Company: Lovisa Holdings Limited
Analyst: Alistair Cowley
Date of Analysis: 02/11/2020

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Lovisa Holdings Limited

Checklist Overview

Overall Checklist Result	Number of Risks
91.3%	3

Business Characteristics		
Moat	Acquisitions	Overall
84%	100%	88%

Financial Characteristics			
Income Statement	Balance Sheet	Cash Flow Statement	Overall
99%	96%	88%	96%

Management Characteristics	Competitor Characteristics	Ethical Characteristics	Growth Characteristics
91%	82%	88%	100%

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1 Business Description

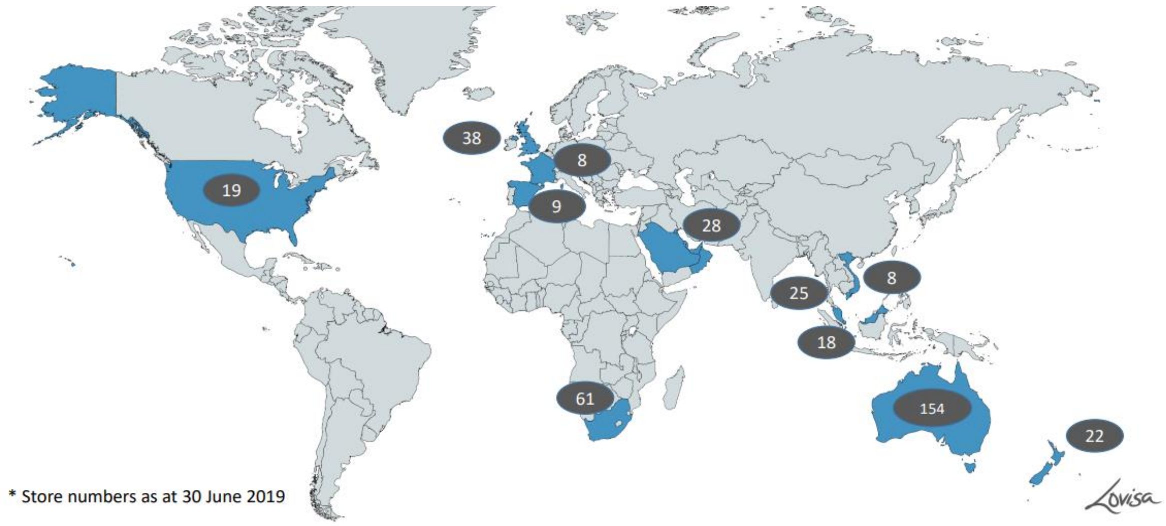
Lovisa is a multinational company listed on the ASX, with 435 stores across 15 countries, about 150 of which are in Australia. Lovisa has become the largest retailer of fashionable jewellery in Australia since the first store launched in April 2010. Lovisa controls about 19.5% of the Australian Fashion Jewellery market, with its nearest competitor having less than 5%. Chairman Brett Blundy and Managing Director Shane Fallscheer founded the business, setting out to create a jewellery store that provides quick, fashionable, and affordable jewellery for fun occasions like a night out on town. They achieve this by providing more than 100 new lines each week at very affordable prices, usually less than $40. Lovisa can fulfill inventory orders to any of its stores across the globe within 48 hours, supplied from their two centrally located warehouses in Melbourne and China. Lovisa also offers delivery to its customers within 2–4 days of an online purchase.

Lovisa develops, designs, sources and merchandises 100% of its Lovisa branded products, enabling the business to provide its stores and customers with a constant stream of fashionable jewellery. By not relying on external sources to supply its range of products, Lovisa can stay up to date with changing fashions and is not restricted to contractual arrangements, enabling them to quickly pivot, providing customers with what they demand. In-house design and merchandising results in high Gross Margins for Lovisa, having achieved close to 80% Gross Margins for the last four years. The jewellery offered is not high-end, rather, product targeted toward "fast-fashion" consumers. On its website the company states that "Lovisa strives to be at the forefront of the fast fashion retail industry and pursuant to this mission, has developed a model that ensures trends are quickly identified and its target customers (being fashion conscious females aged 25-45) are provided with a broad, quality product range."

Fashion jewellery is usually made from base metals and simulated stones, making it susceptible to bending and easily tarnished. Fashion jewellery also has a short shelf life and is unrepairable, thus it is priced accordingly, making it easier to replace old or tarnished jewellery. Fine jewellery on the other hand is made from precious metals and stones such as gold, silver and diamonds. By using these products, fine jewellery is more durable and also repairable in most cases. It is also priced accordingly.

Lovisa is a stand-out when it comes to price in comparison to other jewellery stores. The majority of other jewellery stores offer fine jewellery with a higher price point. Lovisa is focused on fast-fashion items more in-line with jewellery available at stores such as H&M and ZARA which both offer similar jewellery/pricing, but primarily focusing on clothing. Lovisa holds a strong competitive position in most of its markets. The majority of jewellery stores offer higher quality product targeting a more discerning consumer prepared to pay for that higher quality. Lovisa focuses on "fast-fashion" jewellery more comparable with the ranges available at stores such as H&M and ZARA, however these stores fucus primarily on clothing. There are other competitors such as MIMCO and Colette which offer jewellery, but with an emphasis on accessories such as handbags and purses. MIMCO's jewellery range tends to have a higher price point (around $100) than Lovisa with a price point of up to $40. Colette has a similar price range and offers some competition to Lovisa. However, in February 2020, Colette announced that it was going into voluntary administration and its administrators Deloitte will close at least 33 of its stores across Australia and New Zealand, with 105 stores remaining open in an attempt to package the business up for sale.

Lovisa Store Network



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2 Why I like this investment

Founders Shane Fallscheer and Brett Blundy have identified an untapped market in Fashion Jewellery. Traditionally customers would purchase fashion jewellery from fashion clothing and accessories stores which offered only a limited range. Lovisa has managed to tap into this niche market, rapidly expanding into the Fashion Jewellery industry and becoming the clear market leader across Australia. Management has also proven the concept is easily repeated in overseas markets, shown by the rapid expansion to about 300 stores across 15 international regions in just the last 5 years. The business has consistently provided solid returns with high levels of profitability, resulting in great returns for investors. I believe that these results and high levels of growth can continue still for a number of years, considering the current opportunity for expansion across North America and Europe, where there are early signs of a strong consumer interest in the Lovisa jewellery range.

The Company is conservatively run, with zero debt and a strong net cash position. The Company is also able to generate strong levels of Free Cash Flow, even whilst rolling out an average of 40 stores a year, which has resulted in increased Capital Expenses (due to organic expansion as opposed to expansion via acquisition). The business is yet to face any real headwinds in terms of economic downturn, but perhaps is likely to experience tough trading conditions for at least the next 12 months or so. However, due to the very low prices offered by Lovisa (mostly less than $40) and an average spend per customer in the mid to low $20 range, the Company may be better positioned to weather a potential economic slowdown when compared to traditional jewellery stores. Lovisa could even perhaps see a new range of customers looking for a cheaper option.

3 Greatest Risks of Ownership

Total Risks 3

I have identified three areas of risk. First, the business operates in a discretionary market which makes it more susceptible to economic cycles. Second, the business has seen Cash Flow and Earnings growth reduce significantly in the last 12 to 18 months, whilst Capital Expenses have continued to increase due to the aggressive store roll out. Third there is an increased risk of more competition given the high profit margins produced by the business.

Economic Downturn:
The Company has yet to experience any prolonged decline in retail spending, although the recent global economic downturn resulted in many of its stores closing for one to two months. There may be more rolling store closures depending on the impact of COVID-19 in Lovisa's different geographic markets. Comparable store sales for the quarter ended June 2020 were down by 32.5%, but this was offset to a degree by online sales which grew by 256% for the quarter. Due to its low price point and the fact Lovisa's product range lends itself well to the online sales market, I expect the business will be better able to handle any longer term economic downturn than its competitors.

Reduced growth in Cash Flow and Earnings:
Over the last 12-18 months (prior to the pandemic), growth in Net Profit increased by less than 3% per annum, whilst Operating Cash Flow was flat. Revenue however, has managed to continue to increase inline with historical growth rates, providing about 18% growth per annum (again this is pre COVID-19). Expenses over this period have increased, resulting in Gross Margin declining by about 1% and Operating Margin by about 2%. Capital Expenses have increased from 7% of Revenue in FY18 to just over 11% of Revenue in FY20. I believe this slow down in Profit growth and the increase in spending will only be short term. Once the company has completed, or at least reduced, its aggressive roll out of new stores, we should begin to see those expenses related to the expansion of the store network reduce and be converted to profits.

Competition:
Although barriers to entry are low, Lovisa has built a network of over 400 profitable stores (and growing) around the world with very strong brand recognition in the fashion jewellery market. There is the possibility of growing competition from the giant ecommerce sites such as eBay and Amazon, however Lovisa's wide and ever-changing product range, coupled with its competitive price points, will not make it an easy target.

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4 Long term prospects

Lovisa and the Jewellery Industry in general continue to exhibit good long term prospects. Jewellery has been a part of society for thousands of years, across all civilisations and cultures, with the earliest item of jewellery being a necklace made of fish bones which was found in Monaco, dating back 25,000 years. Although fashions will change (you wont find many fish bone necklaces available at Lovisa), jewellery will continue to remain an important part of human society and culture, especially as the global population becomes more affluent.

5 Key findings in relation to the Business

Rating 88%

Lovisa, which opened its first store in 2010, is a Fast Fashion Jewellery Retailer. Since 2010 the company has opened over 40 stores a year on average across 15 countries. Lovisa has managed to create its own niche market, being Fast Fashion Jewellery. Previously, fashion jewellery was predominantly only found in Fast Fashion Clothing Retailers, such as H&M and Zara, and also department stores such as Kmart and Target. Founders Shane Fallscheer and Brett Blundy understood that jewellery was not the primary source of revenue for these businesses, which is obvious when you see the lack in range and minimal level of stock available at these stores when compared to a Lovisa store today. This lack of dedicated supply in Fast Fashion Jewellery is what has sparked the massive growth in Lovisa stores across the globe, where demand for Lovisa products is growing each year, shown by the 5% annualised same store sales growth since FY15 (this includes the recent fall in sales due to COVID-19). Considering bricks and mortar retail stores have been in decline for a number of years, primarily due to the advent of online retailers like Amazon, this rate of growth highlights the strong demand customers have for Lovisa products. Lovisa also has an online store, so is able to cater to both markets.

The target audience of Lovisa, I believe, is more inclined to enjoy the social aspect of shopping in-store with friends, which management has leveraged in their favour by its strategic placement of stores in areas that see high foot traffic. Couple this with the fact that jewellery, especially fast fashion jewellery, is mainly bought to improve ones appearance/appeal and to make one feel good, customers will be more inclined to want to physically try the product before purchase. These two small, but important points, are why Lovisa has been able to roll out so many stores and maintain strong Same Store Sales growth. The Company also employs a standard shop fit out which is designed to fill a small footprint of around 50 sqm. This enables the fast and relatively inexpensive roll out of stores that are often cash flow positive in a matter of months, highlighted by an average new store payback period of less than 8-10 months.

Given the Lovisa product is a discretionary spend, this increases its vulnerability during economic downturns. Although, the company will likely see less of an impact in such an event due to the minimal per transaction spend of around $20, which is less likely to break the budget than more high end jewellery items available in traditional jewellery stores. Lovisa's customer base is also spread across hundreds of thousands of individual customers, which is further spread across the globe, with about 50% of sales now coming from overseas, down from about 70% 4 years ago. This further reduces the possible negative impacts likely seen in the event of an economic downturn across individual countries.

