

Michael Hill International Limited
ABN 25 610 937 598
Appendix 4D
Results for announcement to the market
Half-year report 27 December 2020

Reporting period

Reporting period: 29 June 2020 to 27 December 2020
Previous reporting period: 1 July 2019 to 29 December 2019

Results for announcement to the market

				\$'000
Revenue from ordinary activities	Down	2.9%	to	319,884
Earnings before interest and taxation (EBIT)*	Up	66.9%	to	58,880
Comparable EBIT*	Up	41.2%	to	44,642
Net profit after tax (from ordinary activities) for the period attributable to members	Up	82.1%	to	38,983

* EBIT and Comparable EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information on page 7 of the Directors Report for an explanation of Non-IFRS information.

Dividends

	Amount per security	Franked amount per security
27 December 2020		
Interim dividend (cents per share) ¹	1.50	-
	Amount per security	Franked amount per security

29 December 2019

Interim dividend (cents per share)	1.50	-
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1. The record date for determining entitlements to the interim dividend of AU 1.5 cents per share is 12 March 2021. The payment date for the interim dividend is 26 March 2021. The dividend will be unfranked and fully imputed. In addition, the dividend will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment to Michael Hill International Limited's foreign shareholders.

There is no dividend reinvestment plan in operation for Michael Hill International Limited.

For commentary on the above figures, please refer to the Directors' Report.

	27 Dec 2020	29 Dec 2019
Net tangible assets		
Net tangible asset backing per ordinary security	\$0.13	\$0.04

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In calculating the net tangible assets for the half year to 27 December 2020, the lease right-of-use asset recognised under AASB 16 *Leases* has been excluded whilst the lease liability recognised has been included.

This report should be read in conjunction with the annual report for the year ended 28 June 2020 and any public announcements made by Michael Hill International Limited in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001 (Cth)*, *ASX Listing Rules* and *NZX Listing Rules*.



E J Hill
Chair
23 February 2021
Brisbane

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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, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

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.

The Directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the 26 week period ended 27 December 2020.

Directors

The following persons were Directors of Michael Hill International Limited during the financial period and up to the date of this report:

E J Hill
Sir R M Hill
G W Smith
R I Fyfe
J E Naylor (commenced 15/07/2020)
J S Allis (ceased 27/10/2020)

Principal activities

The Group operates predominantly in the retail sale of jewellery and related services in Australia, New Zealand and Canada.

Significant changes in the state of affairs

There have been no significant changes in the nature of the Group's activities during the 26 week period ended 27 December 2020.

Proforma results

Proforma results for FY21H1 are the current year results excluding the impact of *AASB 16 Leases* to allow comparability for users of the financial statements.

Review of operations

Key financial results

- **Statutory net profit after tax increased by 82.1% to \$39.0m** (FY20H1: \$21.4m).
- Statutory earnings before interest and tax (EBIT)* increased by 66.9% to \$58.9m (FY20H1: \$35.3m).
- Comparable EBIT* of \$44.6m against \$31.6m for FY20H1.
- **Group same store sales were up 6.3% to \$312.1m** (FY20H1: \$293.6m).
- The COVID-19 impact of 3,709 lost store trading days, equating to lost sales of ~\$23m, and the closure of 15 under-performing stores, led to group operating revenues reducing by 2.9% to \$319.9m for the half (FY20H1: \$329.5m).
- Group gross margin increased to 62.7% (FY20H1: 61.7%) while absorbing the impact of the increasing gold price.
- Decisive working capital management resulted in a significant improvement in net cash position.
- Focused inventory management, resulting in a reduction of ~\$30m to \$170.6m (FY20H1: \$200.1m).
- Interim dividend payment of AU 1.5 cents per share, unfranked and fully imputed with conduit foreign income.

Review of operations (continued)

Operational performance

- Digital sales increased by 102% to \$18.5m, representing 5.8% of total sales (FY20H1: 2.8%).
- Loyalty program *Brilliance by Michael Hill* reached over 480,000 members, an increase of over 200% for the half.
- Branded collection sales represented 38.4% of total sales for the half year (FY20H1: 35.4%).
- Deliberate cash preservation and unwavering cost management throughout the half.
- Over 3,709 lost store trading days across all markets for the half, due to government mandated store closures.
- One under-performing store (in Australia) permanently closed during the half, giving a network total of 289 stores across all markets, a reduction of 15 from FY20H1.

* EBIT and Comparable EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information in the Directors' Report on page 7 of this report for an explanation of Non-IFRS Information.

