

ASX AND NZX ANNOUNCEMENT FY20H1 RESULTS

PROFIT GROWTH AHEAD OF SALES GROWTH

25 February 2020

Michael Hill International Limited (ASX/NZX: MHJ) today announced its half year financial results for the 26-week period ended 29 December 2019.

Key Financial Results

- Statutory net profit after tax increased by 19.6% to \$21.4m (FY19H1: \$17.9m*).
- Statutory earnings before interest and tax increased by 34.6% to \$35.3m (FY19H1: \$26.2m*).
- **Group operating revenues increased by 4.4% for the half to \$329.5m (FY19H1: \$315.4m).**
- **Underlying earnings before interest and tax pre-AASB 16 increased by 6.9% to \$31.6m (FY19H1: \$29.6m).**
- Group same store sales were up 6.3% at \$317.7m (FY19H1: \$298.9m).
- Group gross margin reduced to 61.7% (FY19H1: 64.2%), predominantly due to FX and gold price impacts.
- Active inventory management, delivering ~10% reduction to \$200.1m (FY19H1: \$220.2m).
- Net positive cash position of \$0.4m against net debt position of \$20.7m at close of FY19H1.
- Interim dividend of AU 1.5 cents per share, unfranked and fully imputed with conduit foreign income.

Operational Performance

- e-commerce sales on the Michael Hill website (excluding Emma & Roe product) increased by 44.3% to \$9.7m.
- Branded collection sales represented 35.4% of total sales for the half.
- FY19 cost-saving initiatives now annualising across FY20, with the second tranche of \$5m savings starting to be realised in FY20. Additional cost-out initiatives are also being pursued.
- Loyalty program *Brilliance* launched online in November 2019, with in-store launch to follow in FY20H2.
- One Michael Hill store opened (Canada) and three under-performing stores were closed (Australia) during the period, giving a total of 304 stores trading at 29 December 2019.

Commenting on the announcement of the Company's first-half year results, CEO Daniel Bracken, said:

"We're pleased to deliver an increase in same store sales of 6.3%, and underlying EBIT growth of 6.9% in really challenging trading conditions. The result reflects the momentum we have built and is an early validation of both the strategy and the new management team. We remain convinced that the best way to insulate the business from external factors is a vigilant focus on retail fundamentals, alignment of retail execution, product newness and an unwavering focus on CODB.

Michael Hill is in a strong financial position at the half with disciplined cost management, nil net debt, lower inventory levels and improving stock turn. We are navigating a challenging retail environment that requires a balanced approach between sales momentum and margin realisation.

We continue to refine and enhance the foundations of the business along with undertaking various projects as we work towards our vision of being the most loved jewellery destination. These included the soft launch online of our loyalty program (Brilliance), the phased introduction of Laboratory Grown Diamonds in all markets, and deploying a new customer satisfaction program (Sparkle). We believe the combination of these projects and our existing key initiatives will enable us to improve and gain traction in the market."

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FY20H1 – Group Business Performance

The Group reported a statutory net profit after tax (NPAT) of \$21.4m for the half year ended 29 December 2019, an increase of 19.6% (FY19H1: \$17.9m*). From 1 July 2019, the company adopted a retail 52 week reporting calendar and as a result, the comparative figures for FY19H1 include an additional two days of trading, except for same store and all store sales figures which are directly comparable.

Underlying earnings before interest and tax (EBIT) pre-AASB 16 for the half increased by 6.9% to \$31.6m (FY19H1: \$29.6m). The growth in EBIT has resulted from an increase in Group operating revenue, and targeted reduction in costs which together have mitigated the impact of compressed margins driven by foreign exchange, rising gold prices and competitive market pressures.

Same store sales were up 6.3% for the half year to \$317.7m (FY19H1: \$298.9m), as the Company worked hard to regain market share and to achieve positive sales growth over both quarters.

The enhancement of our e-commerce business has been a key focus for FY20H1, with the soft launch of our loyalty program (*Brilliance*) online, and improvements in our educational content and user experience of the website. Michael Hill website sales (excluding Emma & Roe product) were up by 44.3% representing 3.0% of total sales for the half.

The Company's active inventory management program has led to a significant reduction in inventory on hand at 29 December 2019, at \$200.1m against the close of FY19H1 of \$220.2m. Together with strong operating cashflows and improved working capital management (lower capital expenditure, renegotiation of vendor payment terms and reduction in CODB), our net debt position of \$20.7m at FY19H1 improved to a net cash position of \$0.4m at half year end.

The company opened one new store in Canada and closed three under-performing stores in Australia, resulting in 304 stores at 29 December 2019 (including one remaining Emma & Roe store).

The interim dividend is in line with the prior half, at AU 1.5 cents per share, reflecting the continuing cashflow commitment of the previously announced wage remediation payments.

Australian Retail Performance**

In Australia, same store sales were up 3.3% and retail segment revenue declined slightly by 0.7% to \$174.2m (FY19H1: \$175.5m) for the half. The decline was mainly due to the closure of eight underperforming stores since 31 December 2018. Gross margin of 59.9% (FY19H1: 63.0%) was compressed as the Company chased market share in challenging retail conditions.

New Zealand Retail Performance**

In New Zealand, same store sales increased by 6.6% to \$68.1m (FY19H1: \$63.9m) and retail segment revenue grew by 6.4% to \$69.9m (FY19H1: \$65.8m) for the half year with gross margin of 58.8% (FY19H1: 62.7%). New Zealand remains our highest performing segment, with pre-AASB 16 EBIT as a % of revenue at 20.7%.

Canada Retail Performance**

In Canada, same store sales increased by 5.1% to \$75.1m (FY19H1: \$71.5m) and retail segment revenue experienced growth of 7.5% to \$79.9m (FY19H1: \$74.3m), with a decline in gross margin to 58.2% (FY19H1: 61.8%). Canada remains a core profit growth opportunity, as we continue to focus on key productivity initiatives.