The Company holds an increasing 20% market share of the Fast Fashion Jewellery Industry within Australia, with Fashion Accessory Retail chains in Colette and MIMCO posing as the closest rivals, but each having less than 5% market share. Colette has recently announced it has entered into voluntary administration, closing over thirty stores across Australia with about 100 likely to remain open. MIMCO does not compete with Lovisa on price, as they have a much higher price point at about 5 times the price of Lovisa products, but does compete as a provider of Fast Fashion items. H&M and ZARA are also likely competitors, but both mainly focus on clothing. In terms of traditional jewellery stores, Lovisa has little direct competition as other jewellery stores provide higher priced fine jewellery which often consists of a more classical style. This leaves Lovisa in a unique position as it is the only national retail brand that specialises purely in Fast Fashion Jewellery. Lovisa offers around 15,000 pieces of jewellery instore and introduce over 100 new lines each week. The Company is vertically integrated so it has the ability to easily change designs to keep up with the ever changing fashion trends. The wide range of (fashion) jewellery and the number of new lines available each week at Lovisa would be hard to find elsewhere in other similar Fast Fashion retailers such as H&M and ZARA and also in traditional jewellery stores.

Looking at the Australian Watch and Jewellery industry as a whole, Lovisa has about a 4% market share, with the top four players being Prouds (which includes Angus & Coote), Michael Hill, Pandora and Tiffany & Co. controlling a combined 37% market share. Over the last 7 years, Prouds has maintained about a 15% market share, Michael Hill about 9% and Tiffany & Co. about 5%. Pandora's market share has increase from 5% to 7.5% over this period with Lovisa following a similar path increasing its market share from 2.7% to 4%. The jewellery industry is rather fragmented and there has been little to no

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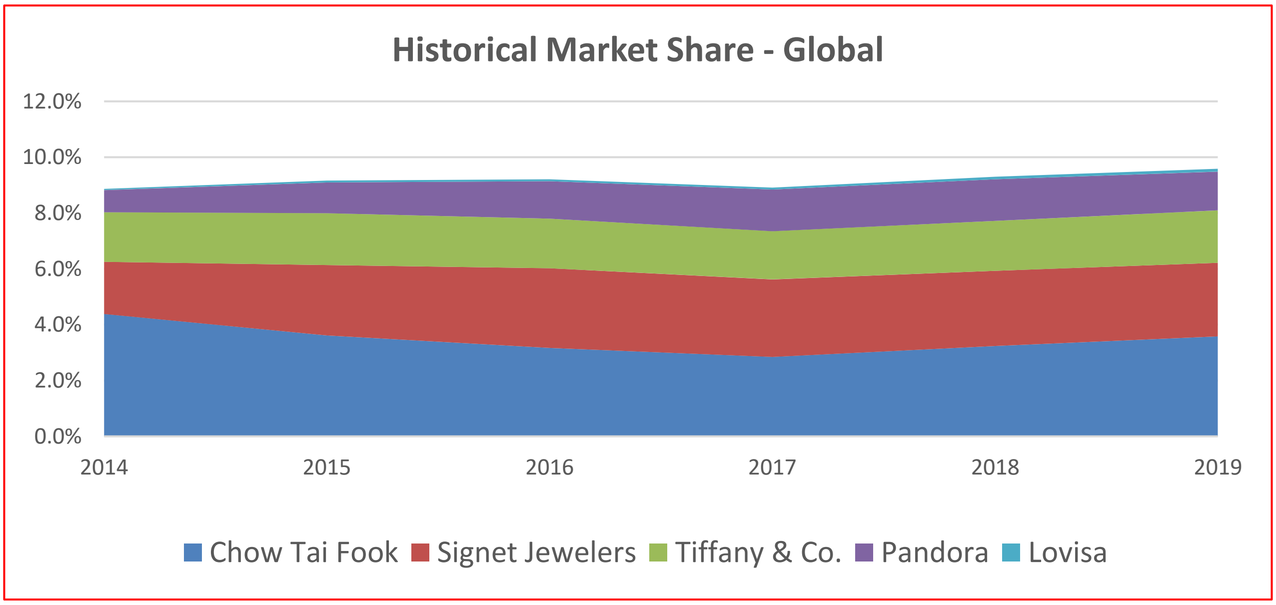
consolidation amongst the top four over the last 7 years. On a global scale, Lovisa has less than 0.1% market share in the Watch and Jewellery industry which is also highly fragmented with the top four players holding only about 9% market share.

As mentioned, concentration within the industry is low which can indicate higher levels of competition. In terms of stability however, the industry looks to be relatively stable amongst the largest, most established competitors with very little change in market share. We do continue to see stores closing down, which is common across the retail industry, especially since the introduction of ecommerce. Although some retailers have been closing their doors, there has been strong growth across the industry, especially in developing Asian countries with about a 10% annual growth in sales over the last 5 to 6 years. Globally, growth has been about 7.6% a year over the same period, which is still very strong.

The company has historically provided very high Returns on Invested Capital averaging about 32% a year. Currently, this ratio has fallen to just under 10% and has been on a downward trend from a high of 52% in FY17. In the last two years we have seen an aggressive roll out of new stores and as a result the business has reported increasing Capital Expenses, currently at around 11% of Revenue. Once the current investment in store growth has reduced and the short term lag on sales which we are currently experiencing due to COVID-19 have passed, we will likely see Return on Invested Capital return to a range of between 20% to 30% a year.

In terms of profitability, Lovisa is a strong performer on a global scale. The Company boasts the highest Gross Margins, averaging about 79%, with its nearest competitors in Swatch and Pandora returning 76% and 73% Gross Margins respectively with both being very reputable, global brands. Lovisa continues to be a strong performer when it comes to Operating Margins averaging close to 21%, versus 20% for Dior and 19% for Tiffany, Richemont and Swatch. Pandora is well above the rest with an Operating Margin of over 30%. Net Margins also tell a similar story with Pandora well out in front at about 25%, then around 16% for Lovisa and Richemont and 14% and 11% for Swatch and Tiffany respectively. This illustrates that Lovisa is competing with the top global brands in terms of profitability. Please note that these profitability measures are pre the impacts of COVID-19. Each of these brands has experienced similar disruptions in store closures and reduced sales.



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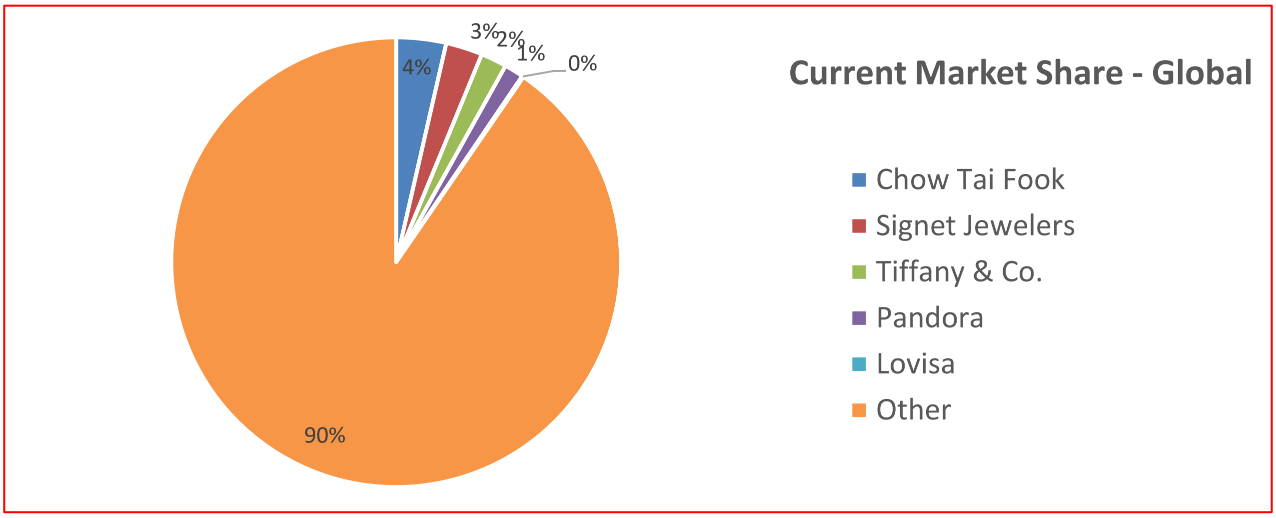