Key Facts

	27 Dec 2020 \$'000	29 Dec 2019 \$'000	+/-%
TRADING RESULTS			
26 WEEKS ENDED (AU \$000)			
Operating revenue	319,884	329,482	(2.9)%
EBIT	58,880	35,272	66.9%
Group profit after tax	38,983	21,404	82.1%
Group gross profit	200,485	203,435	(1.5)%
Group gross profit %	62.7%	61.7%	100 bps
Dividends paid	5,817	5,817	-%
	27 Dec 2020 \$'000	29 Dec 2019 \$'000	28 June 2020 \$'000
FINANCIAL POSITION			
Contributed equity	11,204	11,016	11,016
Total equity	190,752	179,873	153,806
Total assets	542,374	583,727	501,618
Net cash / (net debt)	90,315	379	523
	27 Dec 2020	29 Dec 2019	28 June 2020
NUMBER OF STORES			
Australia *	154	165	155
New Zealand	49	52	49
Canada	86	87	86
Total stores	289	304	290

* 29 Dec 2019 includes 1 Emma & Roe store.

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Review of operations (continued)

KEY MEASURES	27 Dec 2020 \$'000	29 Dec 2019 \$'000	28 June 2020 \$'000
Share price (AU\$)	0.68	0.68	0.34
Basic earnings per share (AUc)	10.05	5.52	0.79
Equity ratio (%)	35.2	30.8	30.7

FY21H1 - Group Business Performance

The Group reported statutory earnings before interest and tax (EBIT) increased by 66.9% to \$58.9m for the half year ended 27 December 2020 (FY20H1: \$35.3m), with a comparable EBIT up 41.2% to \$44.6m (FY20H1: \$31.6m).

As a result of Government mandated lockdowns, the Michael Hill global store network suffered 3,709 lost store trading days, representing lost sales of ~\$23m. Despite the significant ongoing impacts of the global pandemic, the Company experienced solid growth of 6.3% in same store sales - \$312.1m for the half (FY20H1: \$293.6m). This strong performance was achieved through an ongoing focus on strategic initiatives to modernise and transform the Michael Hill business. Furthermore, the impact of disrupted trading conditions and the lost store trading days, in conjunction with the permanent closure of 15 underperforming stores, only saw a drop in total revenue of 2.9% to \$319.9m (FY20H1: \$329.5m).

Group margin grew to 62.7%, as the Company continued its focus on balancing both margin and sales growth. Margin growth was underpinned by an increased penetration of online, the impact of the rapidly growing loyalty program, improved intake margin, product mix and our new retail incentive scheme.

During the half, the business continued to optimise the merchandise offer leading to a material reduction in inventory. Our strong and long-standing vendor relationships, together with our in-house Australian manufacturing facility, ensured reliable continuity of supply, delivering optimal stock levels through the peak Christmas trading period.

At the end of the half, the Company had nil bank debt and a cash position of \$90.3m (FY20H1: \$0.4m), reflecting a deliberate focus on costs and strong working capital management, with an inventory reduction of ~\$30m against prior year. Since half year end, cash has been deployed to meet Christmas inventory supplier payment obligations, payment of the deferred dividend debt obligation and recommencement of the wage remediation program.

The Company closed one under-performing store in Australia in the half, resulting in 289 stores at 27 December 2020.

Australian Retail Performance

	27 Dec 2020 AU\$'000	29 Dec 2019 AU\$'000	+/- %
For the 26 weeks ended			
Revenue	175,145	174,244	0.5%
Gross profit	107,582	104,291	3.2%
Gross profit % of revenue	61.4%	59.9%	150 bps
EBIT	43,885	22,666	93.6%
EBIT % of revenue	25.1%	13.0%	1210 bps
Number of stores	154	165	-11

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Review of operations (continued)

In Australia, same store sales increased by 12.0% to \$174.2m (FY20H1: \$155.5m), and retail segment revenue rose by 0.5% for the half. The revenue performance is a credit to the segment, as it saw 2,567 lost store trading days due to government mandated store closures across Victoria, South Australia and New South Wales. Additionally, 11 under-performing stores have been permanently closed, when compared to the first half of the prior year.

Gross margin for the half increased by 150 bps to 61.4% (FY20H1: 59.9%).

New Zealand Retail Performance

	27 Dec 2020 NZ\$'000	27 Dec 2019 NZ\$'000	+/- %
For the 26 weeks ended			
Revenue	69,309	69,949	(0.9)%
Gross profit	42,331	41,145	2.9%
Gross profit % of revenue	61.1%	58.8%	230 bps
EBIT	20,267	14,463	40.1%
EBIT % of revenue	29.2%	20.7%	850 bps
Number of stores	49	52	(3)

In New Zealand, same store sales increased by 2.8% to \$68.4m (FY20H1: \$66.5m) and retail segment revenue declined by 0.9% for the half. During the period, 16 Auckland stores were required to temporarily close for nearly three weeks (304 lost store trading days), due to government mandated COVID-19 restrictions and with three under-performing stores having been permanently closed, when compared to the first half of the prior year.

Gross margin for the half increased by 230 bps to 61.1% (FY20H1: 58.8%).