Strategic update

The key areas of focus for Management remain broadly unchanged, with some key milestones achieved in the half.

- 1. Unwavering focus on costs** – While FY19 cost initiatives are now annualising across FY20, the second tranche of \$5m savings is also starting to be realised in FY20. Additionally, further opportunities have now been identified and an ongoing program of non-customer facing CODB reductions will be embedded into our results moving forward.
- 2. Retail Operating Model** – The company has embraced the staged implementation of a more sophisticated and integrated customer-focused retail operating model. This was evidenced by the success of the Michael Hill 40th Birthday campaign, deliberate product newness for Black Friday campaign and our targeted Christmas campaigns. This new operating rhythm underpins our shift to a more contemporary customer-led retail business.
- 3. Retail Fundamentals** – There has been an ongoing focus on retail execution supported by our new incentive scheme trial, early learnings from our *Sparkle* customer feedback program and a heightened focus on product and visual merchandising execution in our stores. We continue to prioritise the importance of sales training and customer engagement, combined with a deliberate emphasis on inventory management and cost control.
- 4. Product Evolution** – We are continually introducing product newness as part of the new merchandise rhythm, along with gradually building the momentum and refreshing our Branded Collections, whilst maintaining a disciplined focus on margin mix and margin outcomes.
- 5. Canadian Productivity** – A number of initiatives have been implemented in Canada resulting in early improvement in sales per square metre. We will continue to focus on the productivity growth of this retail segment over the remainder of FY20 and beyond.
- 6. Digital-first** – Our online business continues to grow rapidly as we enhance the customer experience, online navigation, extended product offer and our loyalty program. We are confident that the changes we are making and the plans we have in place will continue to propel this all important channel.
- 7. Loyalty** – In November 2019, we delivered the first stage of our customer loyalty program. The initial launch was focused in our online channel, while we tested customer engagement. Early results have been very pleasing, as we now ramp up to the exciting proposition of launching across all our physical stores in the second half.
- 8. Brand** – The Michael Hill brand has a deep and rich heritage centred around innovation, quality, and value. As we enter a new decade for the brand, we will deliver a modernised approach to drive greater customer advocacy, engagement and conversion.

Outlook for FY20H2

Michael Hill International CEO Daniel Bracken said:

“Recent local and global environmental factors have placed additional pressure on an already challenged consumer market. Thus far the impact on our business has been limited as we continue to monitor and mitigate issues. It’s not yet clear what the cumulative impact could be on consumer confidence and discretionary spend. However, we believe we have put in place the right strategies and initiatives and it is more important than ever for us to focus on cost reduction, improving productivity across all retail segments, exploring omni-channel growth and continually strengthening our brand proposition.”

Along with the right initiatives, we have built a strong, determined and capable management team who are enthusiastically delivering these initiatives in a measured manner. I could not be prouder of the camaraderie, alignment, and passion that can be seen in so many teams across the business.”

* Restated for employee remediation

**Amounts in local currency

Important Note

The above represents the current decisions and intentions of the Company. Further information will be provided if the company's decisions or intentions change or the company has new information, in accordance with the company's disclosure obligations.

ENDS

Analyst and investor call

An analyst briefing on the results will be held today at 9.30am (Brisbane, Qld time). Webcast and dial in details may be found in the Company's announcement dated 20 January 2020.

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ABOUT MICHAEL HILL INTERNATIONAL

Michael Hill International was founded by Sir Michael Hill in 1979 when he opened his first jewellery store in Whangarei, New Zealand. The Group currently has 304 stores globally across Australia, New Zealand and Canada. The Group's global headquarters, including its wholesale and manufacturing divisions, are located in Brisbane, Australia. The Company is listed on the ASX (ASX:MHJ) and the NZX (NZX:MHJ).

For more information:

www.investor.michaelhill.com

www.michaelhill.com.au

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Disclaimer

Certain statements in this announcement constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and the anticipated or planned financial and operational performance of Michael Hill International Limited and its related bodies corporate (the Company). The words "targets," "believes," "expects," "aims," "intends," "plans," "seeks," "will," "may," "might," "anticipates," "would," "could," "should," "continues," "estimates" or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as the Company's future results of operations; financial condition; working capital, cash flows and capital expenditures; and business strategy, plans and objectives for future operations and events, including those relating to ongoing operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities.

Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Company's actual results, performance, operations or achievements or industry results, to differ materially from any future results, performance, operations or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and other important factors include, among others: global and local economic conditions; changes in market trends and end-consumer preferences; fluctuations in the prices of raw materials, currency exchange rates, and interest rates; the Company's plans or objectives for future operations or products, including the ability to introduce new jewellery and non-jewellery products; the ability to expand in existing and new markets and risks associated with doing business globally and, in particular, in emerging markets; competition from local, national and international companies in the markets in which the Company operates; the protection and strengthening of the Company's intellectual property rights, including patents and trademarks; the future adequacy of the Company's current warehousing, logistics and information technology operations; changes in laws and regulations or any interpretation thereof, applicable to the Company's business; increases to the Company's effective tax rate or other harm to the Company's business as a result of governmental review of the Company's transfer pricing policies, conflicting taxation claims or changes in tax laws; and other factors referenced to in this presentation.

Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the Company's actual financial condition, cash flows or results of operations could differ materially from that described herein as

anticipated, believed, estimated or expected. Accordingly, you are cautioned not to place undue reliance on any forward-looking statements.

The Company does not intend, and do not assume any obligation, to update any forward-looking statements contained herein, except as may be required by law. All subsequent written and oral forward-looking statements attributable to us or to persons acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this announcement.

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