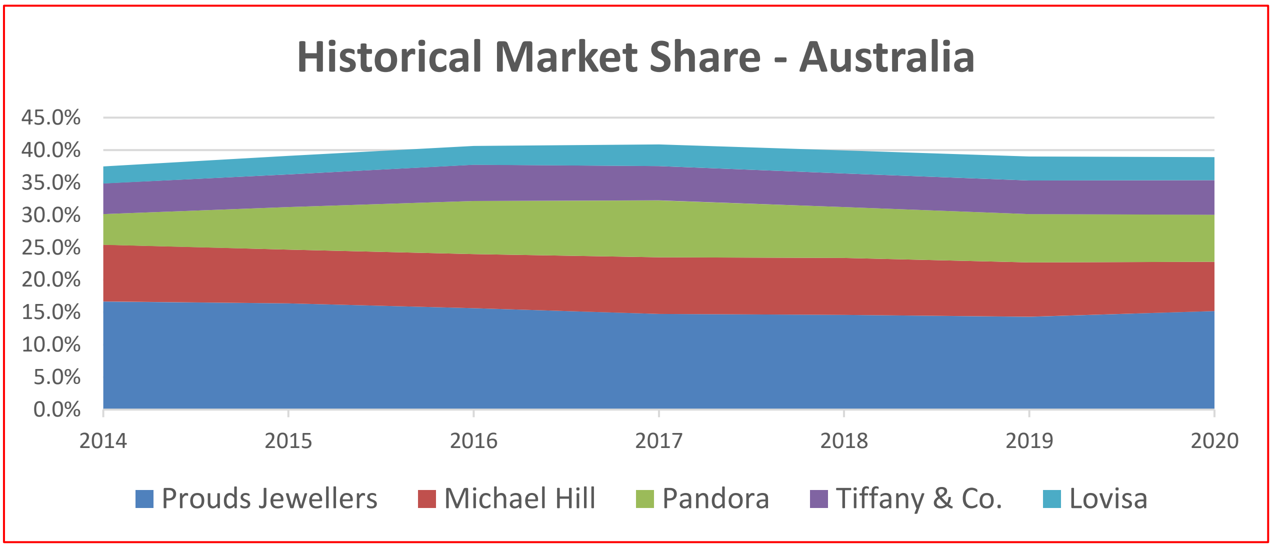

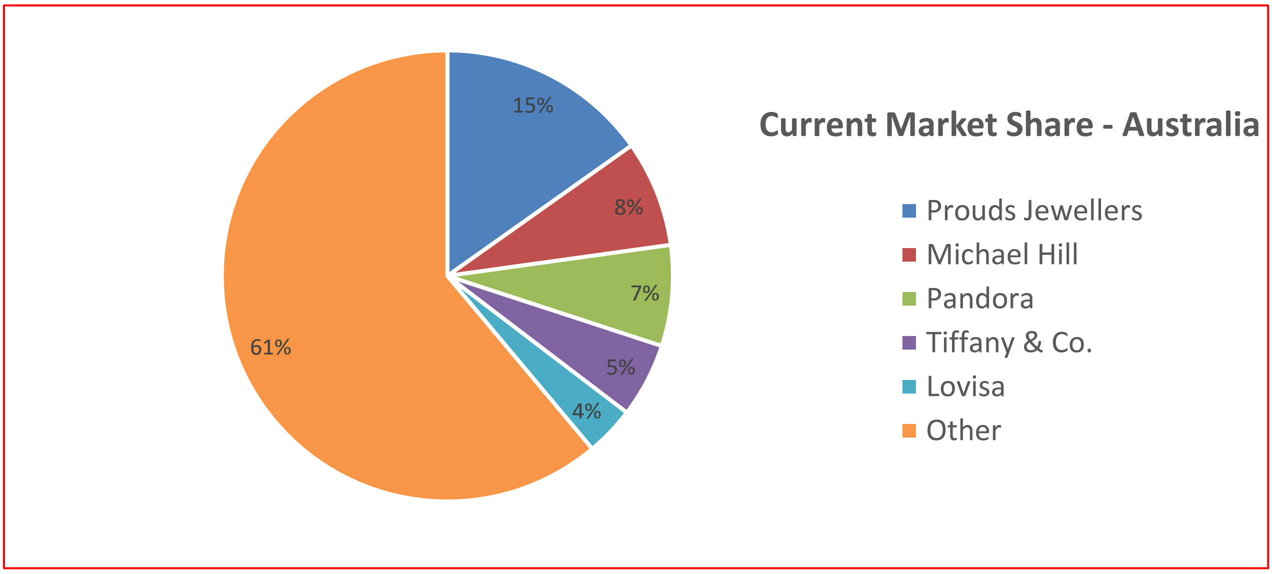

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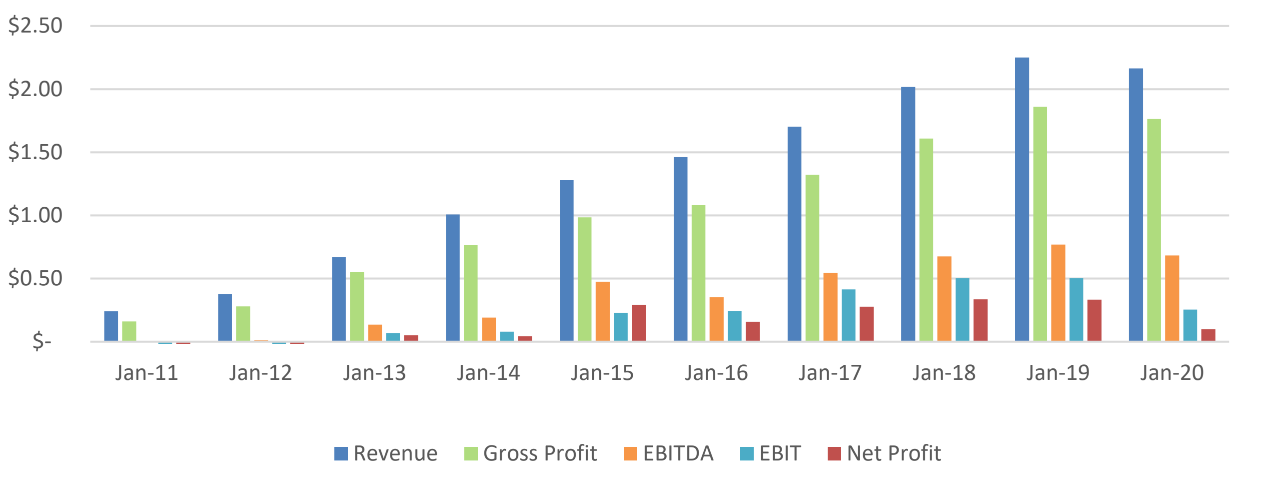

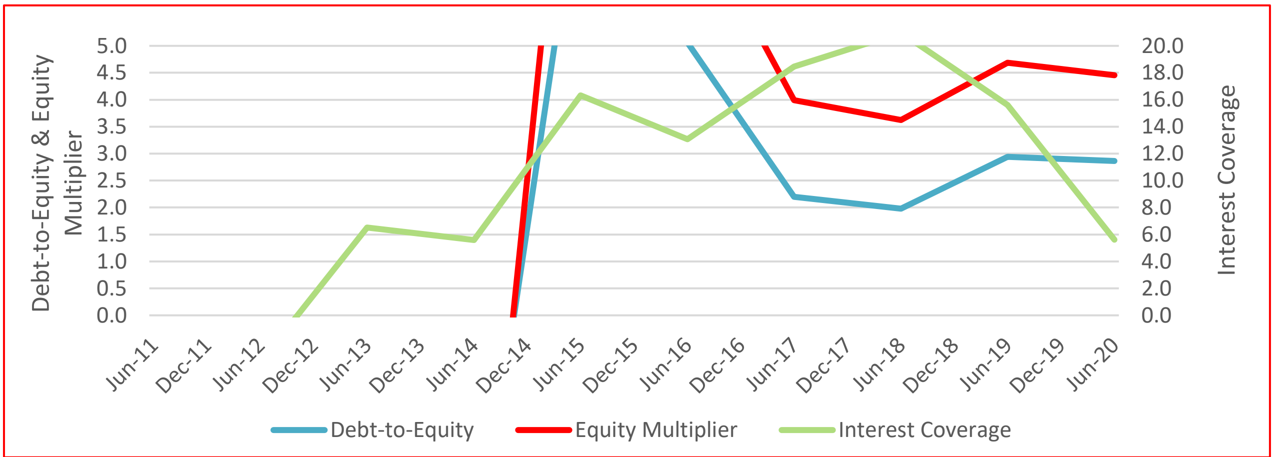

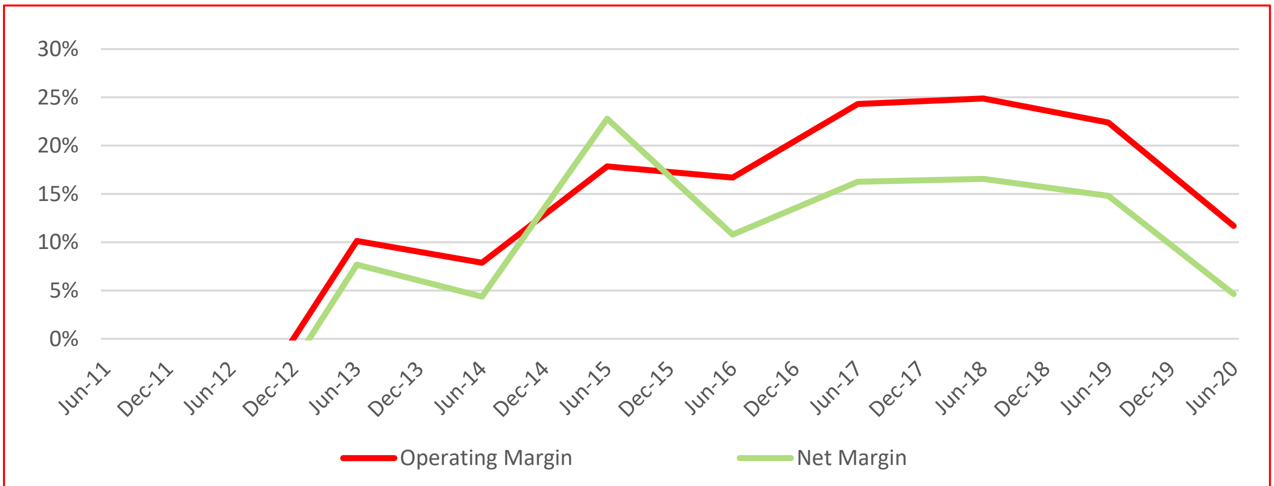

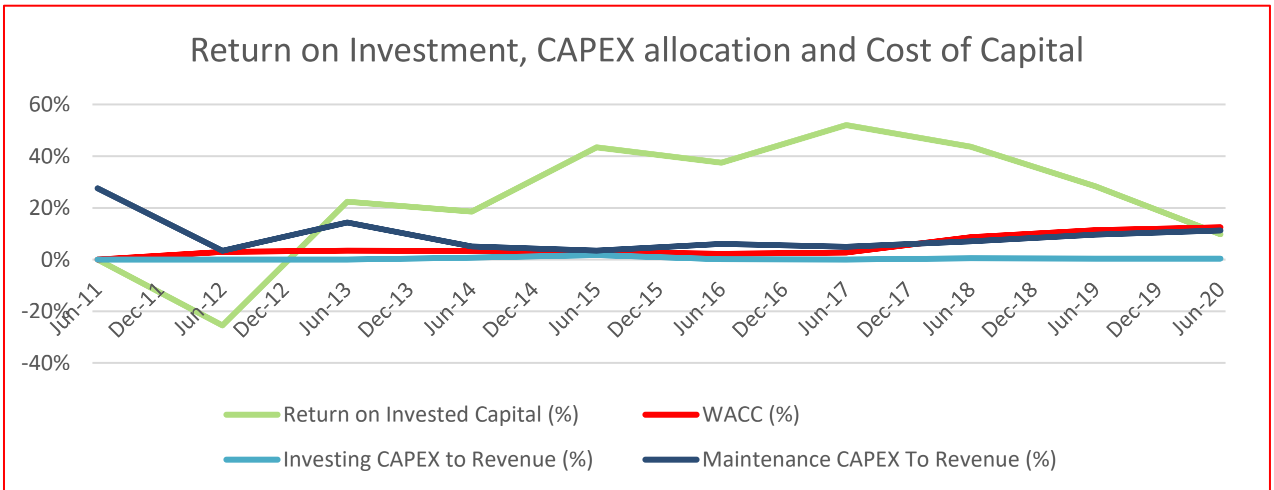

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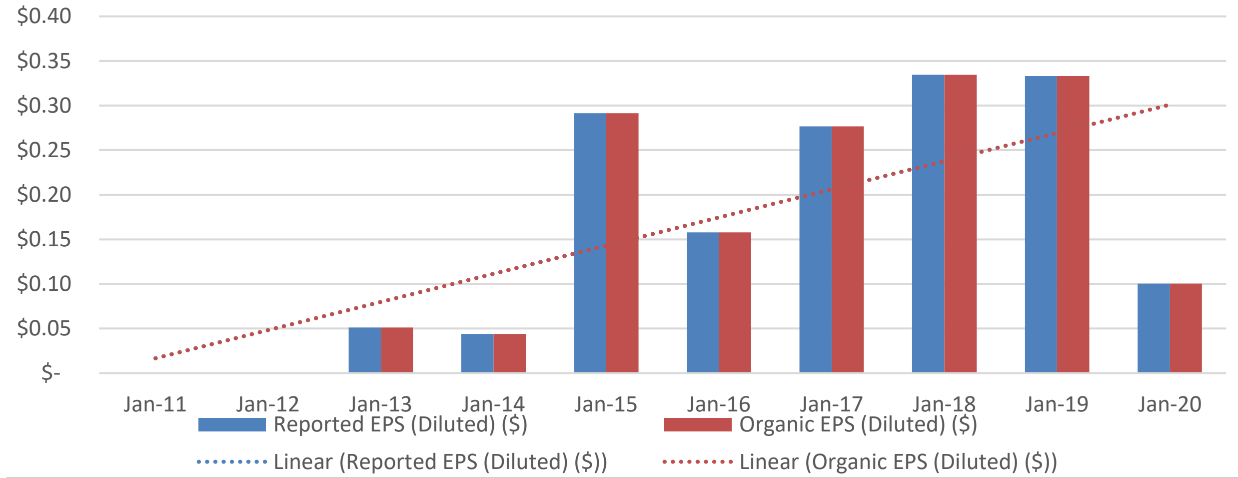
6 Key findings in relation to Growth   **Rating** 100%

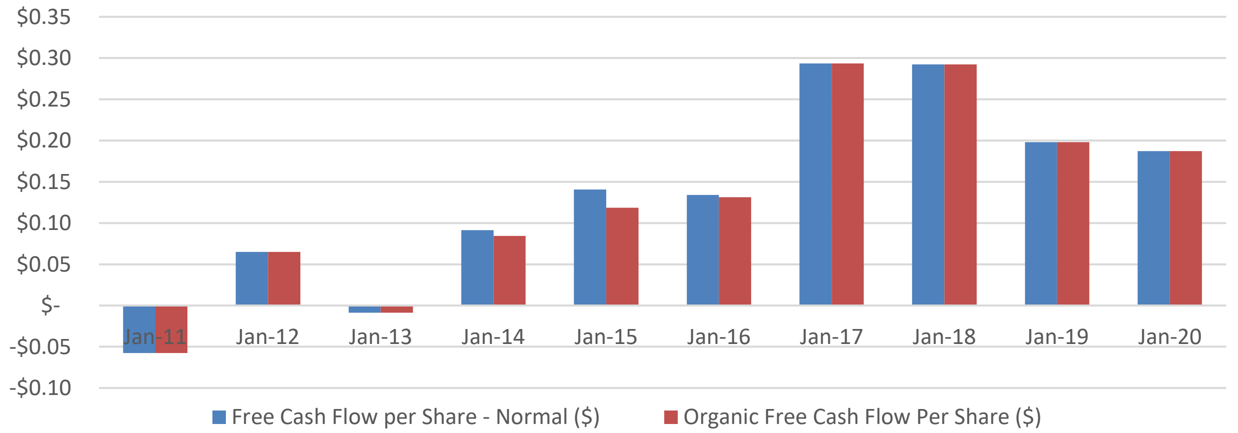
The global Watch and Jewellery Industry has experienced strong growth globally, with 7.6% annual growth in the last five or so years. In Asia alone the industry has seen over 10% growth per annum. Lovisa has grown at a much greater rate, increasing Revenue and Earnings by about 20% a year. This growth has been aided by an aggressive global roll out of stores, with about 40 new stores introduced each year over the last 10 years and across 15 countries. On a same store basis, Lovisa has reported about 6.4% growth in sales per annum, well above managements target of 3-5%. Lovisa's same store sales outpaces its competitors in Pandora, Michael Hill and Tiffany & Co. with each seeing annualised same store sales of 5.7%, 2.1% and 0.3% respectively.