Canadian Retail Performance

	27 Dec 2020 CA\$'000	29 Dec 2019 CA\$'000	+/- %
For the 26 weeks ended			
Revenue	75,231	79,919	(5.9)%
Gross profit	46,265	46,484	(0.5)%
Gross profit % of revenue	61.5%	58.2%	330 bps
EBIT	14,180	7,937	78.7%
EBIT % of revenue	18.8%	9.9%	890 bps
Number of stores	86	87	-1

In Canada, same store sales increased by 3.6% to \$70.3m (FY20H1: \$67.8m) and retail segment revenue declined by 5.9% for the half. The decline in retail segment revenue was directly attributable to temporary store closures due to COVID-19 government directives. Of the 86 stores, 21 stores gradually closed through November and December, and a further 25 stores closed from Boxing Day, leaving only 40 of 86 stores trading at the end of the half. This resulted in 838 lost store trading days for the half. It is noted that temporarily closed stores have been progressively reopening from February 2021.

Gross margin for the half increased by 330 bps to 61.5% (FY20H1: 58.2%).

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Review of operations (continued)

Update on Key Initiatives for FY21 - Emphasis on Growth and Margin

During the half, the Company demonstrated the benefits of the transformation agenda with the proven strength of its retail metrics, as it continues a disciplined approach to maximising growth opportunities while focusing on a true omni-channel customer experience. The Company's strategies are centred around delivering both sales and margin growth, and driving efficiencies across every aspect of the business.

1. Our **Omni-channel** strategies continued to gather pace in the half and drive incremental sales, with the implementation of "click and reserve", test and trial of "ship from store" and "virtual selling". Over the coming months, more digital and physical initiatives will be rolled out to meet the demands of a modern-day customer.
2. Our **Digital** businesses delivered another strong performance and represents nearly 6% of total company sales. Our FY20 focus was on customer experience, content, navigation and frictionless checkout. In FY21, the digital priorities include traffic driving initiatives, conversion rate optimisation, new payment platforms and marketplace integration.
3. The *Brilliance by Michael Hill* **Loyalty Program** is becoming embedded into the culture of the retail business, with membership growing to over 480,000 members (+237% in the half). The associated Member Pricing is delivering margin benefits to the business and customer engagement. As we now embark on the next stage of loyalty, the company will focus on initiatives to drive increased customer activation, resulting in sales and margin growth.
4. The ongoing focus on **Retail Fundamentals** is at the core of our transformation agenda, and is critical to driving increased sales, higher margins, lower costs, and overall improvement in customer experience. The business will continue to focus on optimising store productivity and efficiencies, while elevating customer engagement as a key priority.
5. **Product Evolution** is at the core of a customer-led retail strategy, and is critical to achieve sales and margin growth. Range and assortment rationalisation has continued in the half, with a refreshed product newness calendar driving higher inventory turn. The business will maintain its focus on branded collections penetration, stronger vendor relationships, and launch a key initiative to deliver a comprehensive merchandise planning system over the next 12 months.
6. The **Cost Conscious Culture** continues to deliver benefits across the organisation. This embedded unwavering focus on costs is best evidenced by lower inventory levels and a healthy cash balance. Furthermore, the business has made significant progress in optimising the global supply chain, improving the global store network and leasing arrangements, and streamlining the Canadian credit proposition.
7. The elevation of the Michael Hill **brand** is key to our success as we continue to evolve into a modern, differentiated, omni-channel jewellery brand. Implementing fully integrated brand and promotional campaigns, consistent across every customer touchpoint is now embedded in the rhythm of the business and this was most evident in the company's highly successful Christmas campaign.

(continued)

Non-IFRS Financial Information

This report contains certain non-IFRS financial measures of historical financial performance. Non-IFRS financial measures are financial measures other than those defined or specified under all relevant accounting standards. The measures therefore may not be directly comparable with other companies' measures. Many of the measures used are common practice in the industry in which MHI operates. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures. The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by Australian Securities and Investments Commission (ASIC) to promote full and clear disclosure for investors and other uses of financial information, and minimise the possibility of those users being misled by such information.

The measures are used by management and Directors for the purpose of assessing the financial performance of the Group and individual segments. The Directors also believe that these non-IFRS measures assist in providing additional meaningful information on the drivers of the business, performance and trends, as well as the position of the Group. Non-IFRS financial 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. Consequently, non-IFRS measures are used by the Directors and management for performance analysis, planning, reporting and incentive setting. These measures are not subject to audit.

