shares Purchased	Shares Sold	Held at 27 June 2021
<b>Non-executive Directors</b>				
B Blundy	43,207,500	-	-	43,207,500
T Blundy	1,153,005	-	-	1,153,005
J King	34,000	-	-	34,000
J Charlton	5,000	-	-	5,000
S J Alt	-	-	-	-
N van der Merwe (alternate)	-	-	-	-
<b>Executive Directors</b>				
S Fallscheer	5,827,764	-	3,587,764	2,240,000
<b>Executive</b>				
C Lauder	3,000	-	-	3,000

## 10. INSURANCE OF OFFICERS AND INDEMNITIES

During the financial year, Lovisa Holdings Limited paid a premium of \$402,000 (2020: \$309,000) to insure the Directors and officers of the Group.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group.

## 11. AUDIT SERVICES

### 11.1 Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 82 and forms part of this Directors' Report.

### 11.2 Audit and Non-Audit Services Provided by the External Auditor

During the financial year ended 27 June 2021, the following fees were paid or were due and payable for services provided by the external auditor, KPMG, of the Consolidated Entity:

Consolidated Entity	2021 \$000	2020 \$000
<b>Audit and assurance services</b>		
Audit and review of financial statements	375	280
<b>Other services</b>		
Tax compliance services	230	92
Other accounting services	94	63
	699	435

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit, Business Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit, Business Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

## 12. PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## 13. ENVIRONMENTAL REGULATION

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Directors believe that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of these environmental requirements as they apply to the entity.

## 14. NON-IFRS FINANCIAL INFORMATION

This report contains certain non-IFRS financial measures of historical financial performance. The measures are used by management and the Directors for the purpose of assessing the financial performance of the Group and individual segments. The measures are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or controllable factors which affect IFRS measures, to aid the user in understanding the Group's performance. These measures are not subject to audit.

## 15. ROUNDING OF AMOUNTS

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Directors



Brett Blundy  
Non-Executive Chairman



Shane Fallscheer  
Managing Director

Melbourne, 25 August 2021



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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 27 June 2021

	Note	27 June	28 June
<i>Consolidated (\$'000s)</i>		2021	2020
<b>Assets</b>			
Cash and cash equivalents	C5	35,552	20,434
Trade and other receivables	B1	11,325	7,876
Inventories	B2	34,211	21,714
Derivatives	C4	-	207
<b>Total current assets</b>		<b>81,088</b>	<b>50,231</b>
Deferred tax assets	A8	12,591	9,344
Property, plant and equipment	B3	42,112	46,099
Right-of-use asset	B4	158,081	150,464
Intangible assets and goodwill	B5	4,378	3,882
<b>Total non-current assets</b>		<b>217,162</b>	<b>209,789</b>
<b>Total assets</b>		<b>298,250</b>	<b>260,020</b>
<b>Liabilities</b>			
Derivatives	C4	144	-
Trade and other payables	B7	33,693	22,231
Employee benefits - current	B9	5,963	3,685
Provisions - current	B8	2,788	1,516
Lease liability - current	B10	54,484	36,019
Current tax liabilities	A8	4,767	3,893
<b>Total current liabilities</b>		<b>101,839</b>	<b>67,344</b>
Employee benefits - non current	B9	344	407
Lease liability - non current	B10	146,203	131,135
Provisions - non current	B8	4,149	2,766
<b>Total non-current liabilities</b>		<b>150,696</b>	<b>134,308</b>
<b>Total liabilities</b>		<b>252,535</b>	<b>201,652</b>
<b>Net assets</b>		<b>45,715</b>	<b>58,368</b>
<b>Equity</b>			
Issued capital	C1	213,877	213,877
Common control reserve		(208,906)	(208,906)
Other reserves		11,707	11,578
Retained earnings		29,037	41,819
<b>Total equity</b>		<b>45,715</b>	<b>58,368</b>

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The Notes on pages 37 to 74 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the financial year ended 27 June 2021

Consolidated (\$'000s)	Note	2021	2020
Revenue	A2	288,034	242,176
Cost of sales		(67,070)	(54,907)
<b>Gross profit</b>		220,964	187,269
Salaries and employee benefits expense	A3	(74,710)	(61,359)
Property expenses	A3	(9,428)	(11,546)
Distribution costs		(14,352)	(10,291)
Depreciation and amortisation expense		(54,136)	(50,441)
Gain / (loss) on disposal of property, plant and equipment		(25)	(241)
Impairment expenses	A5	(246)	(6,117)
Other income		1,479	517
Other expenses	A3	(26,019)	(22,124)
<b>Operating profit</b>		43,527	25,667
Finance income		41	250
Finance costs		(5,251)	(5,055)
<b>Net finance costs</b>		(5,210)	(4,805)
<b>Profit before tax</b>		38,317	20,862
Income tax expense	A8	(13,488)	(9,641)
<b>Profit after tax</b>		24,829	11,221
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Cash flow hedges		(234)	(352)
Foreign operations - foreign currency translation differences		(303)	327
		(537)	(25)
<b>Other comprehensive income, net of tax</b>		(537)	(25)
<b>Total comprehensive income</b>		24,292	11,196
<b>Profit attributable to:</b>			
Owners of the Company		24,829	11,221
		24,829	11,221
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		24,292	11,196
<b>Total comprehensive income for the year</b>		24,292	11,196
<b>Earnings per share</b>			
Basic earnings per share (cents)	A6	23.1	10.6
Diluted earnings per share (cents)	A6	23.0	10.6

The Notes on pages 37 to 74 are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 27 June 2021

### Attributable to Equity Holders of the Company

<i>Consolidated (\$'000s)</i>	Note	Share Capital	Common Control Reserve	Retained Earnings	Share Based Payments Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Total Equity
<b>Balance at 1 July 2019</b>		209,791	(208,906)	46,464	3,296	553	2,453	53,651
<b>Total comprehensive income for the year</b>								
Profit		-	-	11,221	-	-	-	11,221
Cash flow hedges		-	-	-	-	(352)	-	(352)
Foreign operations - foreign currency translation differences		-	-	-	-	-	327	327
<b>Total comprehensive income for the year</b>		209,791	(208,906)	57,685	3,296	201	2,780	64,847
<b>Capital contributions</b>	C1	4,086	-	-	-	-	-	4,086
Employee share schemes	D3	-	-	-	5,301	-	-	5,301
Dividends	A7	-	-	(15,866)	-	-	-	(15,866)
<b>Total transactions with owners of the Company</b>		4,086	-	(15,866)	5,301	-	-	(6,479)
<b>Balance at 28 June 2020</b>		213,877	(208,906)	41,819	8,597	201	2,780	58,368
<b>Balance at 29 June 2020</b>		213,877	(208,906)	41,819	8,597	201	2,780	58,368
<b>Total comprehensive income for the year</b>								
Profit		-	-	24,829	-	-	-	24,829
Cash flow hedges		-	-	-	-	(234)	-	234
Foreign operations - foreign currency translation differences		-	-	-	-	-	(303)	(303)
<b>Total comprehensive income for the year</b>		213,877	(208,906)	66,648	8,597	(33)	2,477	82,660
<b>Capital contributions</b>	C1	-	-	-	-	-	-	-
Employee share schemes	D3	-	-	-	666	-	-	666
Dividends	A7	-	-	(37,611)	-	-	-	(37,611)
<b>Total transactions with owners of the Company</b>		-	-	(37,611)	666	-	-	(36,945)
<b>Balance at 27 June 2021</b>		213,877	(208,906)	29,037	9,263	(33)	2,477	45,715

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The Notes on pages 37 to 74 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 27 June 2021

<i>Consolidated (\$'000s)</i>	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		319,882	272,763
Cash paid to suppliers and employees		(219,075)	(189,710)
Cash generated from operating activities		100,807	83,053
Interest received		41	250
Other income received		1,043	517
Interest paid		(627)	(349)
Income taxes paid		(15,968)	(3,471)
<b>Net cash from operating activities</b>	C5	85,296	80,000
<b>Cash flows from investing activities</b>			
Acquisition of fixed assets		(14,722)	(26,402)
Cash acquired net of cash paid for acquisitions (i)		16,219	-
Proceeds from fit out contributions		1,378	1,599
Acquisition of key money intangibles	B5	(615)	(759)
<b>Net cash used in investing activities</b>		2,260	(25,562)
<b>Cash flows from financing activities</b>			
Share options exercised		-	4,086
Payment of lease liabilities	B10	(35,469)	(31,886)
Dividends paid	A7	(37,611)	(15,866)
<b>Net cash used in financing activities</b>		(73,080)	(43,666)
<b>Net increase in cash and cash equivalents</b>		14,476	10,772
Cash and cash equivalents at the beginning of the year	C5	20,434	11,192
Effect of movement in exchange rates on cash held		642	(1,530)
<b>Cash and cash equivalents at the end of the year</b>	C5	35,552	20,434

(i) During 2021, the Group acquired the retail assets of beeline GmbH, which included cash acquired of \$16,219,000 subject to final purchase price adjustment. Refer to Basis of Consolidation on page 38.

The Notes on pages 37 to 74 are an integral part of these consolidated financial statements.



Lovisa Holdings Limited (the "Company") is a for-profit company incorporated and domiciled in Australia with its registered office at Level 1, 818-820 Glenferrie Road, Hawthorn, Victoria 3122. The consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually the "Group companies"). The Group is primarily involved in the retail sale of fashion jewellery and accessories.

Lovisa Holdings Limited reports within a retail financial period. The current financial year represents a 52 week period ended on 27 June 2021 (2020: 52 week period ended 28 June 2020). This treatment is consistent with section 323D of Corporations Act 2001.

The consolidated financial statements of the Group for the financial year ended 27 June 2021 were authorised for issue by the Board of Directors on 25 August 2021.

### Basis of accounting

The consolidated financial statements and supporting notes form a general purpose financial report. It:

- Has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AASBs) including Australian Accounting Interpretations, adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) and Interpretations as issued by the International Accounting Standards Board;
- Has been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value. Intangible assets and goodwill are stated at the lower of carrying amount and fair value less costs to sell;
- Presents reclassified comparative information where required for consistency with the current year's presentation;
- Adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2020;
- Does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective except as disclosed in note D9; and
- Has been prepared on a going concern basis of accounting. At 27 June 2021, the Group's statement of financial position is in a net current liability position

of \$20.8m which has arisen as a result of AASB 16, with net assets of \$45.7m. The Group's approach to managing liquidity risk is detailed in Note C4 and the Group's undrawn credit facilities are detailed in Note C3. The Group continues to be able to meet its financial obligations as and when they fall due and remains a going concern.