Management is focused on growth and intent on building a global store network with a plan of opening in one new territory per annum. In 4 of the 10 regions in which Lovisa currently operates, store numbers are at or above management's estimate of regional market capacity, including Australia, New Zealand, South Africa and Malaysia. Vietnam is close to estimated store capacity. The areas with the most growth potential are the UK, USA, France (Europe) and the Middle East, with the USA currently offering the greatest opportunity.

Even at the current high levels of growth within the store network, there are still many years of further growth ahead.



This chart displays Reported EPS vs Organic EPS. Organic EPS have been adjusted to account for one time impacts resulting from the purchase or sale of an investment. For example, if a business which made $100m in profit was to acquire another business which also earned $100m profit, it would result in a boost of $100m, or a 100% increase in reported earnings. By removing this one time boost in earnings and only accounting for subsequent growth from here on will help analyse the actual "organic" growth of the business.



This chart compares Free Cash Flow, as calculated by deducting CAPEX from Operating Cash Flow, vs. Organic Free Cash Flow. Organic Free Cash Flow accounts for acquisitions and other investing activities. For example, a business which grows organically through internal R&D projects will see a higher operating expense and thus lower operating cash flow. Whereas a business which chooses to acquire other businesses to expand will include this cost under investing activities, thus seeing a higher cash flow from operations. Even though the end result may be very similar between these two businesses, you can clearly see that the business undertaking growth via acquisition will report much larger cash flow from operating activities. The inventories received from the acquisition will also boost Operating Cash Flow as the expense to acquire these inventories can be hidden under Cash Flow from Investing Activities.

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7 Key findings in relation to the Financials

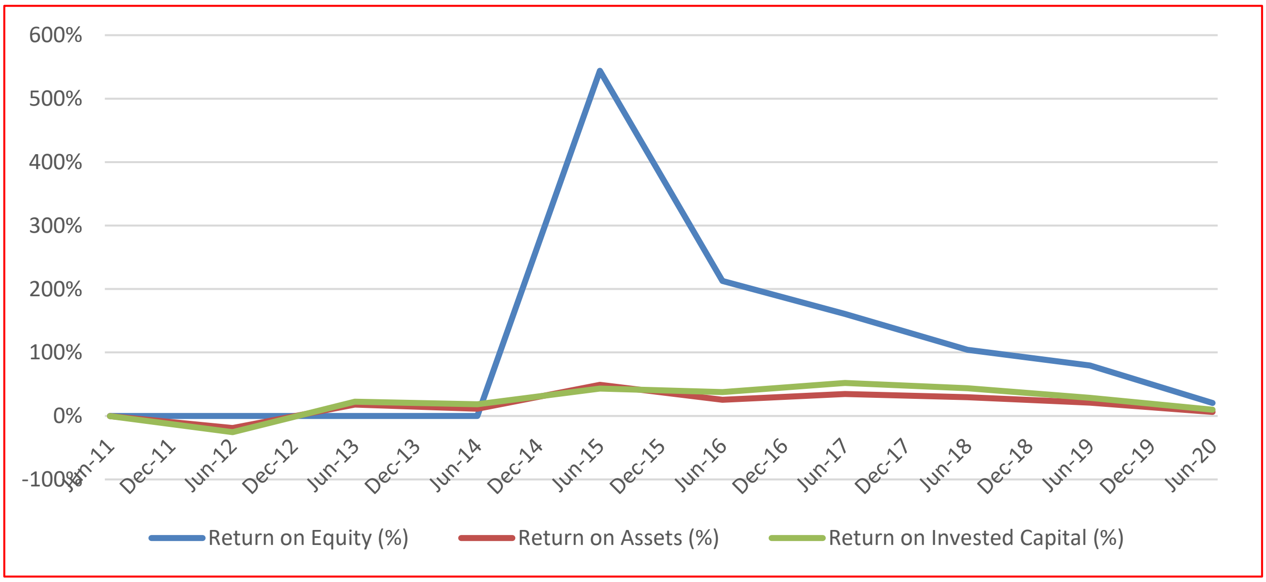
Rating 96%

Lovisa is financially well positioned with a strong Income Statement, Balance Sheet and Cash Flow Statement. Return on Equity has been exceptional averaging 220% in the 5 years to FY19. In FY20 ROE is just over 20%, reflecting the impact of the COVID-19 pandemic on the business. Return on Assets have averaged about 32% in the 5 years to FY19, currently in FY20 ROA is about 7%, again due to the reduction in sales due to the impacts experienced by COVID-19.Return on Invested Capital also tells a similar story, averaging about 41% over the same 5 year period to FY19 and is currently at about 10%, also well below its historical average. Once the impacts of COVID-19 have passed, I see no reason why the high levels of return cannot be achieved once again.

Income Statement:
Revenue has been steadily increasing each year at an annualised rate of about 13.5% (17.5% excluding FY20) with Same Store Sales showing strong growth also at just over 5% per annum. Earnings have also been growing at around 20% up until FY19, but have fallen sharply in FY20, with earnings down about 70% this financial year. Prior to FY20 there had already been a slowing in earnings growth which can be mainly attributed to increased expenses from the roll out of new stores. Gross Margins are still the highest in the industry at about 80%, highlighting the efficiencies Lovisa has been able to produce through its vertically integrated model in which it develops, designs, sources and merchandises 100% of its Lovisa branded products. Operating Profit is also very strong, although it has declined from an average of about 21% up to FY19 to just under 12% for FY20, again due to the impacts of COVID-19. Net Profit Margins are also strong averaging around 16% a year up to FY19, but have fallen in FY20 to just under 5%.

Balance Sheet:
The Company has a very strong Balance Sheet, with zero debt and a strong net cash position of about $20m. Shareholder's equity has been increasing by about 60% a year since listing. Lovisa, on average, holds its inventory at about 140 - 150 days, which is the lowest in the Jewellery Industry and is likely attributed to the Fast Fashion aspect of their product range. When compared to other jewellery retailers, Lovisa is well out in front with Pandora averaging about 170 days in inventory, 335 days for Michael Hill and 550 for Tiffany. With zero debt and $20m in cash, Lovisa is well equipped to survive a possible downturn in the economy.

Cash Flow Statement:
Over the last 5 years Operating Cash Flow has been growing at almost 18% per annum but has slowed in recent years to just over 4% per annum since FY17. Operating Cash Flow faired well in FY20 as the Company benefited from government grants, with the main contributions coming from about $17m less tax paid than in FY19 (this reduction was also assisted by a 70% fall in Net Profit) and $11.8m in wage subsidies made available globally. They have also received about $0.5m from the UK Government and have negotiated subsidies with some of its landlords. Capital Expenses increased inline with Operating Cash Flow by about $2m to $3m, resulting in Free Cash Flow remaining relatively steady and maintaining a Free Cash Flow Margin of about 9%. Capital Expenses appear to be rather high at about 11.2% of Revenue, but given the aggressive store roll out which has been achieved through organic growth rather than via acquisition, this is not unexpected. Once the store roll out is complete, we can expect a fairly rapid increase in Free Cash Flow.



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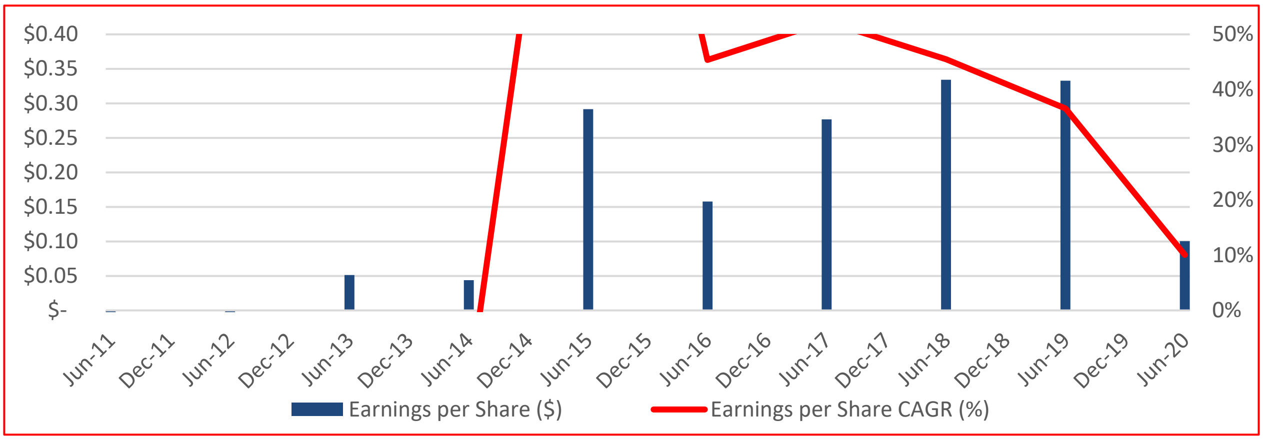
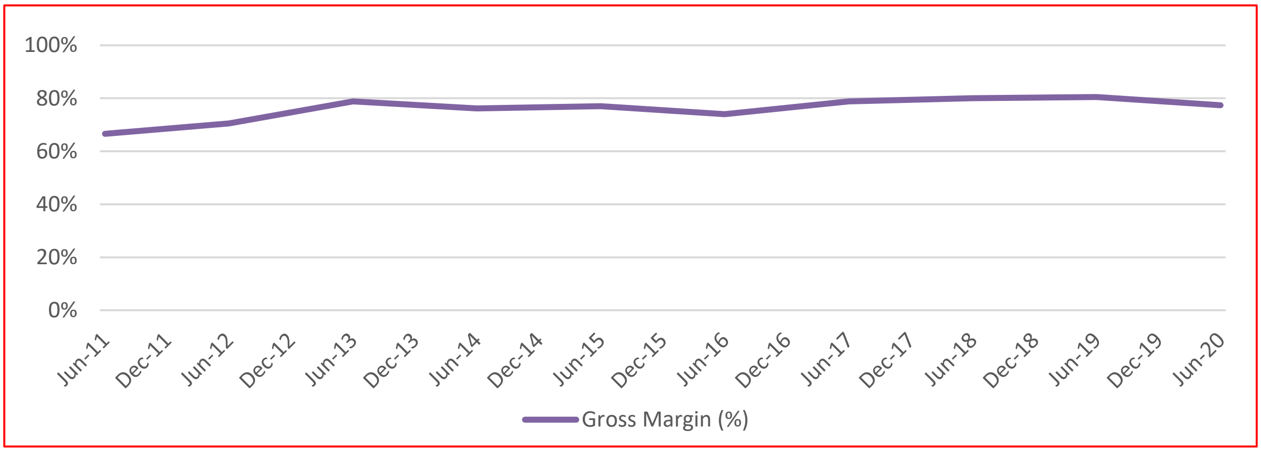
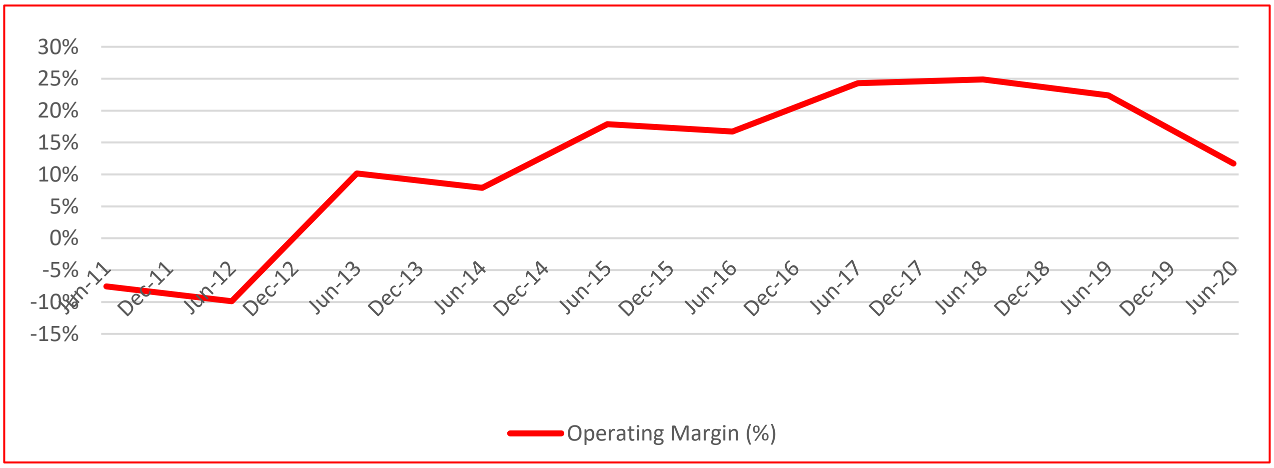
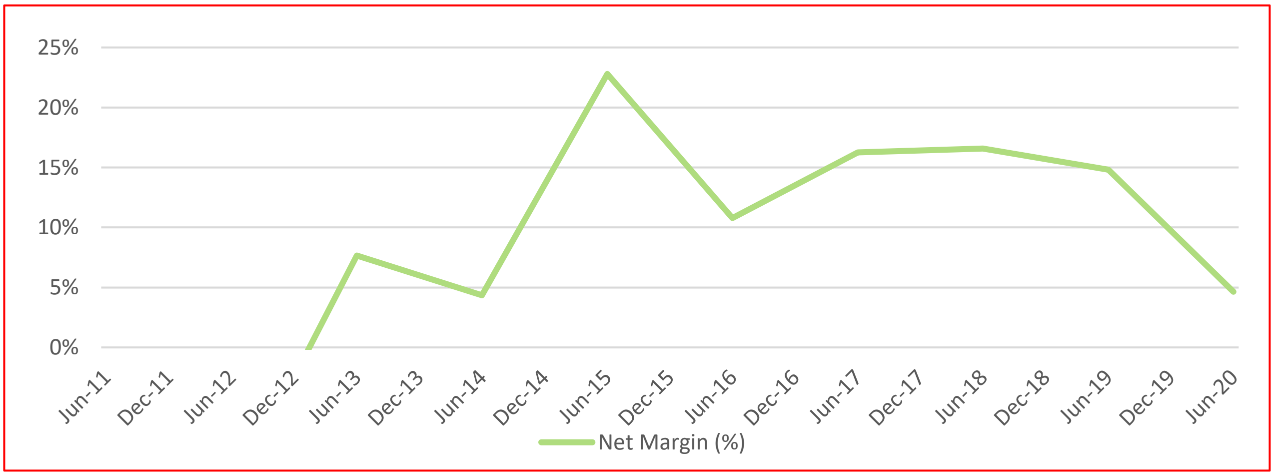
Charts concerning the Income Statement