The non-IFRS measures used in describing the business performance include:

- Same store sales
- Earnings before Interest, tax, depreciation and amortisation (EBITDA)
- Earnings before Interest and tax (EBIT)
- Comparable EBIT is pre-AASB16 and excludes wage subsidies (refer to note 5)
- Proforma results

(continued)

Dividends

After taking into consideration the Company's comparable EBIT of \$44.6m for the half (FY20H1: \$31.6m), encouraging sales performance from stores since half year end and the strength of the balance sheet, the Board has decided to declare an interim dividend of AU1.5 cent per share (FY20H1: AU1.5 cents per share) unfranked, fully imputed with conduit foreign income. The decision to hold the interim dividend flat against prior year, reflects the risk of ongoing trading disruption, and demonstrates the Board's intention to restore dividend payments to historic levels as the pandemic recovery becomes more certain.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is set out on page 9 and forms part of this report.

Rounding of amounts

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

The Company is an entity to which the legislative instrument applies.

This report is made on 23 February 2021 in accordance with a resolution of Directors.



E J Hill
Chair
Brisbane
23 February 2021



**Building a better
working world**

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Auditor's Independence declaration to the directors of Michael Hill International Limited

As lead auditor for the review of the half-year financial report of Michael Hill International Limited for the half-year ended 27 December 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Michael Hill International Limited and the entities it controlled during the financial period.

Ernst & Young

Kellie McKenzie
Partner
23 February 2021

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Michael Hill International Limited
Consolidated statement of comprehensive income
For the half-year 27 December 2020

		27 Dec 2020 \$'000	29 Dec 2019 \$'000
	Notes		
Operating revenue	5	319,884	329,482
Other income	5	17,961	708
Cost of goods sold		(119,400)	(126,047)
Employee benefits expense		(80,562)	(82,947)
Occupancy costs		(11,374)	(9,528)
Marketing expenses		(16,963)	(20,499)
Selling expenses		(9,443)	(12,146)
Depreciation and amortisation expense		(25,656)	(27,217)
Loss on disposal of property, plant and equipment and intangible assets	7, 8	(23)	(141)
Impairment (expense)/reversal		(1,563)	12
Other expenses		(13,981)	(16,405)
Finance expenses		(3,760)	(4,984)
Profit before income tax		55,120	30,288
Income tax expense		(16,137)	(8,884)
Profit for the half-year		38,983	21,404
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Gains/(losses) on cash flow hedges		34	2
Currency translation differences arising during the year		(2,290)	690
Other comprehensive income for the half-year, net of tax		(2,256)	692
Total comprehensive income for the half-year, net of tax		36,727	22,096
Total comprehensive income for the half-year is attributable to:			
Owners of Michael Hill International Limited		36,727	22,096
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		10.05	5.52
Diluted earnings per share		10.03	5.50

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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Michael Hill International Limited
Consolidated statement of financial position
As at 27 December 2020

	Notes	27 Dec 2020 \$'000	29 Dec 2019 \$'000	28 Jun 2020 \$'000
ASSETS				
Current assets				
Cash and cash equivalents		90,315	33,179	11,204
Trade and other receivables	6	27,861	33,918	25,006
Inventories		170,612	200,105	178,742
Contract assets	11	718	1,077	733
Current tax receivables		640	-	3,165
Other current assets		2,911	5,066	2,103
Total current assets		293,057	273,345	220,953
Non-current assets				
Trade and other receivables	6	7,228	14,164	10,727
Contract assets	11	865	1,277	1,048
Property, plant and equipment		37,647	57,446	45,405
Right-of-use assets	9	112,841	144,805	123,911
Intangible assets		27,075	21,348	24,429
Deferred tax assets		63,174	69,730	74,468
Other non-current assets		487	1,612	677
Total non-current assets		249,317	310,382	280,665
Total assets		542,374	583,727	501,618
LIABILITIES				
Current liabilities				
Trade and other payables	6	95,268	78,565	64,472
Lease liabilities	9	33,411	33,062	42,164
Contract liabilities	11	25,585	27,367	25,974
Derivative financial instruments		-	466	34
Current tax liabilities		-	343	1,445
Provisions	10	27,229	29,843	24,949
Deferred revenue		541	75	367
Total current liabilities		182,034	169,721	159,405
Non-current liabilities				
Lease liabilities	9	107,229	135,610	115,848
Contract liabilities	11	55,565	58,399	53,539
Borrowings	6	-	32,800	10,681
Provisions	10	6,794	7,324	8,339
Total non-current liabilities		169,588	234,133	188,407
Total liabilities		351,622	403,854	347,812
Net assets		190,752	179,873	153,806

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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Michael Hill International Limited
Consolidated statement of financial position
As at 27 December 2020
(continued)

	Notes	27 Dec 2020 \$'000	29 Dec 2019 \$'000	28 Jun 2020 \$'000
EQUITY				
Contributed equity	12	11,204	11,016	11,016
Reserves		2,195	6,326	4,420
Retained profits		177,353	162,531	138,370
Total equity		190,752	179,873	153,806

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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Michael Hill International Limited
Consolidated statement of changes in equity
For the half-year 27 December 2020