### Use of judgements and estimates

In preparing these consolidated financial statements, management has made a number of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Judgements and estimates which are material to the financial statements are outlined below:

### Assumptions and estimation uncertainties

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of financial statements. During FY21, the Group's operations and financial statements were impacted as a result of:

- Disruption to normal trading conditions (temporary shutdowns of stores)
- Reduced demand for goods caused by uncertainty surrounding the length of current or future restrictions.

In respect of these financial statements, the impact of COVID-19 is primarily relevant to estimates of future performance which is in turn relevant to the areas of net realisable value of inventory, impairment of non-financial assets and going concern.

In making estimates of future performance, key assumptions and judgements have been stress tested for the impacts of COVID-19. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations, along with the Group's proposed responses. The following assumptions and judgements in relation to the potential impact of COVID-19 have been applied by the Group:

- Sales forecasts have been estimated factoring in known lockdowns where stores are temporarily unable to trade, as well as expectations of ongoing impacts where stores are able to trade but are impacted by reduced foot traffic and/or demand. These estimates have been made based on expectations of market demand and using actual experience to date of the trading impacts of COVID-19.



**Assumptions and estimation uncertainties (continued)**

- Gross margin and cost assumptions are based on experience to date during the COVID-19 disruption period and the Group's response and ability to manage costs structures.

In all scenarios modelled, the liquidity requirements of the Group are within the available facilities and are forecast to meet financial covenants.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the financial year ended 27 June 2021 are included in the following notes:

- Note A8 – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used;
- Note B2 - inventories: recognition and measurement of stock provisioning;
- Note B6 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of goodwill and key money;
- Notes B8 and D2 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and
- Note B10 - recognition and measurement of lease liabilities: key assumptions underlying the lease term including the exercise or not of options or break clauses.

**Basis of consolidation****Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note B6). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see note C1).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

**Acquisition of assets**

The Group accounts for asset purchases by allocating the transaction price to the individual assets and liabilities acquired based on their relative fair values at the date of purchase. From March to May 2021, the Group acquired the retail assets of beeline GmbH in the following markets: Luxembourg (1 March 2021), Belgium (8 March 2021), Germany (15 March 2021), France (12 April 2021), Netherlands (19 April 2021), Austria (26 April 2021), Switzerland (3 May 2021).

**Subsidiaries**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power to direct activities of the entity.

The financial results of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

**Foreign currency****Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

**Translation of foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Lovisa at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

**Foreign operations**

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the end of the reporting period.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign currency operation is disposed of, the cumulative amount in the translation reserve related to that foreign operation is transferred to profit or loss on disposal of the entity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented in the translation reserve in equity.

**About the Notes to the financial statements**

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- The amount with respect to the information is significant because of its size or nature;
- The information is important for understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's business; or
- It relates to an aspect of the Group's operations that is important to its future performance.

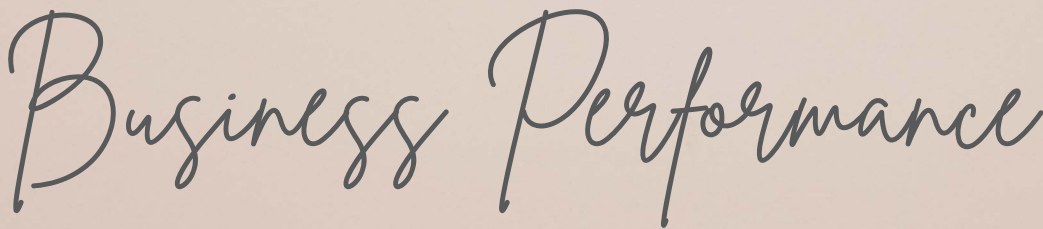
**Subsequent events**

As a result of decisions by various state governments in Australia to implement lockdowns in response to ongoing COVID-19 outbreaks, the Australian market has experienced multiple periods of temporary store closures in the period since June 2021, with 82 stores currently remaining temporarily closed at the date of this report.

In addition, our stores in Malaysia were temporarily closed since government restrictions were implemented in early June 2021 and all 24 of our stores in New Zealand have been temporarily closed due to a nationwide lockdown starting on 18 August 2021. Our Malaysian stores have now re-opened for trade from 20 August 2021.

The timeline for the above stores being able to re-open is subject to government advice and will continue to be monitored closely. All other markets are open and trading, as well as our global online stores.

There are no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in future financial years.



# Business Performance

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*This section highlights key financial performance measures of the Lovisa Group's operating segments, as well as Group financial metrics incorporating revenue, earnings, taxation and dividends.*

**A1 OPERATING SEGMENTS****(a) Basis for segmentation**

The Chief Operating Decision Maker (CODM) for Lovisa Holdings Limited and its controlled entities, is the Managing Director (MD). For management purposes, the Group is organised into geographic segments to review sales by territory. All territories offer similar products and services and are managed by sales teams in each territory reporting to regional management, however overall company performance is managed on a global level by the MD and the Group's management team. Store performance is typically assessed at an individual store level. Lovisa results are aggregated to form one reportable operating segment, being the retail sale of fashion jewellery and accessories. The individual stores meet the aggregation criteria to form a reportable segment.

The company's stores exhibit similar long-term financial performance and economic characteristics throughout the world, which include:

- Consistent products are offered throughout the company's stores worldwide;
- All stock sold throughout the world utilises common design processes and products are sourced from the same supplier base;
- Customer base is similar throughout the world;
- All stores are serviced from three delivery centres; and
- No major regulatory environment differences exist between operating territories.

As the Group reports utilising one reportable operating segment, no reconciliation of the total of the reportable segments measure of profit or loss to the consolidated profit has been provided as no reconciling items exist.

**(b) Geographic information**

The segments have been disclosed on a regional basis consisting of Australia and New Zealand, Asia (consisting of Singapore and Malaysia), Africa (South Africa), Americas (United States of America) and Europe (United Kingdom, Spain, France, Luxembourg, Belgium, Germany, Netherlands, Austria and Switzerland) and the Group's franchise stores in the Middle East and Asia. Geographic revenue information is included in Note A2.

In presenting the following information, segment assets were based on the geographic location of the assets.

(\$000s)	2021	2020
	Non-current assets (i) (ii)	Non-current assets (i)
a) Australia / New Zealand	60,593	71,591
b) Asia	10,735	13,371
c) Africa	6,898	7,068
d) Europe	78,391	56,881
e) Americas	43,576	47,925
Total	200,193	196,836

(i) Excluding financial instruments, deferred tax assets, employee benefit assets and intangible assets.

(ii) The increase in the non-current assets for Europe is substantially due to the acquisition of the retail assets of beeline GmbH.

**A2 REVENUE****Revenue by nature and geography**

The geographic information below analyses the Group's revenue by region. In presenting the following information, segment revenue has been based on the geographic location of customers.

(\$000s)	2021	2020
<b>Sale of Goods</b>		
Australia / New Zealand	157,163	124,081
Asia	17,882	25,466
Africa	33,841	28,364
Europe	40,053	42,078
Americas	37,645	20,532
<b>Total Sale of Goods</b>	<b>286,584</b>	<b>240,521</b>
<b>Franchise Revenue</b>		
Middle East	1,450	1,460
Asia	-	195
<b>Total Franchise Revenue</b>	<b>1,450</b>	<b>1,655</b>
<b>Total Revenue</b>	<b>288,034</b>	<b>242,176</b>

**a) Revenue recognition and measurement**

Revenue is recognised when the customer obtains control of the goods, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns and trade discounts.

The following specific recognition criteria must also be met before revenue is recognised:

**Sale of Goods**

Revenue from the sale of fashion jewellery is recognised when the customer obtains control of the goods. A right of return provision has been recognised in line with the Group's returns policy in line with the requirements of IFRS 15 along with a right to recover returned goods asset.

**Franchise income**

Franchise income, which is generally earned based upon a percentage of sales is recognised on an accrual basis. There is no material impact from the introduction of IFRS 15 on franchise income.



## A3 EXPENSES

### Expenses by nature

<i>Consolidated (\$'000s)</i>	<b>2021</b>	<b>2020</b>
Property expenses		
Variable lease expenses	(895)	404
Outgoings	10,323	11,142
<b>Total property expenses</b>	<b>9,428</b>	<b>11,546</b>
Salaries and employee benefits expense		
Wages and salaries	67,519	56,382
Compulsory social security contributions	6,361	5,334
Increase in liability for long-service leave	164	220
Share-based payment expense	666	(577)
<b>Total salaries and employee benefits expense</b>	<b>74,710</b>	<b>61,359</b>
Other expenses		
Administrative expenses	19,373	18,934
Other expenses	6,646	3,190
<b>Total other expenses</b>	<b>26,019</b>	<b>22,124</b>

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## A4 GOVERNMENT GRANTS

### Government grants - COVID-19 pandemic

The Group has received various financial support measures offered by governments in the countries we operate in to provide financial support to businesses during the COVID-19 pandemic to protect jobs.

As part of these measures, the Group qualified for, and complied with the conditions to receive, wage subsidy grants in most of the territories in which it operates. The payments received have been recognised as government grants because the wage subsidies have been provided with the objective of keeping our employees employed by the Group during the COVID-19 crisis period. The grant income has been presented net of the related salaries and wages expense. During 2021 the Group has recognised \$11,833,000 (2020: \$11,832,000) of wage subsidy grants globally against "salaries and employee benefits expense". All of these amounts have been paid to employees as salaries and wages, and include amounts paid to team for hours not worked (for example where temporarily stood down), as well as employees working hours they may not have otherwise worked in the absence of these subsidies.

These measures also include the deferral of various tax (including GST, VAT and income tax) and employee withholding payments across the countries we operate in. The Group has not obtained any relief whereby these obligations have been waived. The unpaid deferred balances remaining at 27 June 2021 are recorded in "trade and other payables" (28 June 2020: in "trade payables" and "current tax liabilities").

A business rates holiday was granted to our UK stores for the year from 1 April 2020 to 31 March 2021. The program was extended to apply at 100% discount for three months from 1 April 2021 to 30 June 2021 and at 66% discount for the period from 1 July 2021 to 31 March 2022. This waiver of business rates has been recognised as income in the same period as the related charge is recognised and so there is no net impact on profit or loss for the period.

Dependent on the rateable value of the property, some of our UK stores qualified for local business council grants. These grants amounted to \$1,043,000 (2020: \$517,000) and were unconditional and so were included in "other income" when they became receivable.