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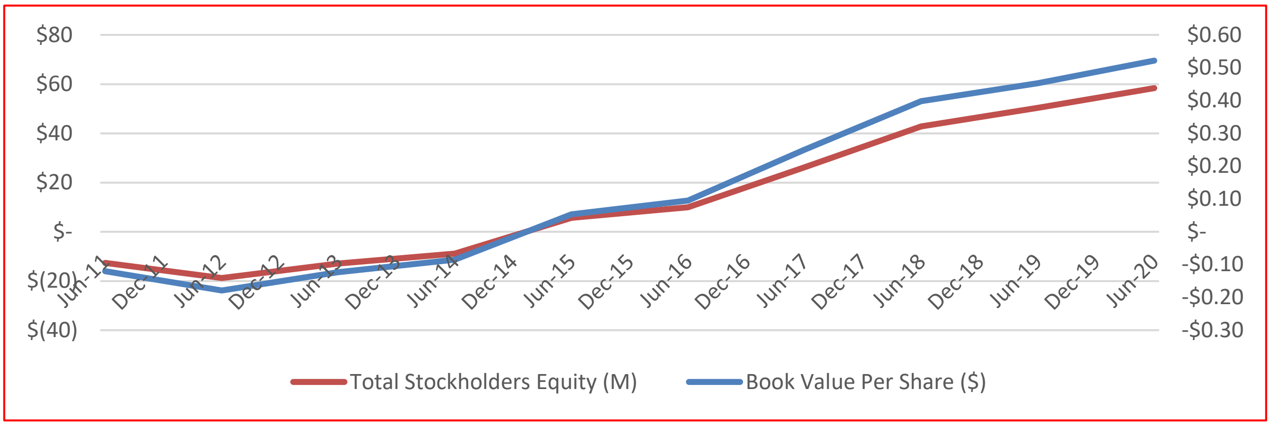
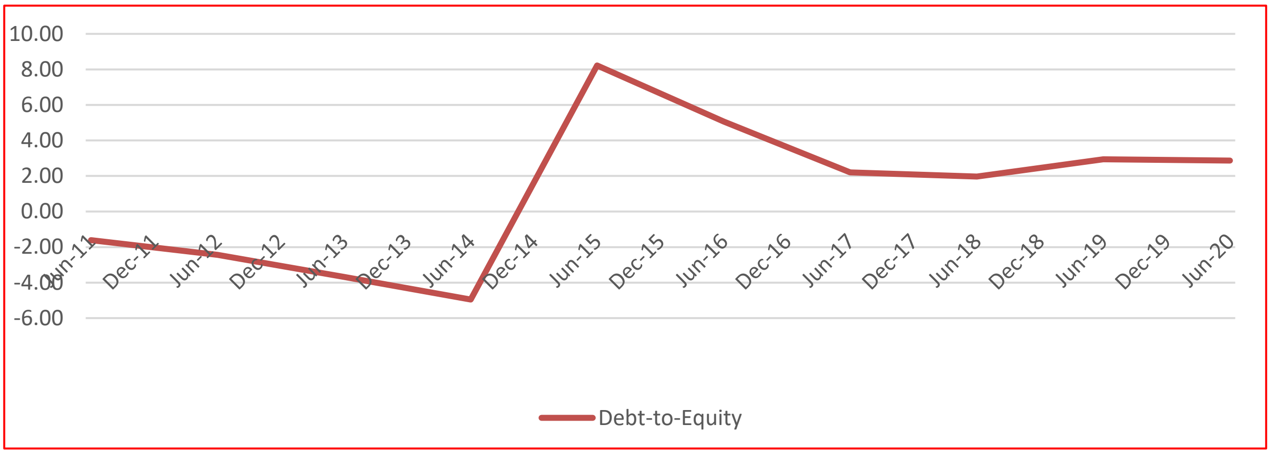
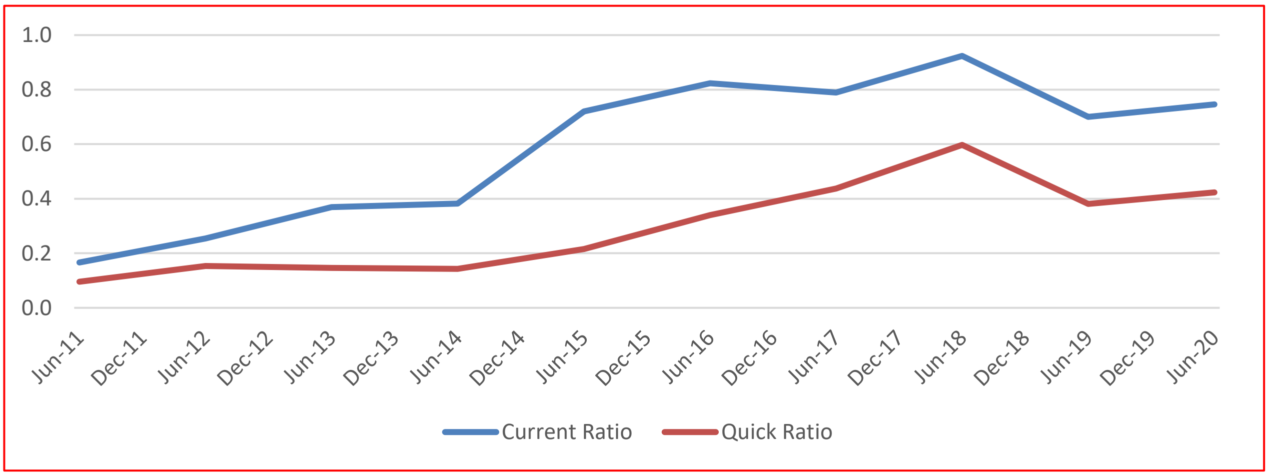
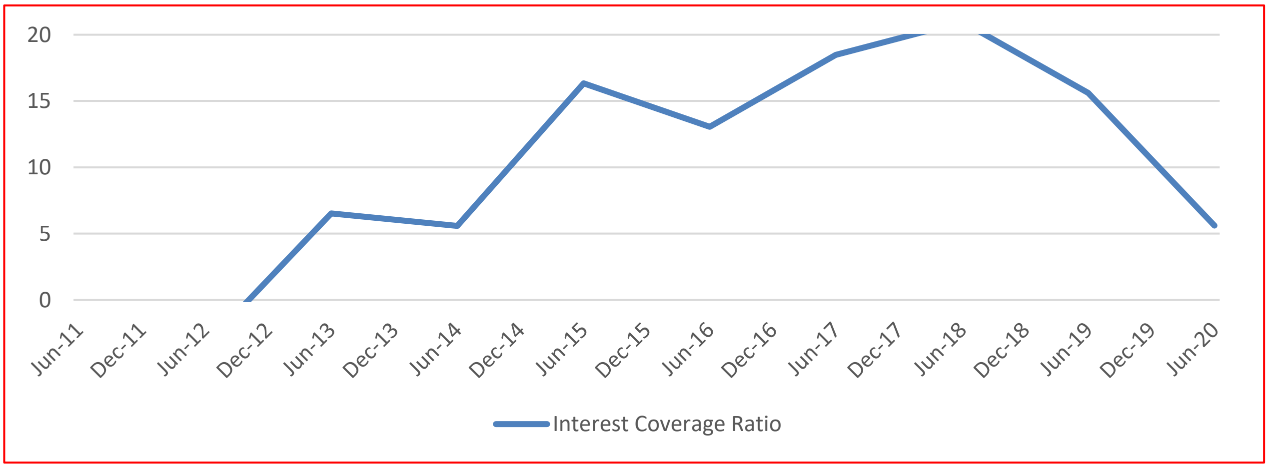
Charts concerning the Balance Sheet