	Attributable to owners of Michael Hill International Limited					
	Contributed equity \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 29 June 2020	11,016	697	3,757	(34)	138,370	153,806
Profit for the year	-	-	-	-	38,983	38,983
Currency translation differences	-	-	(2,290)	-	-	(2,290)
Currency forward contracts	-	-	-	34	-	34
Total comprehensive income for the half-year	-	-	(2,290)	34	38,983	36,727
Transactions with owners in their capacity as owners:						
Share rights expense through share based payments reserve	-	219	-	-	-	219
Issue of share capital on vesting of share rights	188	(188)	-	-	-	-
	188	31	-	-	-	219
Balance at 27 December 2020	11,204	728	1,467	-	177,353	190,752

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

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Michael Hill International Limited
Consolidated statement of changes in equity
For the half-year 27 December 2020
(continued)

		Attributable to owners of Michael Hill International Limited					
	Notes	Contributed equity \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019		10,984	757	5,516	(468)	159,963	176,752
Adjustment on adoption of AASB 16 (net of tax)		-	-	(43)	-	(13,019)	(13,062)
Restated total equity at the beginning of the financial period		10,984	757	5,473	(468)	146,944	163,690
Profit for the year		-	-	-	-	21,404	21,404
Currency translation differences		-	-	690	-	-	690
Currency forward contracts		-	-	-	(162)	-	(162)
Interest rate swaps		-	-	-	164	-	164
Total comprehensive income for the half-year		-	-	690	2	21,404	22,096
Transactions with owners in their capacity as owners:							
Dividends paid/provided	13	-	-	-	-	(5,817)	(5,817)
Options forfeited		-	(166)	-	-	-	(166)
Share rights expense through share based payments reserve		-	98	-	-	-	98
Issue of share capital on vesting of share rights		32	(32)	-	-	-	-
Transfer option reserve to contributed equity on exercise of options		-	(28)	-	-	-	(28)
		32	(128)	-	-	(5,817)	(5,913)
Balance at 29 December 2019		11,016	629	6,163	(466)	162,531	179,873

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

Michael Hill International Limited
Consolidated statement of cash flows
For the half-year 27 December 2020

	27 Dec 2020	29 Dec 2019	
Notes	\$'000	\$'000	
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)	380,970	361,204	
Payments to suppliers and employees (inclusive of GST and sales taxes)	(249,871)	(270,742)	
	131,099	90,462	
Interest received	2	-	
Other revenue	13,868	708	
Interest paid	(531)	(1,209)	
Income tax paid	(4,255)	(4,130)	
Net GST and sales taxes paid	(18,494)	(18,821)	
Net cash inflow from operating activities	121,689	67,010	
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	1	94	
Payments for property, plant and equipment	(1,351)	(4,179)	7
Payments for intangible assets	(4,458)	(7,028)	8
Net cash (outflow) from investing activities	(5,808)	(11,113)	
Cash flows from financing activities			
Proceeds from borrowings	2,000	44,000	
Repayment of borrowings	(12,681)	(44,000)	
Principal portion of lease payments	(26,033)	(24,854)	
Dividends paid to Company's shareholders	-	(5,816)	13
Net cash (outflow) from financing activities	(36,714)	(30,670)	
Net increase in cash and cash equivalents	79,167	25,227	
Cash and cash equivalents at the beginning of the financial year	11,204	7,923	
Effects of exchange rate changes on cash and cash equivalents	(56)	29	
Cash and cash equivalents at end of half-year	90,315	33,179	

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

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1 Basis of preparation and changes to the Group's accounting policies

(a) Basis of preparation

These consolidated financial statements for the half-year reporting period ended 27 December 2020 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

These consolidated financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 28 June 2020 and any public announcements made by Michael Hill International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*, *ASX Listing Rules* and *NZX Listing Rules*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Michael Hill International Limited (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The Group's principal activity is the sale of jewellery and related services.

Due to the seasonal nature of selling jewellery and related services, higher revenues and operating profits are usually expected in the first half of the financial year. Accordingly, inventory levels and working capital levels are higher at the end of the first half of the financial year rather than at the end of the financial year. A comparative half-year balance sheet has been included in the consolidated statement of financial position. This information is provided to allow for a better understanding of the results. However, management has concluded that this is not 'highly seasonal' in accordance with AASB 134.

These consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the 26 weeks ended 27 December 2020 were authorised for issue in accordance with a resolution of the Directors on 23 February 2021.

(b) New and amended standards adopted by the group

There are no amendments and interpretations that apply for the first time in 2021 that have an impact on the interim condensed consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2 Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 28 June 2020.

3 Critical estimates, judgements and errors

4 Segment information

(a) Description of segments and principal activities

Management have determined the operating segments based on the reports reviewed by the Board and Executive Team that are used to make strategic decisions. The Board and Executive team consider, organise and manage the business primarily from a geographic perspective, being the country of origin where the sale and service was performed.