## A5 IMPAIRMENT

### Amounts recognised in profit or loss

Consolidated (\$'000s)	2021	2020
Impairment charges pertaining to exit from Spanish market	6	3,360
Other store impairment charges	240	2,757
	246	6,117

During the year ended 27 June 2021, impairment charges of \$246,000 (\$246,000 after tax) (2020: \$6,117,000 (\$5,434,000 after tax)) were included within the consolidated statement of profit or loss and other comprehensive income. The impairment charge in FY20 relates to the decision to exit the Spanish market and a write-down of fixed assets, key money and lease right-of-use assets within the store network.

## A6 EARNINGS PER SHARE (EPS)

### Calculation methodology

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

### EPS for profit attributable to ordinary shareholders of Lovisa Holdings Limited

	2021	2020
Basic EPS (cents)	23.1	10.6
Diluted EPS (cents)	23.0	10.6
Profit attributable to ordinary shareholders (\$'000s)	24,829	11,221
Weighted average number of ordinary shares for basic EPS (shares)	107,459,646	106,254,265
Weighted average number of ordinary shares and potential ordinary shares for diluted EPS (shares)	107,917,281	106,254,265
	2021	2020
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	107,459,646	106,254,265
Adjustments for calculation of diluted earnings per share:		
Options	457,635	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	107,917,281	106,254,265

### Information concerning the classification of securities

#### i) Options

Options granted to employees under the Lovisa Holdings Long Term Incentive Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required hurdles would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note D3.

At 27 June 2021, 2,701,832 options (2020: 3,914,825) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

## A7 DIVIDENDS

The Board may pay any interim and final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

The following dividends were paid by the Company for the year.

<i>Consolidated (\$000s)</i>	<b>2021</b>	<b>2020</b>
15.0 cents per qualifying ordinary share, 50% franked (2020: 15.0 cents, fully franked)	16,119	15,866
20.0 cents per qualifying ordinary share, 50% franked (2020: nil)	21,492	-
	<b>37,611</b>	<b>15,866</b>

After the reporting date, the following dividends were proposed by the Board of Directors. The dividends have not been recognised as liabilities and there are no tax consequences.

<i>Consolidated (\$000s)</i>	<b>2021</b>	<b>2020</b>
18.0 cents per qualifying ordinary share, 50% franked (2020: nil)	19,343	-
	<b>19,343</b>	<b>-</b>

<i>Consolidated (\$000s)</i>	<b>2021</b>	<b>2020</b>
<b>Dividend franking account</b>		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2020: 30%)	5,448	641

An FY21 interim dividend of 20 cents per fully paid share was paid on 22 April 2021. On 19 February 2020, the Company announced a fully franked interim dividend of 15.0 cents per fully paid share payable on 23 April 2020. As a result of the impact of COVID-19 on the business and the associated temporary closure of part of the store network during the final quarter of FY20, the payment date of this dividend was deferred for a period of 6 months to a revised payment date of 30 September 2020. This dividend was paid on that date, however as a result of lower tax payments during the financial year the franking percentage was reduced to 50%.

## A8 INCOME TAXES

### Recognition and measurement

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.



## A8 INCOME TAXES (CONTINUED)

## (a) Amounts recognised in profit or loss

Consolidated (\$'000s)	2021	2020
<b>Current tax expense</b>		
Current period	14,560	8,775
Changes in estimates related to prior years	(98)	473
	14,462	9,248
<b>Deferred tax (benefit)/expense</b>		
Origination and reversal of temporary differences	(974)	393
Changes in temporary differences related to prior years	-	-
	(974)	393
<b>Total income tax expense</b>	<b>13,488</b>	<b>9,641</b>

## (b) Reconciliation of effective tax rate

Consolidated (\$'000s)	2021	2020
Profit before tax from continuing operations	38,317	20,862
Tax at the Australian tax rate of 30% (2020: 30%)	11,495	6,259
Effect of tax rates in foreign jurisdictions	(950)	40
Non-deductible expenses	203	21
Tax exempt income	(660)	(64)
Utilisation of carried-forward tax losses	-	-
Recognition of tax effect of previously unrecognised tax losses	-	(423)
Current year losses for which no deferred tax asset is recognised	2,609	2,435
Other movements	889	900
Changes in estimate related to prior years	(98)	473
<b>Total non temporary differences</b>	<b>13,488</b>	<b>9,641</b>
<b>Temporary differences</b>		
Amounts recognised in OCI	(9,426)	(6,510)
Net movement in deferred tax balances	3,246	2,972
<b>Total temporary differences</b>	<b>(6,180)</b>	<b>(3,538)</b>
Income taxes payable for the current financial year	7,308	6,103
Income taxes payable at the beginning of the year	3,893	1,261
Less: tax paid during the year	(15,968)	(3,471)
<b>Income taxes payable as at year end</b>	<b>4,767</b>	<b>3,893</b>
<b>Represented in the Statement of financial position by:</b>		
Current tax liabilities	4,767	3,893
Current tax assets	-	-
	4,767	3,893

## A8 INCOME TAXES (CONTINUED)

## (b) Reconciliation of effective tax rate (continued)

## Effective tax rates (ETR)

## Bases of calculation of each ETR

Global operations – Total consolidated tax expense ETR: IFRS calculated total consolidated company income tax expense divided by total consolidated accounting profit on continuing operations.

Australian operations – Australian company income tax expense ETR: IFRS calculated company income tax expense for all Australian companies and Australian operations of overseas companies included in these consolidated financial statements, divided by accounting profit derived by all Australian companies included in these consolidated financial statements.

Percentage	2021	2020
<b>ETR</b>		
Global operations – Total consolidated tax expense	35.2%	46.2%
Australian operations – Australian company income tax expense	29.9%	31.4%

## (c) Deferred tax assets and liabilities reconciliation

Consolidated (\$'000s)	Statement of financial position		Statement of profit or loss	
	2021	2020	2021	2020
Property, plant and equipment	1,439	831	(551)	453
Employee benefits	1,617	1,216	(402)	281
Provisions	1,028	1,254	77	(326)
Other items	2,987	1,664	(644)	571
Transaction costs	127	-	-	-
Carry forward tax losses	5,393	4,379	545	(586)
<b>Deferred tax expense</b>	-	-	(975)	393
<b>Net deferred tax assets</b>	<b>12,591</b>	<b>9,344</b>		
Presented in the Statement of financial position as follows:				
Deferred tax assets	12,591	9,344		

Unused tax losses for which no deferred tax asset has been recognised total \$5,558,000 (2020: \$2,693,000).

## (d) Expected settlement of deferred tax balances

Consolidated (\$'000s)	2021	2020
Deferred tax assets expected to be settled within 12 months	4,210	2,916
Deferred tax assets expected to be settled after 12 months	8,392	6,533
	12,602	9,449
Deferred tax liabilities expected to be settled within 12 months	11	105
Deferred tax liabilities expected to be settled after 12 months	-	-
	11	105
<b>Net deferred tax assets</b>	<b>12,591</b>	<b>9,344</b>

# Asset Platform

This section outlines the key operating assets owned and liabilities incurred by the Group.

## B1 TRADE AND OTHER RECEIVABLES

### Recognition and measurement

Trade and other receivables are initially recognised at fair value and subsequently stated at their amortised cost using the effective interest method, less impairment losses.

The acquisition of the retail assets of beeline GmbH during 2021 increased trade and other receivables by \$5,354,000 at the time of acquisition.

Consolidated (\$'000s)	Note	2021	2020
Trade receivables		5,211	2,138
Deposits		2,205	772
Prepayments		1,811	940
Other receivables		2,098	4,026
		11,325	7,876

### Impairment of receivables

Recoverability of receivables is assessed monthly to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Significant receivables are individually assessed for impairment. Receivables with a short duration are not discounted.

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is disclosed in Note C4.

## B2 INVENTORIES

### Recognition and measurement

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost includes the product purchase cost, import freight and duties together with other costs incurred in bringing inventory to its present location and condition using the weighted average cost method. All stock on hand relates to finished goods.

Costs of goods sold comprises purchase price from the supplier, cost of shipping product from supplier to warehouse, shrinkage and obsolescence. Warehouse and outbound freight costs are reported as distribution expenses. Inventories recognised as expenses during 2021 and included in cost of sales amount to \$59,234,000 (2020: \$46,595,000).

During 2021, inventories of \$4,879,000 (2020: \$6,860,000) were written down to net realisable value and included in cost of sales.

## B3 PROPERTY, PLANT AND EQUIPMENT

### Recognition and measurement

#### Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of acquired assets includes estimates of the costs of dismantling and removing the items and restoring the site on which they are located where it is probable that such costs will be incurred.

#### Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

#### Depreciation and amortisation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life on all property, plant and equipment. Land is not depreciated.

The residual value, the useful life and the depreciation method applied to an asset are re-assessed at least annually.



## B3 PROPERTY, PLANT AND EQUIPMENT

### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the disposed asset and are recognised in the profit or loss in the year the disposal occurs.

### Reconciliation of carrying amount

Consolidated (\$'000s)	Note	Leasehold improvements	Hardware and software	Fixtures and fittings	Total
<b>Depreciation policy</b>		Lease term	3 years	3 years	
<b>Cost</b>					
Balance at 1 July 2019		61,252	6,093	2,328	69,673
Additions		23,139	1,074	242	24,455
Disposals		(4,052)	(273)	-	(4,325)
Effect of movements in exchange rates		(1,529)	(135)	(2)	(1,666)
<b>Balance at 28 June 2020</b>		<b>78,810</b>	<b>6,759</b>	<b>2,568</b>	<b>88,137</b>
Balance at 29 June 2020		78,810	6,759	2,568	88,137
Additions (i)		15,390	757	30	16,177
Disposals		(1,604)	(42)	-	(1,646)
Effect of movements in exchange rates		(2,532)	11	(11)	(2,532)
<b>Balance at 27 June 2021</b>		<b>90,064</b>	<b>7,485</b>	<b>2,587</b>	<b>100,136</b>
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 July 2019		(27,489)	(3,011)	(755)	(31,255)
Depreciation		(11,312)	(1,825)	(481)	(13,618)
Impairment		(1,152)	-	-	(1,152)
Disposals		1,412	142	-	1,554
Effect of movements in exchange rates		2,238	193	2	2,433
<b>Balance at 28 June 2020</b>		<b>(36,303)</b>	<b>(4,501)</b>	<b>(1,234)</b>	<b>(42,038)</b>
Balance at 29 June 2020		(36,303)	(4,501)	(1,234)	(42,038)
Depreciation		(15,860)	(1,662)	(489)	(18,011)
Impairment		-	-	-	-
Disposals		1,755	-	-	1,755
Effect of movements in exchange rates		287	(20)	3	270
<b>Balance at 27 June 2021</b>		<b>(50,121)</b>	<b>(6,183)</b>	<b>(1,720)</b>	<b>(58,024)</b>
<b>Carrying amounts</b>					
At 30 June 2019		33,763	3,082	1,573	38,418
At 28 June 2020		42,507	2,258	1,334	46,099
<b>At 27 June 2021</b>		<b>39,943</b>	<b>1,302</b>	<b>867</b>	<b>42,112</b>

(i) Includes \$1,306,000 from the acquisition of the retail assets of beeline GmbH.