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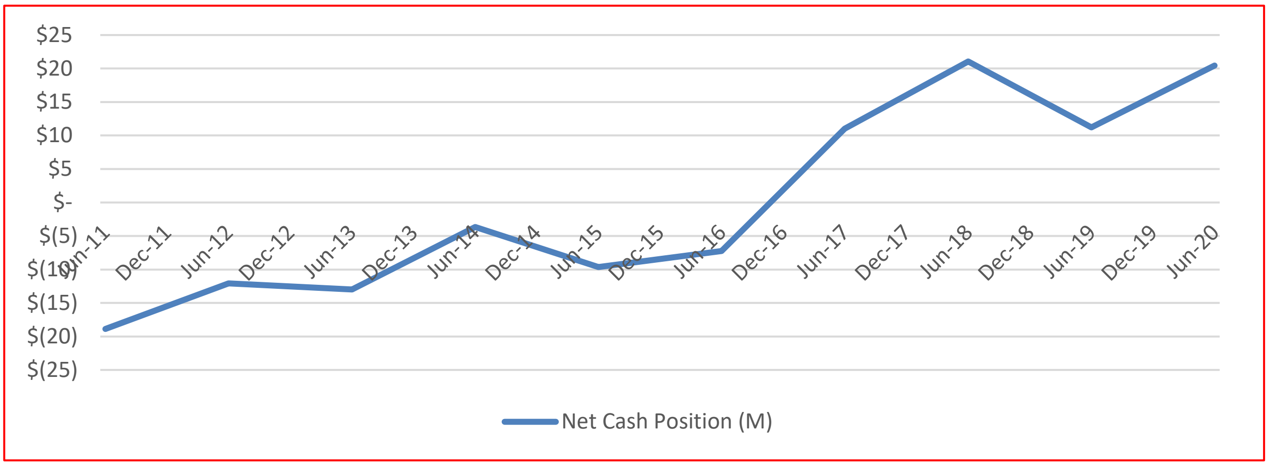

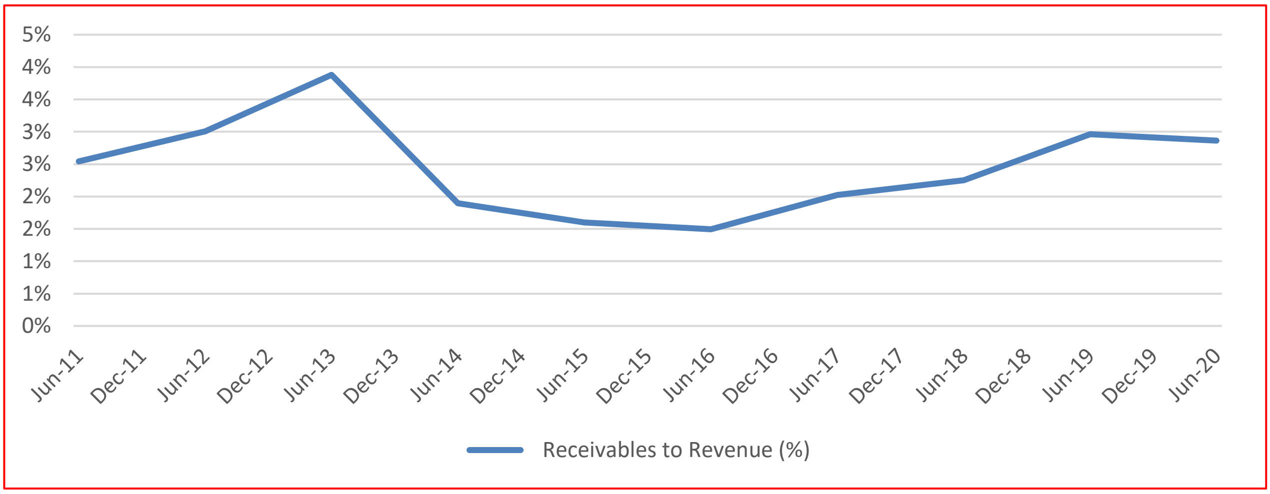

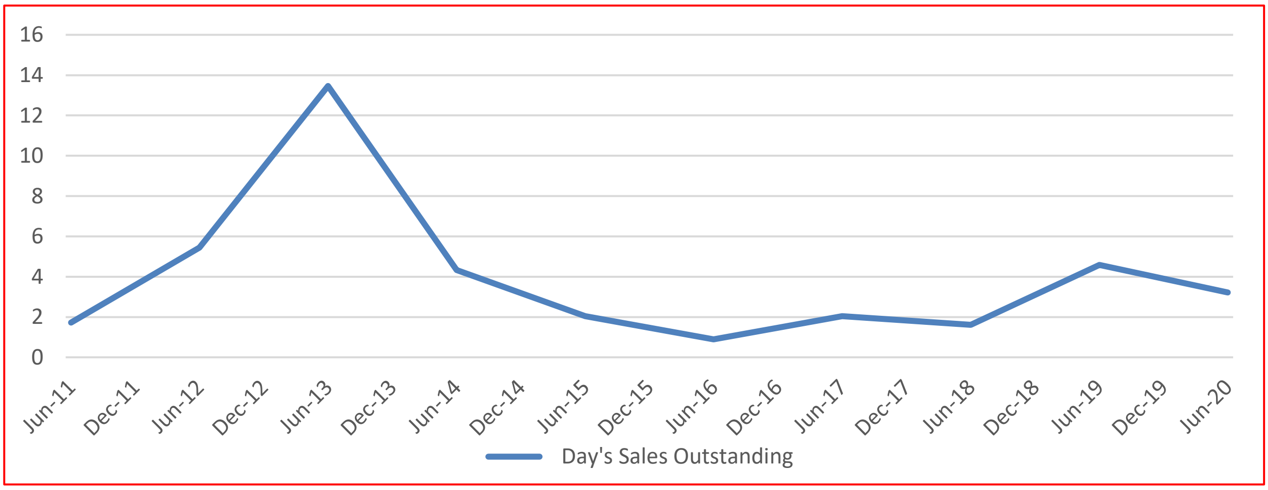

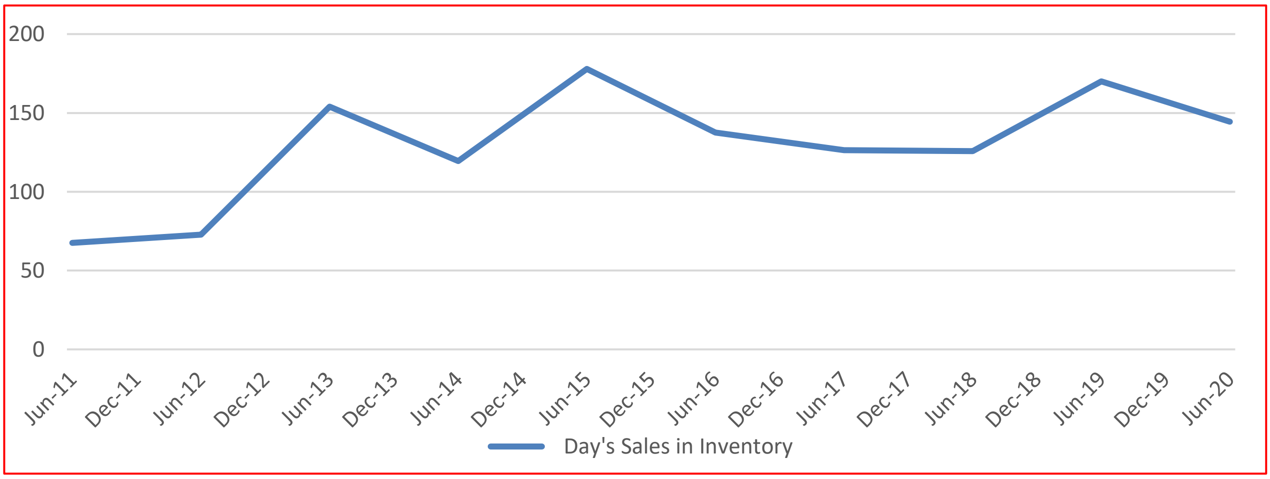

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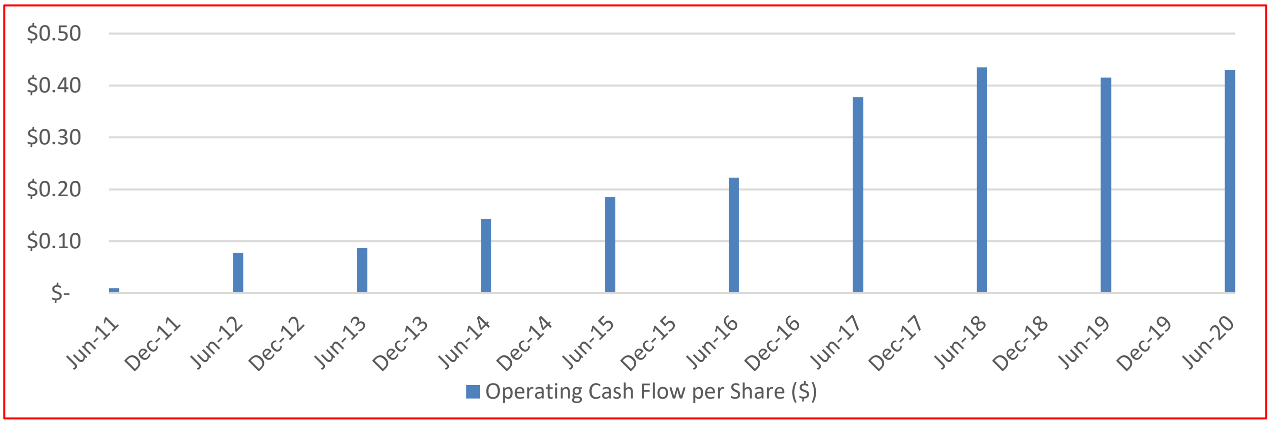
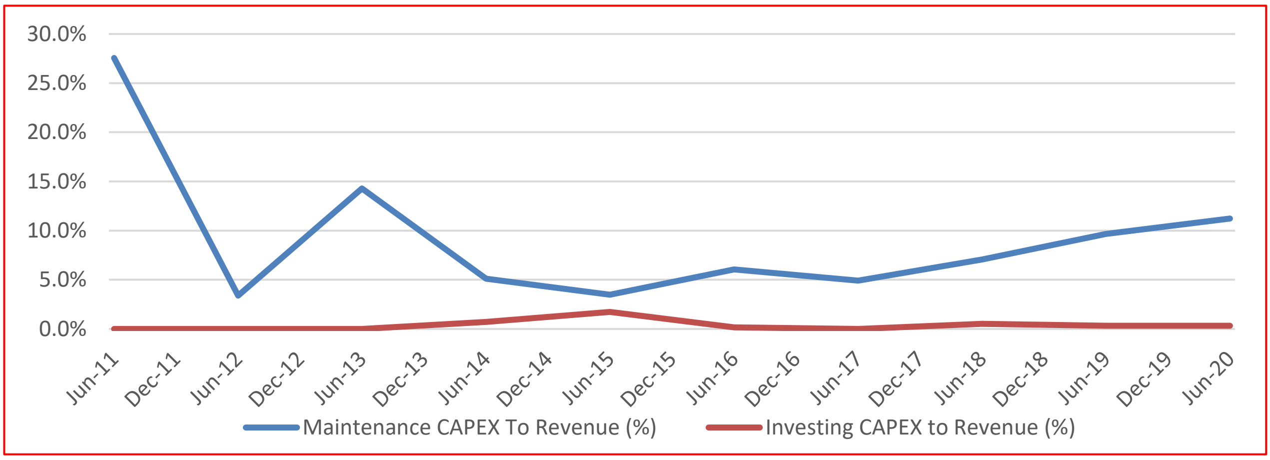
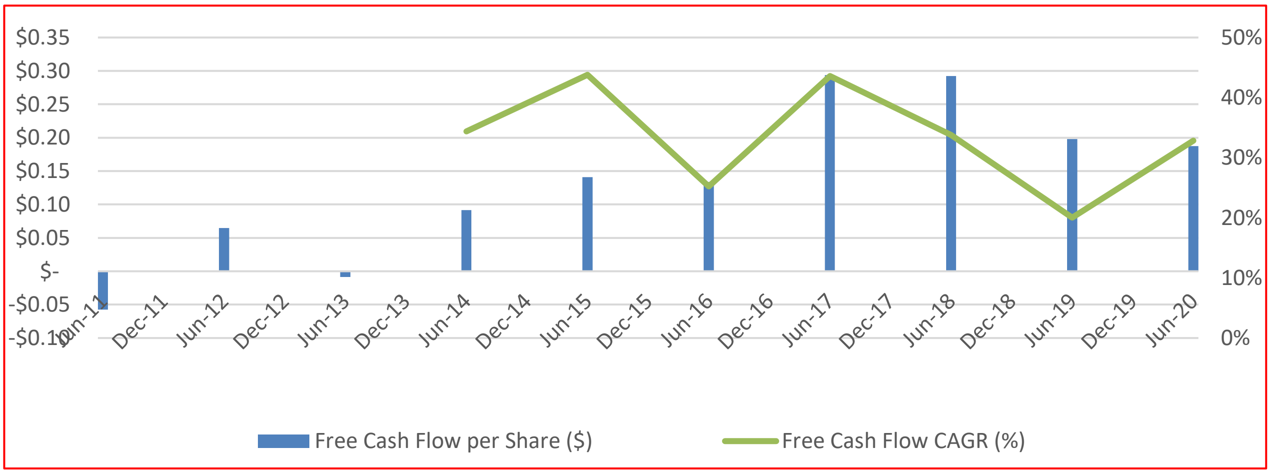
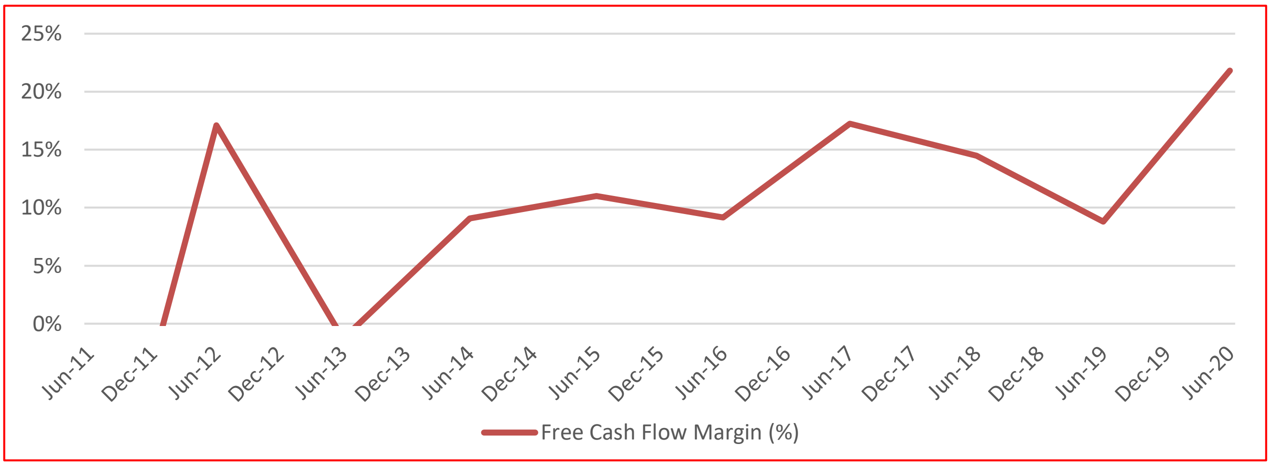
Charts concerning the Cash Flow Statement