The operating segments exclude adjustments required under AASB 16 *Leases* and therefore cash payments for leases previously classified as operating leases are included at a segment level.

The amounts provided to the Board and executive team in respect of total assets and liabilities are measured in a manner consistent with the financial statements. These reports do not allocate total assets or total liabilities based on the operations of each segment or by geographical location.

The business operates in three geographical segments: Australia, New Zealand and Canada.

The corporate and other segment includes revenue and expenses that do not relate directly to the relevant Michael Hill retail segments. These predominately relate to corporate costs and Australian based support costs, but also include manufacturing activities, warehouse and distribution, interest and company tax. Inter-segment pricing is at arm's length or market value.

The Adjustment segment includes all adjustments related to AASB 16 *Leases*.

4 Segment information (continued)

(a) Description of segments and principal activities (continued)

Types of products and services

Michael Hill International Limited and its controlled entities operate predominately in the sale of jewellery and related services. As indicated above, the Group is organised and managed globally by brand and geographic areas.

Major customers

Michael Hill International Limited and its controlled entities sell goods and provide services to a number of customers from which revenue is derived. There is no single customer from which the Group derives more than 10% of total consolidated revenue.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

(b) Segment results

for the period ending 27 December 2020	Australia \$'000	New Zealand \$'000	Canada \$'000	Corporate & Other \$'000	Michael Hill Proforma \$'000	Adjust \$'000	Michael Hill \$'000
Operating revenue	175,145	64,897	79,053	789	319,884	-	319,884
Gross profit	107,582	39,632	48,620	4,651	200,485	-	200,485
Gross profit %	61.4%	61.1%	61.5%		62.7%	-	62.7%
EBITDA*	46,767	19,874	17,376	(16,478)	67,539	16,997	84,536
Depreciation and amortisation	(2,882)	(886)	(2,481)	(1,919)	(8,168)	(17,488)	(25,656)
Segment EBIT*	43,885	18,988	14,895	(18,397)	59,371	(491)	58,880
EBIT as a % of revenue	25.1%	29.3%	18.8%		18.7%		18.7%
Interest income	-	-	-	2	2	-	2
Finance costs	2	38	-	(362)	(322)	(3,439)	(3,761)
Segment net profit before tax from continuing operations	43,887	19,026	14,895	(18,757)	59,051	(3,930)	55,121
for the period ended 29 December 2019	Australia \$'000	New Zealand \$'000	Canada \$'000	Corporate & Other \$'000	Michael Hill \$'000	Adjust \$'000	Michael Hill \$'000
Operating revenue	174,244	66,231	88,542	465	329,482	-	329,482
Gross profit	104,291	38,962	51,500	8,682	203,435	-	203,435
Gross profit %	59.9%	58.8%	58.2%		61.7%	-	61.7%
EBITDA*	26,711	14,975	11,803	(12,315)	41,174	21,315	62,489
Depreciation and amortisation	(4,045)	(1,247)	(3,023)	(1,243)	(9,558)	(17,659)	(27,217)
Segment EBIT*	22,666	13,728	8,780	(13,558)	31,616	3,656	35,272
EBIT as a % of revenue	13.0%	20.7%	9.9%		9.6%		9.6%
Finance costs	69	3	-	(1,232)	(1,160)	(3,824)	(4,984)
Segment net profit before tax from continuing operations	22,735	13,731	8,780	(14,790)	30,456	(168)	30,288

* EBIT and EBITDA are Non-IFRS Information and are unaudited.

5 Revenue

The Group derives the following types of revenue:

	27 Dec 2020 \$'000	29 Dec 2019 \$'000
Revenue from sale of goods and repair services	302,889	312,583
Revenue from professional care plans	15,436	14,924
Interest and other revenue from in-house customer finance program	1,559	1,975
	319,884	329,482
Operating revenue	319,884	329,482

The Group derives the following types of other income:

	27 Dec 2020 \$'000	29 Dec 2019 \$'000
Government grants received due to COVID-19	14,729	-
Insurance recoveries	4	-
Net foreign exchange gains	2,687	-
Other items	541	708
	17,961	708

Government grants received due to COVID-19 represents wage subsidies received from the Australian, New Zealand and Canadian governments.