**B4 RIGHT-OF-USE ASSET****Recognition and measurement**

<i>Consolidated (\$'000s)</i>	<b>Note</b>	<b>Total</b>
<b>Cost</b>		
Balance at 1 July 2019		-
Recognition of right-of-use asset on initial application of AASB 16		138,403
Adjusted balance at 1 July 2019		138,403
Additions		48,793
Re-measurement of lease liabilities		1,698
Effect of movements in exchange rates		(1,755)
<b>Balance at 28 June 2020</b>		<b>187,139</b>
Balance at 29 June 2020		187,139
Additions (i)		43,597
Re-measurement of lease liabilities		3,807
Effect of movements in exchange rates		(4,091)
<b>Balance at 27 June 2021</b>		<b>230,452</b>

<i>Consolidated (\$'000s)</i>	<b>Note</b>	<b>Total</b>
<b>Accumulated depreciation and impairment losses</b>		
Balance at 1 July 2019		-
Recognition of right-of-use asset on initial application of AASB 16		-
Adjusted balance at 1 July 2019		-
Depreciation and impairment charges for the year		(37,454)
Effect of movements in exchange rates		779
<b>Balance at 28 June 2020</b>		<b>(36,675)</b>
Balance at 29 June 2020		(36,675)
Depreciation and impairment charges for the year		(36,125)
Effect of movements in exchange rates		429
<b>Balance at 27 June 2021</b>		<b>(72,371)</b>
<b>Carrying amounts</b>		
At 28 June 2020		150,464
<b>At 27 June 2021</b>		<b>158,081</b>

(i) Includes \$24,572,000 from the acquisition of the retail assets of beeline GmbH.

## B4 RIGHT-OF-USE ASSET

### Recognition and measurement (continued)

The Group has adopted AASB 16 *Leases* from 1 July 2019 using the modified retrospective approach.

Additions to right-of-use assets represent leases for new stores and new leases for existing stores which had been on holdover as of the date of transition 1 July 2019. In the 2021 additions, \$24,572,000 are right-of-use assets from the acquisition of the retail assets of beeline GmbH. Right-of-use assets have been adjusted for the re-measurement of lease liabilities due to changes to existing lease terms, including extensions to existing lease terms. As a result of re-measurement adjustments exceeding the carrying value of the right-of-use asset, a gain of \$437,000 has been recognised in Other Income in the statement of profit or loss and other comprehensive income during the year ended 27 June 2021 (2020: nil).

The Group has applied the IFRIC agenda decision, released in November 2019, clarifying how the lease term should be determined for arrangements that automatically renew until one of the parties gives notice to terminate. If a lease renewal is being actively sought and the lease renewal terms are reasonably known, the lease term has been adjusted to include the expected renewal term. If a lease renewal is not being sought, for example because the store will be relocated to a new location, the lease term has not been adjusted and the lease has not been recognised on the balance sheet.

At 27 June 2021, the Group has executed leases for which the lease commencement date has not yet occurred. These leases have a duration of up to 10 years and once commenced will result in an increase in lease liabilities and right-of-use assets, on a total basis, of approximately \$9,152,000 (2020: \$9,000,000).

The Group has consistently applied the practical expedient for COVID-19 related rent concessions whereby it has not accounted for rent concessions that are a direct consequence of the COVID-19 pandemic as lease modifications. Rent concessions occur as a direct consequence of the COVID-19 pandemic if all the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- There is no substantive change to other terms and conditions of the lease.

The Group has recognised rent concessions that are a direct consequence of the COVID-19 pandemic of \$3,341,000 in the statement of profit or loss and other comprehensive income for the year ended 27 June 2021 (2020: \$1,844,000).

Expenses relating to variable lease payments not included in lease liabilities of \$2,446,000 have been recognised in the statement of profit or loss and other comprehensive income for the year ended 27 June 2021 (2020: \$2,248,000).

## B5 INTANGIBLE ASSETS AND GOODWILL

### Recognition and measurement

#### Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortised.

#### Key Money

Key money represents expenditure associated with acquiring existing operating lease agreements for company-operated stores in countries where there is an active market for key money (e.g. regularly published transaction prices), also referred to as 'rights of use'. Key money is not amortised but annually tested for impairment. Key money in countries where there is not an active market for key money is amortised over the contractual lease period.

Consolidated (\$'000s)	Note	Key Money	Goodwill
Balance at 1 July 2019		1,974	2,444
Additions		759	-
Impairment		(844)	-
Amortisation		(93)	-
Effect of movements in exchange rates		20	(378)
<b>Balance at 28 June 2020</b>		<b>1,816</b>	<b>2,066</b>
Balance at 29 June 2020		1,816	2,066
Additions		615	-
Impairment		(240)	-
Amortisation		-	-
Effect of movements in exchange rates		(74)	195
<b>Balance at 27 June 2021</b>		<b>2,117</b>	<b>2,261</b>



## B6 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS AND GOODWILL

### Recognition and measurement

#### Impairment

The carrying amounts of the Group's goodwill and indefinite life intangibles are tested for impairment at each reporting period. Property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in line with the calculation methodology listed below.

#### Cash-generating units

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Goodwill is tested at the level at which it is monitored, identified by the Group as the country level. Key money is tested at the store level. Property, plant and equipment and right-of-use assets are tested at the store level when there is an indication of impairment.

#### Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Sensitivity analysis is performed on this modelling by using a range of discount rates reflecting the potential risk of variability in the underlying forecasts or regional or market specific risks.

#### Cash flow forecasts

Cash flow forecasts are based on the Group's most recent plans, and are based on expectations of future outcomes having regard to market demand and past experience, incorporating the factors noted in the Assumptions and Estimates Uncertainties section in Setting the Scene in relation to current uncertainty surrounding the COVID-19 pandemic. For store level tests, cash flow forecasts are modelled for the length of the lease, identified as the essential asset for store CGUs. No terminal value is reflected in store level tests.

#### Discount rates

The Group applies a post-tax discount rate to post-tax cash flows. The post-tax discount rates incorporate a risk adjustment relative to the risks associated with the specific CGU (geographic position or otherwise), with a high and low range used to apply sensitivity analysis to the cash flow modelling.

#### Key assumptions for the impairment testing carried out at 27 June 2021

Stores with indicators of impairment at 27 June 2021 were identified in certain of the Group's markets. The COVID-19 related temporary store closures and ongoing sales disruptions which caused reduced sales and cash flows for the year ended 27 June 2021 provided an indicator of impairment for stores in these markets, requiring more detailed testing for certain stores. The following key assumptions were utilised for this impairment testing:

- Discount rate by country applied based on a high and low range to provide sensitivity analysis. The discount rates applied to store tests in these countries were in the range of 10% to 15% pre-tax.
- Growth rate based on expected impact of COVID in the short term, and subsequent sales profile by market as detailed in the Assumptions and Estimation Uncertainties section in Setting the Scene, with a longer term growth rate assumption of 3% in relation to sales and costs to allow for inflationary impacts until the end of the lease term which is considered to be the essential asset. No terminal value is included in discounted cash flow modelling at store level.

As a result of this testing, an impairment expense of \$240,000 was recognised for key money. Refer to note B5 for further detail.

### Reversals of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in previous years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. There were no reversals of impairment in the current or prior year.

## B7 TRADE AND OTHER PAYABLES

### Recognition and measurement

Liabilities for trade payables and other amounts are carried at their amortised cost.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Consolidated (\$'000s)	2021	2020
Trade payables	13,617	12,032
Accrued expenses	20,076	10,199
	33,693	22,231

Trade payables are unsecured and are usually paid within 30 days of recognition. The acquisition of the retail assets of beeline GmbH during 2021 increased trade and other payables by \$2,947,000 at the time of acquisition. Information about the Group's exposure to currency and liquidity risk is included in Note C4.

## B8 PROVISIONS

### Recognition and measurement

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Consolidated (\$'000s)	Site restoration	Return provision	Other provisions	Total
Balance at 29 June 2020	3,663	319	300	4,282
Provisions made during the year	1,831	206	951	2,988
Provisions used during the year	(48)	(171)	(162)	(381)
Effect of movement in exchange rates	35	6	7	48
Balance at 27 June 2021	5,480	360	1,096	6,937
Current	1,332	360	1,096	2,788
Non-current	4,149	-	-	4,149
	5,480	360	1,096	6,937

The acquisition of the retail assets of beeline GmbH during 2021 increased provisions made during the year by \$2,334,000.

### (a) Site restoration

Description	Key Estimates
<p>In accordance with the Group's legal requirements, a provision for site restoration in respect of make good of leased premises is recognised when the premises are occupied.</p> <p>The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.</p> <p>Since the adoption of AASB 16 <i>Leases</i> from 1 July 2019, site restoration is now capitalised as part of the lease right-of-use asset and depreciated over the life of the lease term. For prior periods the amount of the provision for future restoration costs was capitalised as part of leasehold improvements and depreciated over the estimated useful life of the leasehold improvements. The unwinding of the effect of discounting on the provision was recognised as a finance cost.</p>	<p>Expenditure to settle the restoration obligation at the end of the lease term is based on the Group's best estimate.</p>

## B9 EMPLOYEE BENEFITS

### Recognition and measurement

#### Long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using high quality Australian corporate bond rates at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

#### Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Consolidated (\$'000s)	2021	2020
<b>Current</b>		
Liability for annual leave	5,016	2,848
Liability for long-service leave	947	837
<b>Non-Current</b>		
Liability for long-service leave	344	407
<b>Total employee benefit liabilities</b>	<b>6,307</b>	<b>4,092</b>

The acquisition of the retail assets of beeline GmbH during 2021 increased employee benefits by \$540,000 at the time of acquisition. For details on the related employee benefit expenses, see Note A3.

### Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.