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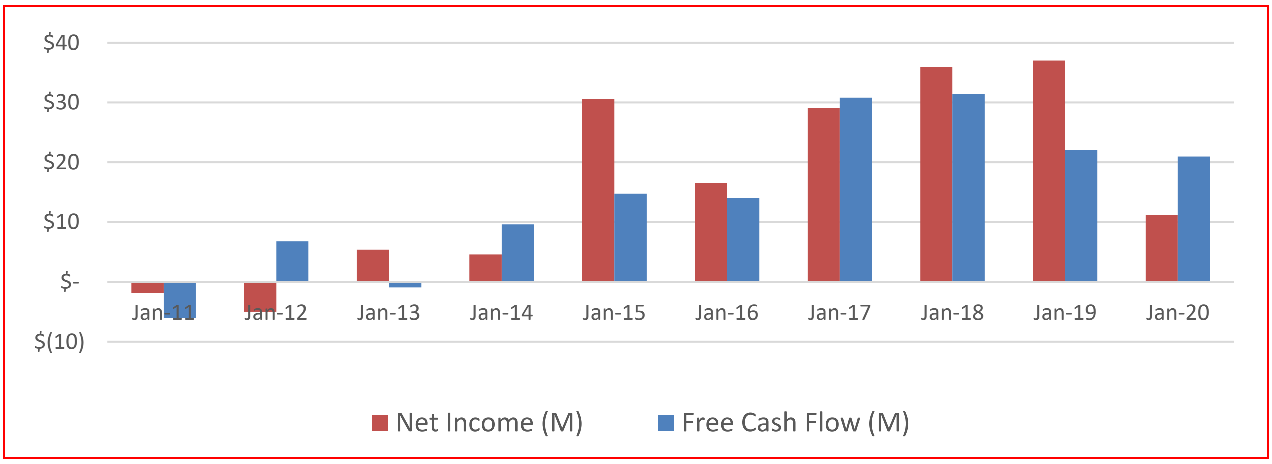


8 Key findings in relation to Management

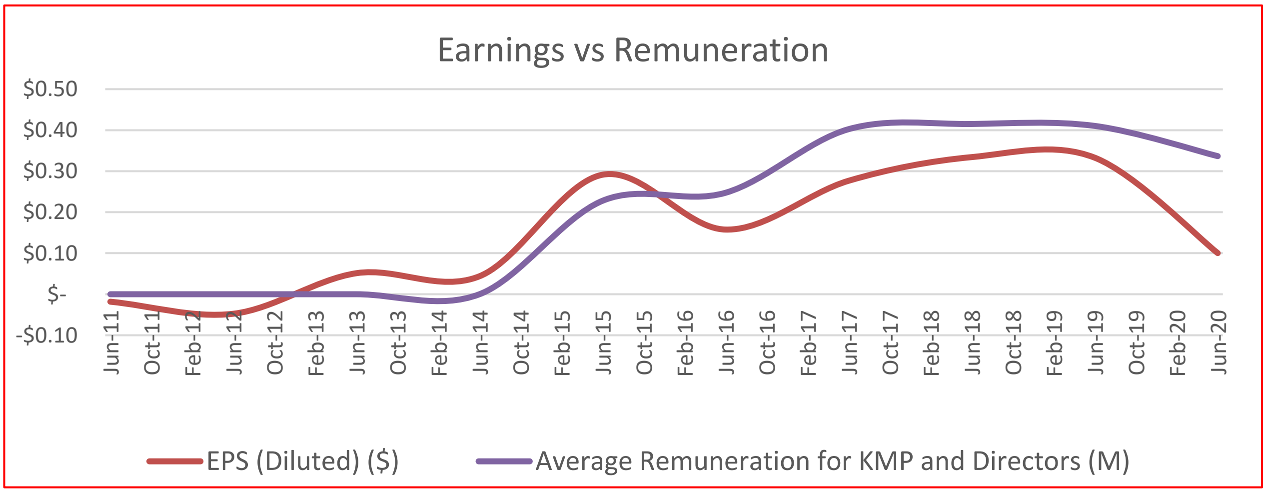
Rating 91%

Lovisa is lead by the founding partners, CEO Shane Fallscheer and Chair of the Board Brett Blundy. Together they own about 44% of the company, with 5% held by the CEO Shane Fallscheer (who added an additional 1.68m shares valued at $3.5m, or $2.10 a share, in March after exercising his vested performance options) and 39% by the Chair of the Board Brett Blundy. This is a very high level of ownership and will likely ensure that most decisions made by the Board and Management will be inline with the shareholder's interests. Results so far suggest that this is the case, with the Company producing an average Return on Equity of well over 100% a year since listing at the end of 2014. It is important to note that Return on Equity has been decreasing as the business begins to expand but is still at very respectable levels with an ROE of almost 80% in FY19 and 20.6% in FY20.

Management has a flexible dividend policy and does not target any specific Payout Ratio, enabling the Board to actively manage capital which has resulted in no long term debt with all of the store expansion being funded via internal cash flow generation.

The CEO receives a rather generous remuneration package, which has equated to 5% and 11% of Net Profit over the last two years. This is very high and as such has been flagged by owners at the 2019 AGM, with 32.5% of votes being cast against the Remuneration Report. The Board considers the CEO's salary to be appropriate and does not intend reducing it as it believes it is inline with " appropriate global benchmarks". Between the 5 Board Members, the CEO and CFO, their combined remuneration for FY20 was about 18% of Net Profit and has averaged about 11% of Net Profit each year over the last 5 years. Again, I see this as excessive levels of pay and goes against shareholder's interests.

The Management team and Board are focused on expansion and have a target to trial one new territory per annum. The ease and minimal capital expense required to open and stock a new store enables rapid expansion and confidence to trial new territories without the risk of allocating too much capital to unprofitable projects. Each new store also has an average payback period of less than 8-10 months, further giving confidence that opening new stores will not burden the business and reduce Profit Margins due to new stores burning cash.



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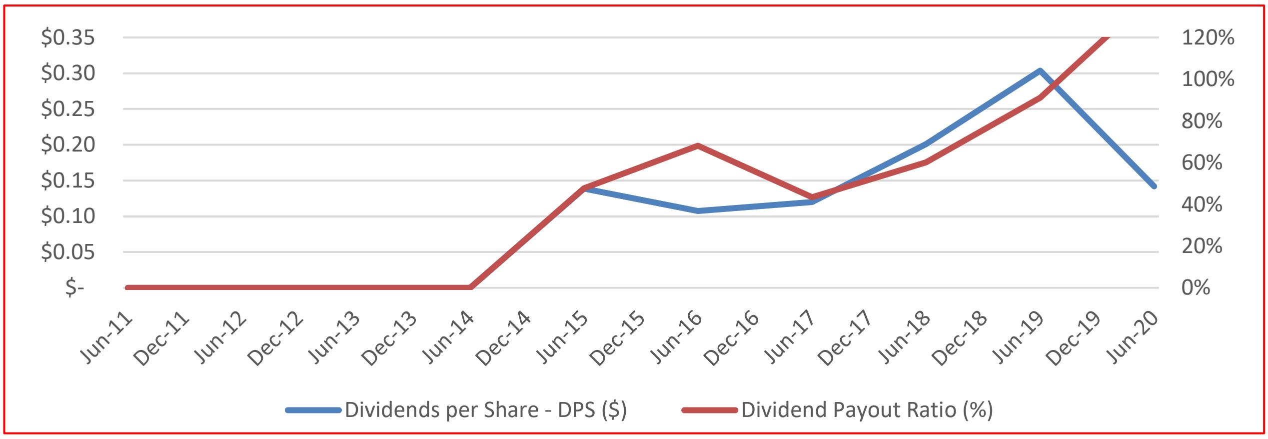

9 Key findings in relation to Competitors — Rating 82%

Within Australia, Pandora and Lovisa have both increased sales at an annualised rate of 7.5% since 2014. Tiffany and Co. has grown sales at about 2.5% per annum over the same period, with Michael Hill increasing sales by %1 per annum and Prouds experiencing a fall in sales of about 1.2% per annum. The Australian Watch and Jewellery Industry has experienced sales growth of about 1% per annum since 2014. This highlights the exceptional levels of growth achieved by Lovisa and Pandora, both of which also boast, by far, the highest profit margins.

When considering the Fashion Jewellery Industry in Australia, which excludes the more traditional jewellery stores such as Tiffany, Michael Hill, Prouds and Pandora, the Industry has experienced similar low levels of growth of about 1.3% per annum for the last 5 years. This industry includes Lovisa which is the clear market leader with 20% market share and is the only national fashion jewellery retailer across Australia, the rest of the competitors within this industry are made up of more broad fashion retailers who do not focus primarily on jewellery but also other accessories such as handbags and clothing. Colette and MIMCO are the next largest rivals (by sales) within the Australian Fashion Jewellery Industry, but both hold less than 5% market share. Fashion retailers such as H&M and ZARA would also be considered as competitors within this industry, but jewellery sales would make up only a small portion of their total sales. Of all the rivals just mentioned, Colette and H&M would be seen as the closest in terms of both price point and style, as shown in the perceptual map below, but both would struggle to compete in terms of range as Lovisa's store is dedicated exclusively to jewellery.