(a) Segment revenue

	Australia \$'000	New Zealand \$'000	Canada \$'000	Corporate and other \$'000	27 Dec 2020 Total \$'000
Timing of revenue recognition 2020					
At a point in time	167,102	62,251	72,598	639	302,590
Over time	8,008	2,646	6,455	185	17,294
Total segment revenue	175,110	64,897	79,053	824	319,884
Timing of revenue recognition 2019					29 Dec 2019 Total \$'000
At a point in time	165,711	63,471	83,362	429	312,544
Over time	8,532	2,760	5,646	37	16,938
Total segment revenue	174,243	66,231	89,008	466	329,482

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6 Financial assets and financial liabilities

Set out below is an overview of financial assets, other than cash and short-term deposits, held by the Group as at 27 December 2020 and 28 June 2020:

	27 Dec 2020 \$'000	28 Jun 2020 \$'000
Financial assets at amortised cost:		
Trade and other receivables	35,089	35,733
Total current	27,861	25,006
Total non current	7,228	10,727

Set out below is an overview of financial liabilities held by the Group as at 27 December 2020 and 28 June 2020:

	27 Dec 2020 \$'000	28 Jun 2020 \$'000
Financial liabilities at amortised cost:		
Trade and other payables	95,268	64,472
Borrowings	-	10,681
Total current	95,268	64,472
Total non current	-	10,681

7 Property, plant and equipment

Acquisitions and disposals

During the 26 weeks ended 27 December 2020, the Group acquired assets with a total cost of \$1,351,000 (29 December 2019: \$4,179,000). Assets with a net book value of \$33,000 were disposed of during the 26 weeks ended 27 December 2020 (29 December 2019: \$235,000), resulting in a net loss on disposal of \$32,000 (29 December 2019: \$141,000 loss).

Impairment

An impairment charge of \$1,214,000 was recognised during the 26 weeks ended 27 December 2020 reporting period (29 December 2019: \$180,000) on unprofitable stores.

8 Intangible assets

Acquisitions and disposals

During the 26 weeks ended 27 December 2020, the Group acquired assets, primarily software development, with a total cost of \$4,458,000 (29 December 2019: \$7,028,000). Assets with a net book value of \$9,000 were disposed of during the 26 weeks ended 27 December 2020 (29 December 2019: no disposals), resulting in a net gain on disposal of \$9,000 (29 December 2019: no loss).

Impairment

No impairment charges were recognised during the 26 weeks ended 27 December 2020 reporting period (29 December 2019: no impairment).

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9 Right-of-use assets and lease liabilities

(i) Right-of-use assets

	27 Dec 2020 \$'000	28 Jun 2020 \$'000
Opening right-of-use asset	123,911	142,833
Additional right-of-use assets relating to leases entered into during the year	6,020	21,702
Lease modifications agreed during the year	5,813	(126)
Depreciation	(17,967)	(37,876)
Reduction in right-of-use assets as a consequence of COVID-19 on rent concessions	(3,661)	(2,033)
Impairment of right-of-use assets	-	(815)
Foreign currency translation	(1,275)	226
Closing right-of-use asset	<u>112,841</u>	<u>123,911</u>

(ii) Lease liabilities

	27 Dec 2020 \$'000	28 Jun 2020 \$'000
Current lease liabilities	33,411	42,164
Non-current lease liabilities	107,229	115,848
Total lease liabilities	<u>140,640</u>	<u>158,012</u>

(iii) Impairment of right-of-use assets

Right-of-use assets are tested for impairment as part of the CGU to which they relate, usually a store. The related lease liability is also included in the carrying amount of the CGU.

During the period, the Group completed a strategic portfolio review. The review considered the additional impacts of the COVID-19 pandemic operating environment, the risk of delays in economic recovery and subsequent impact on performance. As a result of this review, the Group identified indicators of impairment for certain CGUs to which right of use assets relate and did not recognise an impairment loss.

(iv) Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Due to the impact of COVID-19 and following a strategic review of the portfolio, the Group re-assessed the lease term of some leases which include renewal options. The Group remeasured the lease liability and adjusted the right of use asset to reflect the change in assessment.

10 Provisions

	27 Dec 2020			28 Jun 2020		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Employee benefits	24,527	1,749	26,276	20,599	1,776	22,375
Warranty provision	1,403	-	1,403	1,405	-	1,405
Make good provision	335	5,045	5,380	260	6,563	6,823
Restructuring costs	664	-	664	2,325	-	2,325
Other provisions	300	-	300	360	-	360
	27,229	6,794	34,023	24,949	8,339	33,288

11 Contract assets and liabilities

Notes	27 Dec 2020			28 Jun 2020		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Contract assets						
Deferred expenditure ⁽ⁱ⁾	391	865	1,256	625	1,048	1,673
Right of return assets ⁽ⁱⁱ⁾	327	-	327	108	-	108
	718	865	1,583	733	1,048	1,781

Contract liabilities	27 Dec 2020			28 Jun 2020		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Deferred service revenue ⁽ⁱⁱⁱ⁾	23,417	51,477	74,894	23,635	50,221	73,856
Deferred interest free revenue ^(iv)	1,273	820	2,093	1,666	1,252	2,918
Right of return liabilities ⁽ⁱⁱⁱ⁾	769	-	769	250	-	250
Lifetime Diamond Warranty (LTDW) ^(v)	126	3,268	3,394	423	2,066	2,489
	25,585	55,565	81,150	25,974	53,539	79,513

(i) Deferred expenditure

Direct and incremental bonuses associated with the sale of PCPs are deferred and amortised in proportion to the PCP revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are requested to the cost recognition rates used.