**B10 LEASE LIABILITIES****Recognition and measurement**

<i>Consolidated (\$'000s)</i>	<b>Note</b>	<b>Total</b>
Balance at 1 July 2019		-
Recognition of lease liability on initial application of AASB 16		143,621
Adjusted balance at 1 July 2019		143,621
Liability recognised during the period		50,245
Re-measurement of lease liabilities		1,559
Lease payments		(31,886)
Interest		4,707
Effect of movements in exchange rates		(1,092)
<b>Balance at 28 June 2020</b>		<b>167,154</b>
Balance at 29 June 2020		167,154
Liability recognised during the period (i)		63,633
Re-measurement of lease liabilities		4,335
Lease payments		(35,469)
Interest		4,607
Effect of movements in exchange rates		(3,573)
<b>Balance at 27 June 2021</b>		<b>200,687</b>
Current lease liability		54,484
Non-current lease liability		146,203
		<b>200,687</b>

(i) Includes \$41,813,000 from the acquisition of the retail assets of beeline GmbH.

The Group has adopted AASB 16 Leases from 1 July 2019 using the modified retrospective approach.

Additions to lease liabilities represent leases for new stores. In the 2021 additions, \$41,813,000 are lease liabilities from the acquisition of the retail assets of beeline GmbH. Lease liabilities have been re-measured due to changes to existing lease terms, including extensions to existing lease terms.

The Group has applied the practical expedient whereby lease liabilities have not been re-measured for rent concessions that are a direct consequence of the COVID-19 pandemic, refer to note B4.

The timing of the contractual cash flows for the lease liabilities are disclosed in note C4(b).



# Risk & Capital Management

This section discusses the Group's capital management practices, as well as the instruments and strategies utilised by the Group in minimising exposures to and impact of various financial risks on the financial position and performance of the Group.

## C1 CAPITAL AND RESERVES

### Recognition and measurement

#### Ordinary shares

Initially, share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### (a) Share capital

	No. of Ordinary Shares		Value of Ordinary Shares	
	2021	2020	2021	2020
	'000's	'000's	'000's	'000's
Share Capital				
On issue at beginning of year	107,460	105,566	234,165	214,571
Exercise of performance rights	-	-	-	-
Share issue to Employee Share Trust	-	1,894	-	19,594
On issue at end of year	107,460	107,460	234,165	234,165
Treasury Shares				
On issue at beginning of year	-	-	(20,288)	(4,780)
Shares issued to trust	-	(1,894)	-	(19,594)
Shares allocated on option exercise	-	1,894	-	4,086
	-	-	(20,288)	(20,288)
Share Capital After Treasury Shares	107,460	107,460	213,877	213,877

All ordinary shares rank equally with regard to the Company's residual assets.

#### (i) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of these shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company. All rights attached to the Company's shares held by the Group are suspended until those shares are reissued.

#### (ii) Treasury shares

Treasury shares are shares in Lovisa Holdings Limited that are held by the Lovisa Holdings Limited Share Trust for the purposes of issuing shares under the Long Term Incentive Plans. When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share capital.

## C1 CAPITAL AND RESERVES (CONTINUED)

### (b) Nature and purpose of reserves

*(i) Common control reserve* The Group's accounting policy is to use book value accounting for common control transactions. The book value used is the book value of the transferor of the investment. Book value accounting is applied on the basis that the entities are part of a larger economic group, and that the figures from the larger group are the relevant ones. In applying book value accounting, no entries are recognised in profit or loss; instead, the result of the transaction is recognised in equity as arising from a transaction with shareholders.

The book value (carry-over basis) is accounted for on the basis that the investment has simply been moved from one Group owner to a new Group Company. In applying book value accounting, an adjustment may be required in equity to reflect any difference between the consideration received and the aggregated capital of the transferee. The adjustment is reflected in the 'common control reserve' capital account.

### *(ii) Translation reserve*

The translation reserve reflects all foreign currency differences of the international entities upon translation to the Group's functional currency.

### *(iii) Hedging Reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

### *Cash flow hedges*

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

### *(iv) Share-based payments reserve*

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

## C2 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

## C3 LOANS AND BORROWINGS

### Recognition and measurement

Loans and borrowings are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in Note C4.

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

Consolidated (\$'000s)	Currency	Nominal interest rate	Year of maturity	27 June 2021		28 June 2020	
				Face value	Carrying amount	Face value	Carrying amount
Cash advance facility	AUD	N/A	2023	-	-	-	-
Multi-option facility	AUD	N/A	-	-	-	-	-
<b>Total interest-bearing liabilities</b>				-	-	-	-

The Group holds the following lines of credit with the Commonwealth Bank of Australia (CBA):

- \$30 million revolving cash advance facility (2020: \$30 million)
- \$20 million multi option facility available for overdraft, trade finance and a contingent liability facility for global letters of credit and bank guarantees (2020: \$20 million).

The facilities were renewed during 2020, extending the maturity date of the facilities to 23 May 2023 (notwithstanding that individual products by virtue of their nature have their own maturity dates) and increasing the available credit limit as outlined above.

The bank loans are secured by security interests granted by Lovisa Holdings Limited and a number of its subsidiaries over all of their assets in favour of the Commonwealth Bank of Australia (CBA). Under the facility the Group has financial covenants and has been in compliance with these through the year ended 27 June 2021.

The Group holds a number of lines of credit which are solely for the purpose of providing bank guarantees as security for its store lease agreements. On 25 June 2021 the Group finalised a \$20 million bank guarantee facility with HSBC Bank Australia Limited (HSBC) for global letters of credit and bank guarantees. The facility has been incorporated into the security deed for the CBA lending facilities. The financial covenants for the CBA facilities now also apply to this facility. The facility has not been utilised as of 27 June 2021.

As a result of the acquisition of the retail assets of beeline GmbH, two credit facilities for the provision of bank guarantees were assumed for the Belgian and Swiss operations for Euro 600,000 and CHF 550,000 respectively. These facilities are subject to annual credit reviews.

Bank guarantee facilities were also assumed for the operations in Luxembourg, Germany, France, Netherlands and Austria. These bank guarantee facilities are secured by restricted savings accounts, that is they are cash collateralised.

Refer to note D2(a) for guarantees outstanding at 27 June 2021.

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

### (a) Fair values

#### Recognition and measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework with respect to the measurement of fair values. This includes overseeing all significant fair value measurements, including Level 3 fair values, by the CFO.

The Group periodically reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group Audit, Business Risk and Compliance Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the financial year during which the change has occurred.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

27 June 2021		Carrying Amount				Fair Value			
Consolidated (\$'000s)	Note	Hedging instruments	Loans and receivables	Other financial assets/liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial liabilities measured at fair value</b>									
Derivatives		144	-	-	144	-	144	-	144
		144	-	-	144	-	144	-	144
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	B1	-	11,325	-	11,325	-	-	-	-
Cash and cash equivalents	C5	-	35,552	-	35,552	-	-	-	-
		-	46,877	-	46,877	-	-	-	-
<b>Financial liabilities not measured at fair value</b>									
Bank overdrafts	C5	-	-	-	-	-	-	-	-
Trade and other payables	B7	-	-	33,693	33,693	-	-	-	-
		-	-	33,693	33,693	-	-	-	-



## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

## (a) Fair values (continued)

## Recognition and measurement (continued)

28 June 2020		Carrying Amount				Fair Value			
Consolidated (\$'000s)	Note	Hedging instruments	Loans and receivables	Other financial assets/liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>									
Derivatives		207	-	-	207	-	207	-	207
		207	-	-	207	-	207	-	207
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	B1	-	7,876	-	7,876	-	-	-	-
Cash and cash equivalents	C5	-	20,434	-	20,434	-	-	-	-
		-	28,310	-	28,310	-	-	-	-
<b>Financial liabilities not measured at fair value</b>									
Bank overdrafts	C5	-	-	-	-	-	-	-	-
Trade and other payables	B7	-	-	22,231	22,231	-	-	-	-
		-	-	22,231	22,231	-	-	-	-

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## (i) Valuation technique and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

## Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Forward exchange contracts	Market comparison technique: Fair value of forward exchange contracts is determined using forward exchange rates at the balance sheet date. These over-the-counter derivatives utilise valuation techniques maximising the use of observable market data where it is available.	Not applicable.	Not applicable.

## Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Secured bank loans	Discounted cash flows.	Not applicable.

## (ii) Transfers between Level 1 and 2

There were no transfers between Level 1 and Level 2 during the year.

## (iii) Level 3 fair values

## Transfer out of Level 3

There were no transfers out of Level 3 during the year.

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### (b) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk (see (b)(ii))
- liquidity risk (see (b)(iii))
- market risk (see (b)(iv))

#### (i) Risk Management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit, Business Risk and Compliance Committee, which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit, Business Risk and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Committee's specific function with respect to risk management is to review and report to the Board that:

- a) the Group's ongoing risk management program effectively identifies all areas of potential risk;
- b) adequate policies and procedures have been designed and implemented to manage identified risks;
- c) a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- d) proper remedial action is undertaken to redress areas of weakness.

#### (ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and deposits placed for leased outlets.

The Group's credit risk on its receivables is recognised on the consolidated statement of financial position at the carrying amount of those receivable assets, net of any provisions for doubtful debts. Receivable balances and deposit balances are monitored on a monthly basis with the result that the Group's exposure to bad debts is not considered to be material.

Credit risk also arises from cash and cash equivalents and derivatives with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted by Lovisa.

At the reporting date, the carrying amount of financial assets recorded in the financial statements, net of any allowances for impairment losses, represents the Group's maximum exposure to credit risk. There were no significant concentrations of credit risk.

#### Past due but not impaired

As at 27 June 2021, no trade receivables were past due but not impaired (2020: nil). The other classes within trade and other receivables do not contain impaired assets and are not past due.

#### (iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Cash flow forecasts are updated and monitored weekly.

The Group maintains the following lines of credit secured by security interests granted by Lovisa Holdings Ltd and certain of its subsidiaries over all of their assets in favour of the Commonwealth Bank of Australia (CBA):

- \$30 million revolving cash advance facility; and
- \$20 million multi option facility available for overdraft, trade finance and a contingent liability facility for global letters of credit and bank guarantees.

In addition, the Group holds a number of lines of credit which are solely for the purpose of providing bank guarantees as security for its store lease agreements. On 25 June 2021 the Group finalised a \$20 million bank guarantee facility with HSBC Bank Australia Limited (HSBC) for global letters of credit and bank guarantees.

#### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

## (b) Financial risk management (continued)

## (iii) Liquidity risk (continued)

27 June 2021	Contractual cash flows						
Consolidated (\$'000s)	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Trade payables	13,617	13,617	13,617	-	-	-	-
Lease liabilities	200,687	220,210	22,677	42,254	38,231	75,334	41,714
	214,304	233,827	36,294	42,254	38,231	75,334	41,714
<b>Derivative financial liabilities</b>							
Forward exchange contracts used for hedging:							
- Outflow	-	37,414	8,731	28,683	-	-	-
- Inflow	-	(37,270)	(8,587)	(28,683)	-	-	-
Total	144	144	144	-	-	-	-

28 June 2020	Contractual cash flows						
Consolidated (\$'000s)	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Trade payables	12,032	12,032	12,032	-	-	-	-
Lease liabilities	167,154	186,098	11,998	29,084	31,160	68,171	45,685
	179,186	198,130	24,030	29,084	31,160	68,171	45,685
<b>Derivative financial assets</b>							
Forward exchange contracts used for hedging:							
- Outflow	-	29,748	6,987	22,761	-	-	-
- Inflow	-	(29,955)	(7,005)	(22,950)	-	-	-
Total	(207)	(207)	(18)	(189)	-	-	-

The gross inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

The future cash flows on trade payables may be different from the amount in the above table as exchange rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### (b) Financial risk management (continued)

#### (iv) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses derivatives to manage market risks. All such transactions are carried out within the guidelines set by the Audit, Business Risk and Compliance Committee. The Group also applies hedge accounting in order to manage volatility in profit or loss.

#### Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group companies. The presentation currency of the Group is the Australian dollar (AUD) which is the functional currency of the majority of Lovisa. The currencies in which transactions are primarily denominated are Australian dollars, Singapore dollars, US dollars, British pounds and South African Rand.

The Company's foreign exchange policy is aimed at managing its foreign currency exposure in order to protect profit margins by entering into forward exchange contracts and currency options, specifically against movements in the USD rate against the AUD.

The following table defines the range of cover that has been authorised by the Board relating to purchases over a defined period:

Exposure	Minimum Hedge Position	Neutral Hedge Position	Maximum Hedge Position
Purchases 0 to 6 months	60%	80%	100%
Purchases 7 to 9 months	40%	50%	75%
Purchases 10 to 12 months	30%	40%	50%

#### Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows:

In thousands of	27 June 2021				28 June 2020			
	EUR	USD	GBP	ZAR	EUR	USD	GBP	ZAR
Cash and cash equivalents	13,443	3,920	1,997	8,343	597	1,877	2,895	3,504
Trade receivables	887	2,527	159	235	-	1,329	108	212
Trade payables	(1,406)	(6)	(2,932)	910	(1,349)	(358)	(2,473)	(64)
<b>Net statement of financial position exposure</b>	<b>12,924</b>	<b>6,441</b>	<b>(776)</b>	<b>9,488</b>	<b>(752)</b>	<b>2,848</b>	<b>530</b>	<b>3,652</b>

#### Sensitivity analysis

A reasonably possible strengthening (weakening) of the USD, the EUR, the GBP or ZAR against all other currencies would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. The translation of the net assets in subsidiaries with a functional currency other than the Australian dollar has not been included in the sensitivity analysis as part of the equity movement.

There is no impact on equity as the foreign currency denominated assets and liabilities represent cash, receivables and payables.



## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### (b) Financial risk management (continued)

(iv) Market risk (continued)

Sensitivity Analysis (continued)

Effect in thousands of dollars	Profit or loss	
	Strengthening	Weakening
<b>27 June 2021</b>		
EUR (5 percent movement)	(615)	680
USD (5 percent movement)	(307)	340
GBP (5 percent movement)	37	(41)
ZAR (5 percent movement)	(452)	499
<b>28 June 2020</b>		
EUR (5 percent movement)	36	(40)
USD (5 percent movement)	(170)	188
GBP (5 percent movement)	(261)	288
ZAR (5 percent movement)	(180)	199

#### Interest rate risk

The Group is subject to exposure to interest rate risk as changes in interest rates will impact borrowings which bear interest at floating rates. Any increase in interest rates will impact Lovisa's costs of servicing these borrowings which may adversely impact its financial position. This impact is not assessed to be material.

Increases in interest rates may also affect consumer sentiment and the level of customer demand, potentially leading to a decrease in consumer spending.

#### Cash flow sensitivity analysis for variable rate instruments

At 27 June 2021, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, there would have been nil impact on pre tax profit for the year (28 June 2020: \$nil), as a result of higher/lower interest expense from variable rate borrowings. There is no impact on equity.

### (c) Derivative assets and liabilities

The Group holds derivative financial instruments to manage its foreign currency risk exposures.

#### Recognition and measurement

Derivative financial instruments are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are generally recognised in profit or loss.

#### Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

#### Forward rate contracts

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

## (c) Derivative assets and liabilities (continued)

## Forward rate contracts (continued)

The following table provides details of the derivative financial assets and liabilities included on the balance sheet:

Consolidated (\$'000s)	2021	2020
<b>Derivatives</b>		
Forward exchange contracts	(144)	207
	(144)	207

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments.

Consolidated (\$'000s)	2021				2020			
	Carrying Amount	Expected Cash Flows			Carrying Amount	Expected Cash Flows		
		Total	12 mths of less	More than 1 year		Total	12 mths of less	More than 1 year
<b>Forward exchange contracts:</b>								
Assets	-	-	-	-	207	207	207	-
Liabilities	(144)	(144)	(144)	-	-	-	-	-
	(144)	(144)	(144)	-	207	207	207	-

A gain of \$45,000 was included in other expenses on foreign currency derivatives not qualifying as hedges (2020: gain of \$38,000).

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## C5 CASH FLOWS

## Recognition and measurement

Cash and cash equivalents comprise cash balances, and cash in transit and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Consolidated (\$'000s)	2021	2020
<b>Bank balances</b>		
Cash and cash equivalents in the statement of financial position (i)	35,552	20,434
Bank overdrafts used for cash management purposes	-	-
Cash and cash equivalents in the statement of cash flows	35,552	20,434

(i) Includes \$3,143,000 of cash in savings accounts to collateralise bank guarantees.

## C5 CASH FLOWS (CONTINUED)

**Reconciliation of cash flows from operating activities**

Consolidated (\$'000s)	Note	2021	2020
<b>Cash flows from operating activities</b>			
Profit after tax		24,829	11,221
Adjustments for:			
Depreciation		54,136	50,441
Impairment charges		246	6,117
Gain on remeasurement of lease liability		(437)	-
Loss on sale of property, plant and equipment		25	241
Share based payments		666	(577)
Fair value adjustment to derivatives	C4	(45)	(38)
Net finance costs		4,625	4,707
Exchange differences		4,192	2,968
		88,237	75,080
Change in inventories		(12,497)	1,055
Change in trade and other receivables (i)		1,905	(463)
Change in deferred tax assets		(3,246)	(2,972)
Change in trade and other payables (i)		8,506	(1,428)
Change in current tax liabilities (i)		843	2,632
Change in provisions and employee benefits (i)		1,998	935
Change in make-good provision		(450)	(717)
Change in deferred tax asset on share trust consolidation entries		-	5,878
<b>Net cash from operating activities</b>		<b>85,296</b>	<b>80,000</b>

(i) During 2021, the Group acquired the retail assets of beeline GmbH. The acquired operating assets and liabilities have been deducted from the changes in the balances.

# Other Information

This section includes mandatory disclosures to comply with Australian Accounting Standards, the Corporations Act 2001 and other regulatory pronouncements.

## D1 LIST OF SUBSIDIARIES

Set out below is a list of subsidiaries of the Group. All subsidiaries are wholly owned, unless otherwise stated.

Name	Principal place of business
Lovisa Australia Pty Ltd	Australia
Lovisa Pty Ltd	Australia
Lovisa Employee Share Plan Pty Ltd	Australia
Lovisa International Pte Ltd	Singapore
Lovisa Singapore Pte Ltd	Singapore
Lovisa Accessories Pty Ltd	South Africa
DCK Jewellery South Africa (Pty) Ltd	South Africa
Lovisa New Zealand Pty Ltd	New Zealand
Lovisa Malaysia Sdn Bhd	Malaysia
Lovisa UK Ltd	United Kingdom
Lovisa Global Pte Ltd	Singapore
Lovisa Complementos España SL	Spain
Lovisa America, LLC	United States of America
Lovisa France SARL	France
Lovisa Hong Kong Ltd	Hong Kong
Lovisa Germany GmbH (i)	Germany
Lovisa Retail Germany GmbH (ii)	Germany
Lovisa Austria GmbH (ii)	Austria
Lovisa Belgium BV (ii)	Belgium
Lovisa Netherlands BV (ii)	Netherlands
Lovisa Switzerland AG (ii)	Switzerland
Lovisa Retail France SARL (ii)	France
Lovisa Luxembourg SARL (ii)	Luxembourg

(i) Acquired 12 November 2020.

(ii) This entity was acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021.



## D2 COMMITMENTS AND CONTINGENCIES

### (a) Guarantees

The Group has guarantees outstanding to landlords and other parties to the value of \$13,099,000 at 27 June 2021 (2020: \$5,229,000).

### (b) Capital commitments and contingent liabilities

The Group is committed to incur capital expenditure of \$3,014,000 (2020: \$1,524,000). There are no contingent liabilities that exist at 27 June 2021 (28 June 2020: none).

## D3 SHARE-BASED PAYMENT ARRANGEMENTS

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### (a) Descriptions of the share-based payment arrangements

The Board has issued share option programmes that entitle key management personnel and senior management to purchase shares in the Company. Under these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at the grant date. Currently, these programmes are limited to key management personnel and senior management.

All options are to be settled by physical delivery of shares.



## D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

## (a) Descriptions of the share-based payment arrangements (continued)

At 27 June 2021 the Group has the following share-based payment arrangements:

(i) Share option programmes (equity-settled)

## Long Term Incentives - Annual Programmes (FY 2019)

Share Option Programme	Grant date	Number of instruments (000's)	Contractual life of options	Vesting conditions
<b>Options granted</b>				
FY 2019 LTI	October 2018	2,564	3 years	Refer Performance Options granted to Managing Director table below
FY 2019 LTI	October 2018	195	3 years	Refer Performance Options granted to other Executives table below
		2,759		

2,564,103 of the FY2019 LTI (1) options were approved at the Company's AGM on 30 October 2018. Subsequent to the end of the financial year, the Board have determined that none of the Options granted in this tranche have met the vesting hurdle and therefore lapsed unvested.

The Board has determined the EBIT Target growth hurdles applicable to both the FY2019 grants are as follows.