Lovisa is a stand-out when it comes to price in comparison to other jewellery stores. This is because the majority of other jewellery stores offer fine jewellery resulting in higher prices. Lovisa is focused on fast-fashion items which are more in-line with jewellery available at stores such as H&M and ZARA which offer similar jewellery/pricing, but primarily focus on clothing. This places Lovisa in a strong competitive position as they have few direct competitors. Accessories retail stores such as MIMCO and Colette offer similar products, but as well as providing fashion jewellery, they mostly sell handbags/purses. MIMCO has a much higher price-point, with many items around $100, versus less than $40 for Lovisa products. Colette has a similar price range and offers some competition to Lovisa.

Fashion jewellery is usually made from base metals and simulated stones, making it susceptible to bending and is easily tarnished. Fashion jewellery also has a short shelf life and is unrepairable, thus it is priced accordingly, making it easier to replace old or tarnished jewellery. This encourages customers to return to the store on a more regular basis making fashion jewellery comparable to a commodity style product.

Fine jewellery on the other hand is made from precious metals and stones such as gold, silver and diamonds. By using these products, fine jewellery is more durable and also repairable in most cases. It is also priced to accommodate the use of these precious metals and stones, thus reducing the frequency of customer visits to the store.

Lovisa has essentially developed a new market in Fashion Jewellery, the fact being that there are very few jewellery stores which focus solely of Fashion Jewellery. As mentioned previously, the traditional stores primarily focus on fine jewellery, which is of higher quality and price, and fashion accessory and fashion clothing retailers have an alternative primary focus other than jewellery. This being said, there is still a threat for direct competitors to emerge, especially online, which one could argue already exists. Lovisa employs a dedicated team of more than 20, which specifically focuses on the potential for risks to the business emerging from existing or new competitors. The team looks to maintain the level of innovation within Lovisa's products which management see as a core competitive advantage. This team is employed to ensure that the latest trends and designs are available across the store network to continually meet market demand and maintain the competitive advantage of having the broadest range and latest styles of fashion jewellery. It would also take a number of years for a competitor to build a similar store network as Lovisa, especially considering the strict criteria the Company has in place when choosing an appropriate store location.

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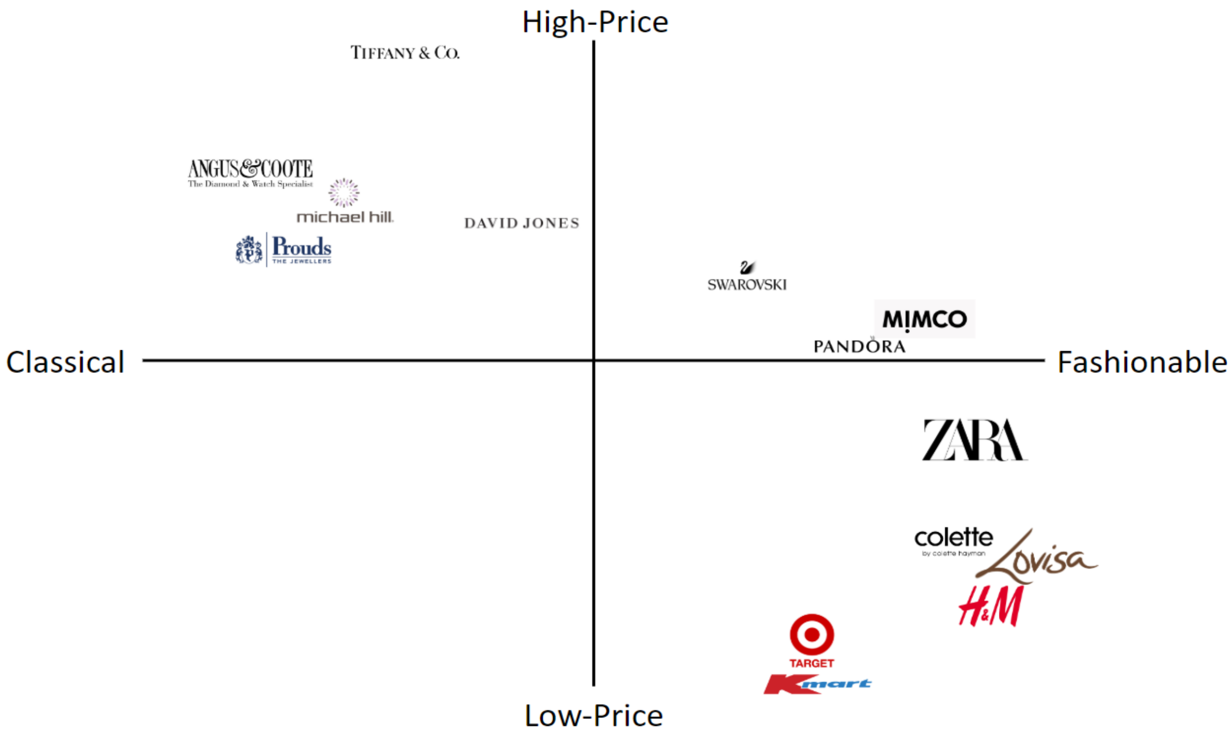
Perceptual Map of Competitors



10 Key findings in relation to Ethics

Rating 88%

Ethically speaking, Lovisa definitely isn't a stand out performer. The Company does not engage in any charitable or community events or activities. The primary focus is on running the business, which is not always a bad thing, especially in terms of turning a profit. The products do not cause any harm to humans or animals. The board is made up of 33% women up from 25% in FY18, Senior Management 43% women, down from 54% in FY18 and the company as a whole is made up of 99% women, up from 96% in FY18. Given Lovisa is a jewellery store, you would expect a large number of women employed. Past and present employee reviews are mixed, with a common negative theme towards management and their lack of organisational skills and strong focus on sales and addons, which can be good for increasing business revenue and profits, but can also run the risk of deterring customers by making them feel pressured into a making a purchase. Personally I have not had this experience at a Lovisa store, but I have only been to the single store on just a few occasions.

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11 Valuation

Disclaimer: The valuations provided within this analysis are not to be seen as recommendations or investment advice and are based on my personal opinion and experience. All information, data and valuations are for general information purposes only. Investors are recommended to seek advice from a financial professional before making any investment decisions. My thoughts and opinions will also change from time to time as I learn and accumulate more knowledge. I may hold a position or other interests in the business analysed.

Discounted Cash Flow (Stable Growth Model)

Cash Flow	$ 0.30
Growth Rate	5.0%
Discount Rate	12.0%
Margin of Safety	20%
Start Date	01/07/2020

Intrinsic Value	$ 4.50
Margin of Safety	20.0%

The Intrinsic Value of Lovisa Holdings Limited using the Discounted Cash Flow (Stable Growth Model) and after applying a 20% Margin of Safety

Lovisa Holdings Limited Intrinsic Value using the Stable Growth Model: $ 3.60

Discounted Cash Flow (High Growth Model)

Cash Flow	$ 0.20
High Growth Rate	~ 14.0%
High Period (Years)	13
Terminal Growth Rate	5.0%
Discount Rate	12.0%
Margin of Safety	20%
Start Date	01/07/2020
Dilution from issuance of stock and/or options	1.0%
Present value of High Growth Period	$ 3.58
Present Value of Stable Growth Period	$ 3.57

Intrinsic Value	$ 7.15
Margin of Safety	20.0%
Dilution/Concentration*	1%

High Growth Period Cash Flow Calculations

Year	Future Value	Present Value
1	$ 0.27	$ 0.24
2	$ 0.34	$ 0.27
3	$ 0.41	$ 0.29
4	$ 0.47	$ 0.30
5	$ 0.54	$ 0.30
6	$ 0.59	$ 0.30
7	$ 0.65	$ 0.29
8	$ 0.71	$ 0.29
9	$ 0.78	$ 0.28
10	$ 0.85	$ 0.27
11	$ 0.91	$ 0.26
12	$ 0.98	$ 0.25
13	$ 1.04	$ 0.24
Total		$ 3.58

The Intrinsic Value of Lovisa Holdings Limited using the Discounted Cash Flow (High Growth Model) and after applying a 20% Margin of Safety and accounting for dilution/concentration in shares of 1%

Lovisa Holdings Limited Intrinsic Value using the High Growth Model: $ 5.78

Note: Dilution/concentration accounts for any issuance of shares or options as well as any share buybacks. If this number is negative, it indicates the company has issued new shares or options, which has resulted in a devaluation of the pre-existing issued shares by that amount. Share buybacks will effectively increase the per share value of the remaining issued shares. If this number is positive, it indicates the company has implemented a share buyback which has consolidated the number of issued shares resulting in a positive revaluation of those remaining shares.

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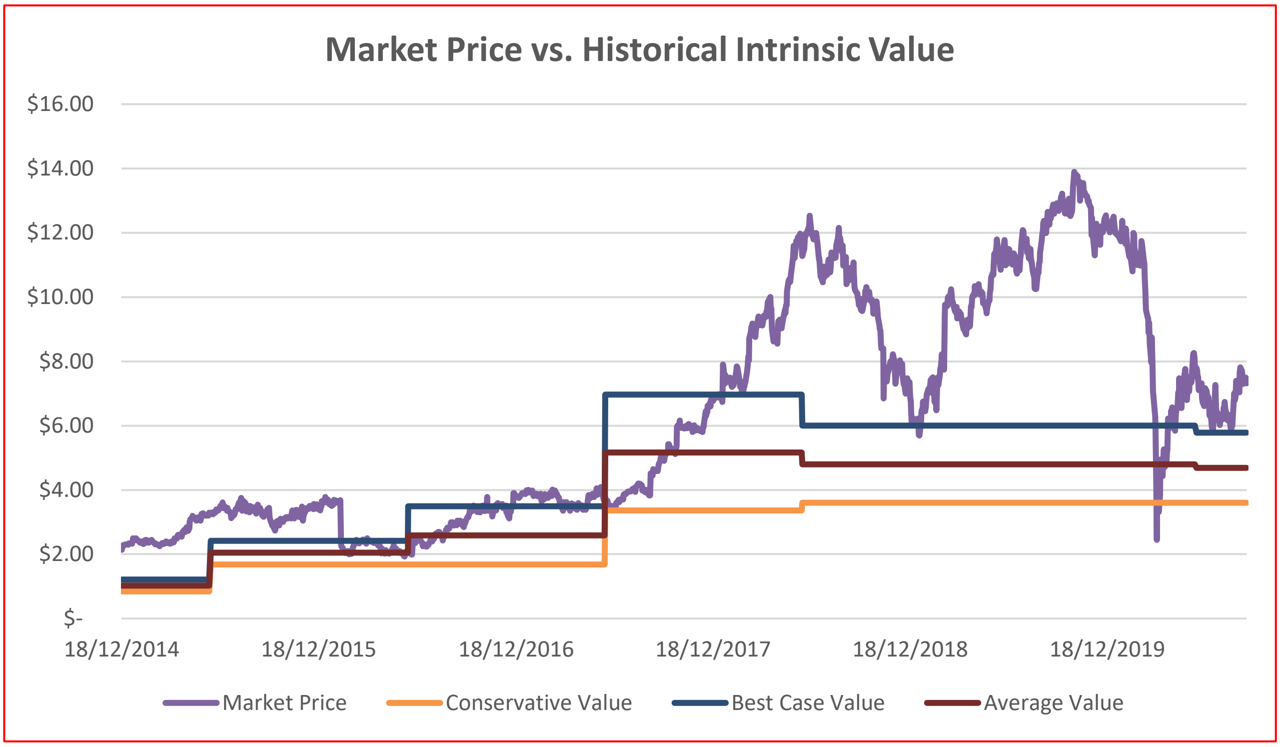
12 Historical Valuations

The graph below illustrates the historical Discounted Cash Flow valuations in comparison to the historical share price. The graph highlights periods in time when the shares became cheap and also how the business value has tracked market prices.



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