(ii) Right of return assets and refund liabilities

Refund liabilities recognises the estimated returned sales under the Group's return policy, being 30 days. Management estimates the returned sales based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts. For sales that are expected to be returned, the Group recognises a right of return liability. The associated inventory value for sales that are expected to be returned is recognised as a right of return asset.

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11 Contract assets and liabilities (continued)

(iii) Deferred service revenue

The Group offers a professional care plan ('PCP') product which is considered deferred revenue until such time that service has been provided. A PCP is a plan under which the Group offers future services to customers based on the type of plan purchased. The Group subsequently recognises the income in revenue in the statement of comprehensive income once these services are performed.

(iv) Deferred interest free revenue

Deferred interest free revenue is recognised on the in-house customer finance program when consideration is deferred. It is calculated as the difference between the nominal cash and cash equivalents received from customers and the discounted cashflows, on both interest and non-interest bearing products. Interest revenue is brought to account over the term of the finance agreement, and the rate used for non-interest bearing products is in line with current, comparable market rates.

(v) Lifetime Diamond Warranty (LTDW)

Lifetime Diamond Warranty (LTDW) is a warranty provided to customers with the purchase of jewellery items set with a diamond (excluding watches). This has been deemed a service-type warranty and is calculated with reference to the estimated value of service provided to customers and the stand-alone value of customers obtaining the service independently. Income in relation to the LTDW is recognised in line with the estimated pattern of customers utilising this service-type warranty.

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12 Contributed equity

(a) Share Capital

	27 Dec 2020 Shares	28 Jun 2020 Shares	27 Dec 2020 Half-year \$'000	28 Jun 2020 Full-year \$'000
Share capital				
Ordinary shares - fully paid	387,980,688	387,769,105	11,204	11,016

(b) Movements in ordinary share capital

	27 Dec 2020 Shares	28 Jun 2020 Shares	27 Dec 2020 Half-year \$'000	28 Jun 2020 Full year \$'000
Ordinary shares				
Opening balance	387,769,105	387,750,000	11,016	10,984
Rights converted	211,583	19,105	188	32
Closing balance	387,980,688	387,769,105	11,204	11,016

13 Dividends

(a) Ordinary shares

	27 Dec 2020 \$'000	29 Dec 2019 \$'000
No final dividend was declared for the year ended 28 June 2020 (2019: AU 1.5 cents).	-	5,817

(b) Dividends not recognised at the end of the reporting period

	27 Dec 2020 \$'000	29 Dec 2019 \$'000
In addition to the above dividends, since half-year end the Directors have recommended the payment of an interim dividend of 1.5 cents per fully paid ordinary share (2020: AU 1.5 cents), unfranked and fully imputed*. The aggregate amount of the proposed dividend expected to be paid on 26 March 2021 out of retained earnings at 27 December 2020, but not recognised as a liability at half-year end, is	5,817	5,817

* This will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment to Michael Hill International Limited's foreign shareholders.

14 Events occurring after the reporting period

There have been no significant events after the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

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Michael Hill International Limited
Directors' declaration
27 December 2020

For the purposes of section 303(4) of the *Corporations Act 2001 (Cth)* and for all other purposes, the Directors declare that in their opinion:

Directors' declaration

- (a) the financial statements and notes set out on pages 10 to 25 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 27 December 2020 and of its performance for the half-year ended on that date and
- (b) there are reasonable grounds to believe that Michael Hill International Limited will be able to pay its debts as and when they become due and payable.

This declaration is made on 23 February 2021 in accordance with a resolution of Directors.



E J Hill
Chair
Brisbane
23 February 2021

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Independent Auditor's Review Report to the Members of Michael Hill International Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Michael Hill International Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 27 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 27 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 27 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'K McKenzie' in a cursive style.

Kellie McKenzie
Partner
Brisbane
23 February 2021

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Michael Hill International Limited
Corporate directory

Directors	E J Hill B.Com., M.B.A. <i>Chair</i> Sir R M Hill K.N.Z.M. G W Smith B.Com., F.C.A., F.A.I.C.D. R I Fyfe B.Eng, FENZ J E Naylor (commenced 15/07/2020) J S Allis (ceased 27/10/2020)
Company Secretary	A Lowe BCom, LLB (Hons), MAppFin, CA, CTA E Bird LLB (Hons), BA (Psych), GradDipLegalPrac, GradDipAppCorpGov
Principal registered office in Australia	Metroplex on Gateway 7 Smallwood Place Murarrie QLD 4172 Australia Telephone +61 7 3114 3500 Fax +61 7 3399 0222
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Auditor	Ernst & Young Level 51 One One One 111 Eagle Street Brisbane QLD 4000
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