## Performance Options granted to Managing Director

Company's EBIT* over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	24% compound growth - 10% awarded
Between threshold and stretch	25% compound growth - 20% awarded
Stretch	26% compound growth - 100% awarded

## Performance Options granted to other Executives

Company's EBIT* over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	17.5% compound growth - 40% awarded
Between threshold and stretch	20% compound growth - 60% awarded
	22.5% compound growth - 80% awarded
Stretch	25% compound growth - 100% awarded

\* EBIT is defined as Earnings before Interest and Tax before Share Based Payments expense for the purposes of testing the performance conditions above.

## Long Term Incentives - Annual Programmes (FY 2020)

Share Option Programme	Grant date	Number of instruments (000's)	Contractual life of options	Vesting conditions
<b>Options granted</b>				
FY 2020 LTI	October 2019	1,175	3.5 years	Refer Performance Options granted table below
		1,175		

## Performance Options granted to other Executives

Company's diluted EPS over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	15% compound growth - 20% awarded
Between threshold and stretch	17.5% compound growth - 35% awarded
	20% compound growth - 50% awarded
	22.5% compound growth - 75% awarded
Stretch	25% compound growth - 100% awarded

## D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

## (a) Descriptions of the share-based payment arrangements (continued)

## i) Share option programmes (equity-settled) (continued)

## Long Term Incentives - Annual Programmes (FY 2021)

Share Option Programme	Grant date	Number of instruments (000's)	Contractual life of options	Vesting conditions
<b>Options granted</b>				
FY 2021 LTI	October 2020	1,500	3 years	Refer Performance Options granted table below
		1,500		

## Performance Options granted to other Executives

Company's EBIT for the financial year ending 2 July 2023	% of Cash LTI that vests and becomes payable	% of LTI Options that vest and become exercisable
Less than \$85m	Nil	Nil
\$85m - \$90m	20% awarded	20% awarded
\$90m - \$95m	35% awarded	35% awarded
\$95m - \$100m	50% awarded	50% awarded
\$100m - \$105m	75% awarded	75% awarded
\$105m +	100% awarded	100% awarded

## (b) Measurement of fair values

## (i) Equity-settled share-based payment arrangements

The fair value of the employee share options (see (a)(i)) have been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the transactions were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

	Share option programme			
	FY2019 LTI (MD)	FY2019 LTI (EXEC)	FY2020 LTI	FY2021 LTI
Fair value at grant date	\$3.12	\$2.73	\$3.14	\$1.25
30 day VWAP share price at grant date	\$10.95	\$10.95	\$10.60	\$7.15
Exercise price	\$10.95	\$10.95	\$10.60	\$7.15
Expected volatility (weighted-average)	40.90%	40.90%	50.10%	33.70%
Expected life (weighted-average)	3 years	3 years	3.5 years	3 years
Expected dividends	3.50%	3.50%	3.50%	3.50%
Risk-free interest rate (based on government bonds)	2.15%	2.15%	1.00%	0.25%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price.

## D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

**(c) Reconciliation of outstanding share options**

The number and weighted average exercise prices of share options under the share option programmes were as follows.

	Number of options 000's	Weighted average exercise price \$
<b>Outstanding at 29 June 2020</b>	3,916	\$10.84
Granted during the year	1,500	\$7.15
Forfeited during the year	(303)	\$8.14
Exercised during the year	-	-
<b>Outstanding at 27 June 2021</b>	5,113	\$9.92
Exercisable at 27 June 2021	-	-
Outstanding at 1 July 2019	6,878	\$6.32
Granted during the year	1,175	\$10.60
Forfeited during the year	(2,243)	\$4.17
Exercised during the year	(1,894)	\$2.16
<b>Outstanding at 28 June 2020</b>	3,916	\$10.84
Exercisable at 28 June 2020	-	-

**(d) Expenses recognised in profit or loss**

For details on the related employee benefit expenses, see Note A3.

## D4 RELATED PARTIES

**(a) Parent and ultimate controlling party**

Lovisa Holdings Limited is the parent entity and ultimate controlling party in the Group comprising itself and its subsidiaries. Subsidiaries of the Group are listed in note D1.

**(b) Transactions with key management personnel***(i) Key management personnel compensation*

The key management personnel compensation comprised the following:

Consolidated (\$000s)	2021	2020
Short-term employee benefits	3,979	2,162
Post-employment benefits	63	88
Share based payment	585	(419)
Termination benefits	-	-
Other long term benefits	1,102	189
	5,729	2,020

Compensation of the Group's key management personnel includes salaries and non-cash benefits (see Note A3).

Detailed remuneration disclosures are provided in the Remuneration report on pages 23 to 29.

*(ii) Key management personnel and Director transactions*

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or joint control over these companies. There were no transactions or balances outstanding from these related parties during the period or at 27 June 2021 except for those disclosed in note D4 (c) (28 June 2020: nil).



## D4 RELATED PARTIES (CONTINUED)

## (c) Other related party transactions

Consolidated (\$'000s)	Transaction values for the year ended		Balance outstanding as at	
	27 June 2021	28 June 2020	27 June 2021	28 June 2020
<b>a) Expenses</b>				
Expense recharges	161	259	-	-
<b>b) Sales</b>				
Recharges	-	-	-	-

Included in expenses in the period is \$150,000 relating to Directors fees for Brett Blundy in his capacity as Director and Chairman of the Company. Transactions between the Lovisa Group and BB Retail Capital and its related parties have been disclosed above due to BB Retail Capital continuing to be in a position of holding significant influence in relation to the Group, with representation on the Board of Directors. Lovisa has, and will continue to benefit from the relationships that its management team and BB Retail Capital have developed over many years of retail operating experience. Expense recharges are priced on an arm's length basis. The Group will continue to utilise BBRC Retail Capital's retail operating experience on an arm's length basis.

All outstanding balances with other related parties are priced on an arm's length basis and are to be settled in cash within two months post the end of the reporting year. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

## D5 AUDITOR'S REMUNERATION

Consolidated (\$)	2021	2020
<b>a) KPMG</b>		
<b>Audit and review services</b>		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	314,000	216,000
Network firms of KPMG Australia		
Audit and review of financial statements	61,000	64,000
<b>Total remuneration for audit and review services</b>	<b>375,000</b>	<b>280,000</b>
<b>Other services</b>		
Auditors of the Company - KPMG Australia		
In relation to other assurance, taxation and due diligence services	125,242	98,228
Network firms of KPMG Australia		
In relation to other assurance, taxation and due diligence services	193,308	56,598
<b>Total remuneration for other services</b>	<b>318,550</b>	<b>154,826</b>
<b>Total remuneration of KPMG</b>	<b>693,550</b>	<b>434,826</b>
<b>b) Non-KPMG audit firms</b>		
<b>Audit and review services</b>		
Audit and review of financial statements	15,472	20,695
<b>Total remuneration for audit and review services</b>	<b>15,472</b>	<b>20,695</b>
<b>Other services</b>		
In relation to other assurance, taxation and due diligence services	77,800	44,518
<b>Total remuneration for other services</b>	<b>77,800</b>	<b>44,518</b>
<b>Total remuneration of non-KPMG audit firms</b>	<b>93,272</b>	<b>65,213</b>
<b>Total auditors remuneration</b>	<b>786,822</b>	<b>500,039</b>

## D6 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investment Commission, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Lovisa Australia Pty Ltd
- Lovisa Pty Ltd

Both of these companies became a party to the Deed on 18 June 2015, by virtue of a Deed of Assumption.

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 27 June 2021 is set out as follows.

### **Statement of profit or loss and other comprehensive income and retained earnings**

<i>Consolidated (\$'000s)</i>	<b>2021</b>	<b>2020</b>
Revenue	173,111	136,473
Cost of sales	(65,915)	(52,494)
<b>Gross profit</b>	<b>107,196</b>	<b>83,979</b>
Salaries and employee benefits expense	(44,230)	(34,794)
Property expenses	(3,021)	(4,176)
Distribution costs	(2,846)	(872)
Depreciation	(20,793)	(18,789)
Loss on disposal of property, plant and equipment	(94)	(64)
Other income and expenses	3,865	2,098
Dividend income	3,455	7,340
Finance income	1	5
Finance costs	(1,892)	(1,521)
<b>Profit before tax</b>	<b>41,641</b>	<b>33,206</b>
Tax expense	(11,679)	(8,127)
<b>Profit after tax</b>	<b>29,962</b>	<b>25,079</b>
Other comprehensive income for the year, net of tax	-	-
<b>Total comprehensive income for the year, net of tax</b>	<b>29,962</b>	<b>25,079</b>
Retained earnings at beginning of year	50,768	41,555
Impact of change in accounting policy	-	-
Dividends recognised during the year	(37,611)	(15,866)
<b>Retained earnings at end of year</b>	<b>43,119</b>	<b>50,768</b>

## D6 DEED OF CROSS GUARANTEE (CONTINUED)

*Statement of financial position*

<i>Consolidated (\$'000s)</i>	<b>27 June 2021</b>	<b>28 June 2020</b>
<b>Assets</b>		
Cash and cash equivalents	4,161	8,296
Trade and other receivables	62,823	53,964
Inventories	13,566	9,694
Derivatives	-	207
<b>Total current assets</b>	<b>80,550</b>	<b>72,161</b>
Deferred tax assets	4,650	3,424
Property, plant and equipment	8,408	13,984
Right-of-use asset	43,763	49,940
Investments	210,000	210,000
<b>Total non-current assets</b>	<b>266,821</b>	<b>277,348</b>
<b>Total assets</b>	<b>347,371</b>	<b>349,509</b>
<b>Liabilities</b>		
Derivatives	144	-
Trade and other payables	21,530	13,225
Employee benefits - current	2,414	1,991
Lease liability - current	15,337	15,941
Current tax liabilities	3,928	2,167
Provisions - current	616	452
<b>Total current liabilities</b>	<b>43,969</b>	<b>33,776</b>
Employee benefits - non-current	1,291	1,244
Lease liability - non-current	34,212	39,137
Provisions - non current	748	984
<b>Total non-current liabilities</b>	<b>36,251</b>	<b>41,365</b>
<b>Total liabilities</b>	<b>80,220</b>	<b>75,141</b>
<b>Net assets</b>	<b>267,151</b>	<b>274,368</b>
<b>Equity</b>		
Issued capital	213,877	213,877
Common control reserve	925	925
Share based payments reserve	9,263	8,597
Cash flow hedge reserve	(33)	201
Retained earnings	43,119	50,768
<b>Total equity</b>	<b>267,151</b>	<b>274,368</b>

## D7 PARENT ENTITY DISCLOSURES

(\$000s)	2021	2020
<b>Result of parent entity</b>		
Profit for the year	3,455	7,341
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>3,455</b>	<b>7,341</b>
<b>Financial position of parent entity at year end</b>		
Current assets	22,223	18,768
Total assets	233,128	229,674
Current liabilities	-	-
Total liabilities	-	-
Net assets	233,128	229,674
<b>Total equity of parent entity comprising of:</b>		
Share capital	215,351	215,351
Share based payments reserve	905	905
Accumulated profits	16,872	13,418
<b>Total equity</b>	<b>233,128</b>	<b>229,674</b>

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**(a) Parent entity accounting policies**

The financial information for the parent entity, Lovisa Holdings Limited, has been prepared on the same basis as the consolidated financial report, except as set out below.

*Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost.

**(b) Parent entity contingent liabilities**

The parent entity did not have any contingent liabilities as at 27 June 2021.

**(c) Parent entity guarantees in respect of the debts of its subsidiaries**

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note D6.

## D8 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

The Group has applied the following standards and amendments for the first time for the annual reporting year ending 27 June 2021:

- AASB 2021-3 Amendments to Australian Accounting Standards - COVID-19-Related Rent Concessions beyond 30 June 2021;
- AASB 2020-4 Amendments to Australian Accounting Standards - COVID-19-Related Rent Concessions;
- AASB 2020-7 Amendments to Australian Accounting Standards - COVID-19-Related Rent Concessions Tier 2 Disclosures;
- AASB 2019-1 Amendments to Australian Accounting Standards - References to Conceptual Framework;
- AASB 2019-3 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform;
- AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
- AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a Business; and
- AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material.



## D9 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 July 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- AASB 2021-5 Amendments to Australian Accounting Standards - Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates
- AASB 2020-8 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2;
- AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments;
- AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-Current;
- AASB 2014-10 Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- AASB 17 *Insurance Contracts*.

# Signed Reports



# DIRECTORS' DECLARATION

1. In the opinion of the Directors of Lovisa Holdings Limited ('the Company'):
  - (a) the consolidated financial statements and notes that are set out on pages 33 to 74 and the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 27 June 2021 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note D6 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 27 June 2021.
4. The Directors draw attention to the Basis of Accounting for the consolidated financial statements set out on page 37, which includes a statement of compliance with International Financial Reporting Standards.

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Signed in accordance with a resolution of the Directors.



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Shane Fallscheer  
Director  
Melbourne  
25 August 2021



# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED



## Independent Auditor's Report

To the shareholders of Lovisa Holdings Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of Lovisa Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 27 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 27 June 2021;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies;
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

#### Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED (CONTINUED)



Valuation of Inventories (\$34.2m)	
Refer to Note B2 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's valuation of inventories due to the:</p> <ul style="list-style-type: none"> <li>• relative size of inventories (being 11.5% of total assets within the Group's consolidated statement of financial position).</li> <li>• judgement we applied to assess the Group's provisioning for obsolete inventory. The Group sells fashion jewellery and is therefore subject to changing consumer demands and fashion trends. This increases the risk that, as trends change, products may either need to be sold at a discount below their recorded cost, or ultimately disposed of for zero value. Estimating the level of provisioning for obsolete inventory by the Group at product level, and therefore the value of inventories, requires consideration of the ageing and condition of products on hand, historic trends in write-offs, inventory turnover, seasonality of inventory and anticipated future sales. Such judgements may have a significant impact on the Group's provisioning, and therefore the overall carrying value of inventories, necessitating our audit effort thereon.</li> <li>• Group's policy for the shrinkage provision is calculated based on the inventory counts performed and expected misappropriation of inventories as a percentage of sales. We focus on the shrinkage provisioning calculation which is largely manual and is therefore at a greater risk of error.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluating the appropriateness of the Group's inventory provisioning policies against the requirements of the accounting standards.</li> <li>• Assessing the historical accuracy of the Group's inventory provision against actual outcomes, to inform our evaluation of the current year provisioning and key judgements;</li> <li>• Challenging the Group's judgements within their obsolete inventory provisioning, particularly the extent to which aged and seasonal inventory can be sold, taking into account our knowledge of the industry and past Group performance;</li> <li>• Analysing current and historic trends in inventory turnover and ageing to identify indicators of slow-moving or obsolete inventory and therefore those inventory items at higher risk of obsolescence. We compared this to the Group's inventory ageing report.</li> <li>• Checking the integrity of the Group's inventory ageing report at 27 June 2021, as a key input used in the obsolete inventory provisioning, by comparing on a sample basis inventory age per the report to purchase invoices.</li> <li>• Attending a sample of inventory counts across the Group's store and warehouse locations <ul style="list-style-type: none"> <li>– to observe the condition of a sample of products held. We did this to check the condition of products assumed in their recorded inventory value.</li> <li>– to observe the Group's shrinkage process.</li> </ul> </li> <li>• Analysing the inventory shrinkage provision levels by region against sales, including against historical trends.</li> <li>• Assessing the integrity of the provisioning calculations. This included checking the accuracy of the formulas within the calculations.</li> <li>• Comparing a statistical sample of inventory product values recorded by the Group at year-end, to the Group's post year-end recommended retail selling prices to identify products at risk of selling below cost.</li> </ul>

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED (CONTINUED)



## Other Information

Other Information is financial and non-financial information in Lovisa Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' report. The Chairman and Managing Director's Report and the ASX Information are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error;
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf) . This description forms part of our Auditor's Report.

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED (CONTINUED)



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Lovisa Holdings Limited for the year ended 27 June 2021 complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in section 9 of the Directors' report for the year ended 27 June 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

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KPMG

Rachel Milum

*Partner*

Sydney

25 August 2021



# LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001



## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Lovisa Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Lovisa Holdings Limited for the financial year ended 27 June 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

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KPMG



Rachel Milum

*Partner*

Sydney

25 August 2021

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# ASX Information



# ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Lovisa Holdings Limited is responsible for the corporate governance of the Group. The Lovisa Holdings Board of Directors is committed to achieving best practice in the area of corporate governance and business conduct. Lovisa Holdings Limited's Corporate Governance Statement outlines the main corporate governance principles and practices followed by the Group. These policies and practices are in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th Edition) unless otherwise stated.

Details of the Company's Corporate Governance Statement as well as key policies and practices and the charters for the Board and each of its committees are available on the Company's website (<http://www.lovisa.com/shareholder-info/>), including performance against measurable objectives. The Corporate Governance Statement will be lodged with ASX at the same time that this Annual Report is lodged with ASX.

The Corporate Governance Statement includes details of the main corporate governance practices in place throughout the reporting period (unless otherwise stated) in relation to the corporate governance principles and recommendations published by the ASX Corporate Governance Council and are current as at 25 August 2021 and have been approved by the Board. The Board is comfortable that the practices are appropriate for a Company of Lovisa Holdings' size.

## SHAREHOLDINGS (AS AT 27 AUGUST 2021)

### SUBSTANTIAL SHAREHOLDERS

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number
BB Retail Capital Pty Ltd	43,207,500

### VOTING RIGHTS

#### Ordinary shares

Refer to Note C1 in the financial statements.

#### Options

There are no voting rights attached to options.

#### Rights

There are no voting rights attached to rights.

#### Redeemable preference shares

There are no voting rights attached to redeemable preference shares.

#### Non-redeemable preference shares

There are no voting rights attached to non-redeemable preference shares.

### Distribution of equity security holders

Range	Number of equity security holders	Units	% of Issued Capital
1 - 1,000	2,783	1,176,020	1.09
1,001 - 5,000	1,826	4,382,339	4.08
5,001 - 10,000	290	2,184,695	2.03
10,001 - 100,000	221	5,913,783	5.50
100,001 and over	33	93,802,809	87.30
<b>Total</b>	<b>5,153</b>	<b>107,459,646</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 158.



### Securities Exchange

The Company is listed on the Australian Securities Exchange. The Home exchange is Sydney.

### Other information

Lovisa Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

### Twenty largest shareholders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number of ordinary shares held	Percentage of capital held
BB Retail Capital Pty Limited	43,207,500	40.21
HSBC Custody Nominees (Australia) Limited	9,102,028	8.47
J P Morgan Nominees Australia Pty Limited	8,854,943	8.24
Citicorp Nominees Pty Limited	8,548,580	7.96
National Nominees Limited	6,901,991	6.42
BNP Paribas Nominees Pty Limited	3,788,475	3.53
BNP Paribas Noms Pty Limited	2,940,305	2.74
Centreville Pty Limited	2,240,000	2.08
Coloskye Pty Limited	1,153,005	1.07
Truebell Capital Pty Limited	1,000,000	0.93
Mrs Vanessa Louise Speer	927,460	0.86
BNP Paribas Nominees Pty Limited HUB24 Custodial Serv Limited	599,708	0.56
HSBC Custody Nominees (Australia) Limited	495,478	0.46
Sandhurst Trustees Limited	491,716	0.46
PBC Investments Pty Limited	485,400	0.45
Clyde Bank Holdings (Aust) Pty Limited	302,698	0.28
HSBC Custody Nominees (Australia) Limited - A/C 2	293,099	0.27
UBS Nominees Pty Ltd	267,964	0.25
Ellri Investment Trust	250,000	0.23
BNP Paribas Noms(NZ) Limited	245,833	0.23
<b>Total</b>	<b>92,096,183</b>	<b>85.70</b>
<b>Balance of register</b>	<b>15,363,463</b>	<b>14.30</b>
<b>Grand total</b>	<b>107,459,646</b>	<b>100.00</b>

	Number on issue	Number of holders
Options and performance rights issued under the Lovisa Holdings Ltd Long Term Incentive Plan to take up ordinary shares	2,410,062	4

## CORPORATE DIRECTORY

### **Company Secretary**

Chris Lauder, Chief Financial Officer and Company Secretary

### **Principal Registered Office**

Lovisa Holdings Limited  
Level 1, 818-820 Glenferrie Road  
Hawthorn VIC 3122  
+61 3 9831 1800

### **Location of Share Registry**

Link Market Services Limited  
Tower 4  
727 Collins Street  
Melbourne Victoria 3000  
+61 3 9615 9800

### **Stock Exchange Listing**

Lovisa Holdings Limited (LOV) shares are listed on the ASX.

### **Auditors**

KPMG  
Tower 2, Collins Square  
727 Collins Street  
Melbourne Victoria 3000

### **Website**

[www.lovisa.com](http://www.lovisa.com)